

Bond Market Insight

Interest rates mostly unchanged

Comment on government bond placement

October's debut auction provided the state budget with almost UAH2.5bn (US\$93m) of proceeds at mostly constant interest rates.

Yesterday, the Ministry of Finance raised the cut-off and the weighted-average rates for only the five-year note by 16bp, bringing them closer to the overall level of the primary market curve. The rest of the offered securities received the same rates as last week.

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
UA4000221436	0.00	@Mty	27-Apr-22	61,161	948.81	58.03	61.16	9.70	61.16
UA4000219778	11.15	SA	26-Aug-22	728,193	1,009.10	734.82	728.19	11.87	7,079.00
UA4000216774	11.10	SA	23-Nov-22	668,261	1,035.36	691.89	668.26	11.94	14,989.77
UA4000213227	10.95	SA	1-Nov-23	638,323	1,020.26	651.26	638.32	12.82	7,436.66
UA4000219208	12.30	SA	3-Jul-24	18,927	1,025.97	19.42	18.93	12.92	3,453.21
UA4000218531	12.52	SA	13-May-26	297,643	1,039.99	309.54	297.64	13.19	5,304.15
Total UAH				2,412,508	2,464.96	2,412.51			38,323.95

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.

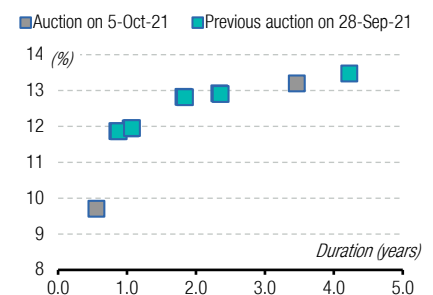
This actually finalized the rate hike that began in September. Compared with August, the cut-off rates mostly increased by 16-35bp, and for the shortest maturities — three and six-months bills — by 108bp and 70bp, respectively, over the last time they were sold, which was in early summer.

Last week, in general, such an increase in rates helped to partially refinance debt redemptions. But today and in the coming weeks, there will be no redemptions, so all borrowings are, in fact, new funding and will improve budget financing.

Bonds with maturities of one to two years were in the greatest demand yesterday, bringing a total of almost UAH2.1bn (US\$79m) to the budget. Investors were least interested in the seven-month and three-year securities. There was no hype over the five-year bonds, although the MoF rejected part of demand due to excessively high rates in the bids.

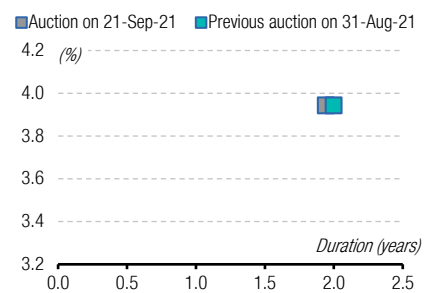
WEDNESDAY, 6 OCTOBER 2021

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



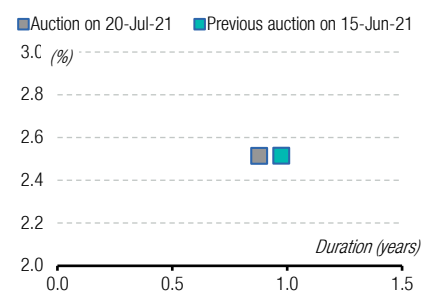
Source: Ministry of Finance of Ukraine, ICU.

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

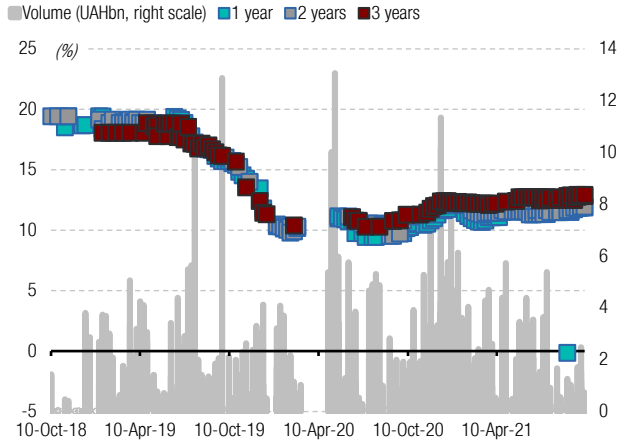


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

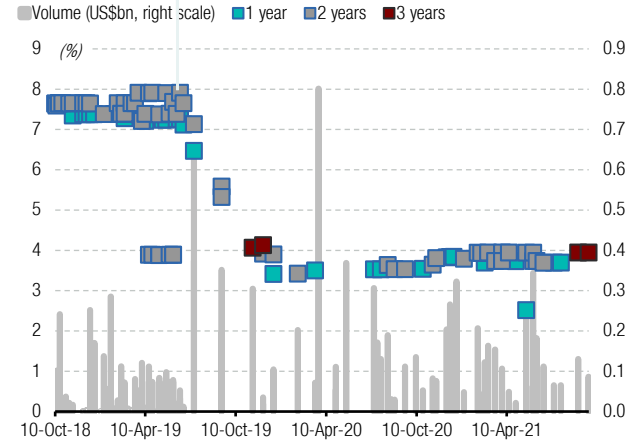
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

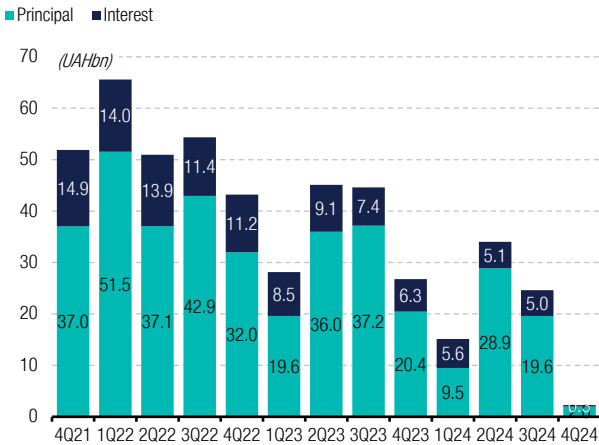
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

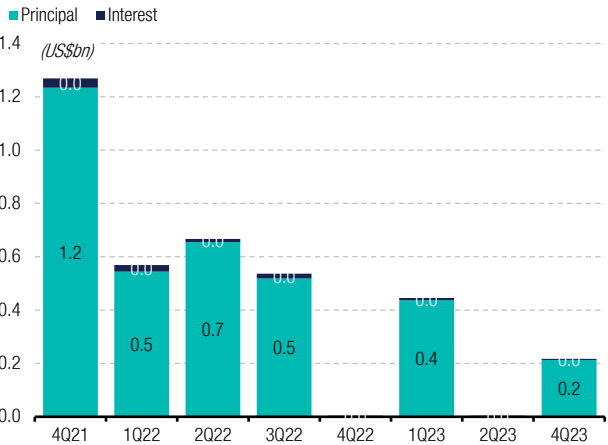
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

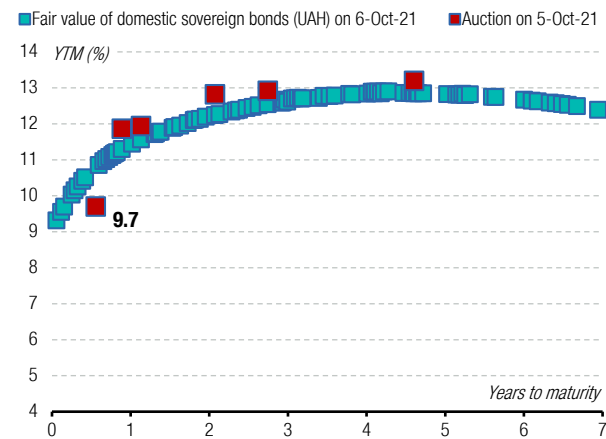
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

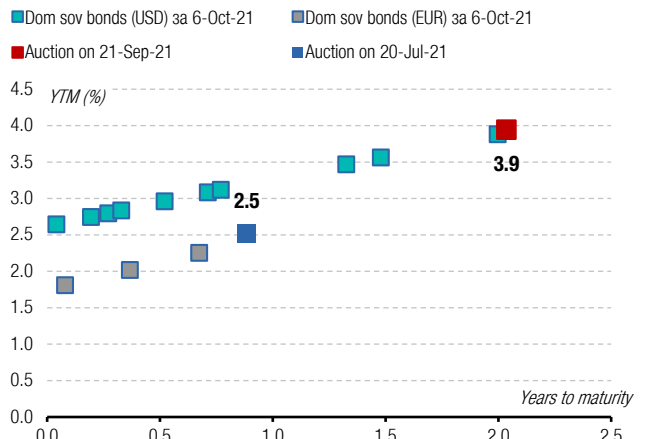
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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