

Bond Market Insight

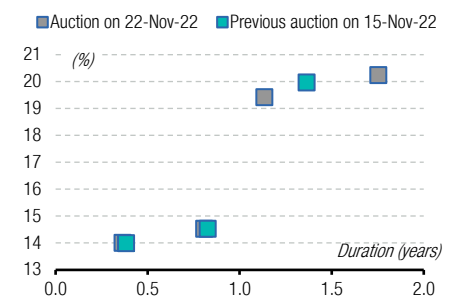
MoF rejects aggressive demand

Comment on government bond placement

WEDNESDAY, 23 NOVEMBER 2022

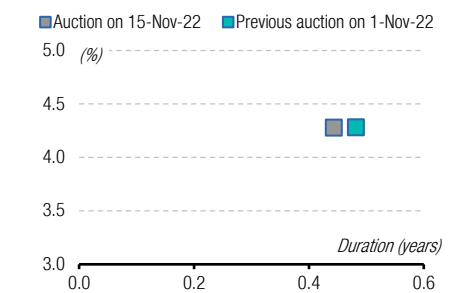
At yesterday's auction, the Ministry of Finance rejected 80% of demand by refusing to raise interest rates on most bonds. As a result, they attracted only UAH1.2bn (US\$32m).

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



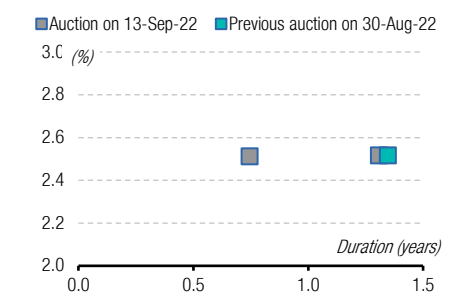
Source: Ministry of Finance of Ukraine, ICU.

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 freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000226427	0.00	@Mty	5-Apr-23	248,536	951.46	236.47	248.54	14.00	14,563.67
UA4000226260	16.00	SA	27-Sep-23	12,146	1,039.50	12.63	12.15	14.53	7,109.71
UA4000224380	12.94	SA	14-Feb-24	12,663	975.31	12.35	12.66	19.41	4,150.47
UA4000222152	12.70	SA	30-Oct-24	1,014,858	904.88	918.32	1,014.86	20.24	6,283.07
Total UAH				1,288,203		1,179.77	1,288.20		32,106.91

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 36.8/USD, 36.88/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Most of all, auction participants wanted to receive higher rates for military bills. For the four-month military paper, the largest bid was for UAH3.2bn (US\$93m) and required a rate increase of 100bp to 15%, but the Ministry of Finance decided that this was too big a step after last week's rate increase by 50bp. The largest bid for 10-month military bills amounted to UAH2bn (US\$54m) or to 99% of demand for this paper and required a rate hike from 14% to 18%. So, in the end, MoF rejected these two bids, although they could have brought UAH5bn (US\$137m) to the budget.

Demand for ordinary (non-military) bonds was less aggressive. For 15-month paper, only one small bid required a rate increase of 50bp, but the amount in it was UAH0.9m (US\$0.02m) (par value). Therefore, the cut-off rate remained unchanged at 18.5%.

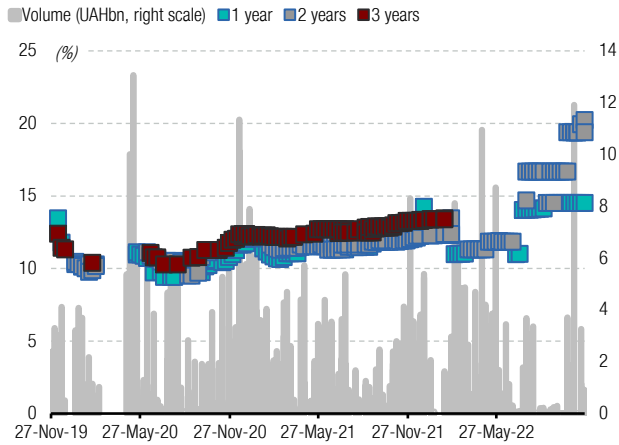
The only security for which demand was unanimous was two-year ordinary bills. All demand was at the rate of 19.25%, which is 75bp higher than where they were sold two weeks ago. Demand was slightly above UAH1bn (US\$27m) (par value) and brought UAH918m (US\$25m) to the budget.

Thus, the MoF continued to raise rates on ordinary bills, but refused to meet the aggressive demand for military bonds despite the large volume of such bids. Perhaps the need for a sharp increase in rates was the reason for such a decision by the MoF. Still, these bids are a very important indicator for further demand for military government bonds on the primary market.

Appendix: Yields-to-maturity, repayments

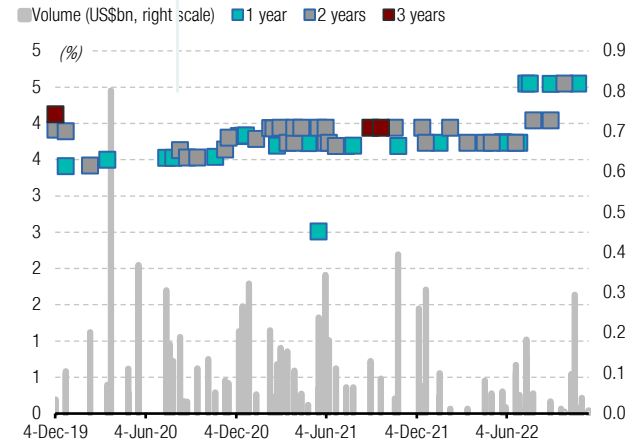
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

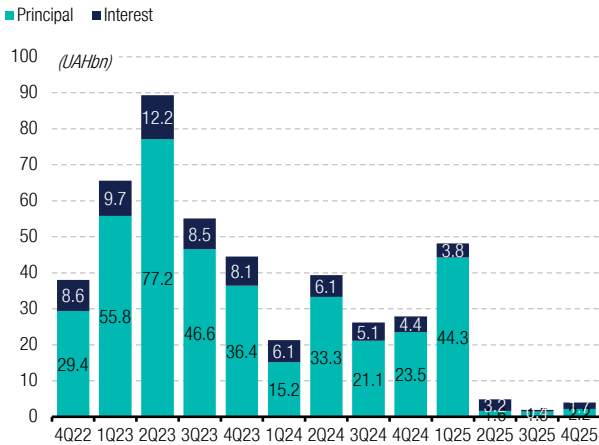
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

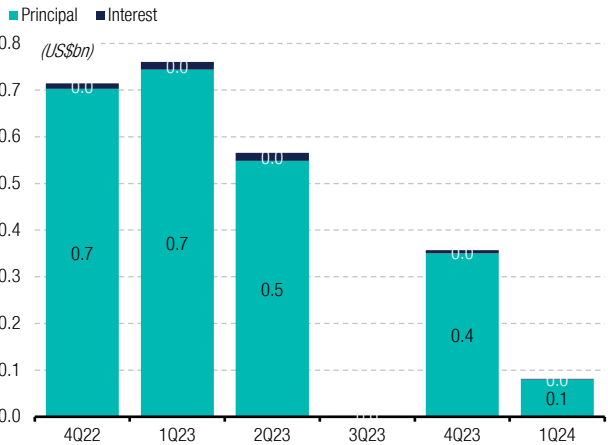
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

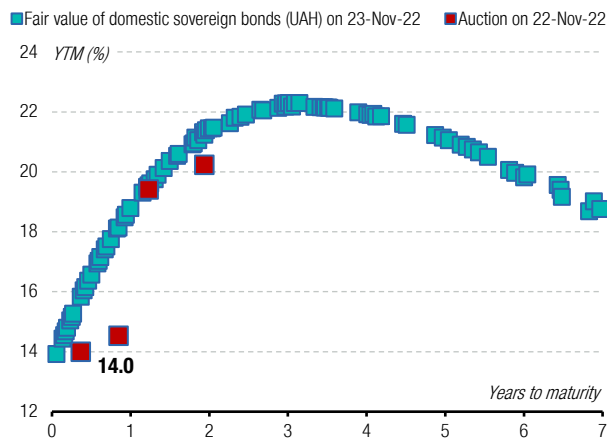
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

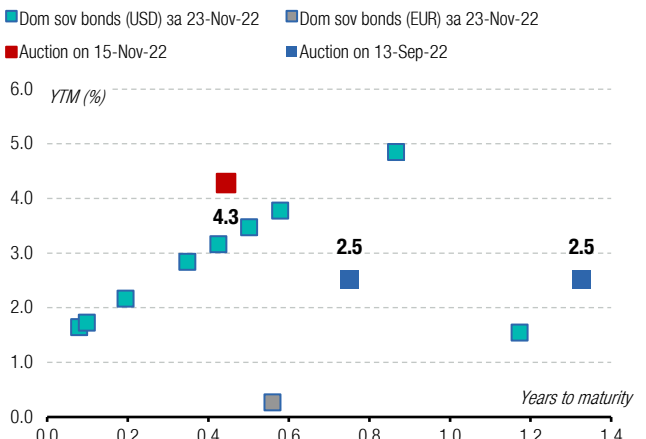
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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