

Bond Market Insight

A less generous MoF

Comment on government bond placement

Yesterday, the Ministry of Finance increased interest rates a bit, but rejected three-quarters of low demand.

In total, demand amounted to UAH1.2bn (US\$43m) for the auction, but the Ministry accepted only UAH323m (US\$11m) at par value, with UAH330m (US\$11.7m) for budget proceeds. Only the bids for three-month paper were accepted in full, as competitive demand was at 7%, the same as at the end of August.

For longer maturities, the Ministry decided to reject most of demand. Out of UAH757m (US\$26m) in six bids for 12-month paper, the Ministry rejected three bids amounting to UAH610m (US\$21m). For the 2.5-year instruments with maturity in February 2023, the Ministry rejected five bids amounting to UAH290m (US\$10m) out of 10 bids, which amounted to UAH320m (US\$11m), accepting only UAH30m (US\$1.1m).

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
UA4000210769	0.00	@Mty	16-Dec-20	135,160	984.15	133.02	135.16	7.00	10,265.31
UA4000204986	15.36	SA	29-Sep-21	147,205	1,129.84	166.32	147.21	9.71	5,103.03
UA4000207682	9.84	SA	15-Feb-23	30,449	995.56	30.31	30.45	10.81	1,977.08
Total UAH				312,814		329.65	312.81		17,345.42

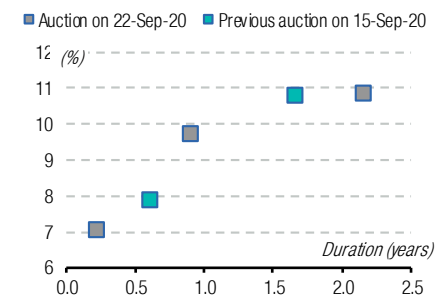
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 28.05/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Despite rejecting most of demand for these two instruments, there were some changes in interest rates. For the 12-month bills, the cut-off rate was increased by 21bp to 9.5% and the weighted-average rate rose 18bp to 9.46%. However, for the 2.5-year paper, only the weighted-average rate was changed, up 4bp to 10.5%, the same level as cut-off rate.

These decisions made by the Ministry indicate to the market that the Ministry is ready to increase rates by 20-25bp, but not aggressively with low amount of demand. Next week with debt repayments amounting to UAH11bn (US\$0.4bn), including UAH8bn (US\$0.3bn) in principal, the Ministry's decision may be different. With large demand there can be a further increase in interest rates, depending on how many basis points have to be added to the previous level to refinance at least half of next week's debt repayments.

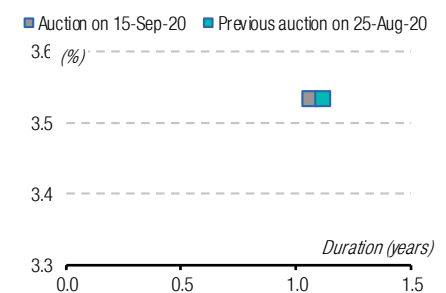
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



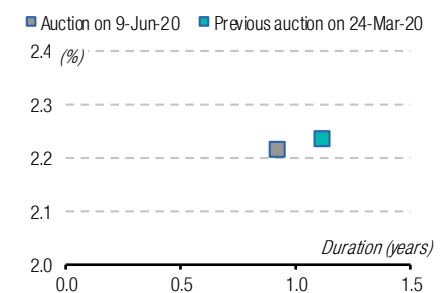
Source: Ministry of Finance of Ukraine, ICU.

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

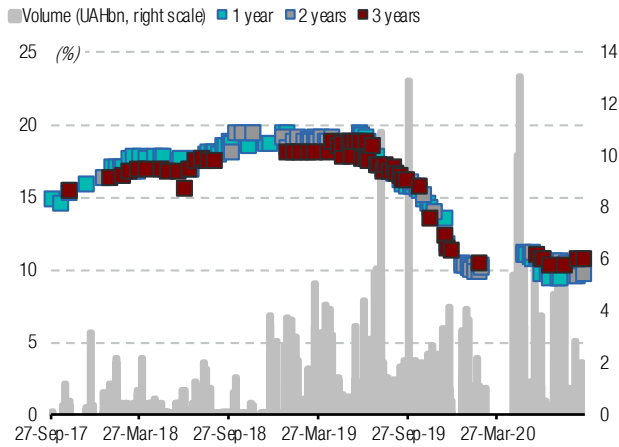


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

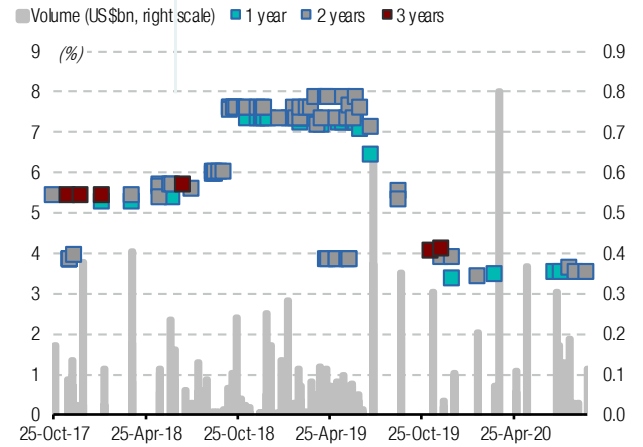
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

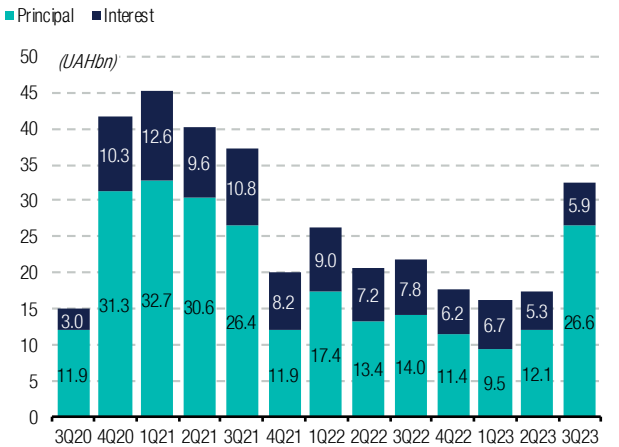
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

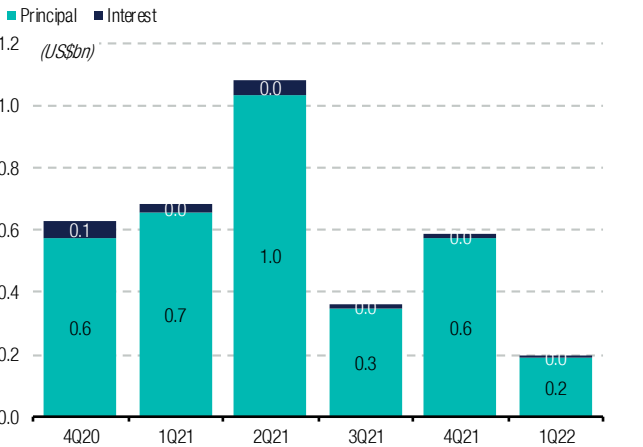
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

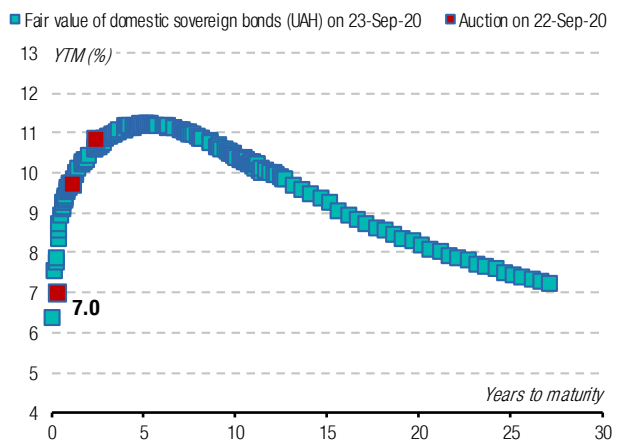
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

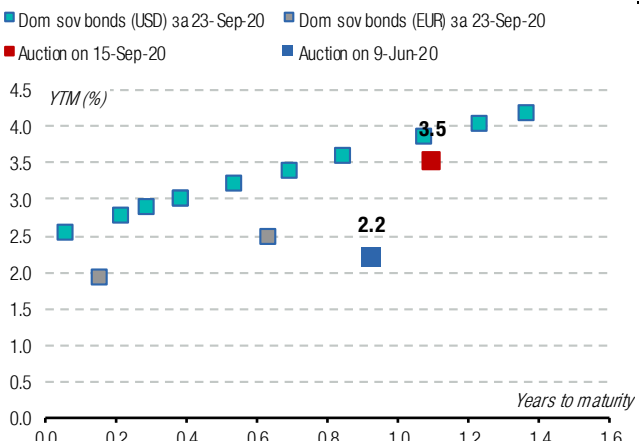
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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