

Bond Market Insight

Demand for UAH bills remains high

Comment on government bond placement

Despite NBU's decision to increase the key policy rate, interest rates for UAH-denominated bills continued to decline for the most part, albeit slowly. This was facilitated by high demand for short-term maturities, where the Ministry of Finance sold less than its caps to not to increase interest rates.

Unique by some parameters was the placement of six-month bills. For this issue, the Ministry sold all the offered bills; the minimum rate in demand declined; and the cut-off rate was down also. Though the decline in the cut off rate was a mere 5bp to 9.15%, the weighted-average rate declined 17bp to 9.03%. This was due to large demand overall and most came in with low rates.

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 (%)	Outstanding (m) ⁴
UA4000204986	15.36	SA	29-Sep-21	500,000	1,101.47	550.74	500.00	9.26	10,487.97
UA4000215495	0.00	@Mty	2-Feb-22	1,394,629	912.66	1,272.82	1,394.63	10.62	7,894.63
UA4000199210	14.91	SA	12-Oct-22	1,711,036	1,116.30	1,910.03	1,711.04	11.30	11,156.60
UA4000200885	15.97	SA	19-Apr-23	1,091,019	1,137.12	1,240.62	1,091.02	12.18	9,357.06
UA4000207880	9.99	SA	22-May-24	262,598	974.91	256.01	262.60	12.45	10,564.00
Total UAH				4,959,282	5,230.22	4,959.28			49,460.26

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 27.78/USD, 33.42/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

For other bonds, the lowest rates in demand remained unchanged, or rose, as for the three-year paper. However, the Ministry's decisions leaned toward not changing the cut-off rates where possible.

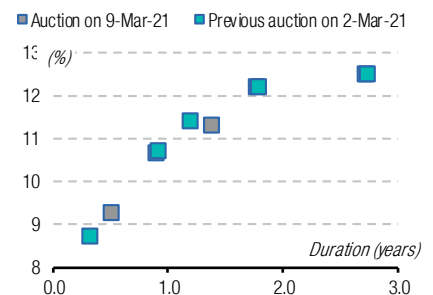
For 11-month paper, demand was lower than the cap; however, not all demand was satisfied. The Ministry decided not to increase the cut-off rate, keeping it at 10.75%, rejecting a bit more than UAH100m of demand.

But for the 1.5-year bills, the decision was even tougher. This bond was more than twice oversubscribed; however, just less than 41% of demand was accepted. The Ministry increased the cut-off rate by 5bp to 11.10%, but the weighted-average rate slid by 8bp to 10.96%.

Rates remained unchanged for the two-year and three-year bonds. The MoF accepted most demand, as only two small bids for the two-year paper came in with

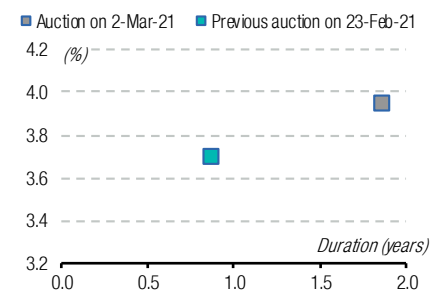
WEDNESDAY, 10 MARCH 2021

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



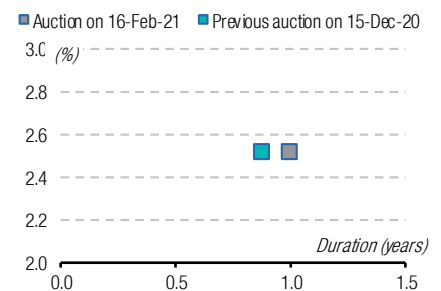
Source: Ministry of Finance of Ukraine, ICU.

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.

an increase in rates.

The Ministry borrowed UAH5.2bn, while debt interest repayments today amount to just UAH1bn and no redemptions are scheduled for this week. This allows the MoF to build a reserve for future debt repayments, such as those scheduled next week in the amount of UAH15bn.

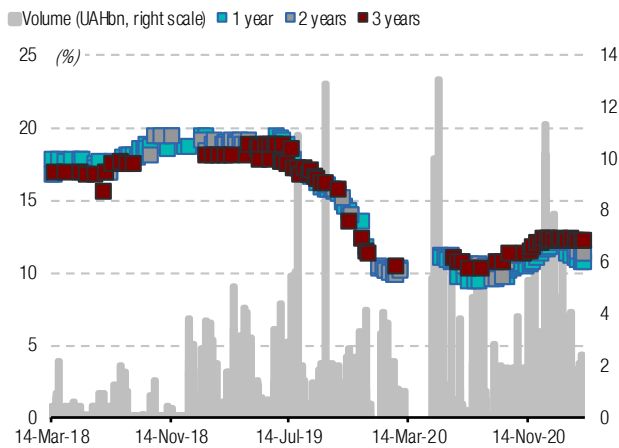
Importantly, demand is still large although meeting it can cause a slight increase in interest rates for the UAH-denominated bills. The MoF should be able to increase borrowings with a slight increase in rates, especially when using other sources of funds would be undesirable.

Therefore, in general, it can be stated that the decline in rates has probably been played out. Going forward, the MoF will balance the amount of borrowing against the necessity of raising rates, as was the case with 1.5-year bills yesterday.

Appendix: Yields-to-maturity, repayments

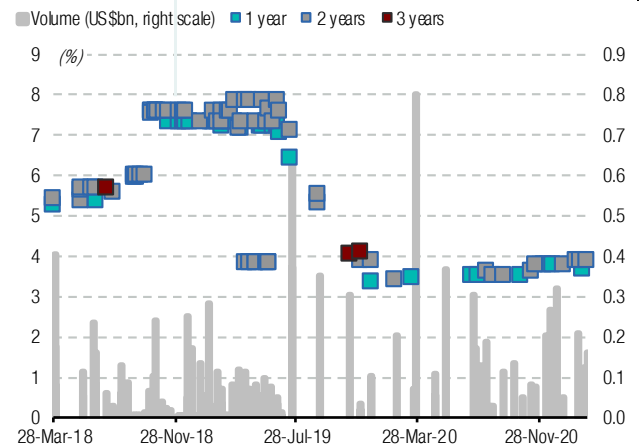
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

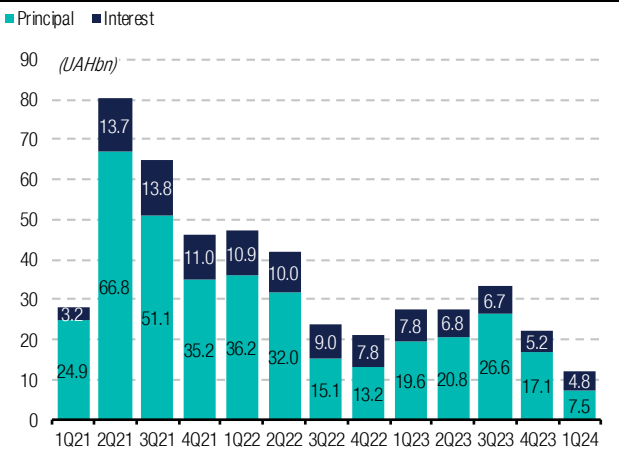
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

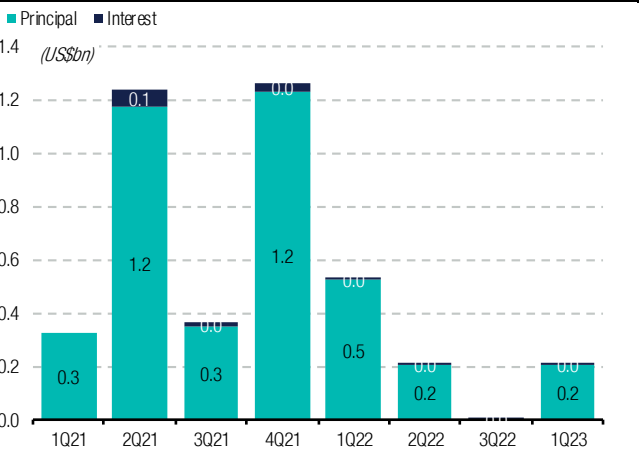
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

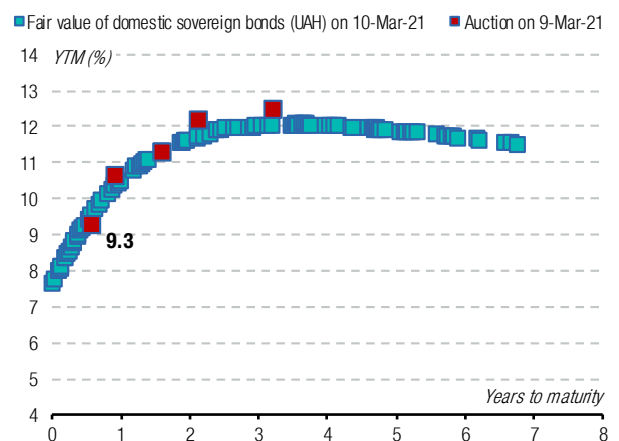
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

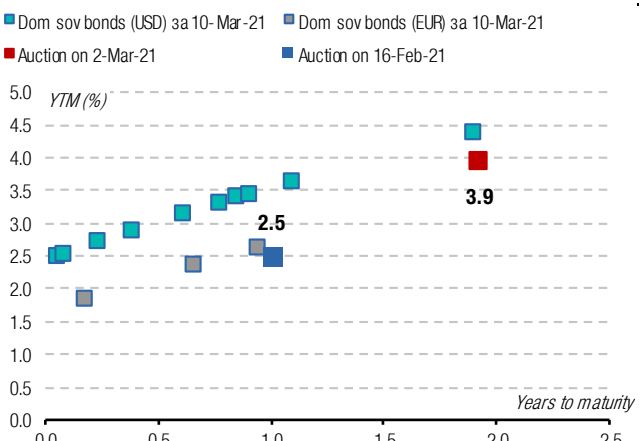
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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