

Bond Market Insight

Bond rates unchanged

Comment on government bond placement

Yesterday, the MoF finalized refinancing of last week's principal repayments without changes in cut-off rates, and with only small movements in weighted-average rates.

Out of total demand for the auction, the Ministry rejected just one bid for a small amount, insufficient for total proceeds. A few bids for the five-month bills were partially accepted.

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 |
|------------------|-----------------|-------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000213300 | 0.00 | @Mty | 27-Oct-21 | 500,000 | 963.48 | 481.74 | 500.00 | 8.98 | 12,241.90 |
| UA4000204572 | 16.06 | SA | 3-Aug-22 | 3,143,898 | 1,101.77 | 3,463.85 | 3,143.90 | 11.55 | 15,526.06 |
| UA4000216774 | 11.10 | SA | 23-Nov-22 | 97,150 | 997.31 | 96.89 | 97.15 | 11.65 | 3,126.04 |
| UA4000201255 | 16.00 | SA | 24-May-23 | 722,952 | 1,068.40 | 772.40 | 722.95 | 12.45 | 9,073.48 |
| UA4000207880 | 9.99 | SA | 22-May-24 | 1,214,755 | 943.47 | 1,146.08 | 1,214.76 | 12.72 | 13,272.72 |
| Total UAH | | | | 5,678,755 | | 5,960.97 | 5,678.76 | | 53,240.20 |

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 27.45/USD, 33.68/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

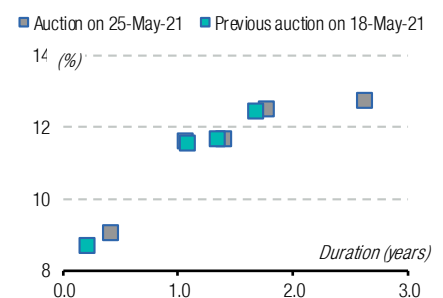
The Ministry usually sets a cap for the shortest maturity, but yesterday, demand was mostly unanimous. Therefore, bids with lower rates were accepted in full, and bids with a rate of 9% and non-competitive bids were accepted partially. As a result, the cut-off rate remains unchanged at 9%, while the weighted-average rate declined a mere 2bp to 8.48%.

There were no changes in rates for the 1.5-year and three-year instruments. For the 14-month and two-year bills, the weighted-average rates rose to the same level as the cut-off rates, by 1bp and 3bp to 11.2% and 12.05%, respectively. Fourteen-month bills and three-year notes collected the largest demand yesterday, UAH3.1bn (US\$114m) and UAH1.2bn (US\$44m) respectively, so we assume that part of demand was from foreigners.

However, without material changes in rates and accepting 96% of total demand for the auction, the MoF received almost UAH6bn (US\$217m) of funds. For the last two weeks, local-currency proceeds were UAH10.4bn (US\$378m), which exceeded debt principal repayments in the market last week. In total for the month of May, the MoF refinanced its principal repayments nearly in full.

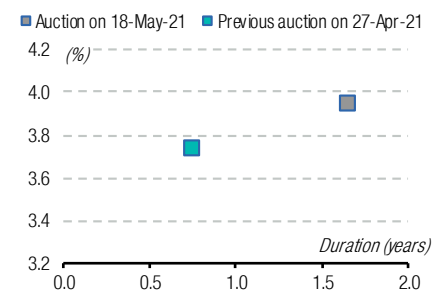
WEDNESDAY, 26 MAY 2021

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



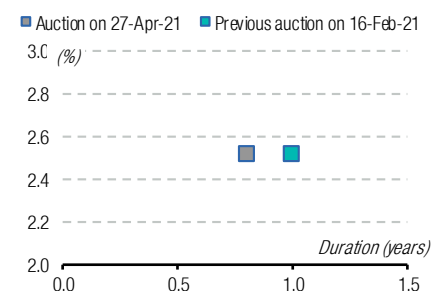
Source: Ministry of Finance of Ukraine, ICU.

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

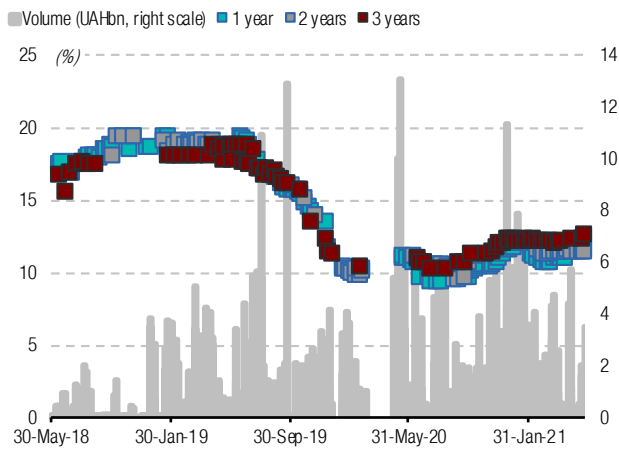


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

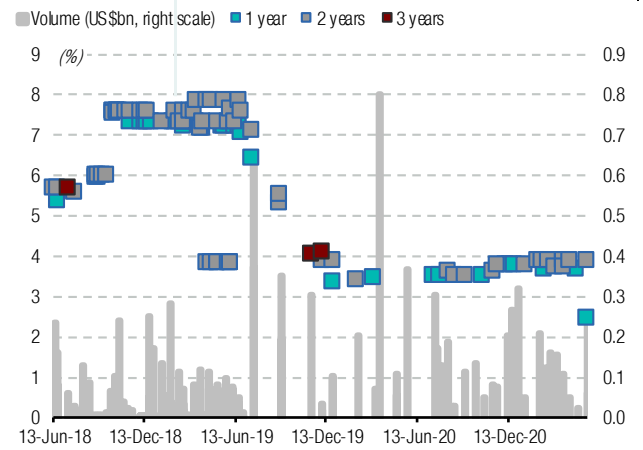
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

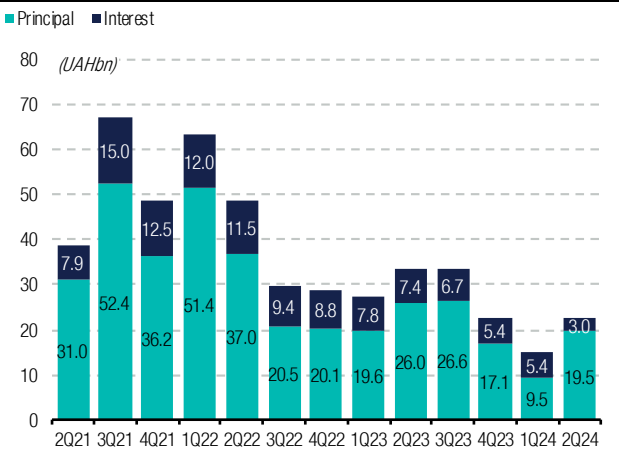
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

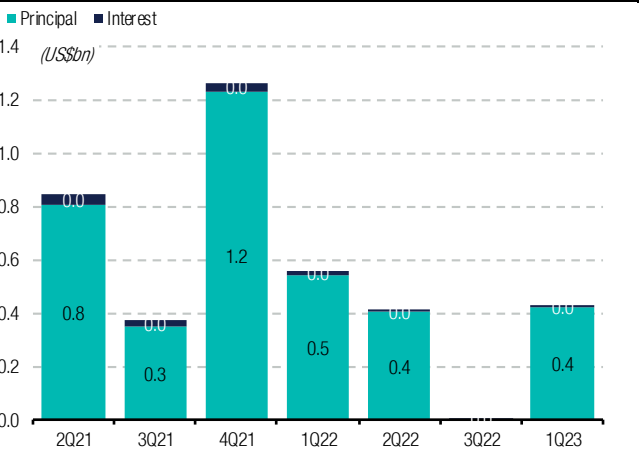
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

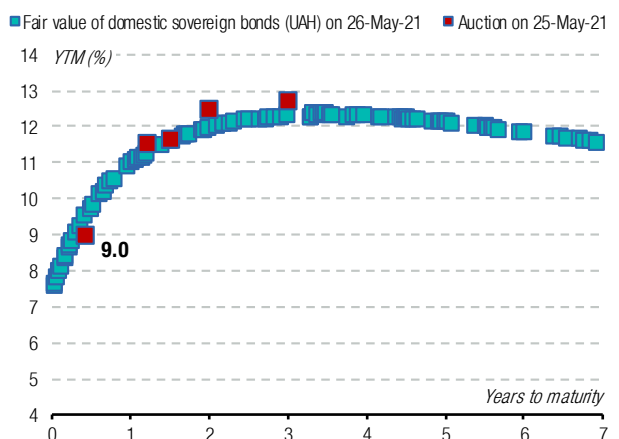
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

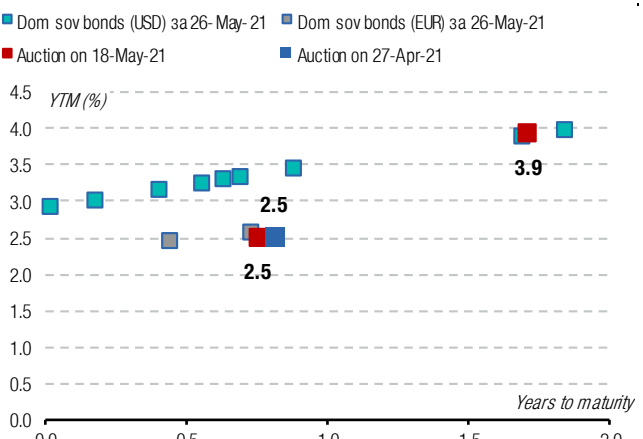
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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