

Bond Market Insight

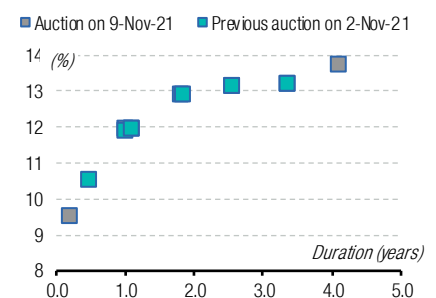
Large demand came with higher rates

Comment on government bond placement

WEDNESDAY, 10 NOVEMBER 2021

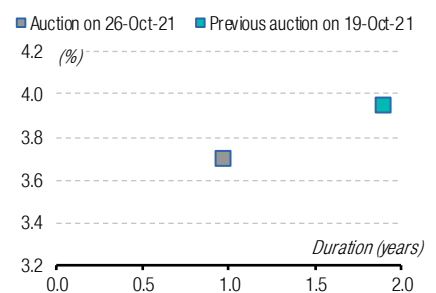
Yesterday, the Ministry of Finance kept the amount of UAH-denominated borrowings at the previous level, attracting UAH6.6bn and another EUR167mn in hard currency. But to attract such a large amount of borrowings, the Ministry had to increase interest rates.

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



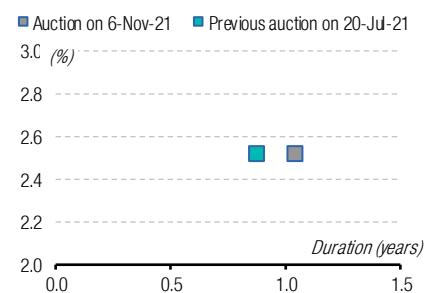
Source: Ministry of Finance of Ukraine, ICU.

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	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000215495	0.00	@Mty	2-Feb-22	184,957	978.60	181.00	184.96	9.50	11,351.27
UA4000222145	11.50	SA	14-Dec-22	2,581,133	1,045.77	2,699.26	2,581.13	11.91	2,982.11
UA4000221568	11.57	SA	18-Jan-23	43,692	1,035.21	45.23	43.69	11.94	317.25
UA4000213227	10.95	SA	1-Nov-23	748,178	976.07	730.27	748.18	12.90	11,052.75
UA4000222152	12.70	SA	30-Oct-24	569,395	1,002.37	570.74	569.40	13.14	2,928.17
UA4000218531	12.52	SA	13-May-26	252,441	1,052.40	265.67	252.44	13.19	5,856.16
UA4000207518	9.79	SA	26-May-27	2,356,737	910.58	2,145.99	2,356.74	13.71	14,318.23
Total UAH				6,736,533		6,638.17	6,736.53		48,805.94

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

The increase in interest rates was only for two bond issues, those maturing in one year and in six years. These two instruments received 66% of demand for UAH-denominated bonds, and taking into account the decisions made on rates, they provided 73% of borrowed funds. In addition, many bids were submitted with higher levels of interest rates, but the MoF rejected them.

All bids were accepted for three-month UAH-denominated bills and for securities denominated in euro, as these two instruments saw unanimous demand.

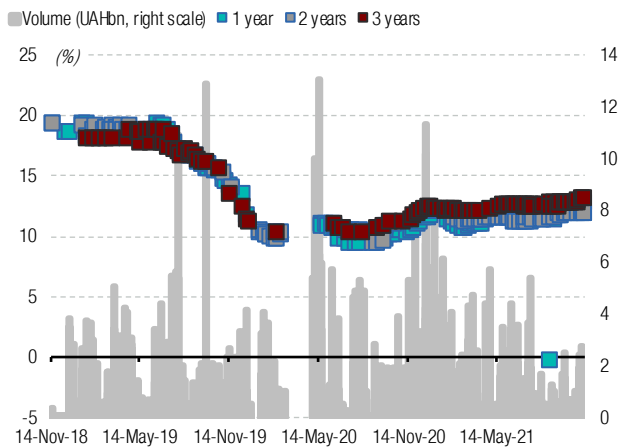
Most demand and bids were rejected for the two-year bills, where the highest rate was 23bp above the cut-off rate, and slightly less for three-year note, where the highest rate exceeded the cut-off rate by 20bp. But the rest of the securities received only one bid with a higher rate and in small amounts.

In general, this auction went well; however, investors were looking for higher rates. The Ministry has demonstrated that it can agree to higher rates, but subject to demand of at least two billion hryvnia, and subject to the predominant unanimity of demand. So now, the rate increase remains situational and very restrained.

Appendix: Yields-to-maturity, repayments

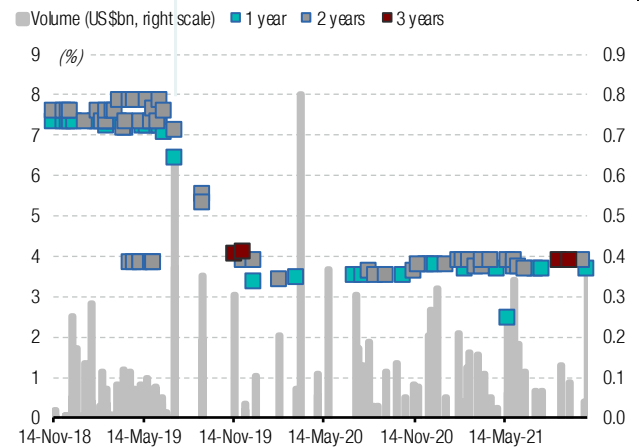
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

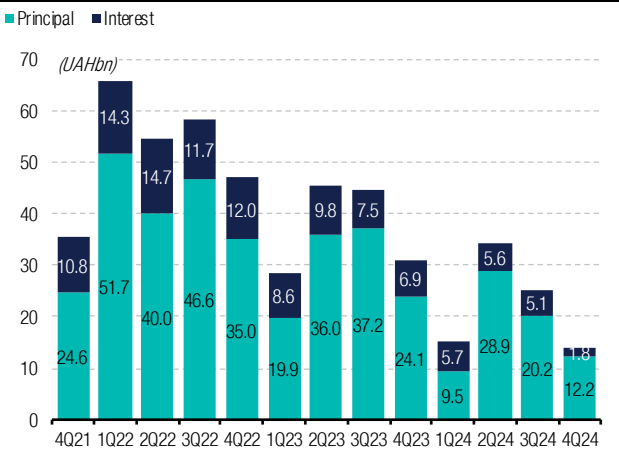
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

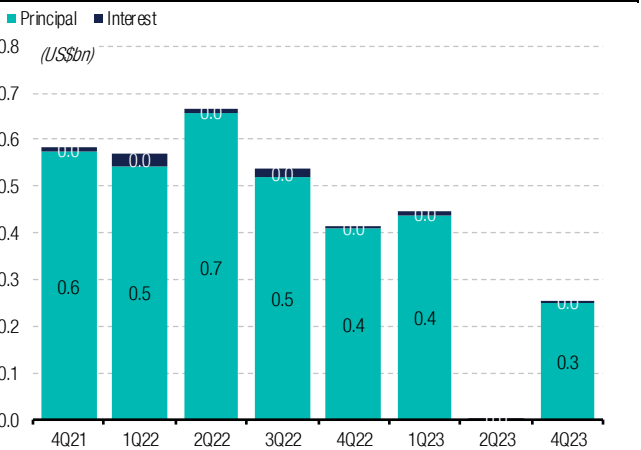
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

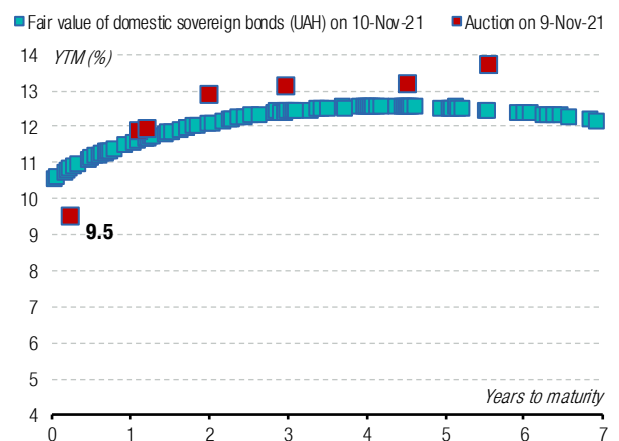
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

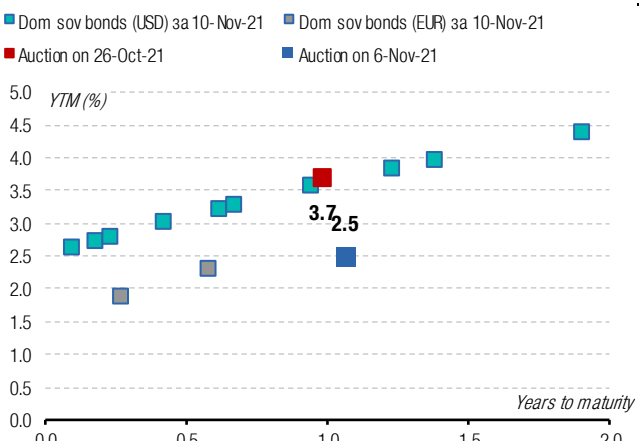
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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