

# Bond Market Insight

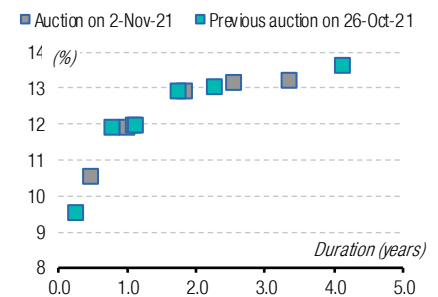
## Cost of borrowing continues to rise

### Comment on government bond placement

The Ministry of Finance began November with a large amount of borrowing; however, to accomplish this, it was necessary to raise interest rates. In general, the amount of budget proceeds was close to the UAH-denominated borrowings of the last week's auction, but with a slightly different structure in terms of maturity.

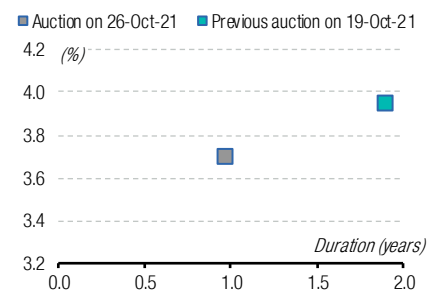
WEDNESDAY, 3 NOVEMBER 2021

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



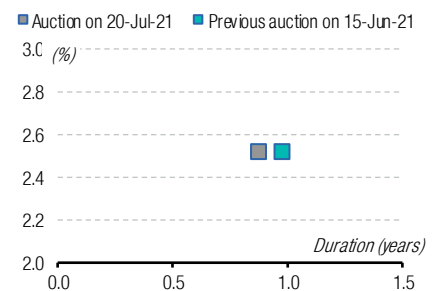
Source: Ministry of Finance of Ukraine, ICU.

### 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.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000221436	0.00	@Mty	27-Apr-22	2,932,908	952.07	2,792.33	2,932.91	10.50	2,994.07
UA4000222145	11.50	SA	14-Dec-22	400,981	1,043.94	418.60	400.98	11.87	400.98
UA4000221568	11.57	SA	18-Jan-23	99,053	1,032.98	102.32	99.05	11.94	273.56
UA4000213227	10.95	SA	1-Nov-23	866,690	973.81	843.99	866.69	12.90	10,304.57
UA4000222152	12.70	SA	30-Oct-24	2,358,777	1,000.00	2,358.78	2,358.78	13.14	2,358.78
UA4000218531	12.52	SA	13-May-26	137,233	1,049.90	144.08	137.23	13.19	5,603.72
<b>Total UAH</b>				<b>6,795,642</b>		<b>6,660.11</b>	<b>6,795.64</b>		<b>21,935.67</b>

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

While last week there was almost no demand for three-month bills, yesterday, semi-annual securities were the most popular out of all offered instruments. It appears that the possible level of the cut-off rate was discussed in advance, because all competitive bids (which were 99% of demand) for this paper were submitted at a single rate level — 10.5% — which is sharply higher by 80bp than a month before.

The second in terms of demand and borrowings were the three-year notes, but with more diversity in demand. Bids were with rates ranging from 12.55% to 12.8%, but the minimum and maximum rates provided the state budget with only small amounts of proceeds. Therefore, the Ministry decided to increase the cut-off rate by 13bp to 12.7%. They did not agree to increase the rate by another 10bp, and rejected two small bids for a total of only UAH20mn, or less than one percent of demand.

The rest of offered securities were sold without changes in the cut-off rates, with only a slight increase in the weighted-average rate for two-year bills due to greater unanimity in demand. However, for two-year paper, the Ministry rejected about one-fifth of demand with higher rates.

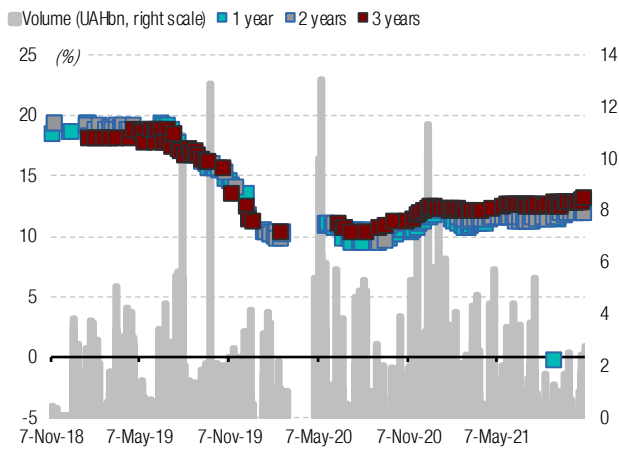
Therefore, in general, there is demand for new bonds, and it looks like it is coming

from domestic investors without the active participation of foreigners. But once again, the market wants to see higher yields, especially recognizing that closer to the end of the year, the budget may face a greater need for funds than last year.

# Appendix: Yields-to-maturity, repayments

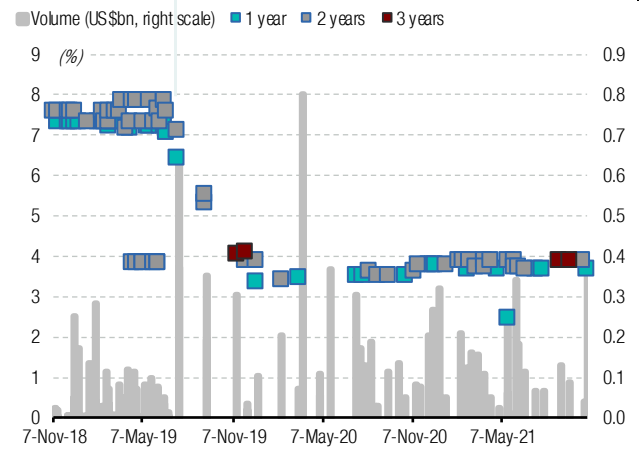
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

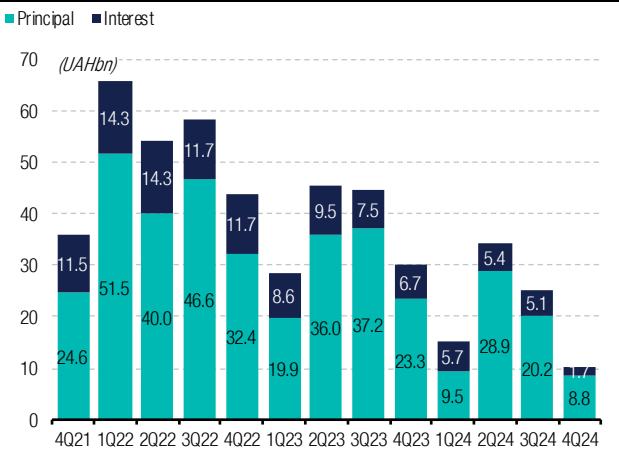
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

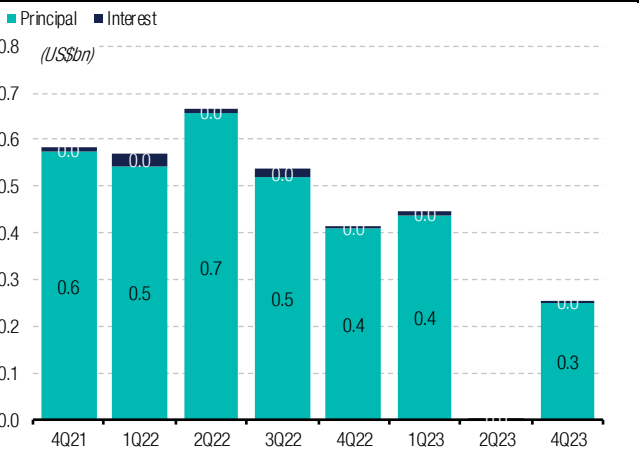
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

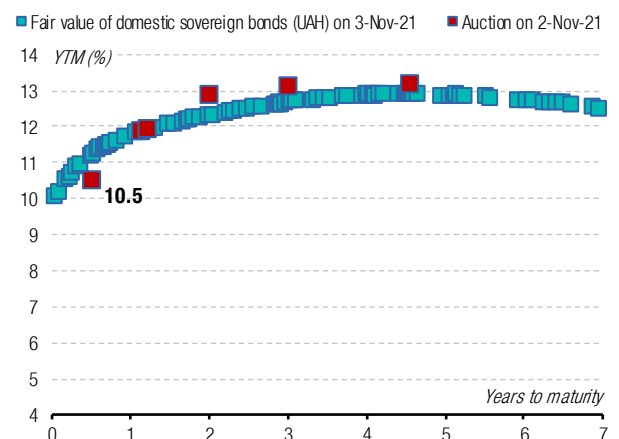
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

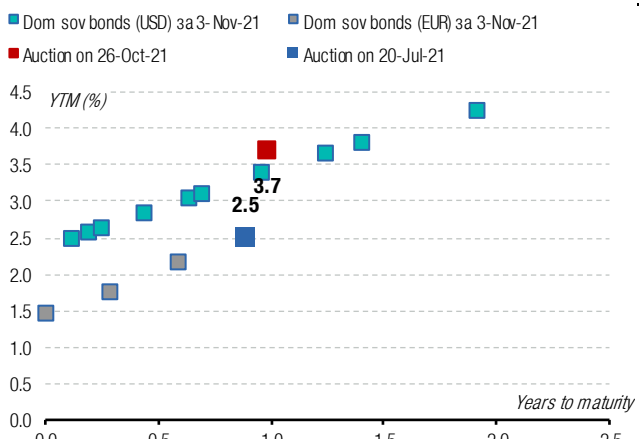
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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