

# Bond Market Insight

## Rates continue to rise

### Comment on government bond placement

This week, the MoF increased the amount of borrowings almost four times, and increased interest rates for all sold bills. Interest rates were up for USD-denominated bills also.

Six-month bills were last sold a month ago, and brought in almost UAH2bn (US\$68m) of proceeds, with a rate of 8%. Since then, the Ministry has not offered this tenor, but it has increased rates on other instruments from time to time. Yesterday's offering of six-month bills met with large demand: three bills amounted to UAH5.5bn (US\$195m), including UAH150m (US\$5m) of non-competitive demand and competitive bids at a rate of 9%, or 100bp above the rate set in October.

Twelve-month bills were less attractive for bidders. There were 15 bids, but demand was slightly below UAH0.5bn (US\$18m). The lowest rate was the same as two weeks ago, but for a low amount. With the cut-off rate increased to 10.5%, the amount of proceeds more than doubled, and the weighted-average rate was set at 10.42%.

However, demand for two-year paper was low with rates starting at 11.5%, and all these bids were rejected.

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

| ISIN             | Coupon rate (%) | Payment frequency <sup>1</sup> | 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> |
|------------------|-----------------|--------------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000211957     | 0.00            | @Mty                           | 28-Apr-21 | 5,500,000         | 960.22      | 5,281.21                     | 5,500.00                   | 9.00                 | 11,606.04                    |
| UA4000213300     | 0.00            | @Mty                           | 27-Oct-21 | 309,315           | 909.15      | 281.21                       | 309.32                     | 10.42                | 309.32                       |
| <b>Total UAH</b> |                 |                                |           | <b>5,809,315</b>  |             | <b>5,562.42</b>              | <b>5,809.32</b>            |                      | <b>11,915.35</b>             |
| UA4000211114     | 3.60            | SA                             | 3-Feb-22  | 81,583            | 1,009.55    | 2,315.37                     | 2,293.45                   | 3.64                 | 7,625.47                     |
| <b>Total USD</b> |                 |                                |           | <b>81,583</b>     |             | <b>2,315.37</b>              | <b>2,293.45</b>            |                      | <b>7,625.47</b>              |

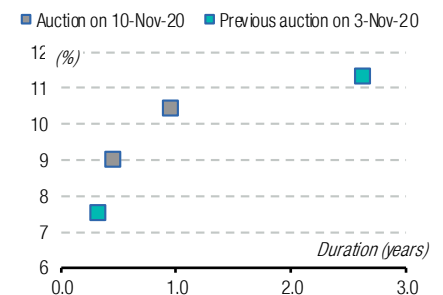
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 28.11/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Rates increased for FX-denominated bills also. The lowest rate in demand increased by 10bp to 3.6%, while the highest rate was 4.5%. The MoF accepted most of demand with rates not higher than 3.7% (20bp above the rate seen during recent months for similar maturities). The weighted-average rate was set at 3.62% or 12bp higher than before.

Thus, the yield curve continues to gradually shift up for both local currency and

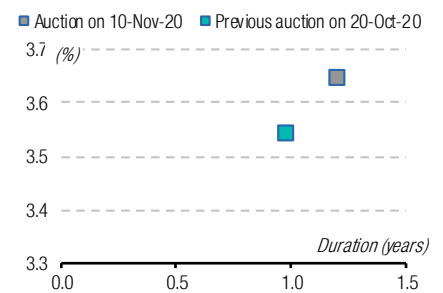
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### UAH-denominated domestic gov't bonds: yield curve in past two auctions



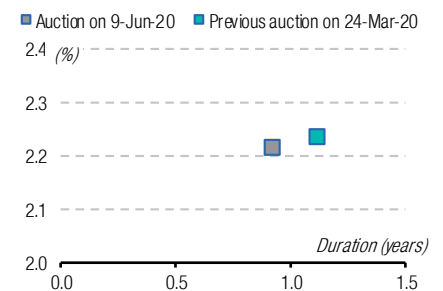
Source: Ministry of Finance of Ukraine, ICU.

### 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



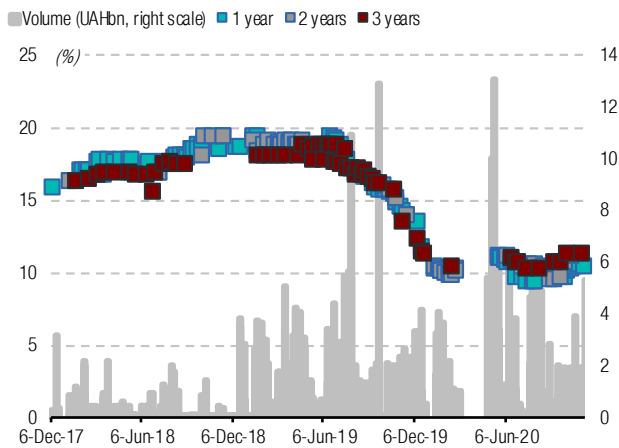
Source: Ministry of Finance of Ukraine, ICU.

USD-denominated paper. At recent auctions, bidders have widened the spread between the NBU key rate and the rate for new bills. In an effort to attract budget financing, the MoF has to move toward market sentiment and increase rates. So far, the Ministry has raised rates when there is large demand, but this has increased the cost of borrowing.

# Appendix: Yields-to-maturity, repayments

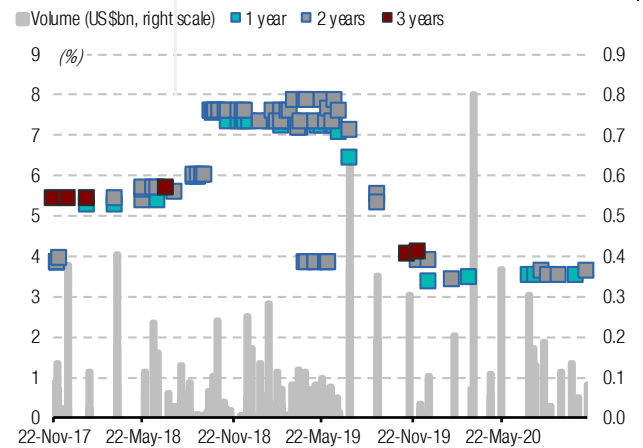
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

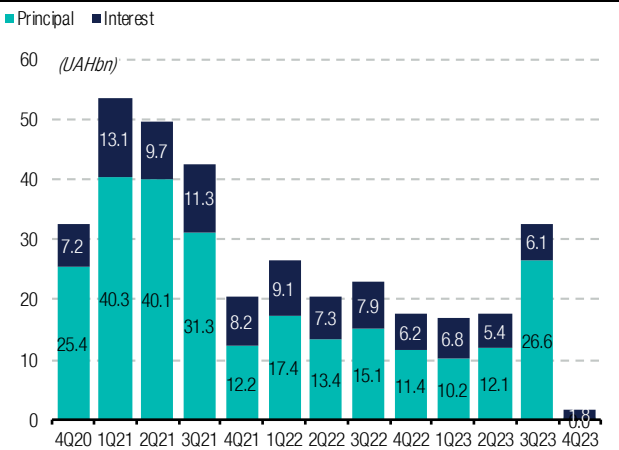
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

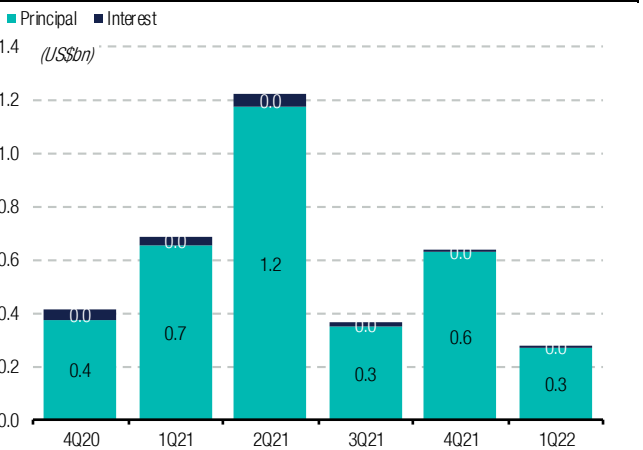
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

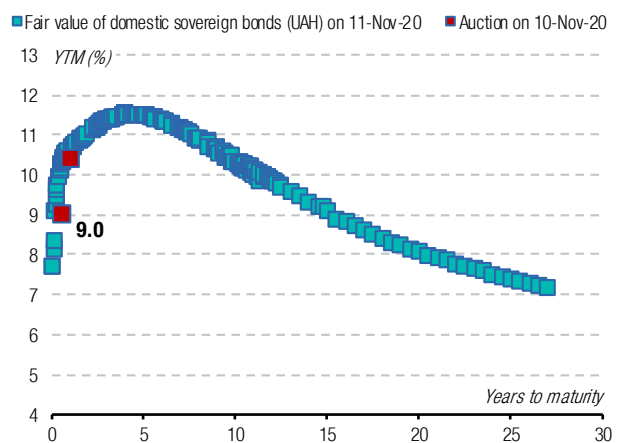
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

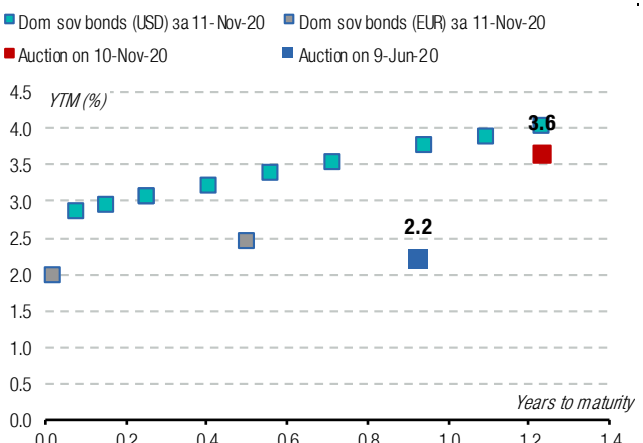
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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