

# Bond Market Insight

## Interest rates freeze

### Comment on government bond placement

Yesterday's primary auction allowed the Ministry of Finance to borrow UAH11.5bn (US\$415m) for budget financing. Despite the increased amount, interest rates were mostly unchanged.

With large debt payments of both UAH and FX-denominated bills approaching, the Ministry did not set limits for this offering. The bills offered yesterday have maturities starting next year. Therefore, auction results depended on rates requested by the bidders, and the MoF's readiness to accept these levels.

**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> (%)	Out-standing (m) <sup>4</sup>
UA4000200174	15.70	SA	20-Jan-21	4,500,000	1,038.32	4,672.44	4,500.00	7.91	11,948.34
UA4000209886	10.57	SA	23-Feb-22	2,003,300	1,047.08	2,097.62	2,003.30	10.54	4,027.56
<b>Total UAH</b>				<b>6,503,300</b>	<b>6,770.06</b>	<b>6,503.30</b>			<b>15,975.90</b>
UA4000204861	5.25	SA	11-Feb-21	165,878	1,033.39	4,752.21	4,598.65	3.41	10,488.95
<b>Total USD</b>				<b>165,878</b>	<b>4,752.21</b>	<b>4,598.65</b>			<b>10,488.95</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 27.72/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

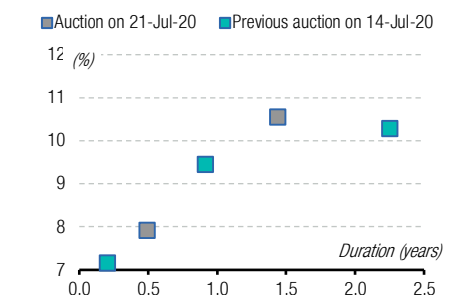
The most active yesterday was the placement of FX-denominated bills, which collected 23 bids with rates ranging from 3.2% to 3.85%. Total demand amounted to US\$167m. However, US\$1.1m of bids required an increase in rates from the previous, similar auction and were rejected. Interest rates, both, cut-off and weighted-average, were set at 3.39%, the same as the weighted-average rate this May.

However, demand for local-currency bills was large, but in just three bids: UAH4.5bn (US\$168m) in a single bid for six-month bills, and UAH2bn (US\$76m) in two bids for 1.5-year paper. A bid for the six-month bill was submitted with a 7.74% interest rate, the same level as the five-month bill in June; bidders for the 1.5-year instrument requested a small increase in rate.

Competitive demand for 1.5-year bills was submitted at a 10.25% interest rate or 5bp above the level set two weeks ago for this paper. Due to the size, the Ministry had to decide to increase the rate or refuse this demand. Large debt repayments approaching could have played the main role in the MoF's decision to accept this demand at a higher rate.

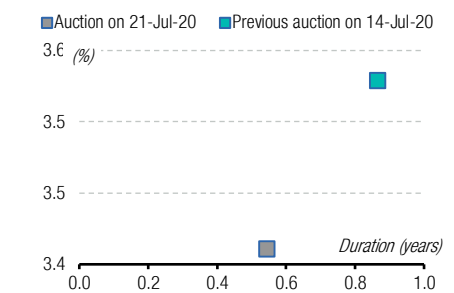
### WEDNESDAY, 22 JULY 2020

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



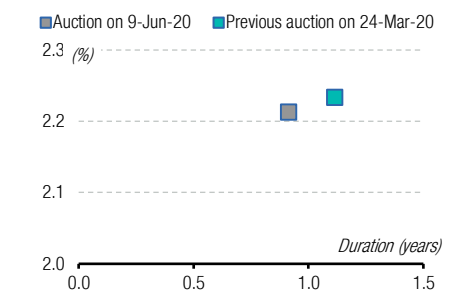
Source: Ministry of Finance of Ukraine, ICU.

#### 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



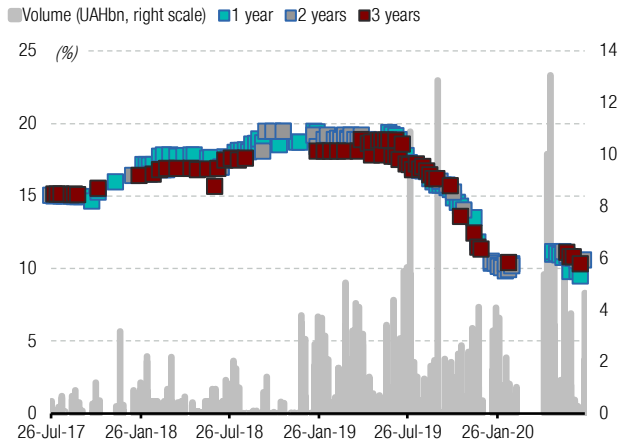
Source: Ministry of Finance of Ukraine, ICU.

Generally, there is always demand for local-currency bills, but it is sometimes situational, such as prior to an NBU key policy revision with a high probability of a decrease, having access to the long-term refinancing loans that can become cheaper in a few days is probable. However, instability in the FX market forces small local investors to prefer FX-denominated bills, which allowed the Ministry to finance the budget and replenish FX accounts.

# Appendix: Yields-to-maturity, repayments

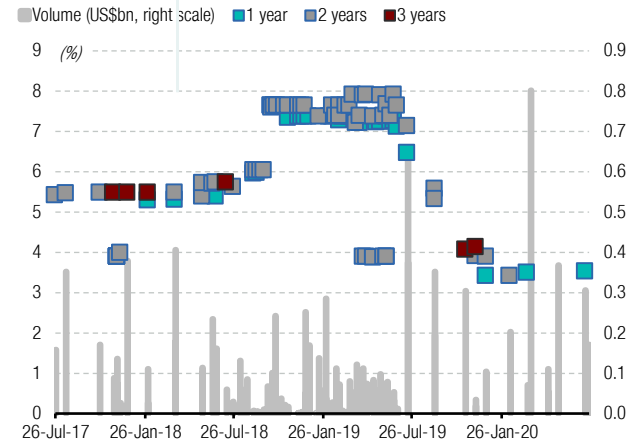
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

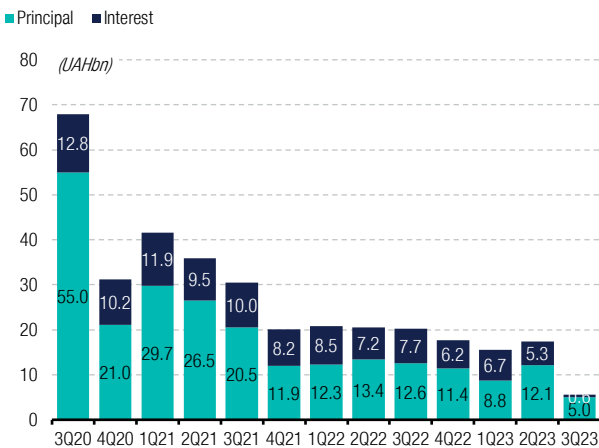
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

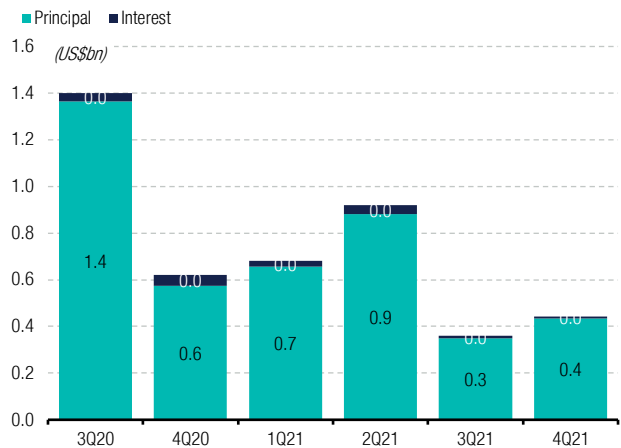
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

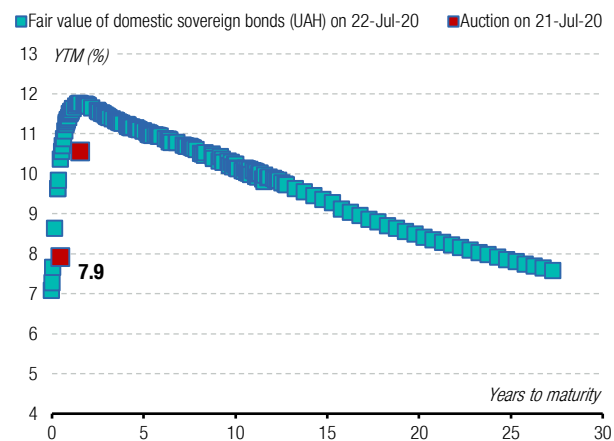
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

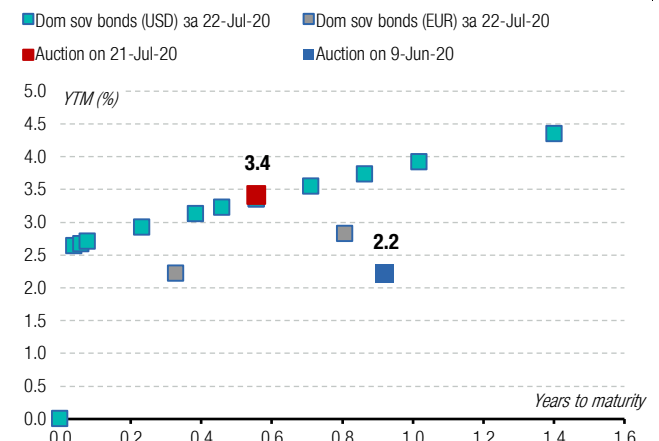
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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