

Bond Market Insight

Demand increase; rates up

Comment on government bond placement

After several inactive auctions and last week's break, yesterday, demand for domestic bonds increased. It took raising rates and rejecting some bids, but the MoF was able to borrow almost UAH6.5bn for the budget.

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
UA4000219778	11.15	SA	26-Aug-22	94,590	1,001.50	94.73	94.59	-0.15	3,088.13
UA4000216774	11.10	SA	23-Nov-22	1,227,904	1,027.27	1,261.39	1,227.90	11.65	11,678.97
UA4000213227	10.95	SA	1-Nov-23	264,010	1,014.20	267.76	264.01	12.49	4,677.52
UA4000219208	12.30	SA	3-Jul-24	1,084,221	1,016.23	1,101.82	1,084.22	12.82	2,135.57
UA4000207518	9.79	SA	26-May-27	278,407	906.00	252.24	278.41	13.19	7,375.34
Total UAH				2,949,132		2,977.93	2,949.13		28,955.53
UA4000220412	3.90	SA	5-Oct-23	128,363	1,015.72	3,509.84	3,455.52	3.94	3,455.52
Total USD				128,363		3,509.84	3,455.52		3,455.52

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 26.92/USD, 32.13/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Two weeks ago, total demand was less than UAH1bn for three instruments. Yesterday, demand more than tripled for UAH-denominated bonds, and another US\$130mn of bids at face value were received for two-year USD-denominated notes.

Investors were most interested in 15-month and three-year bills, where demand exceeded UAH1bn for each. These two bills provided the budget with the main part of today's proceeds. The least attractive were the 12-month bills, where demand was less than UAH100m.

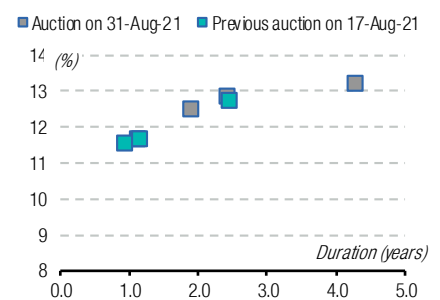
While in recent weeks demand was mostly unanimous and rejected bids were those that requested a higher rate than the previous auction, yesterday, the MoF decided to raise rates on the three-year bills to satisfy all bids.

It is very likely that the majority of almost UAH1.1bn of demand for this paper was submitted at the maximum rate of 12.45%, which was 15bp higher than a week earlier. After all, the weighted average rate was set at 12.4%, which is 10bp above last week's level and the minimum rate submitted by participants for this paper yesterday.

But for two-year bills, the Ministry of Finance decided not increase the cut-off rate, probably because of the small amount of demand in general for this paper, and

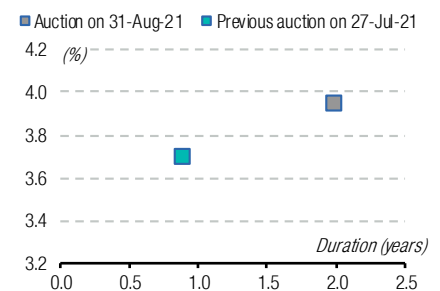
WEDNESDAY, 1 SEPTEMBER 2021

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



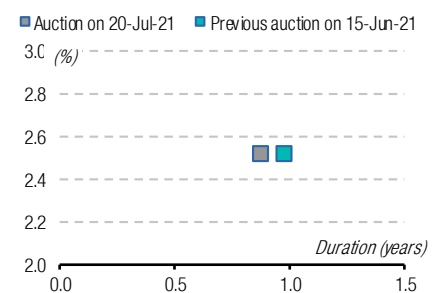
Source: Ministry of Finance of Ukraine, ICU.

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.

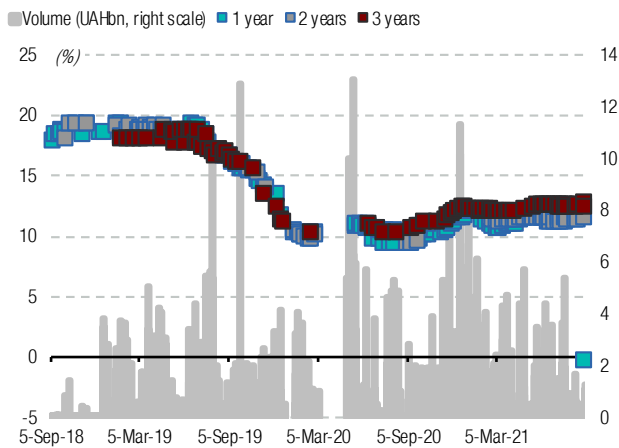
because higher rate provided only UAH100m of additional proceeds.

Therefore, on the first day of autumn, the budget will receive almost UAH3bn and US\$130m, which is more than the MoF raised in all primary auctions in August. The most important point is that the Ministry demonstrated yesterday that in the case of large demand at higher rates, they can agree to increase the cost of borrowing. We don't expect greater activity in the primary bond market soon, because yesterday there may have been pent-up demand due to a break in auctions.

Appendix: Yields-to-maturity, repayments

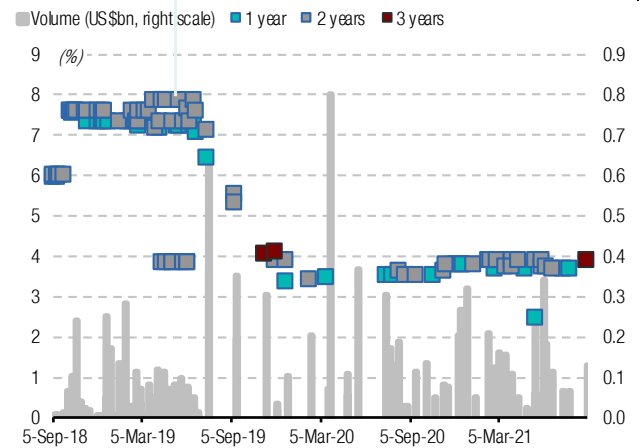
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

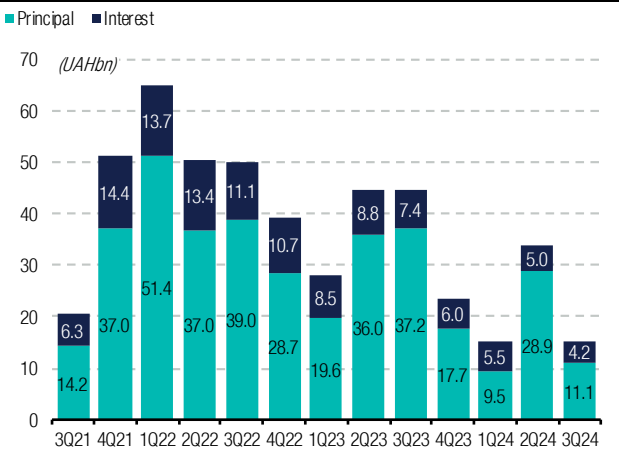
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

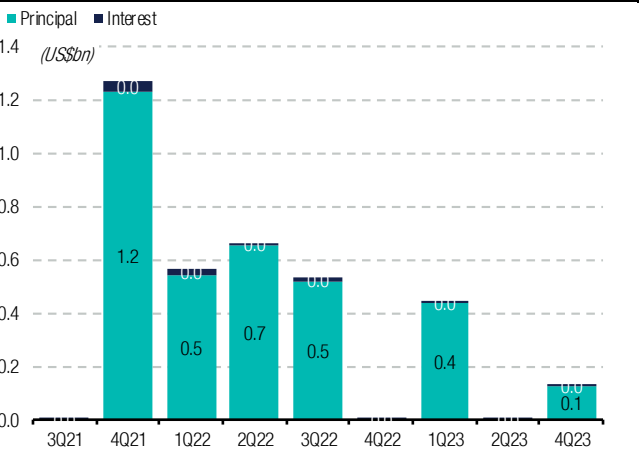
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

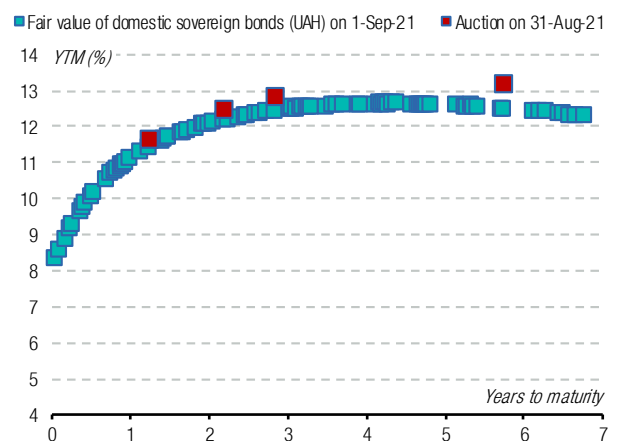
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

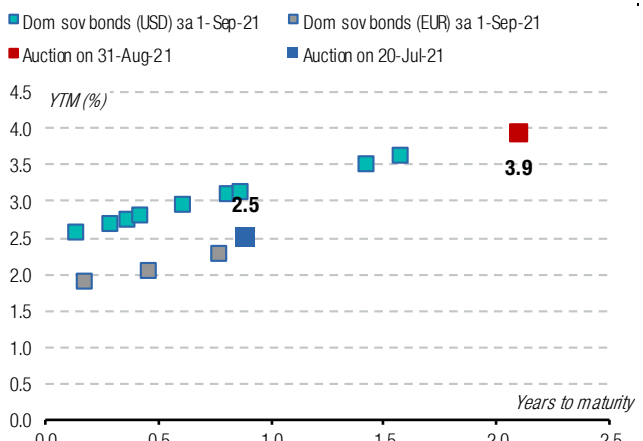
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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