

Bond Market Insight

Interest rates mostly unchanged

Comment on government bond placement

By offering most bonds without caps yesterday, rates remained unchanged with little rejected demand.

The MoF placed caps only on the four-month bills, which caused competition. The decline in rates was 16bp for the cut-off rate and 14bp for the weighted-average to 8.34% and 8.33%, respectively. This cap was set to have low increase in debt repayments this year.

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
UA4000194567	16.65	SA	30-Jun-21	500,000	1,058.05	529.03	500.00	8.53	3,112.69
UA4000215495	0.00	@Mty	2-Feb-22	3,262,767	913.48	2,980.46	3,262.77	10.74	11,157.40
UA4000199210	14.91	SA	12-Oct-22	3,837,261	1,116.93	4,285.93	3,837.26	11.42	14,993.86
UA4000200885	15.97	SA	19-Apr-23	1,675,077	1,139.63	1,908.97	1,675.08	12.18	11,032.14
UA4000207880	9.99	SA	22-May-24	113,709	977.11	111.11	113.71	12.45	10,677.71
UA4000207518	9.79	SA	26-May-27	258,315	913.17	235.89	258.32	12.93	6,484.27
Total UAH				9,647,129		10,051.38	9,647.13		57,458.07
UA4000215727	3.90	SA	14-Apr-22	151,146	1,018.57	4,266.03	4,188.26	3.73	9,847.97
Total USD				151,146		4,266.03	4,188.26		9,847.97

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

However, for bills with maturity in 2022, the weighted-average rates were up by 12bp, while cut-off rates remained steady. Lack of caps induced bidders to increase the lowest rates in demand without fear that the Ministry would decide to decrease rates.

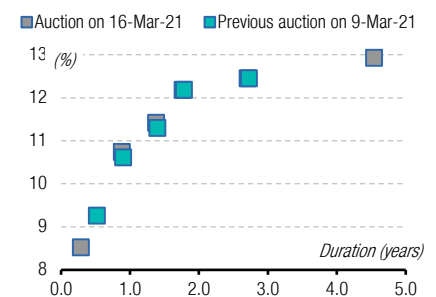
For longer paper, all rates remained unchanged, as demand was mostly unanimous and did not require a rate increase for most of them.

However, for USD-denominated bills, rates declined without caps on the offering. Cut-off and weighted-average rates were down by 20bp to 3.7% each. Demand was mostly satisfied, which indicates that bidders initiated the decline.

The MoF ended up refinancing two-thirds of today's debt redemption using new hryvnia bonds, and with last weeks' proceeds, all repayments should be covered in full. In addition, the Ministry received some proceeds in hard currency, which will be very useful at the end of March when a large redemption of FX-denominated bills

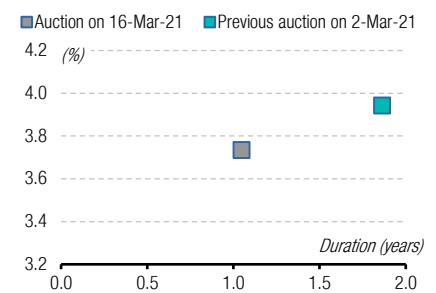
WEDNESDAY, 17 MARCH 2021

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



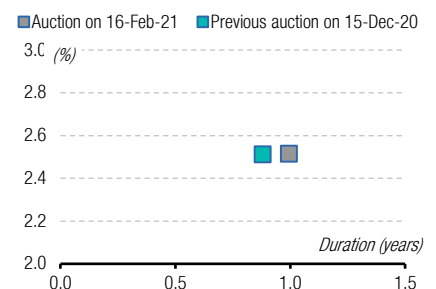
Source: Ministry of Finance of Ukraine, ICU.

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.

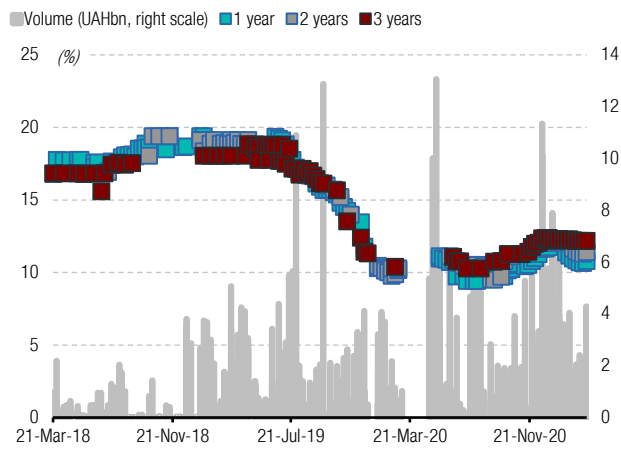
is scheduled.

The Ministry did not need to increase rates to accept most of demand and refinance repayments. Market participants were satisfied with the current level of interest rates, and reinvested at least two-third of redemptions. The rest of today's redemptions can be reinvested in the secondary market or in the next week's primary auction.

Appendix: Yields-to-maturity, repayments

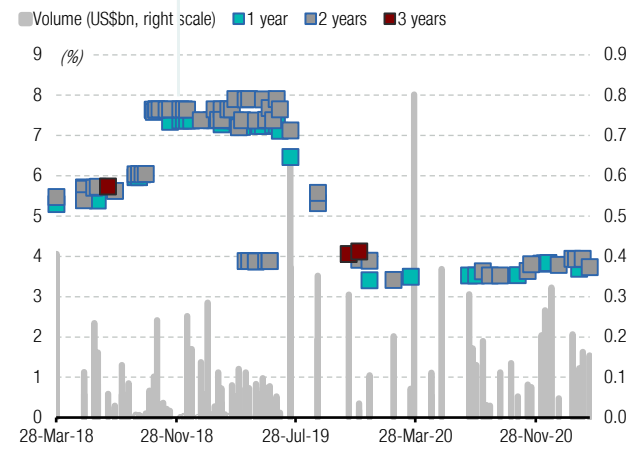
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

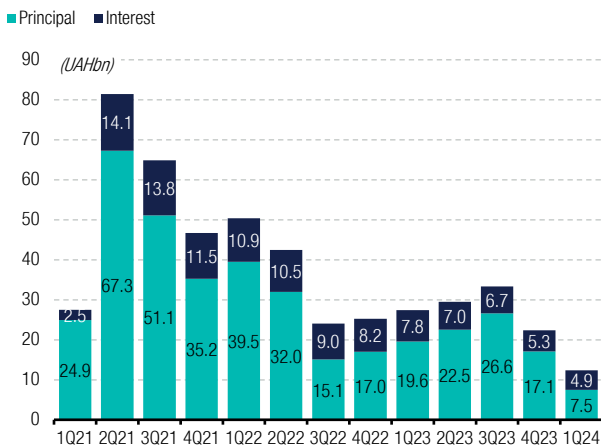
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

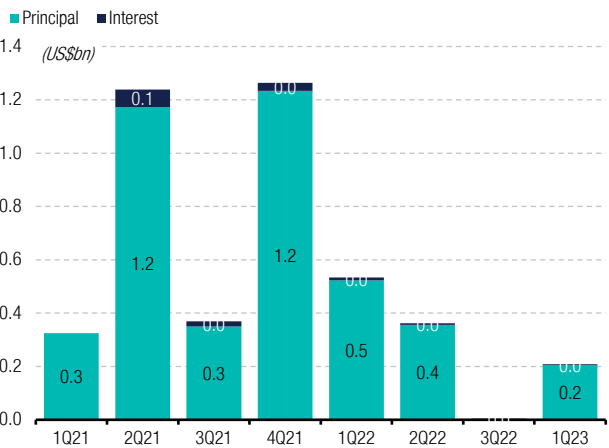
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

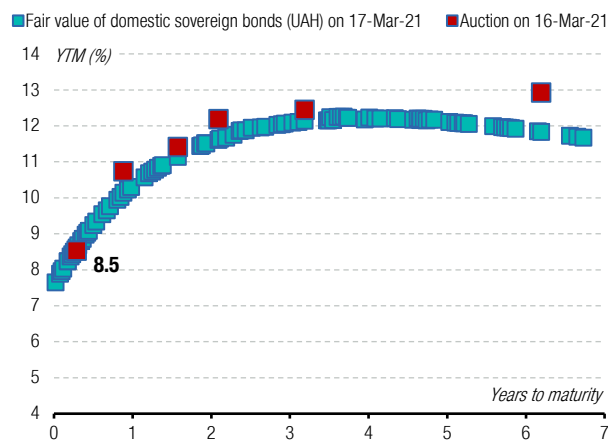
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

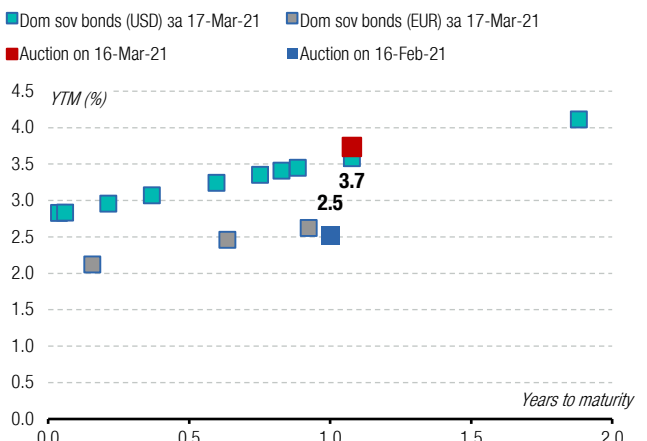
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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