

# Bond Market Insight

## Not all demand is acceptable

### Comment on government bond placement

The MoF increased rates for UAH-denominated bills again, but their decision-making process has become more nuanced.

Almost 80% of total demand in yesterday's auction was from one bank. It was for the four-month bills, and came in with a rate of 7.5%, or just 20bp above the cut-off rate set two weeks ago. The amount, UAH2bn (US\$63m), borrowed by the MoF is almost the same. Therefore, it is not surprising that given the large amount, the Ministry of Finance accepted the increase in rate demanded by the borrower.

However, for the other two bills offered, the MoF decided not to increase interest rates.

**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 <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000213219	0.00	@Mty	3-Mar-21	2,000,000	976.13	1,952.26	2,000.00	7.50	2,000.00
UA4000213227	10.95	SA	1-Nov-23	2,793	1,000.00	2.79	2.79	11.28	2.79
<b>Total UAH</b>				<b>2,002,793</b>		<b>1,955.05</b>	<b>2,002.79</b>		<b>2,002.79</b>

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 28.29/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

UAH290m of demand for 12-month bills in nine bids was not enough since it would have meant increasing the rate by at least 45 bp.

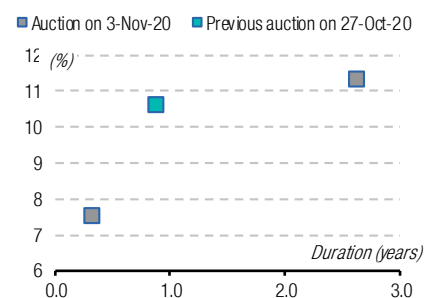
The same occurred for the three-year paper, where only four bids out of seven could be accepted at an unchanged rate of 10.95%, including non-competitive demand. Another three bids had higher rates. It is unknown which level of rate was next after 10.95%, while the highest rate was 12.5%. The Ministry rejected three bids amounted to about UAH175m (US\$6m).

So, the budget received almost UAH2bn (US\$63m), most of it from four-month bills. This auction demonstrated that with demand amounting to at least UAH2bn, bidders can count on an increase in rates. However, with demand at UAH200-300m with rate increases in increments of 45bp or less, but without a material increase in the amount of proceeds, the Ministry will wait.

As we expected, the decision to increase interest rates depends on how much demand the MoF receives. They allowed an increase in the rates for three-month bills, but for longer maturities, they will wait for larger demand.

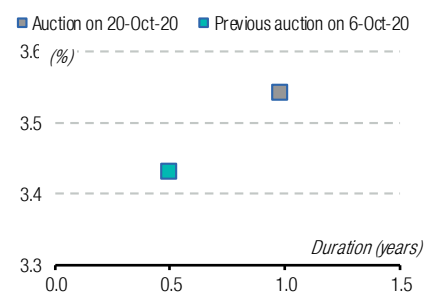
### WEDNESDAY, 4 NOVEMBER 2020

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



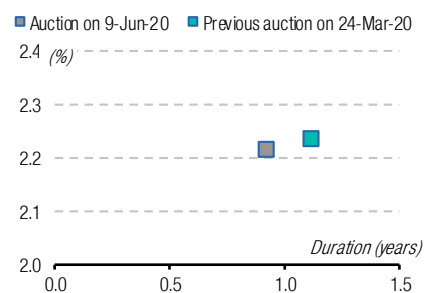
Source: Ministry of Finance of Ukraine, ICU.

#### 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

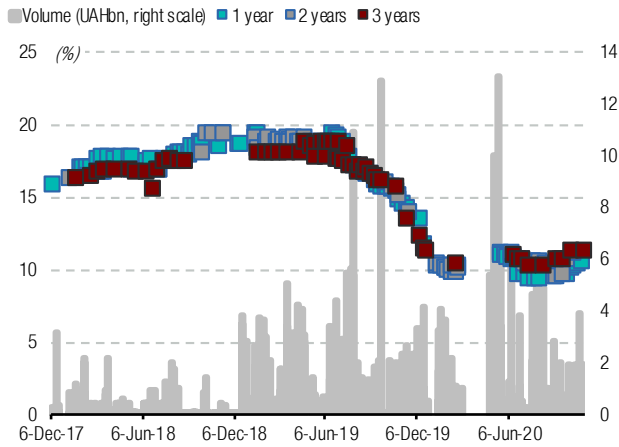


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

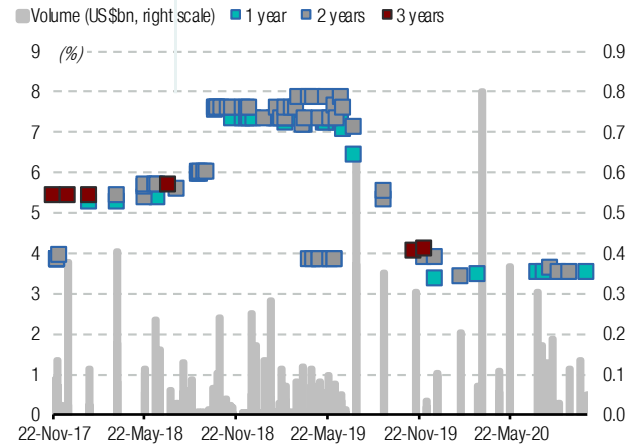
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

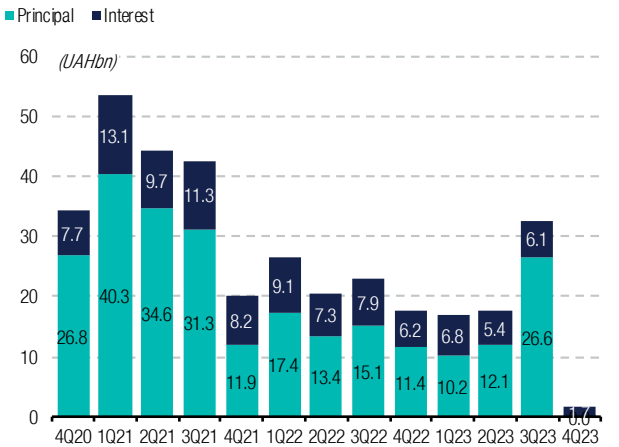
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

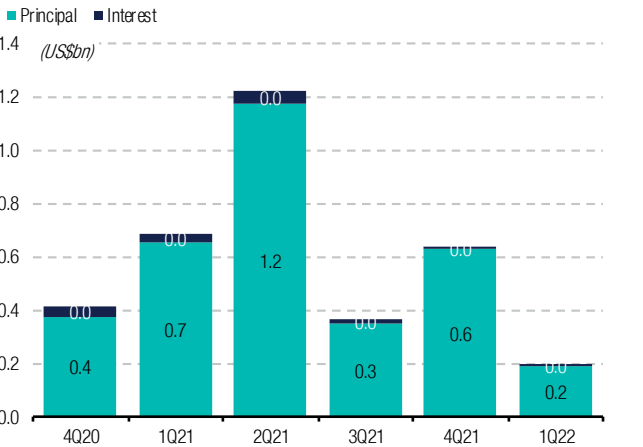
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

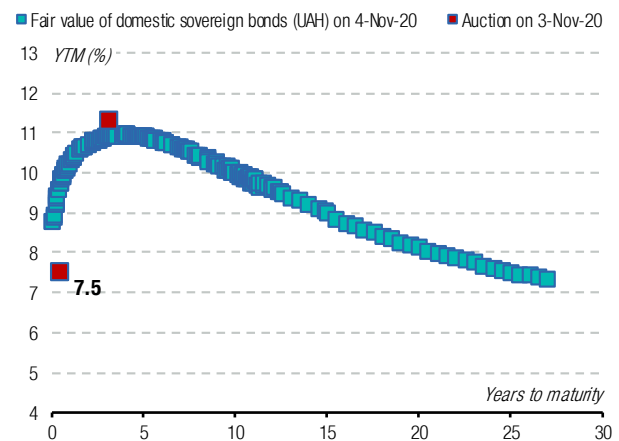
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

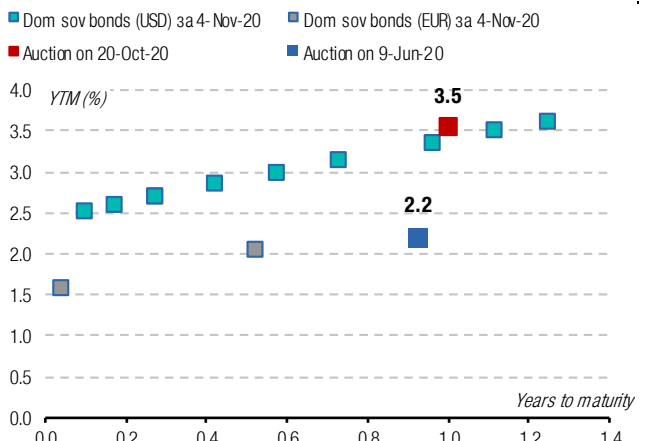
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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