

Bond Market Insight

Borrowing in hard currency

Comment on government bond placement

In anticipation of meeting large debt repayments in hard currency, the MoF replenished hard-currency accounts to improve readiness for redemption. In local currency, proceeds are steady.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000204986	15.36	SA	29-Sep-21	500,000	1,048.15	524.08	500.00	8.62	11,737.01
UA4000218325	11.20	SA	20-Jul-22	2,523,925	1,040.62	2,626.45	2,523.93	11.55	2,523.93
UA4000216774	11.10	SA	23-Nov-22	988,629	999.42	988.06	988.63	11.65	4,114.67
UA4000201255	16.00	SA	24-May-23	716,823	1,071.01	767.72	716.82	12.44	9,790.30
UA4000207880	9.99	SA	22-May-24	1,169,296	945.64	1,105.73	1,169.30	12.72	14,442.02
Total UAH				5,898,673		6,012.03	5,898.67		42,607.92
UA4000218333	3.70	SA	14-Jul-22	339,062	1,014.20	9,429.86	9,297.83	3.74	9,297.83
UA4000215909	3.89	SA	2-Feb-23	14,560	1,012.51	404.26	399.27	3.94	9,059.25
Total USD				353,622		9,834.12	9,697.09		18,357.08

Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.42/USD, 33.68/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The largest redemption of domestic debt this month is scheduled this week, including UAH11bn (US\$400m) and US\$800m. Redemptions later this month will be in local currency with the largest one for UAH14bn (US\$511m). Therefore, with good performance of budget revenues in May, partially due to quarterly tax payments, it was important for the MoF to replenish hard-currency accounts to prevent the large decline of international reserves.

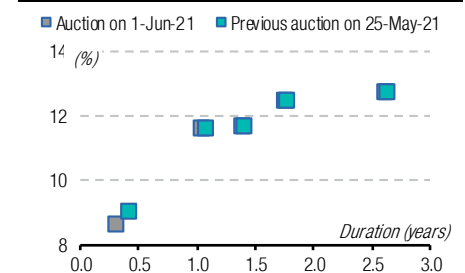
This goal was met successfully, at least for now. By offering bills with at least 14 month maturities, the MoF was able to borrow UAH359m, or 43% of domestic debt repayments in hard currency scheduled for this month. FX-denominated bills will be offered during the next two weeks, also, so there is a good chance to refinance all repayments.

There were no changes in interest rates, which remained at 3.7% and 3.9%, respectively, for the one and two-year bills. The Ministry rejected just one small bid for US\$0.3m with an interest rate 5bp higher than the cut-off rate.

For local-currency bills, demand remains mostly unanimous with just two bids were

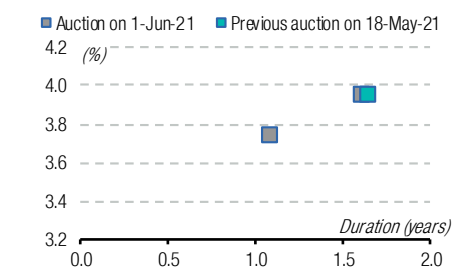
WEDNESDAY, 2 JUNE 2021

UAH-denominated domestic gov't bonds: yield curve in past two auctions



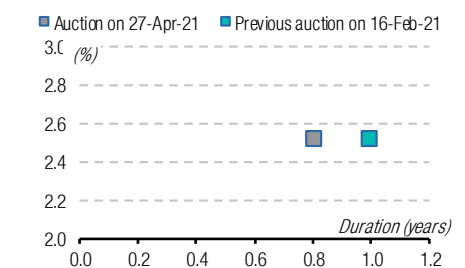
Source: Ministry of Finance of Ukraine, ICU.

USD-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

EUR-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

rejected yesterday. One bid was rejected for 14-month bills amounting to UAH1m with a rate 5bp above the cut-off rate. For the four-month paper, part of demand was rejected due to the cap, including one bid with a rate 50bp higher than the cut-off rate.

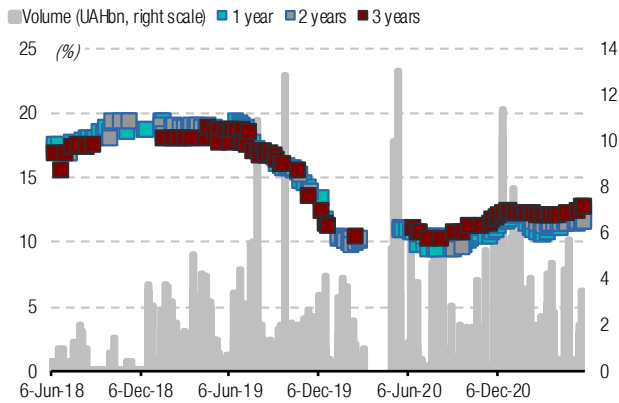
As the result of yesterday's auction of UAH-denominated bills, the budget will receive UAH6bn, almost half of today's debt repayments (including interest). This amount is close to last week's borrowings, and together, these borrowings cover this week's repayments.

Local-currency budget financing could bring in more funds, but for now, the budget does not need large proceeds. The MoF likely will replace bills due December 2021 with another maturity due at the beginning of 2022 with a cancelation of caps. But for now, Treasury accounts have enough funds, which will allow redemption of local-currency debt without large new borrowings or impact on other budget expenditures.

Appendix: Yields-to-maturity, repayments

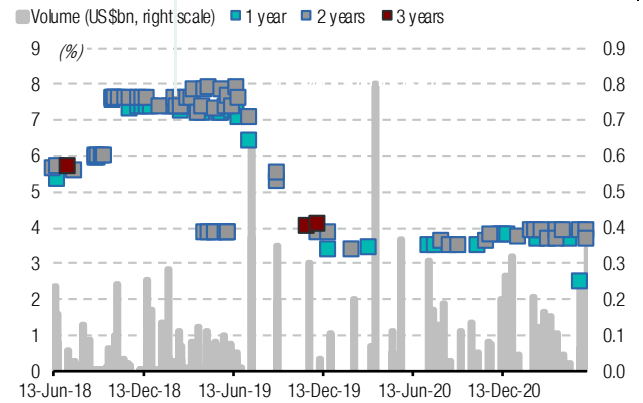
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

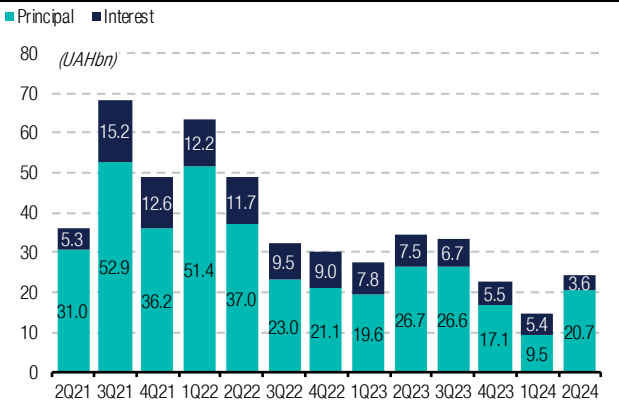
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

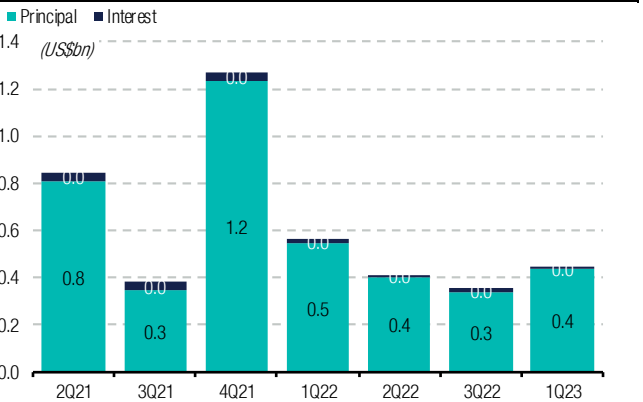
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

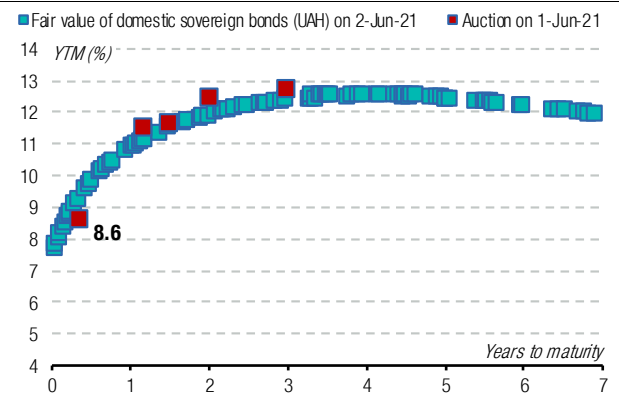
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

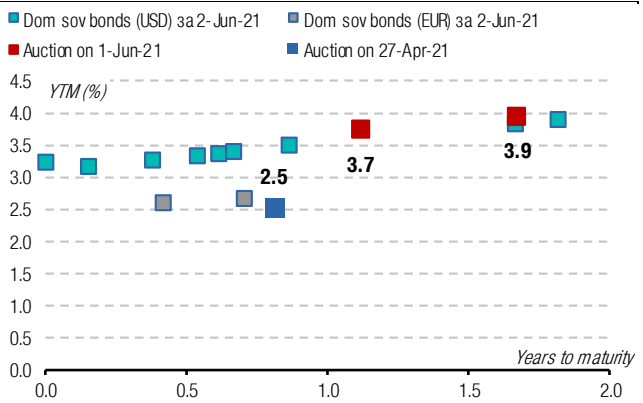
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

UAH-denominated domestic government bonds



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

USD- and EUR-denominated domestic government bonds



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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