

Bond Market Insight

Borrowings increase, but rates rise

Comment on government bond placement

WEDNESDAY, 22 SEPTEMBER 2021

This week, the MoF reacted to the higher rates in demand for UAH-denominated instruments, and rates rose for more issues.

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
UA4000209886	10.57	SA	23-Feb-22	17,000	1,011.49	17.20	17.00	9.96	9,128.63
UA4000219778	11.15	SA	26-Aug-22	1,705,757	1,004.88	1,714.09	1,705.76	11.85	5,429.68
UA4000216774	11.10	SA	23-Nov-22	601,505	1,031.97	620.73	601.51	11.83	13,514.45
UA4000213227	10.95	SA	1-Nov-23	240,559	1,016.62	244.56	240.56	12.76	5,286.98
UA4000219208	12.30	SA	3-Jul-24	95,227	1,021.20	97.25	95.23	12.92	2,279.17
Total UAH				2,660,048		2,693.82	2,660.05		35,638.91
UA4000220412	3.90	SA	5-Oct-23	85,020	1,017.99	2,311.50	2,270.65	3.94	5,698.88
Total USD				85,020		2,311.50	2,270.65		5,698.88

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

The largest increases in interest rates were for longer maturities. For two-year bills, rates were up by 25bp to 12.34%, and for the three-year note by 19bp to 12.49%.

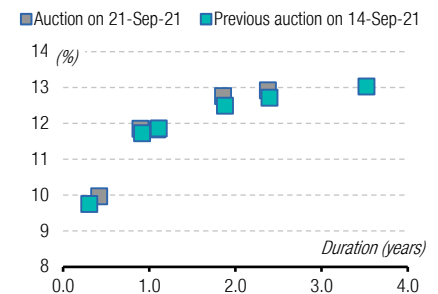
Earlier this month, the MoF increased rates to 12.45% for the three-year note, which just last week had been decreased to 12.3%. So, for three-year paper, the increase was just 4bp.

Interest rates were also up for 12-month paper. The cut-off rate was up by 5bp and the weighted-average rate by 12bp, which is in addition to last week's increase. Yesterday, the cut-off rate for this paper was the same as for 14-month paper, which was sold yesterday at the same cut-off rate of 11.5%, while the weighted-average rate was 2bp lower than for the 12-month bills.

There was a decline in rates for some bills. The five-month bills were sold at 9.7%, or 10bp lower than two weeks ago. Demand came with rates up to 11.45%, but two out of four bids were rejected.

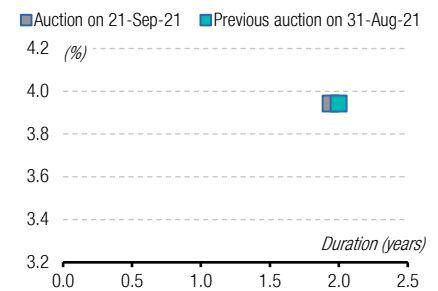
Almost half of the proceeds were received from USD-denominated bills, which were sold at the usual 3.9% rate. Demand was lower than at the end of August, but this offering provided the budget with US\$87m (UAH2.3bn).

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



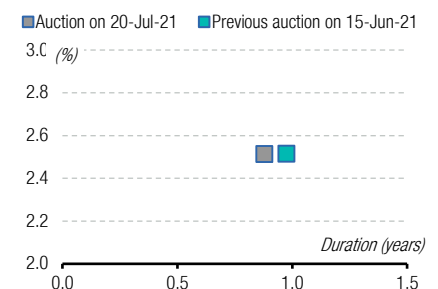
Source: Ministry of Finance of Ukraine, ICU.

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



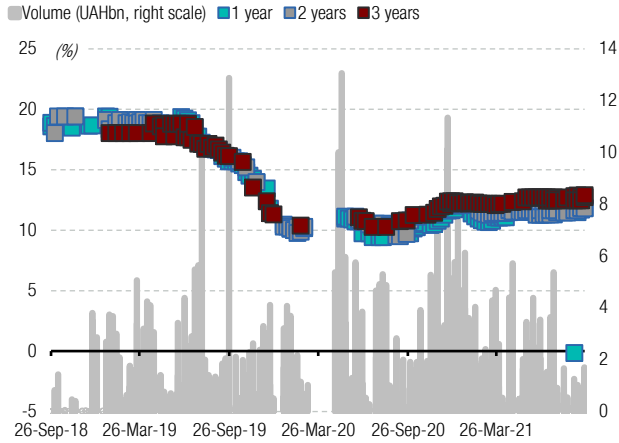
Source: Ministry of Finance of Ukraine, ICU.

In total, the MoF received UAH5bn (US\$187m) for the budget including UAH2.7bn (US\$101m) in local currency. Actually, proceeds in local currency more than doubled. But without an increase in rates, borrowings would have been lower, close to this year's minimum, which likely was not suitable for the MoF.

Appendix: Yields-to-maturity, repayments

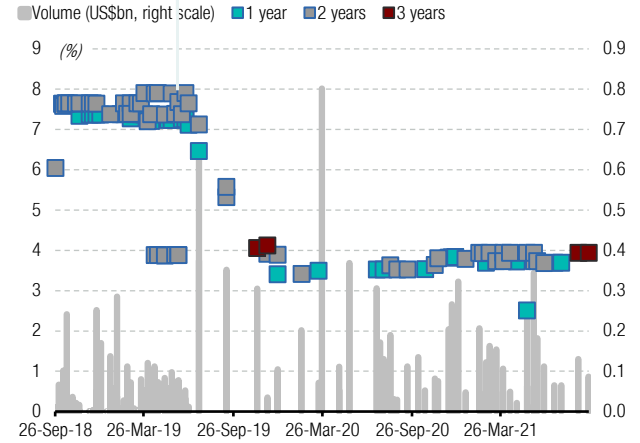
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

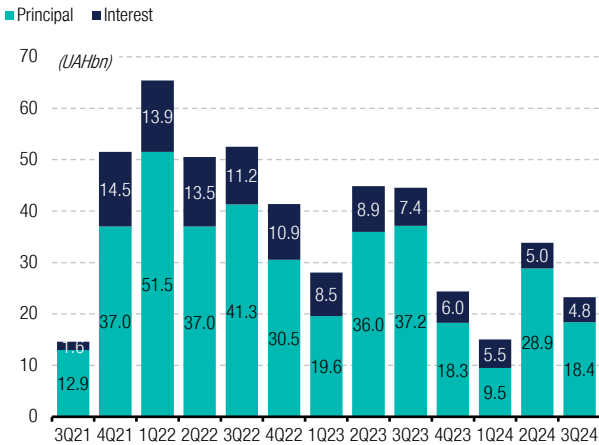
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

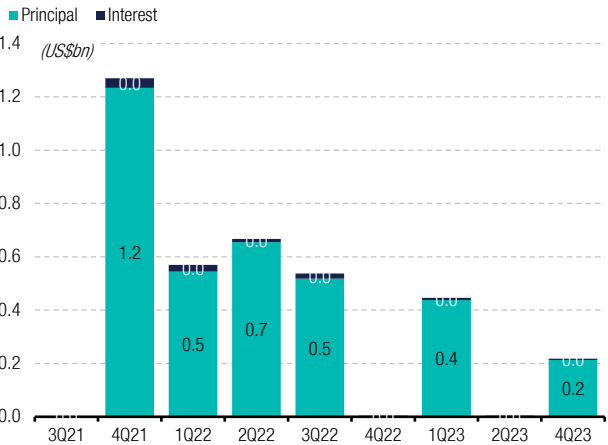
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

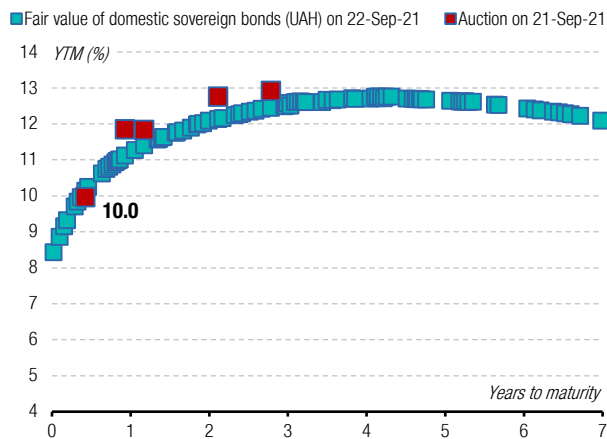
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

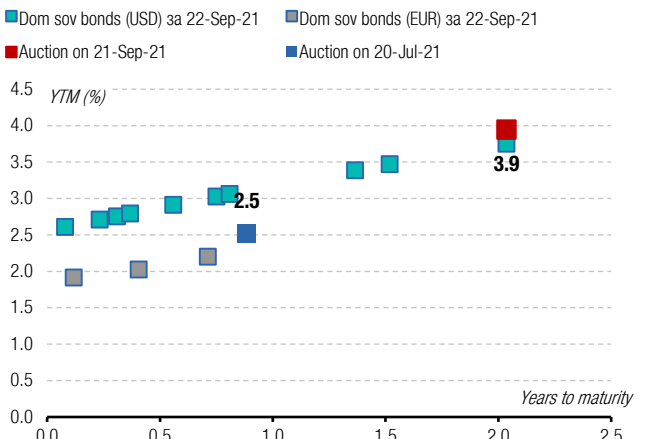
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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