

Bond Market Insight

Demand remains low

Comment on government bond placement

Total demand in this week's primary auction was close to last week's amount. The MoF very selectively accepted bids borrowing less than last week, and was able to attract less than UAH1.2bn.

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
UA4000203236	17.25	SA	5-Jan-22	82,512	1,055.67	87.11	82.51	9.75	10,970.45
UA4000219778	11.15	SA	26-Aug-22	581,503	1,003.76	583.69	581.50	11.73	3,723.92
UA4000216774	11.10	SA	23-Nov-22	230,360	1,029.51	237.16	230.36	11.86	12,912.95
UA4000213227	10.95	SA	1-Nov-23	215,693	1,018.79	219.75	215.69	12.49	5,046.42
UA4000219208	12.30	SA	3-Jul-24	22,888	1,023.22	23.42	22.89	12.72	2,183.95
UA4000218531	12.52	SA	13-May-26	22,068	1,038.08	22.91	22.07	13.02	5,006.50
Total UAH				1,155,024	1,174.03	1,155.02		39,844.18	

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

Raising interest rates did not help either. The MoF again offered bills with maturities up to six months, so an increase was expected. Yesterday, the rate for four-month securities increased immediately by 102bp compared with the auction in May 2021. The cut-off rate for 12-month bills was increased by 30 bp, and by 20 bp for 14-month securities.

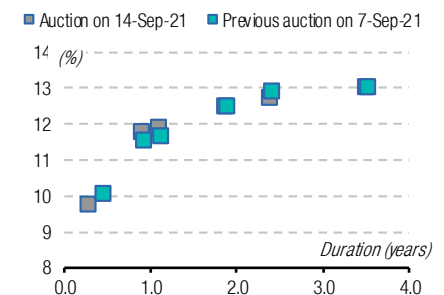
The Ministry reduced rates for the three-year note and accepted all demand. Bids were submitted at a rate of 12.3%, the same level as three weeks ago. Therefore, given that demand was unanimous, the Ministry could not set higher rate.

The maximum rates in bids for most bonds increased even more, indicating the need to adjust the yield curve after the NBU key policy rate revision last week. However, without large volumes in the bids, a sharp increase in rates is not likely.

In the end, activity in the primary market was low with isolated attempts to obtain higher rates. But without large UAH-denominated debt redemptions soon, the Ministry of Finance will continue to be cautious in revising rates.

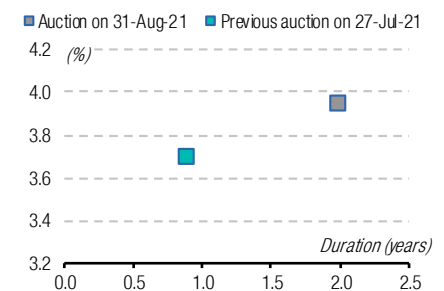
WEDNESDAY, 15 SEPTEMBER 2021

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



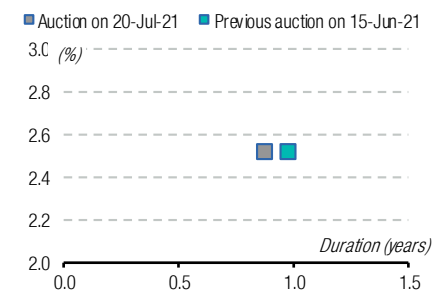
Source: Ministry of Finance of Ukraine, ICU.

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

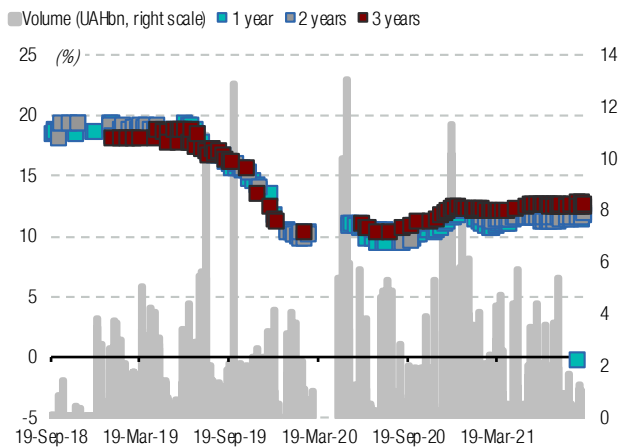


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

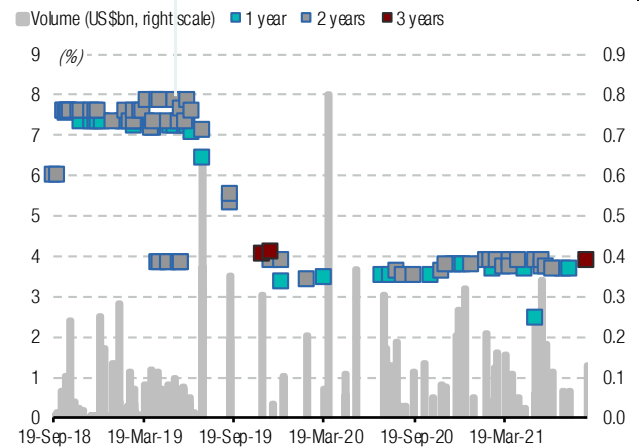
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

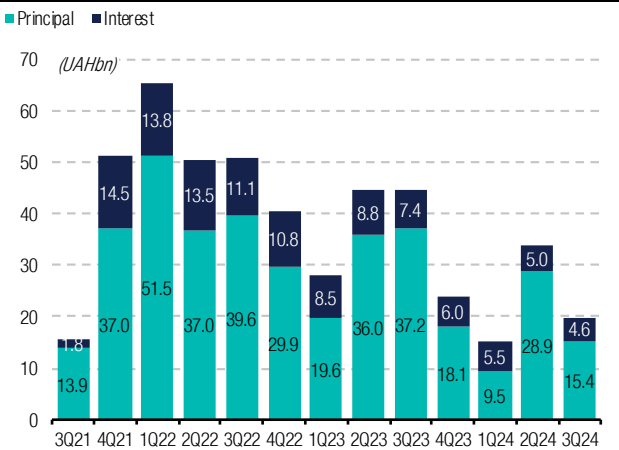
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

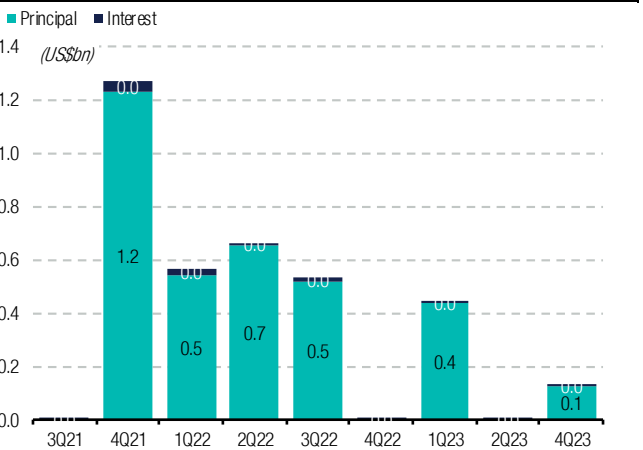
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

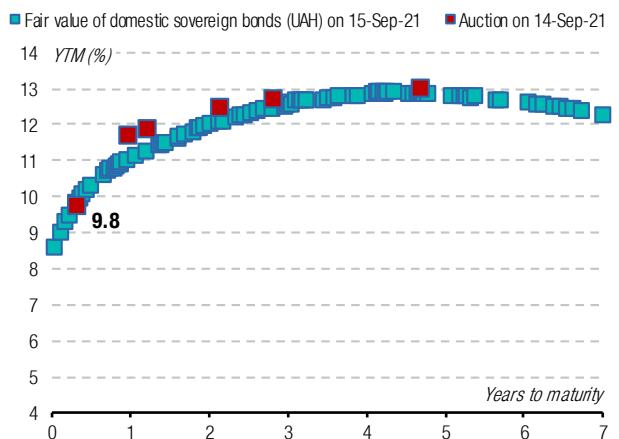
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

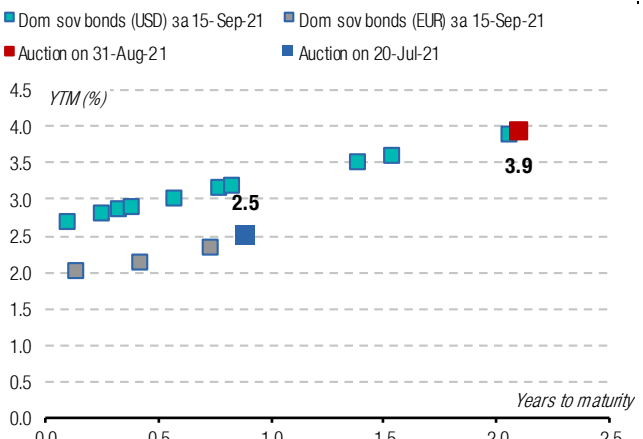
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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