

Bond Market Insight

MoF takes a breather

Comment on government bond placement

The Ministry of Finance seems to have decided to suspend the increase in interest rates on local-currency bills. Yesterday, to keep interest rates unchanged, most demand was rejected.

For 11-month paper, demand was half what it was compared with last week. Half of the bids, by number and by amount, came in with rates above the cut-off level set a week ago. The Ministry decided to keep cut-off rate unchanged at 10.3% and increase the weighted-average rate by 8bp to the same level, 10.3%.

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
UA4000204986	15.36	SA	29-Sep-21	374,921	1,055.06	395.56	374.92	10.60	9,987.97
Total UAH				374,921		395.56	374.92		9,987.97

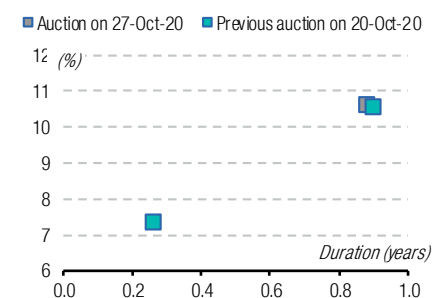
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 28.29/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The other bill offered yesterday had a 3.5-year maturity. This issue was last offered in February of this year, prior to the COVID-19 lockdown. Therefore, the best comparable for yesterday's offering was the three-year paper sold two weeks ago. Bidders requested a premium for the additional six months to maturity, and submitted bids with rates ranging between 11.4% and 12.5%. The Ministry did not accept any of them, as rates were 45-155bp above the cut-off rate for the three-year paper. All six bids amounting to UAH153m (US\$5.4m) were rejected.

As a result, budget proceeds in local currency fell x14 to just UAH396m (US\$14m). Since this decision was deliberate, it indicates that the Ministry wants to halt the rise in interest rates, at least for the present. We don't know how long the Ministry will maintain this stance, but a material increase in the amount of demand could force the MoF's hand to renew the increase in interest rates.

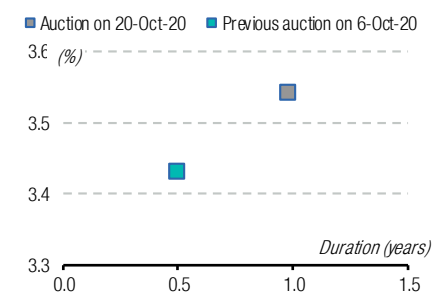
WEDNESDAY, 28 OCTOBER 2020

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



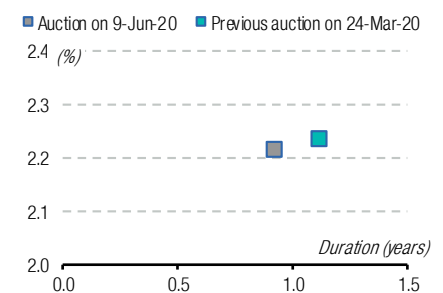
Source: Ministry of Finance of Ukraine, ICU.

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

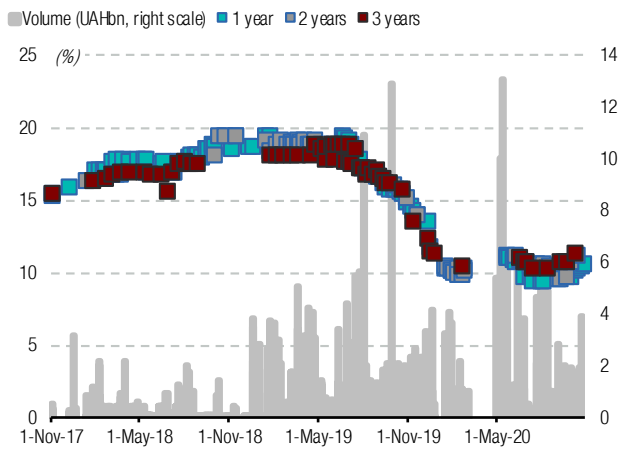


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

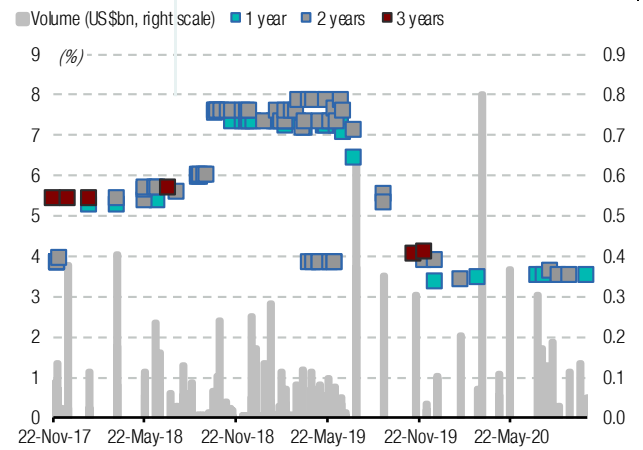
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

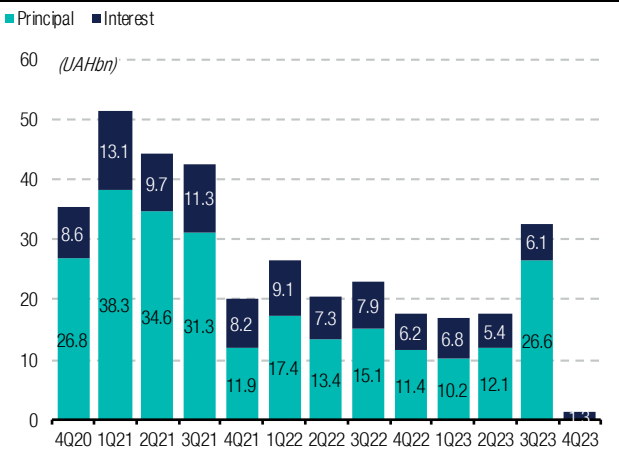
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

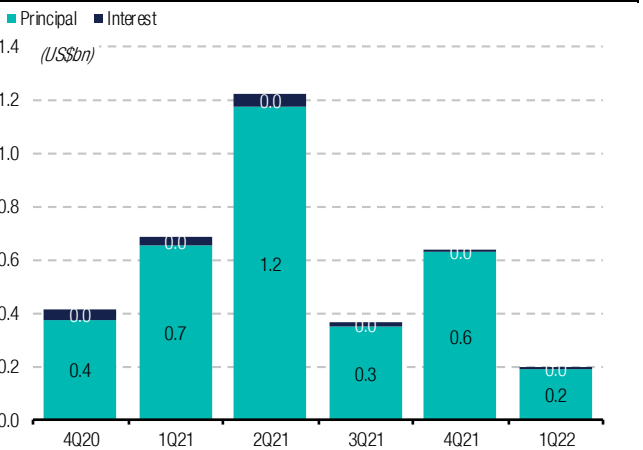
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

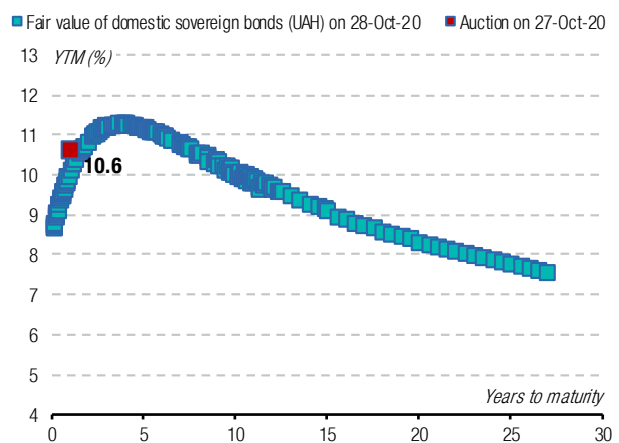
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

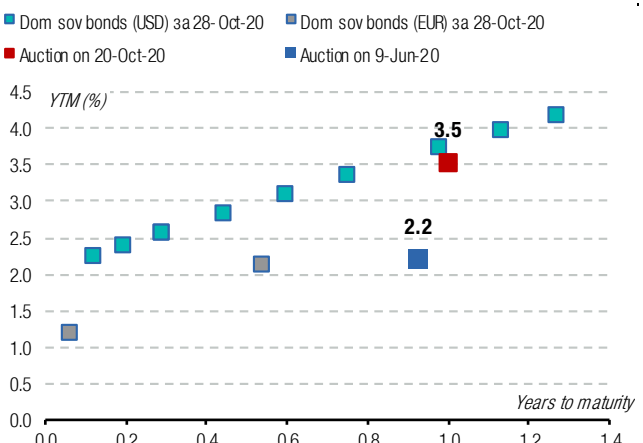
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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