

Bond Market Insight

Interest rates steady

Comment on government bond placement

Interest rates declined only for the shortest bills, which the MoF has been offering with a cap. For the rest of the instruments sold yesterday, changes in rates were insufficient.

A cap for the three-month paper once more induced bidders to submit bids with lower rates. Yesterday, the MoF accepted just the lowest rate, 7.98%, which declined by 36bp compared with the auction two weeks ago. The same level was set for the weighted average rate, which was down by 35bp.

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

ISIN	Coupon rate (%)	Payment frequency ¹	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	1,062.27	531.14	500.00	8.16	3,612.69
UA4000215156	11.73	SA	9-Mar-22	2,576,902	1,015.25	2,616.19	2,576.90	11.06	13,099.97
UA4000216774	11.10	SA	23-Nov-22	373,511	1,038.10	387.74	373.51	11.44	1,456.01
UA4000200885	15.97	SA	19-Apr-23	845,422	1,144.69	967.75	845.42	12.18	11,919.10
Total UAH				4,295,835	4,502.81	4,295.84		30,087.77	
UA4000215727	3.90	SA	14-Apr-22	48,596	1,020.01	1,379.73	1,352.66	3.73	11,245.02
UA4000216923	3.90	SA	30-Mar-23	106,767	1,000.00	2,971.85	2,971.85	3.94	2,971.85
Total USD				155,363	4,351.58	4,324.51		14,216.87	

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

Most of bills did not see changes in rates. Only the two-year saw material changes. Both the cut-off and weighted-average rates were up 10bp to 11.8%, the same level seen two weeks ago.

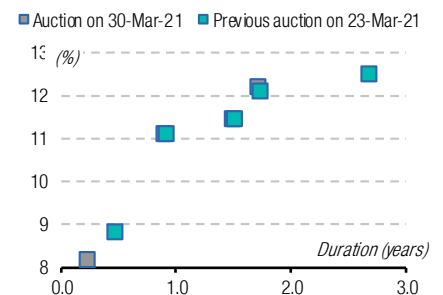
Rates for the FX-denominated bills were also unchanged. Twelve-month bills were sold at 3.7% and two-year paper at 3.9%, the same levels as earlier this month.

If we assess the acceptance rate of demand, in general, it remained at a high level, almost 90%. Due to the cap, the Ministry rejected a large portion of demand for the three-month bills, and one bid for 12-month and two-year bills, each.

Therefore, in general, the budget received almost UAH8.9bn (US\$318m), of which UAH4.5bn (US\$162m) was in hryvnia and another US\$156m (UAH4.4bn) in hard currency. Although in general, more hard currency was raised this month than was needed for redemptions, this difference almost completely compensated for

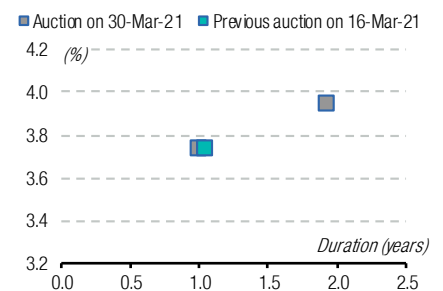
WEDNESDAY, 31 MARCH 2021

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



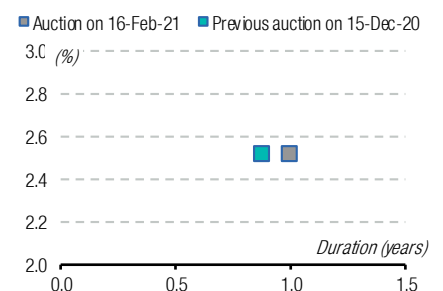
Source: Ministry of Finance of Ukraine, ICU.

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



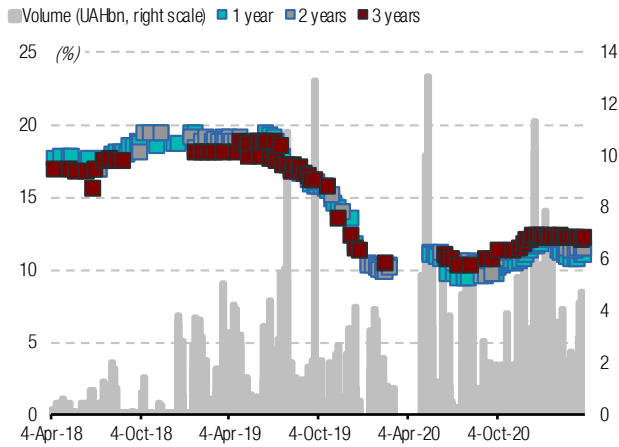
Source: Ministry of Finance of Ukraine, ICU.

insufficient borrowings in hryvnia. As a result, the MoF was able to refinance almost 100% of domestic debt redemptions in March, without increasing the cost of borrowing, and even slightly reducing it.

Appendix: Yields-to-maturity, repayments

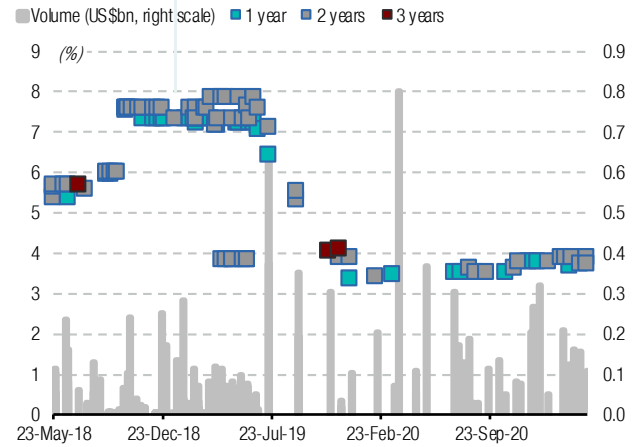
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

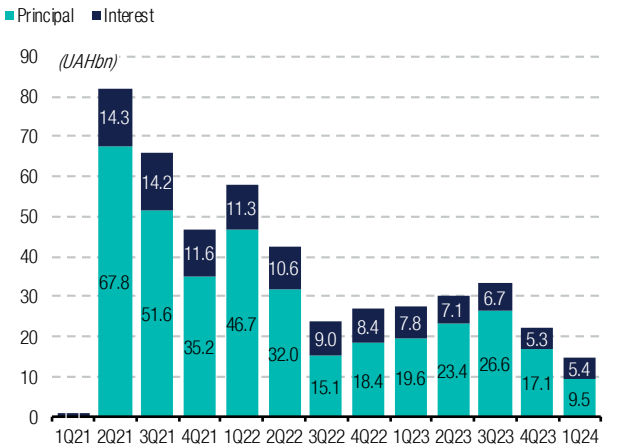
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

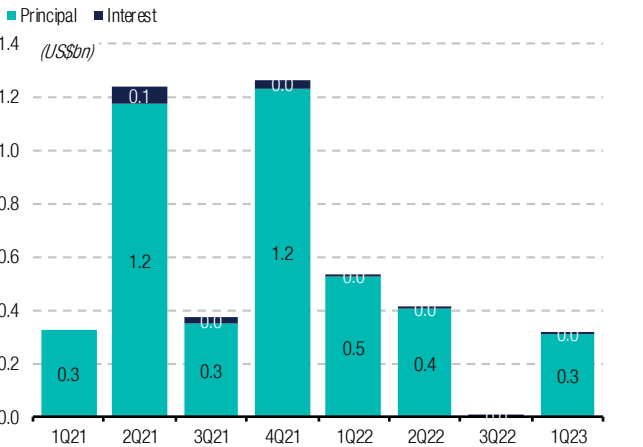
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

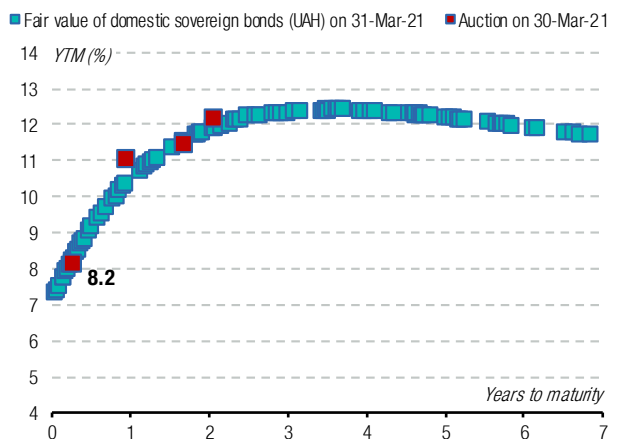
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

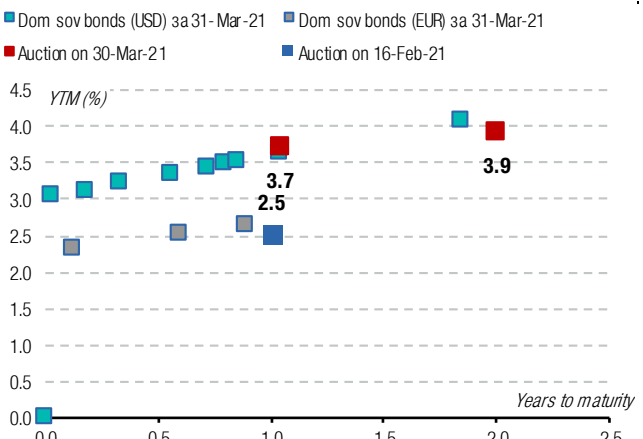
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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