

# Bond Market Insight

## Rates up at debut auction

### Comment on government bond placement

Yesterday's debut auction of 2022 saw an increase in rates on UAH-denominated bonds, although mostly insignificant. However, the decision to raise rates did not allow the Ministry of Finance to attract a large amount of funds.

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

ISIN	Coupon rate (%)	Payment freq <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	642,517	969.46	622.89	642.52	10.95	14,880.80
UA4000221568	11.57	SA	18-Jan-23	595,657	1,052.48	626.92	595.66	12.29	2,075.66
UA4000200885	15.97	SA	19-Apr-23	30,839	1,082.95	33.40	30.84	12.29	12,527.85
UA4000224380	12.94	SA	14-Feb-24	1,959,874	1,051.92	2,061.64	1,959.87	13.40	1,959.87
UA4000222152	12.70	SA	30-Oct-24	404,682	1,018.24	412.06	404.68	13.41	5,264.38
UA4000218531	12.52	SA	13-May-26	116,754	1,000.32	116.79	116.75	13.56	6,048.64
<b>Total UAH</b>				<b>3,750,323</b>	<b>3,873.70</b>	<b>3,750.32</b>		<b>42,757.19</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 27.28/USD, 30.69/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Rates on the shortest bills, those with maturities of three months, rose the most. Thus, compared with December, when two-month paper was sold, the tenor has almost doubled. Rates for these bills rose by 45bp to 10.95%. But the MoF had no choice: all competitive demand was at a single level of 10.95%. More than half of the total demand was in non-competitive bids, so the Ministry had to choose to sell to all bidders or not sell at all.

For the 12-month bills, the Ministry refused to raise the rate by 5bp due to the small volume in one expensive bid, and kept the cut-off rate at 11.9%.

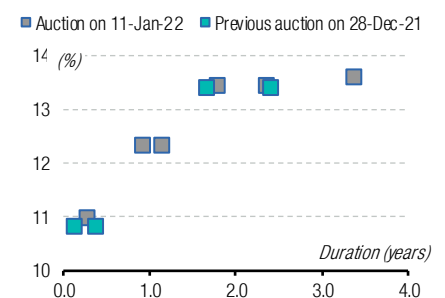
The same rate was set again for 1.5-year bills. Last time, demand was more restrained, and allowed the MoF to reduce the cut-off rate by 2bp to 11.88%, but yesterday it returned to 11.9%.

The Ministry did not accept all demand for two- and three-year notes, where the most aggressive bids were with rates at 13%. The only accepted demand was with rates up to 12.95%, which was 5bp higher than in December 2021 for both these maturities.

Notes with maturity in May 2026, which are gradually becoming four-year paper, also returned to the offerings. In fact, the Ministry of Finance did not offer notes with four-year maturity at all last year after it stopped offering paper due to 2025 in

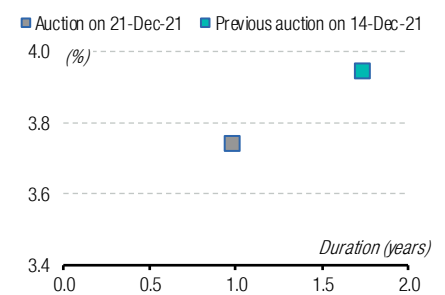
WEDNESDAY, 12 JANUARY 2022

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



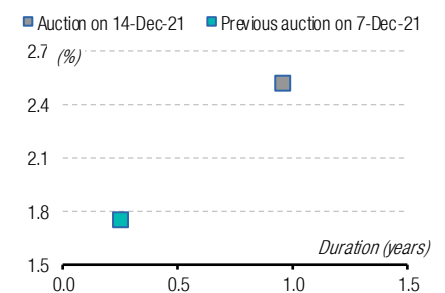
Source: Ministry of Finance of Ukraine, ICU.

### 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.

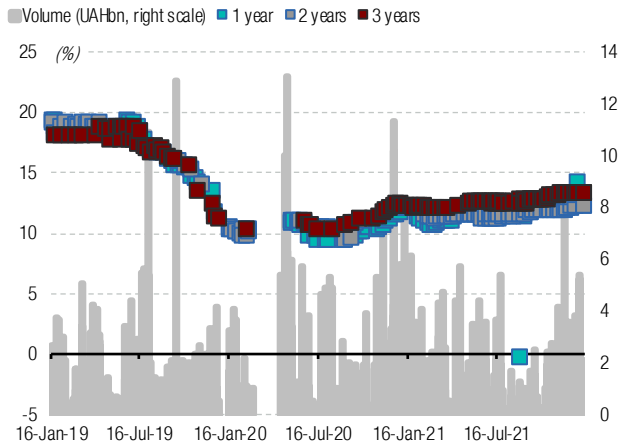
December 2020. Therefore, compared with December 2020, the rate is now higher by 85bp. However, the same issue due in 2026 was sold in December last year (as five-year note), so compared with the auction a month ago, the cut-off rate increased by only 10bp to 13.1%.

In the end, only UAH3.9bn was raised for the budget, which is much less than in December. But the Ministry of Finance likely has no special need for large borrowings, as last week UAH-denominated redemptions, which amounted to UAH12bn, were already paid. Another UAH2.5bn will have to be paid next week, and then repayments are scheduled for early February, so there is enough time to accumulate resources from new borrowings.

# Appendix: Yields-to-maturity, repayments

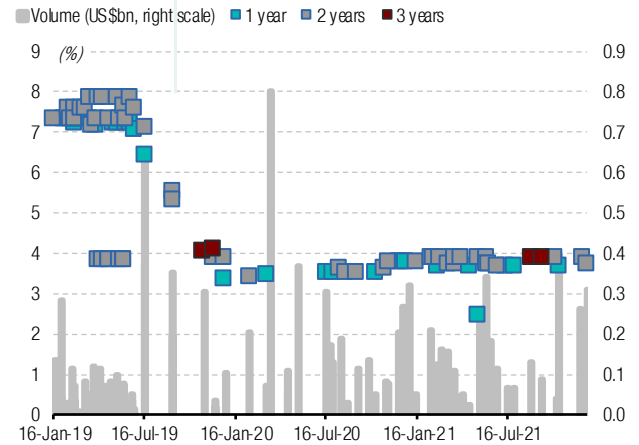
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

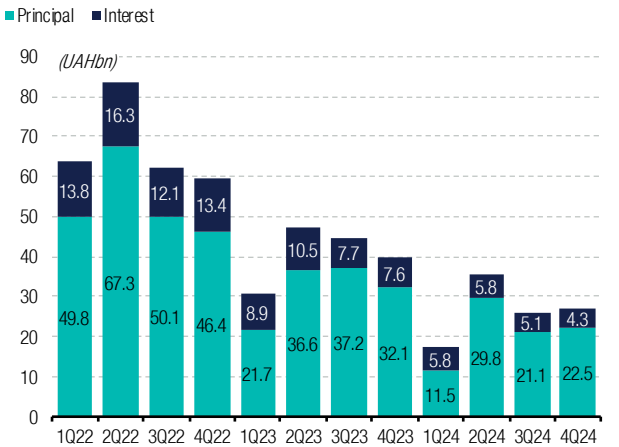
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

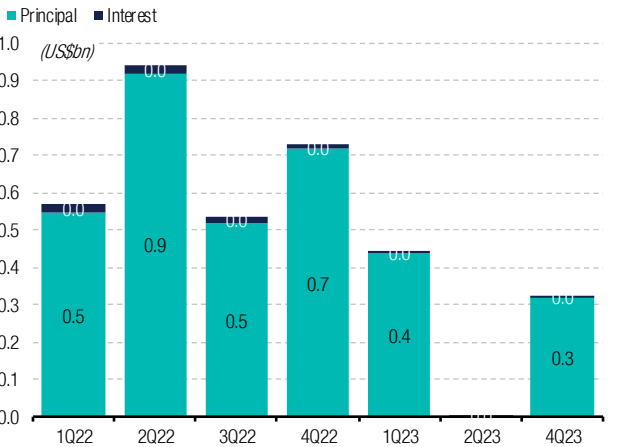
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

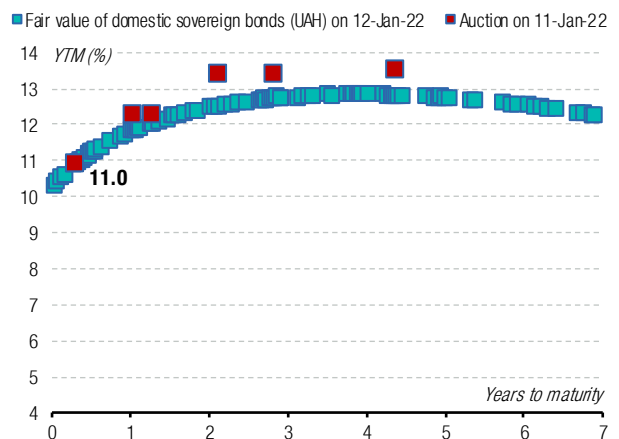
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

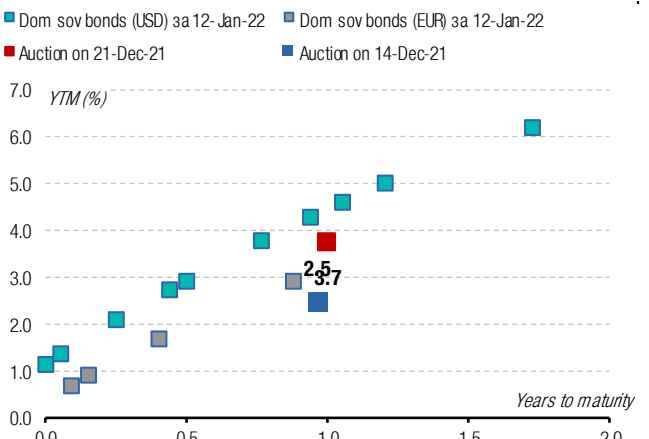
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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