

Bond Market Insight

Borrowings increase

Comment on government bond placement

Last week's interest-rate increase resulted in an increase in demand for local-currency bonds and larger borrowings. In total, yesterday, the government borrowed almost UAH10.6bn, mainly in local currency.

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)	Pro-ceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000204986	15.36	SA	29-Sep-21	115,541	1,037.44	119.87	115.54	9.23	11,237.01
UA4000204002	17.00	SA	11-May-22	5,052,928	1,133.71	5,728.56	5,052.93	11.55	17,970.89
UA4000216774	11.10	SA	23-Nov-22	1,156,068	1,043.94	1,206.87	1,156.07	11.65	2,792.61
UA4000201255	16.00	SA	24-May-23	382,827	1,139.76	436.33	382.83	12.36	6,918.23
UA4000207880	9.99	SA	22-May-24	873,086	984.89	859.89	873.09	12.69	11,601.61
Total UAH				7,580,450		8,351.51	7,580.45		50,520.34
UA4000211114	3.60	SA	3-Feb-22	21,301	1,007.52	595.60	591.16	3.73	10,209.35
Total USD				21,301		595.60	591.16		10,209.35
UA4000215891	2.50	SA	17-Feb-22	41,769	1,004.79	1,408.30	1,401.59	2.51	3,767.06
Total EUR				41,769		1,408.30	1,401.59		3,767.06

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 27.75/USD, 33.56/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Expectedly, interest rates for bills with semi-annual maturities rose to 9%, although the MoF rejected most of demand. The Ministry accepted only bids with rates up to 9% and non-competitive demand. The lowest rate was 8.75%, but amount was low without impact on weighted-average rate, which was also 9%.

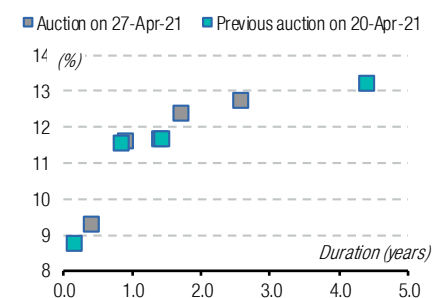
For 12-month paper, rates continued to rise, but by a mere 5bp, which probably was a reflection in the price of an additional two months to maturity. However, this paper provided the budget with more than half of yesterday's proceeds.

19-month bills were sold at the same rate as last week, but demand rose significantly. Last week, demand was UAH2.5m in two bids, while yesterday it was UAH1.2bn in nine bids. This indicates that the new level of interest rates is quite acceptable to bidders.

An increase in interest rates for two and three-year instruments was expected too, as it was the debut offering after the NBU hiked the key policy rate. For these maturities, interest rates were up by 20bp and 25bp to 12% and 12.3%, respectively. But some investors were ready to buy them at lower rates and in large amounts. This resulted

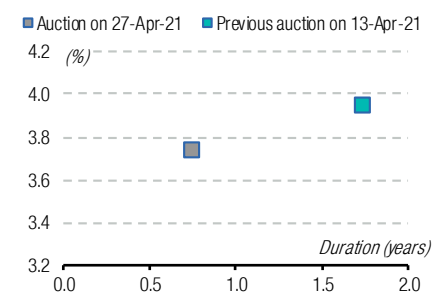
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



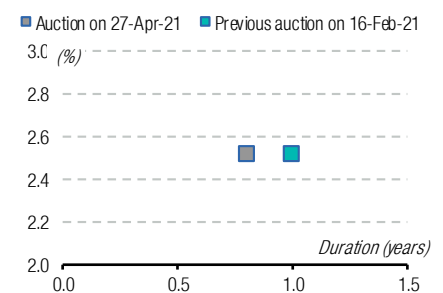
Source: Ministry of Finance of Ukraine, ICU.

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.

in weighted-average rates increasing by 16bp and 23bp, to 11.96% and 12.28%, respectively.

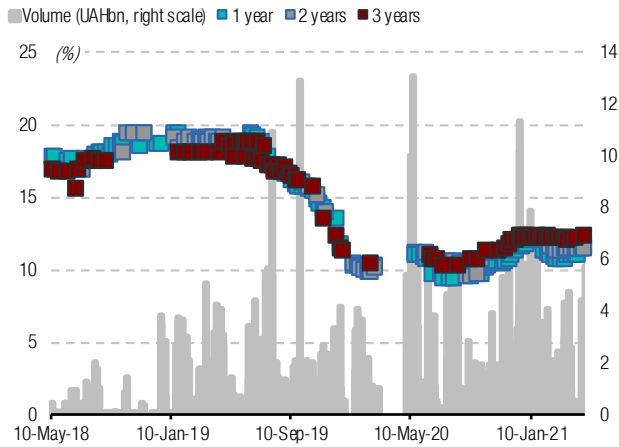
At the same time, FX-denominated bills received low demand. The number of bids was large, 32 bids for bills in USD and 17 for bills in euro. But the amount of demand was low, US\$21.5m and EUR41.8m, respectively.

So, interest rates at the primary bond market were up yesterday, but except for two of the shortest maturities, rates increased by only 20–40bp, a restrained reaction to the increase of 100bp to 7.5% of the key policy rate. This measured reaction was understandable since, as most of interest rates were significantly higher than the key policy rate, banks received a large premium. It is important, though, that this increase in rates made it possible to increase borrowings in the local market after the last few weeks of low borrowings, especially in local currency.

Appendix: Yields-to-maturity, repayments

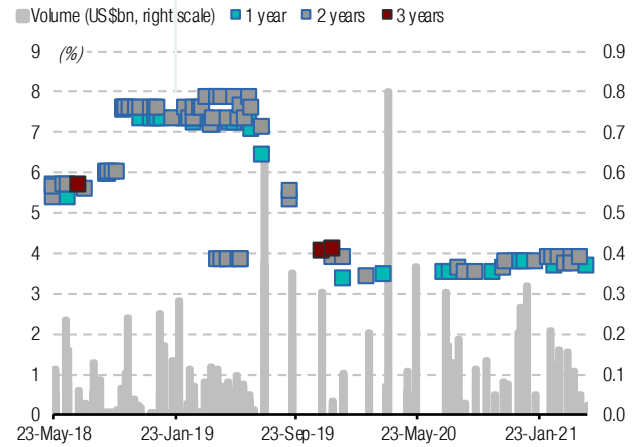
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

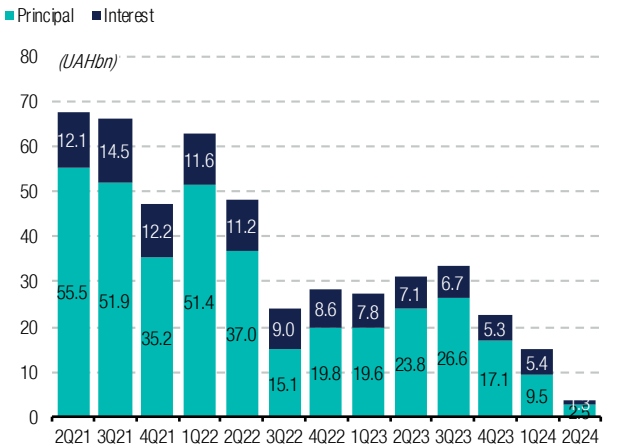
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

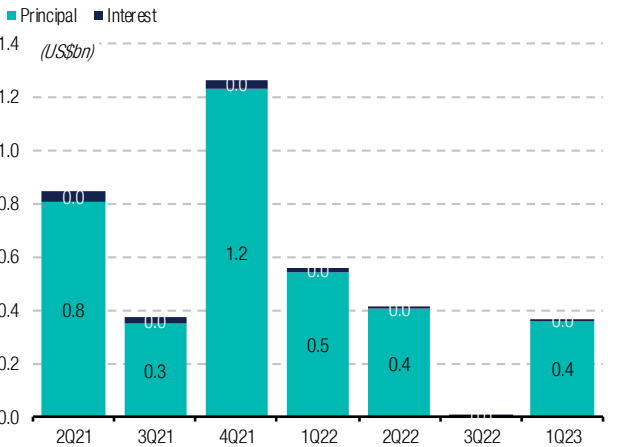
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

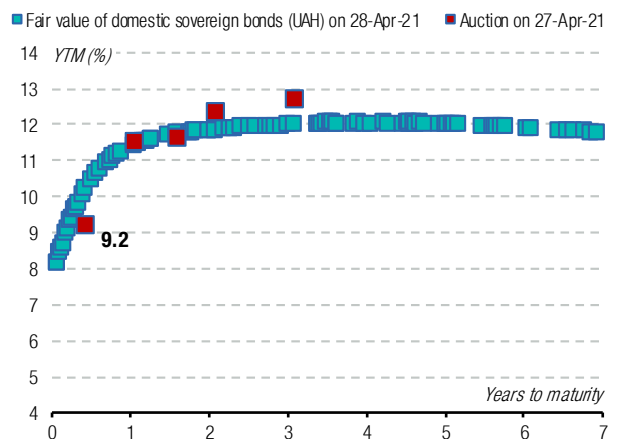
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

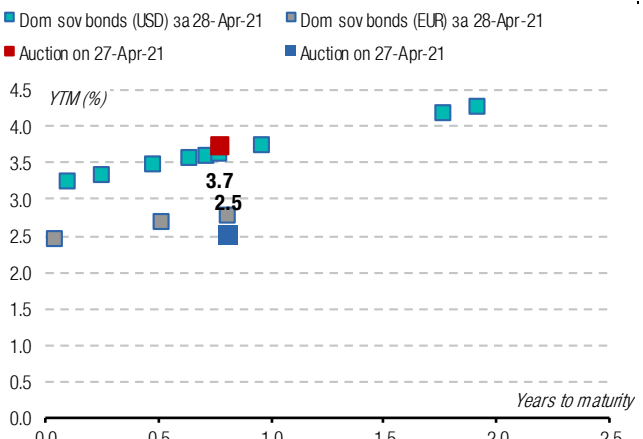
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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