

Bond Market Insight

Slight increase in interest rates

Comment on government bond placement

Yesterday, the MoF increased borrowings nearly three times compared with last week, selling just one bill with a 13-month maturity. The offer for eight-month bills was cancelled.

The one bid the MoF received for the eight-month bill amounted to UAH53m (US\$1.9m) with a 10% interest rate; it was rejected.

However, there was considerable demand for 13-month bills. Eleven bids amounted to UAH2.8bn with rates ranging between 9.1% and 11.5%; non-competitive demand was only UAH10.7m. Of course, a significant increase in rates from the Ministry of Finance was not expected; however, the cut-off and weighted-average rates were both increased by 9bp to 9.29%.

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

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000204986	15.36	SA	29-Sep-21	2,513,437	1,125.63	2,829.20	2,513.44	9.53	4,664.08
Total UAH				2,513,437		2,829.20	2,513.44		4,664.08

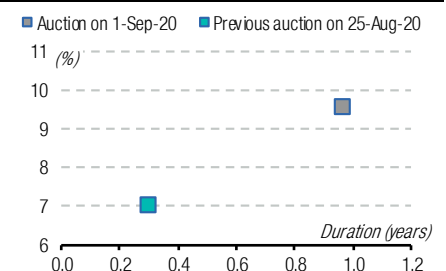
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.5USD, 30.23EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

This increase allowed the MoF to accept six out of 11 bids or 91% of demand at par value. Proceeds amounted to UAH2.8bn or three times more than the week before from a combination of local-currency and FX-denominated bills.

It is expected that demand in September will become a bit more active after quarterly and month-end tax payments end, with banking sector liquidity remaining at UAH160bn. Nonetheless, interest in the primary is auction still low.

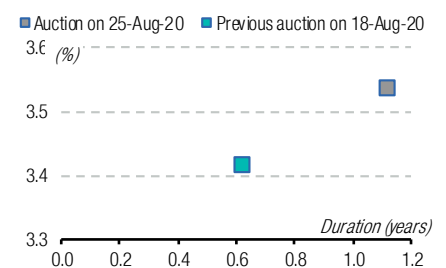
WEDNESDAY, 2 SEPTEMBER 2020

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



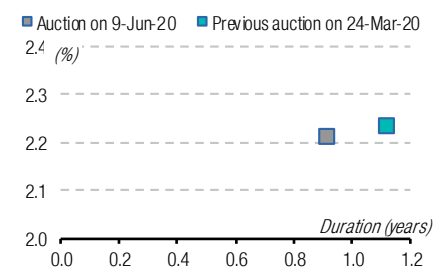
Source: Ministry of Finance of Ukraine, ICU.

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

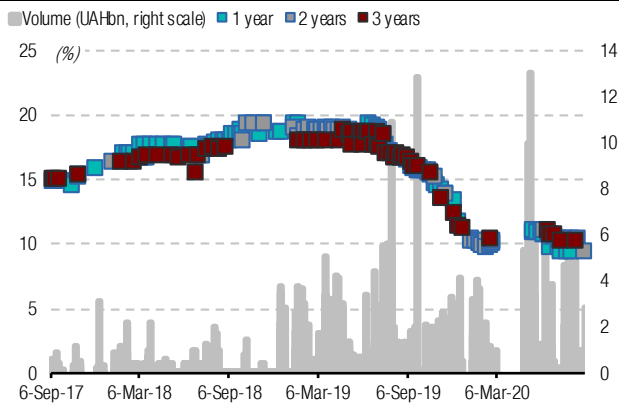


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

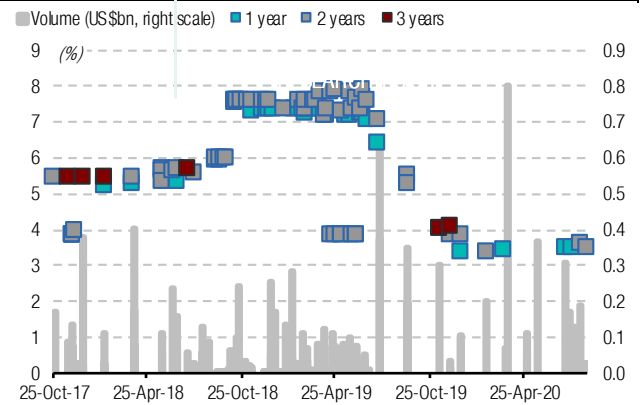
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

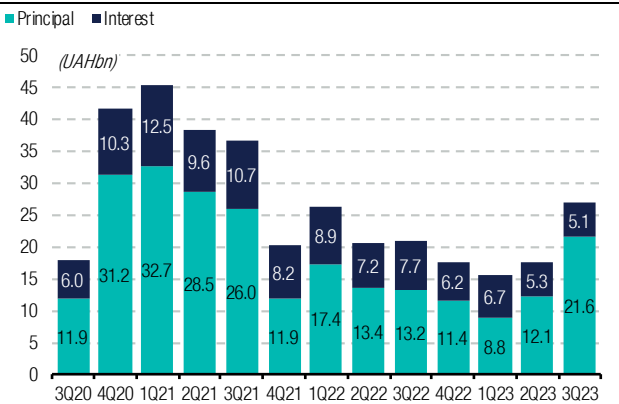
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

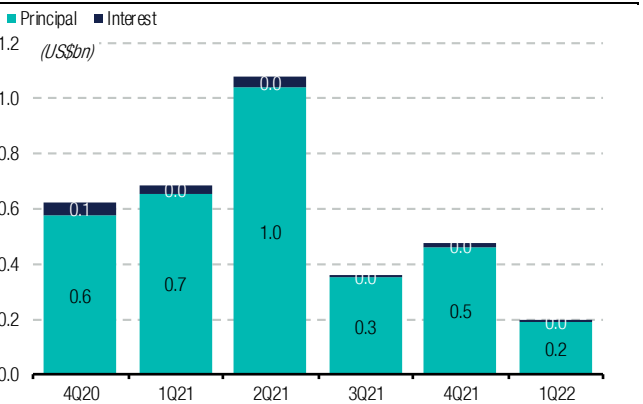
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

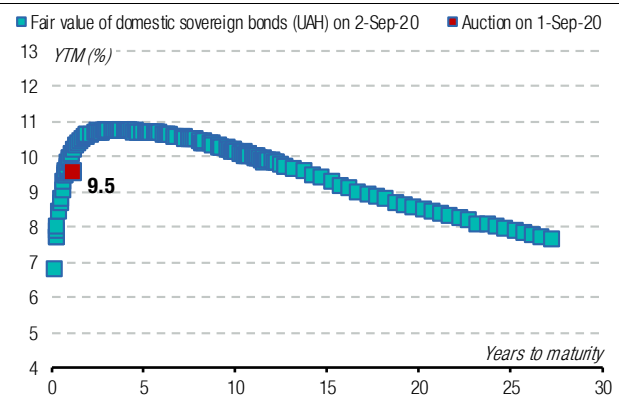
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

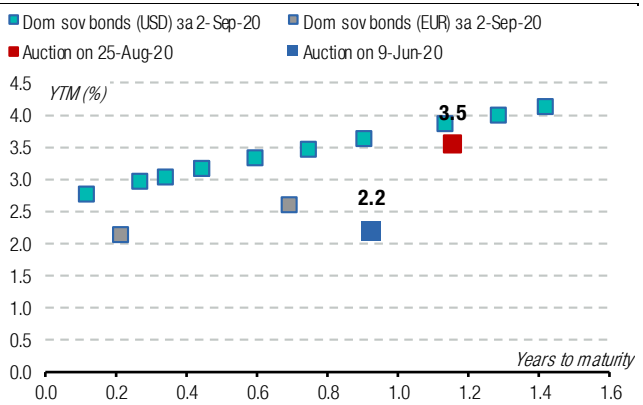
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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