

# Bond Market Insight

## Investors take a break

### Comment on government bond placement

Demand from investors declined this week by a factor of two after the peak seen last week. This Tuesday, both the amount in demand and the number of bids declined. Nonetheless, the MoF was able to borrow UAH8bn (US\$294m) including UAH6bn (US\$221m) in local currency.

The offering for three-month paper was cancelled, while other instruments received UAH6.5bn of demand in local-currency and EUR61m in hard currency. This was less than a half of last week's demand and half the number of bids.

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

ISIN	Coupon rate (%)	Payment frequency <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000218325	11.20	SA	20-Jul-22	2,000,000	1,047.31	2,094.63	2,000.00	11.30	7,786.22
UA4000216774	11.10	SA	23-Nov-22	61,105	1,003.65	61.33	61.11	11.65	5,860.37
UA4000201255	16.00	SA	24-May-23	1,405,419	1,076.52	1,512.96	1,405.42	12.40	15,286.14
UA4000207880	9.99	SA	22-May-24	738,686	949.99	701.74	738.69	12.72	17,883.48
UA4000218531	12.52	SA	13-May-26	1,604,359	1,006.94	1,615.49	1,604.36	13.02	3,604.36
<b>Total UAH</b>				<b>5,809,569</b>		<b>5,986.16</b>	<b>5,809.57</b>		<b>50,420.57</b>
UA4000218747	2.50	SA	9-Jun-22	60,731	1,000.48	1,975.10	1,974.16	2.52	1,974.16
<b>Total EUR</b>				<b>60,731</b>		<b>1,975.10</b>	<b>1,974.16</b>		<b>1,974.16</b>

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 27.1/USD, 32.51/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

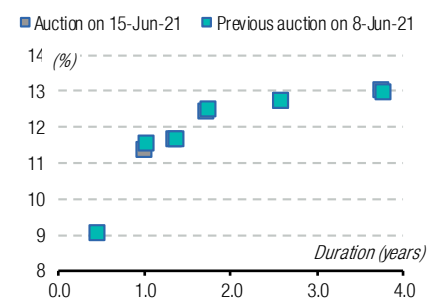
The bills in greatest demand were the 13-month instruments where the MoF set a cap at UAH2bn. Out of 19 bids, three were rejected completely and a few accepted bids were partially filled until the cap was reached. Consequently, interest rates for this paper declined: the cut-off rate by 21bp to 10.99% and the weighted-average rate by 22bp to 10.97%.

Interest rates for two-year bills, which did not have a cap, declined. Both the cut-off and weighted-average rates slid a mere 5bp to 12%. However, the weighted-average rate for the five-year note was up by 7bp to 12.59%, the same level as cut-off rate.

In total, the Ministry refinanced less than half of yesterdays' redemptions, while there were expectations that demand for this auction and the proceeds would at least be the same as last week. Demand for the five-year paper declined, too, which had been expected to receive larger demand from foreigners. It looks like investors took a break

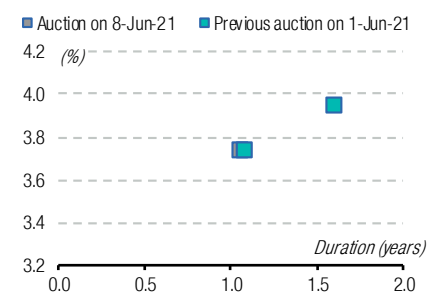
THURSDAY, 17 JUNE 2021

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



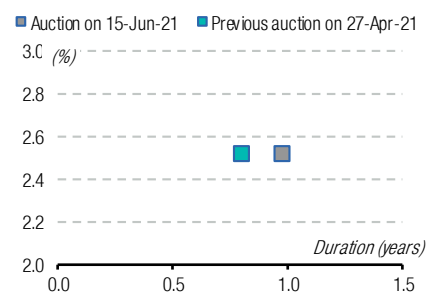
Source: Ministry of Finance of Ukraine, ICU.

### 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.

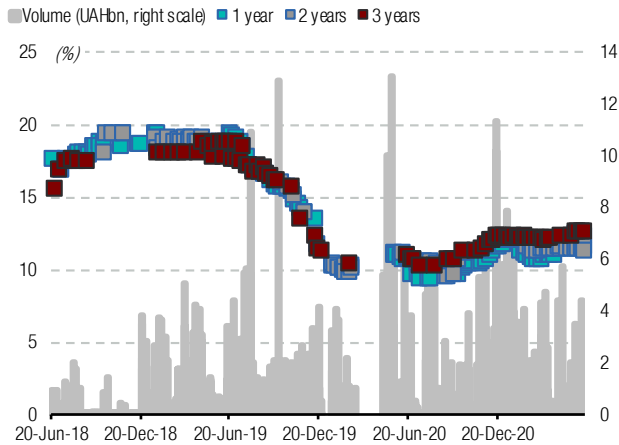
and are waiting for the results of the NBU's monetary meeting today, when the NBU key policy rate can be changed due to high inflation last month. If the NBU increases the key rate, this decision can have impact on primary market rates, as was seen earlier this year.

Investors may move to the secondary market this week or wait for next week's auction after the key rate is announced. It looks like the new five-year note was added to the auction schedule this Tuesday and for next week to give investors to choose when to purchase these notes.

# Appendix: Yields-to-maturity, repayments

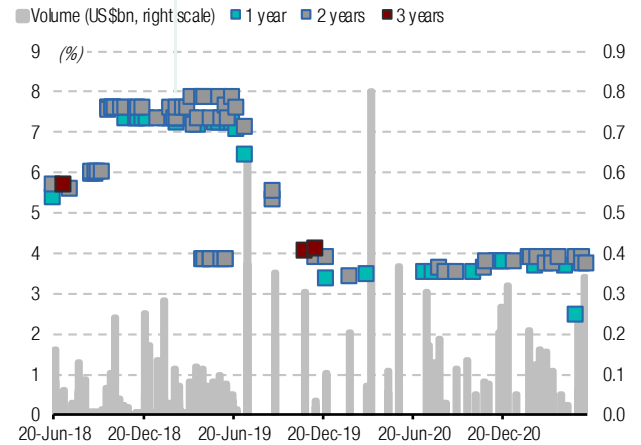
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

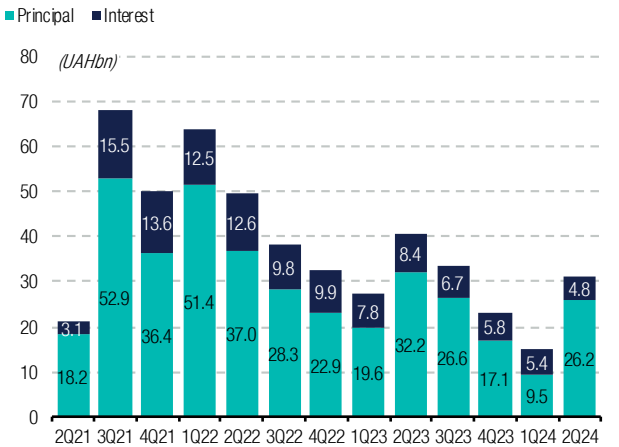
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

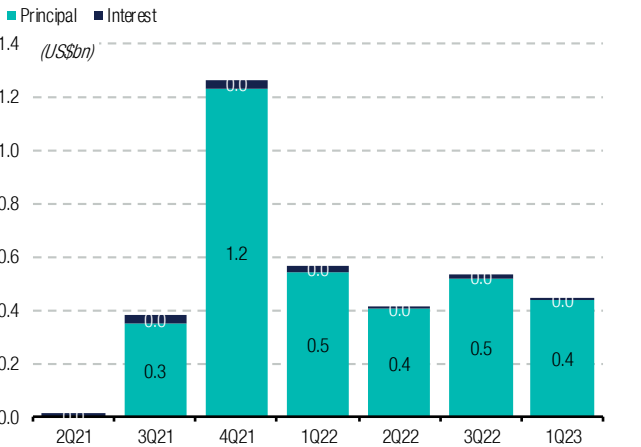
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

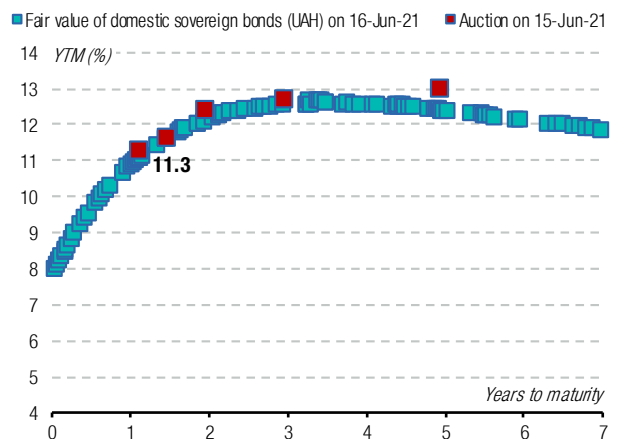
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

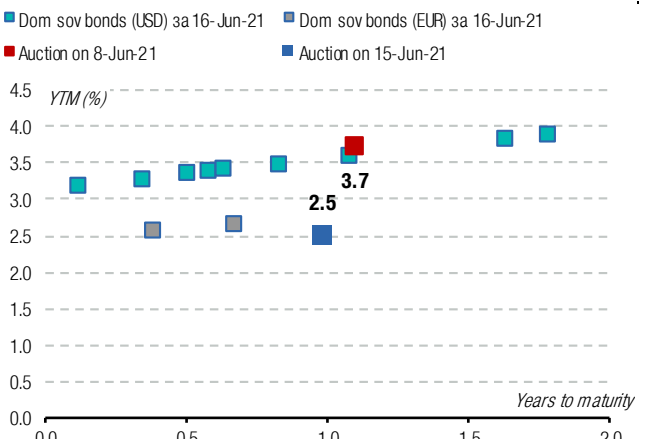
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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