

Bond Market Insight

Borrowings increase

Comment on government bond placement

WEDNESDAY, 29 SEPTEMBER 2021

By raising rates a little more, the Ministry of Finance borrowed almost UAH7bn yesterday, and even then not all received demand was satisfied.

Of course, it would be impossible to increase borrowings without an increase in demand, and yesterday total demand exceeded UAH7.4bn. Only a small part of it, UAH0.3bn, was rejected. The MoF did not find the interest rates in all bids suitable, especially for two and three-year securities.

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	921,127	1,006.96	927.54	921.13	11.86	6,350.80
UA4000216774	11.10	SA	23-Nov-22	807,059	1,033.04	833.72	807.06	11.95	14,321.51
UA4000213227	10.95	SA	1-Nov-23	1,511,361	1,018.08	1,538.69	1,511.36	12.81	6,798.34
UA4000219208	12.30	SA	3-Jul-24	1,155,114	1,023.98	1,182.82	1,155.11	12.90	3,434.29
UA4000207518	9.79	SA	26-May-27	2,738,284	905.27	2,478.88	2,738.28	13.47	10,113.62
Total UAH				7,132,945	6,961.64	7,132.95			41,018.56

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

The shortest paper yesterday was with 11-month maturity, for which demand was almost unanimous at 11.5%. Only a small portion came in at 11.49%, which did not affect the weighted average rate of this placement.

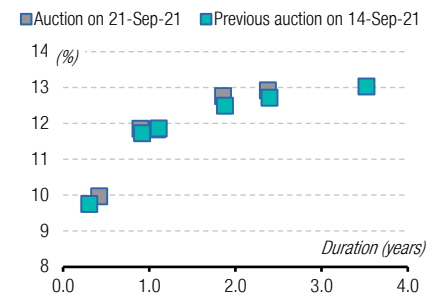
Bids for the three-year note were near unanimous also, and they were mostly satisfied by the Ministry of Finance. The cut-off rate remained unchanged at 12.49%, while the weighted average rate slid a mere 2bp to 12.47%.

However, the rest of the instruments sold yesterday received higher rates than previously.

Interest rates continued to rise on notes maturing in November 2022 and the next year. Thus, for the 14-month paper, the cut-off rate was up by an additional 10bp to 11.6%, and the weighted average by 11bp up to 11.58%. For two-year bills, the growth of rates slowed: the cut-off rate was up by 6bp up to 11.40%, and the weighted average by 5bp up to 12.39%.

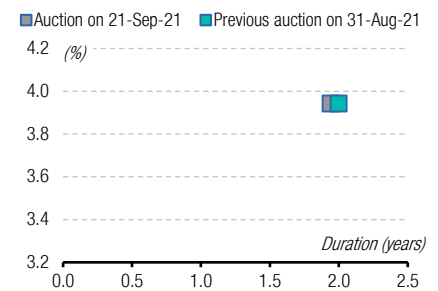
Thus, due to more expensive but larger demand, the Ministry was able to borrow

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



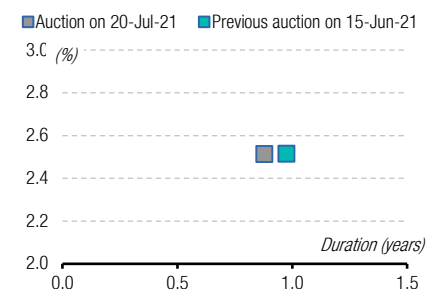
Source: Ministry of Finance of Ukraine, ICU.

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



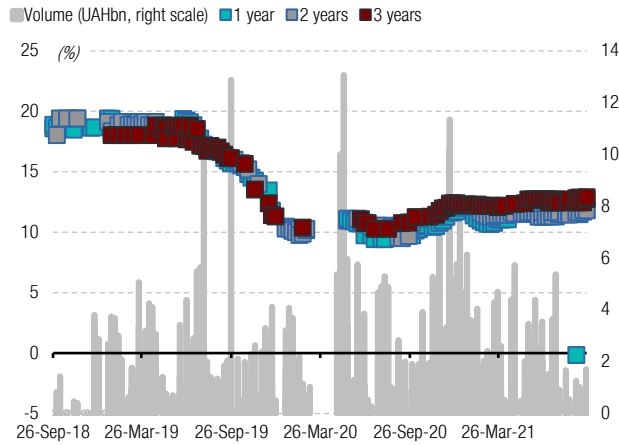
Source: Ministry of Finance of Ukraine, ICU.

almost UAH7bn in one go, which is almost three times more than from last week's UAH-denominated bills. This allowed the MoF to refinance more than a half of today's redemptions in local currency. In general, net local-currency financing of the state budget has slightly improved YTD compared with the results of the first eight months of this year.

Appendix: Yields-to-maturity, repayments

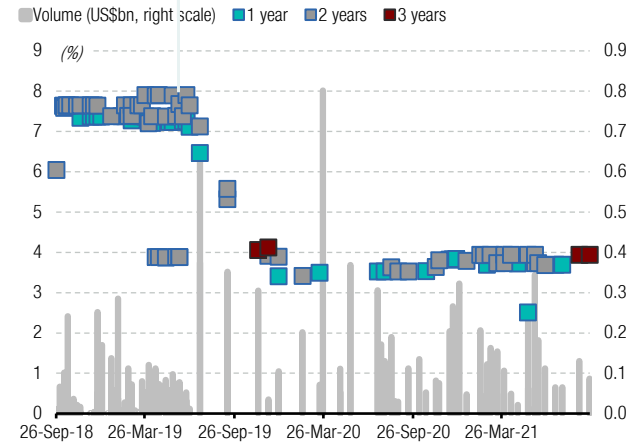
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

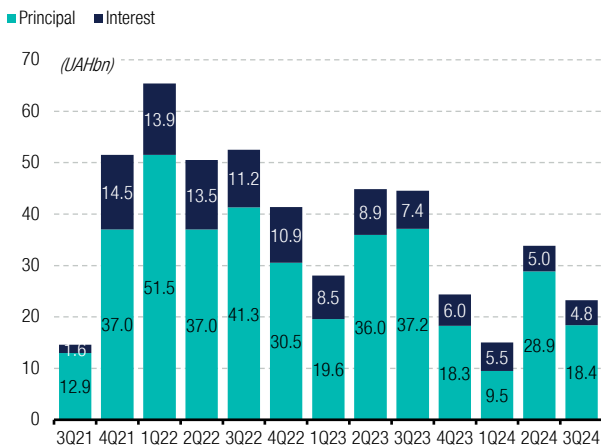
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

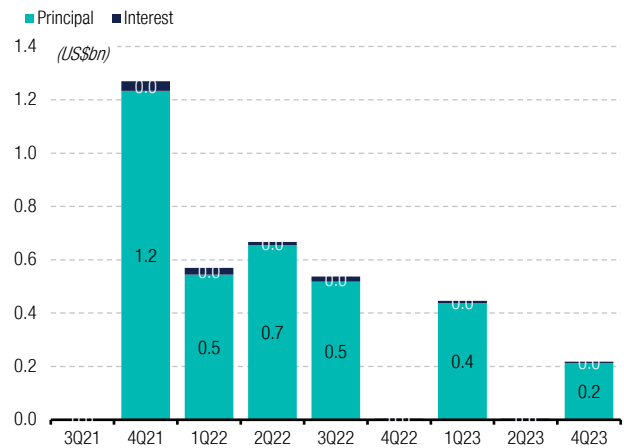
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

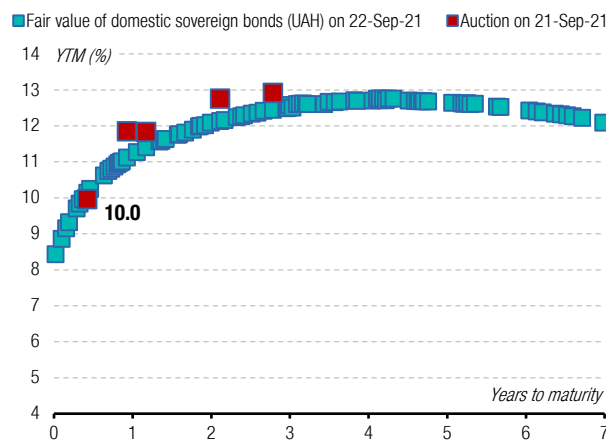
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

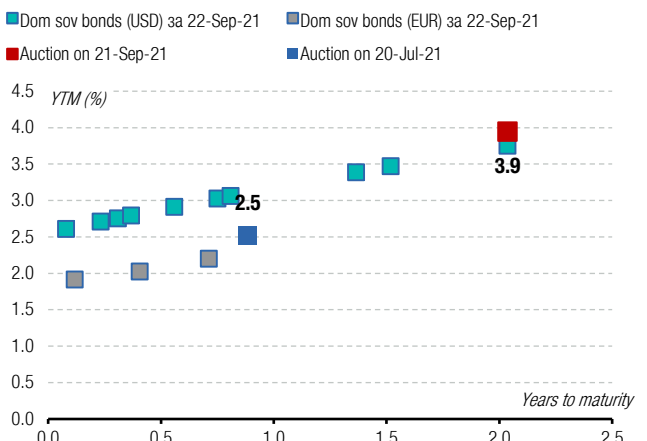
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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