

Bond Market Insight

Demand was insufficient

Comment on government bond placement

Even without caps and higher rates, the Ministry of Finance would not have been able to refinance all of today's payments. Bidders did not receive a decision that increased interest rates; in fact, rates dropped for some issues.

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 | 1,107.45 | 553.73 | 500.00 | 8.80 | 10,987.97 |
| UA4000215156 | 11.73 | SA | 9-Mar-22 | 4,637,673 | 1,013.13 | 4,698.58 | 4,637.67 | 11.07 | 10,523.07 |
| UA4000216774 | 11.10 | SA | 23-Nov-22 | 1,082,499 | 1,035.95 | 1,121.41 | 1,082.50 | 11.44 | 1,082.50 |
| UA4000200885 | 15.97 | SA | 19-Apr-23 | 41,535 | 1,144.03 | 47.52 | 41.54 | 12.08 | 11,073.67 |
| UA4000207880 | 9.99 | SA | 22-May-24 | 32,458 | 979.31 | 31.79 | 32.46 | 12.45 | 10,710.17 |
| Total UAH | | | | 6,294,165 | 6,453.02 | 6,294.17 | 44,377.38 | | |

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.

Of course, the largest decline was in semi-annual bills. They were more than twice oversubscribed, so the reduction in rates was considerable. The cut-off rate decreased by 47 bp to 8.68%, and the weighted average was down by 44 bp to 8.59%.

Rates for the two-year paper declined, too. All competitive demand was at 11.7%, therefore, the Ministry had to accept all bids, including non-competitive, at this level, which is 10bp below the rates set a week ago.

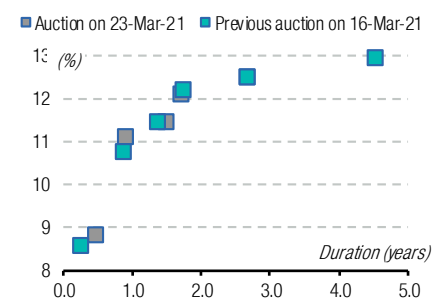
For other offered bills and notes yesterday, rates mostly remained steady. Rates rose only for the one-year and 1.5-year instruments, with weighted-average rates up by a mere 1bp and 2bp, respectively, to the same level as the cut-off rates. But for these bills, the Ministry decided to reject some small and expensive bids to avoid increasing interest rates.

So, in general, the Ministry refinanced about half of today's debt repayments in local-currency debt. But this partial refinancing do not cause any problems for the state budget.

In January and February, the government borrowed net UAH22bn (US\$0.8bn) and during the previous two weeks, there were outflows to budget accounts and inflows to the banking system in nearly equal amounts, UAH15.2bn and 16.6bn, respectively. So, there are enough funds in budget accounts to make at least this week's debt repayments without full refinancing.

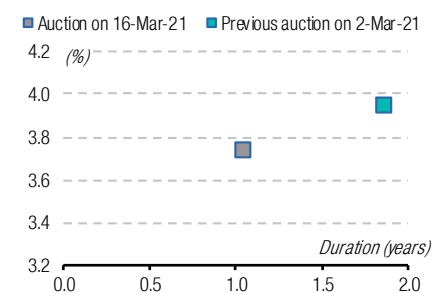
WEDNESDAY, 24 MARCH 2021

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



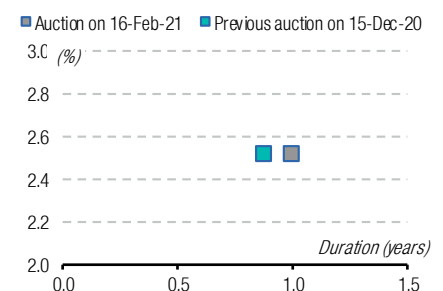
Source: Ministry of Finance of Ukraine, ICU.

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

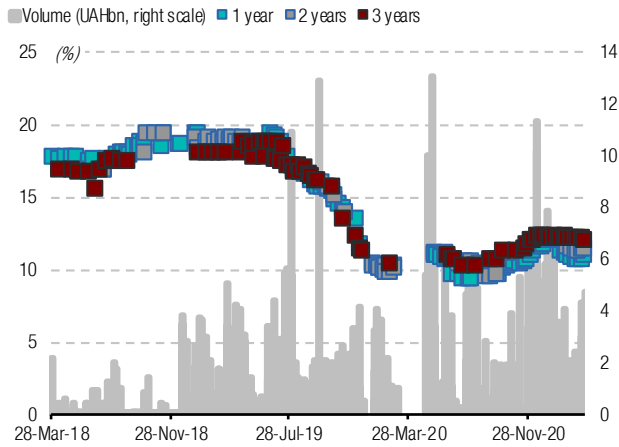


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

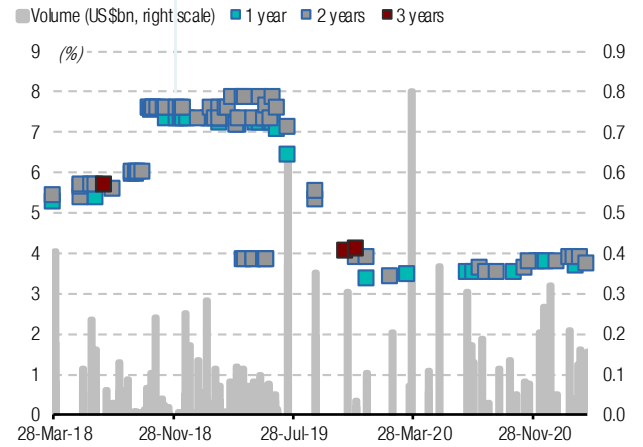
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

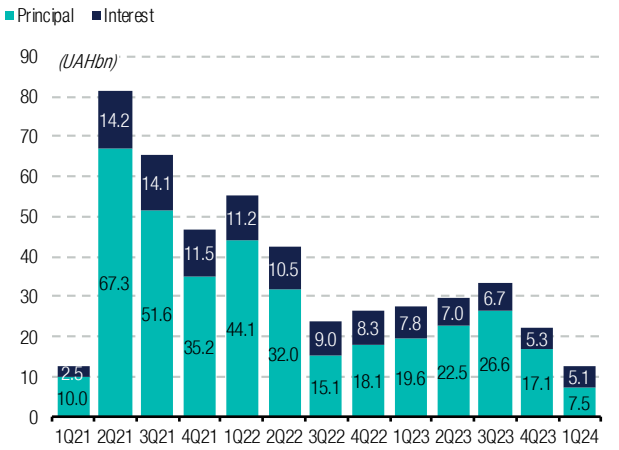
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

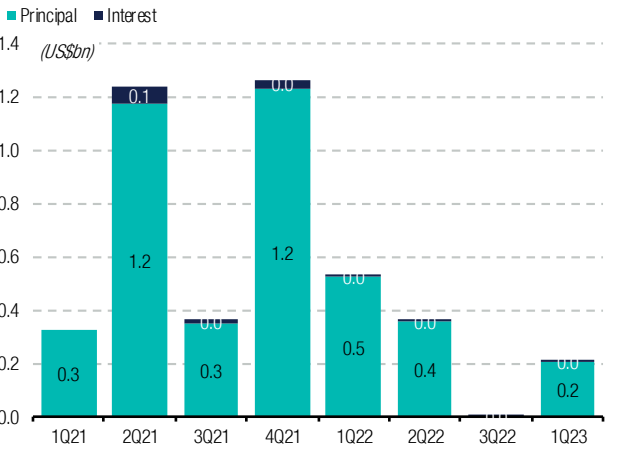
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

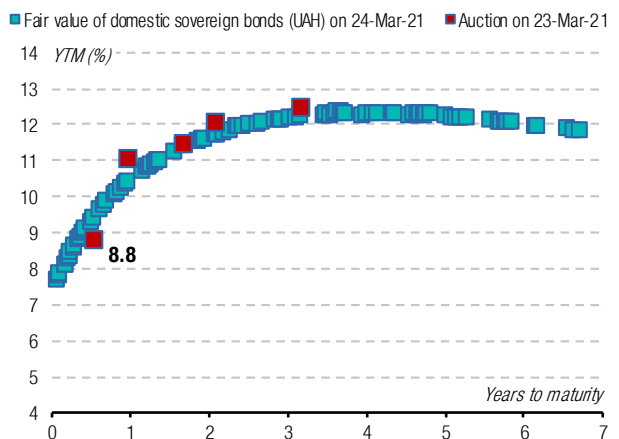
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

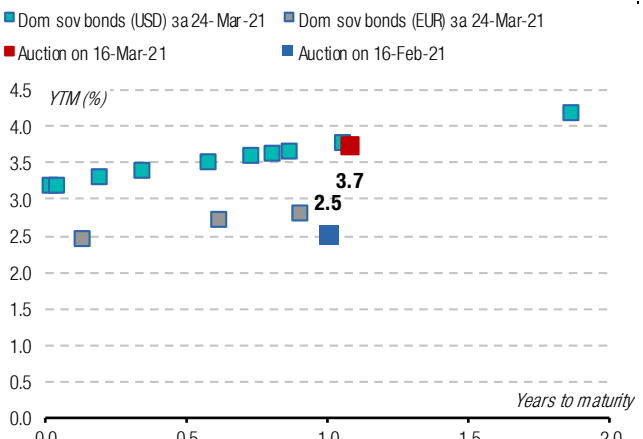
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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