

Bond Market Insight

Interest rates continue to rise

Comment on government bond placement

WEDNESDAY, 24 NOVEMBER 2021

Despite no debt repayments this week, the Ministry of Finance raised UAH4.4bn in new funds yesterday, but had to raise interest rates even with relatively low demand.

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

ISIN	Coupon rate (%)	Payment frequency ¹	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	152,997	981.18	150.12	153.00	10.00	11,504.26
UA4000214506	11.75	SA	15-Jun-22	3,127,547	1,058.16	3,309.44	3,127.55	10.86	18,160.89
UA4000222145	11.50	SA	14-Dec-22	168,950	1,049.31	177.28	168.95	12.02	7,091.41
UA4000221568	11.57	SA	18-Jan-23	24,463	1,039.70	25.43	24.46	11.94	382.74
UA4000213227	10.95	SA	1-Nov-23	67,286	980.63	65.98	67.29	12.90	11,205.59
UA4000222152	12.70	SA	30-Oct-24	706,458	1,003.65	709.03	706.46	13.30	4,291.68
Total UAH				4,247,701		4,437.29	4,247.70		52,636.57

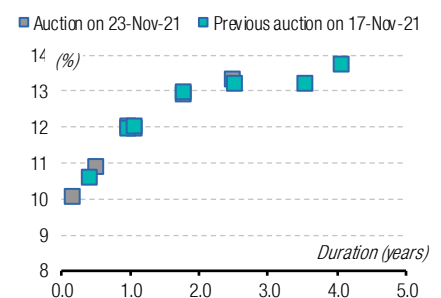
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.36/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

If earlier the MoF tried to refrain from raising the cost of borrowing when demand was less than UAH1-2bn, yesterday, cut-off rates were increased even to raise only several hundred million. The only bond issue for which demand was completely rejected was the five-year securities, which received eight bids worth only UAH13m and at a rate of 13%.

The highest rate increase was for the shortest, the three-month bills, maturing in February 2022. The MoF hiked the rate immediately by 50bp with demand of just UAH153mn (par value). But for 14-month and two-year bills, rates did not change, although this week there were no bids requested a higher rate.

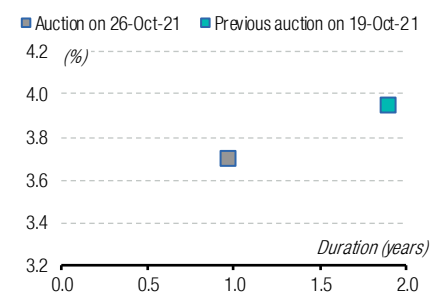
Yesterday's decisions of the Ministry of Finance may reflect the increased need for funds for the budget, and the need to increase borrowing compared with previous months. But raising rates for small volumes may encourage even more aggressive bidding by investors, although they may not win the consent of the issuer. On the other hand, the weakening of the hryvnia and higher rates may again attract the attention of foreign investors; however, the security situation in and around the country will play the biggest role in retaining their interest.

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



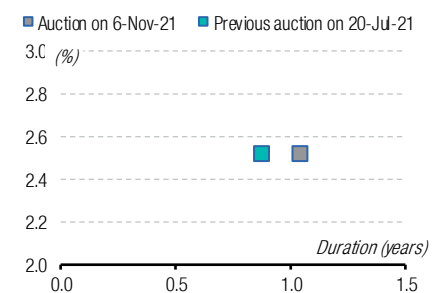
Source: Ministry of Finance of Ukraine, ICU.

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

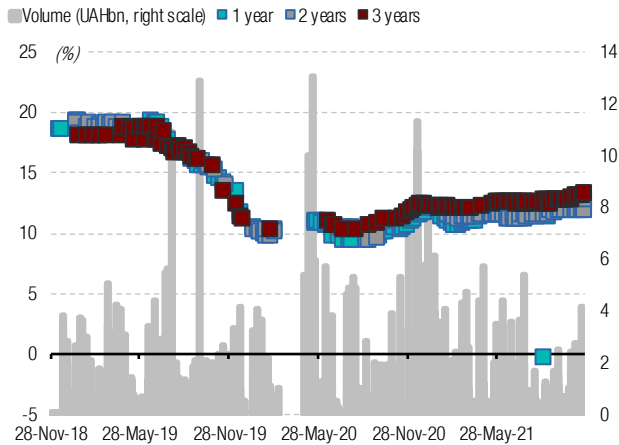


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

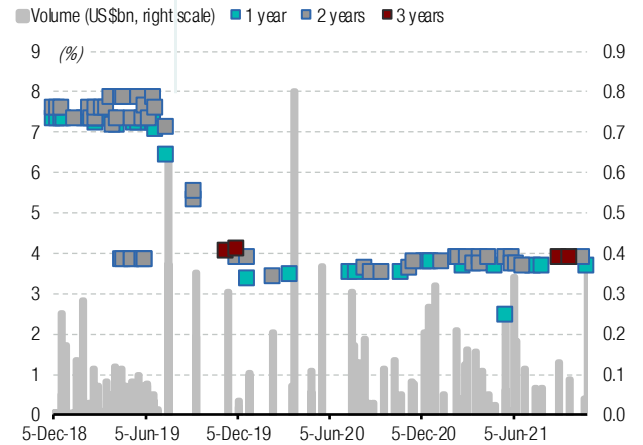
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

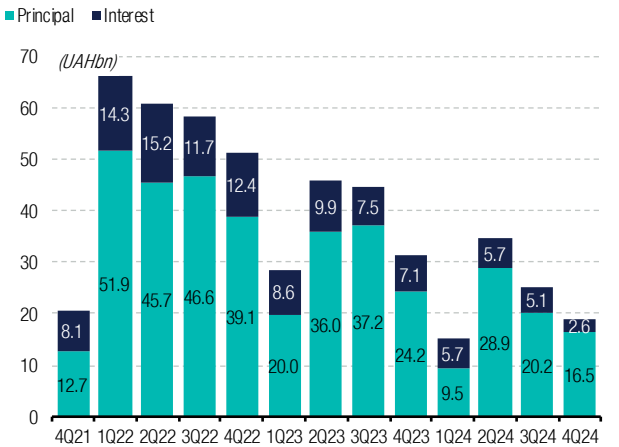
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

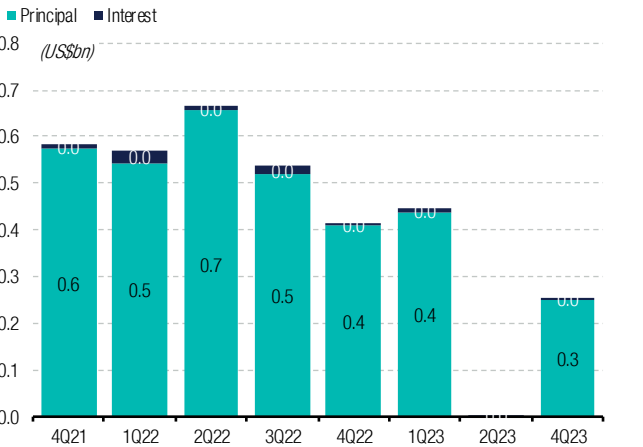
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

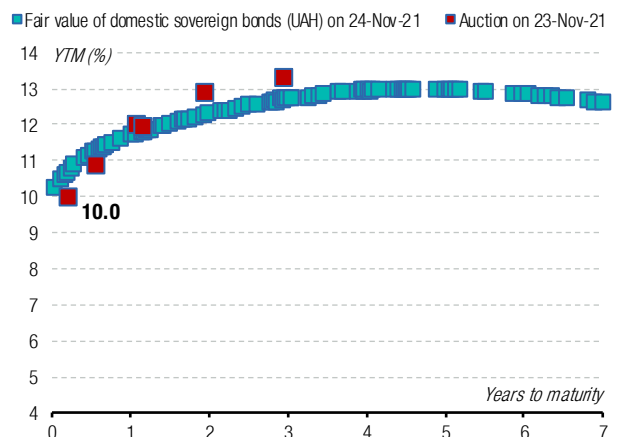
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

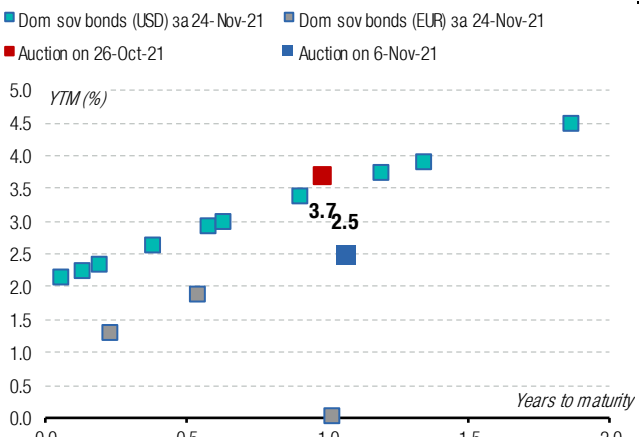
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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