

Bond Market Insight

Raising rates did not help

Comment on government bond placement

The Ministry of Finance once again increased interest rates to attract new borrowings. However, this time, it did not help increase budget proceeds, which amounted to just UAH2.5bn (US\$89m) versus UAH7.9bn (US\$280m) a week before.

Most likely, lower proceeds were the result of the Ministry not offering three or six-month maturities. Longer instruments are less attractive to investors. However, demand was a bit larger than for the same maturities earlier this month.

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 (%)	Out-standing (m) ⁴
UA4000213300	0.00	@Mty	27-Oct-21	328,053	910.19	298.59	328.05	10.50	637.37
UA4000213227	10.95	SA	1-Nov-23	75,285	1,000.41	75.32	75.29	11.44	78.08
Total UAH				403,338		373.91	403.34		715.45
UA4000211114	3.60	SA	3-Feb-22	75,315	1,008.38	2,135.46	2,117.71	3.80	9,744.86
Total USD				75,315		2,135.46	2,117.71		9,744.86

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 28.12/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

For one-year paper, demand was a bit larger than last week, and rates in part of the demand were at the same level as last week's cut-off rate. Out of 18 bids for this paper, the Ministry accepted 11 at the lowest rate in demand of 10.5%.

Demand for three-year paper rose almost three times, but, in total, it was slightly below UAH0.5bn (US\$18m) with increase in rates in demand. The lowest rates in bids rose 15bp to 11.1% and was set as the cut-off and weighted-average rate yesterday for this paper.

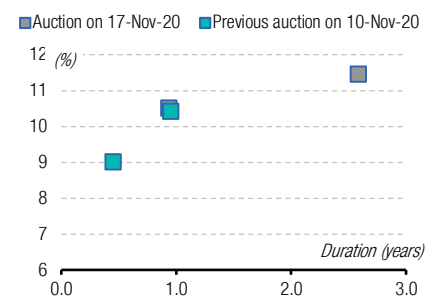
For the second consecutive time, the MoF increased rates for USD-denominated bills, despite the lowest rate coming in at the same level as the cut-off rate set a week ago.

Most likely, bids with the lowest rates were small, which induced the MoF to set the cut-off rate at 3.8% (up 10bp). The weighted-average rate rose by 15bp to 3.77%, indicating that most of accepted demand was concentrated at 3.8%.

Rates continue to increase, but despite the large amount of NBU refinancing loans issued for banks last week, these funds were not used for the purchase of new government bills. The main reason could be lack of the most desirable maturities in

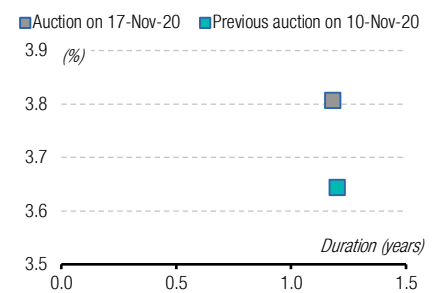
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



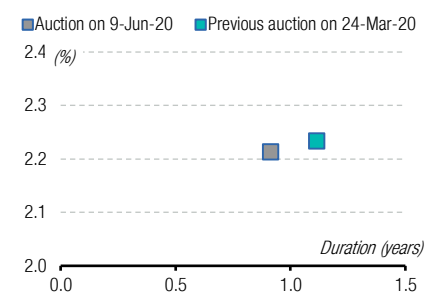
Source: Ministry of Finance of Ukraine, ICU.

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.

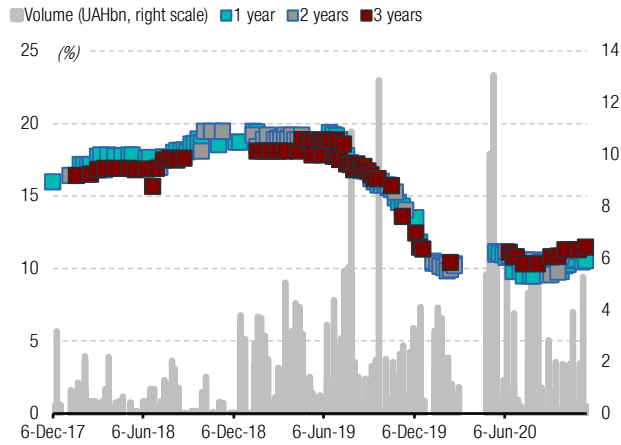
the offering, e.g. three-month or six-month paper.

However, next week, we expect the amount of borrowings to rise due to large debt repayments scheduled for the following week, as some investors can reinvest funds in new bills.

Appendix: Yields-to-maturity, repayments

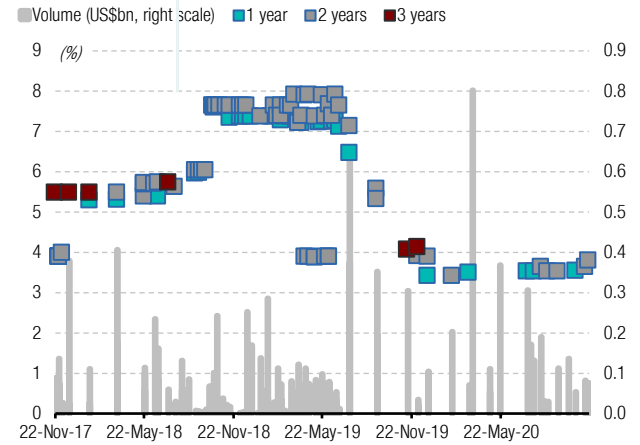
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

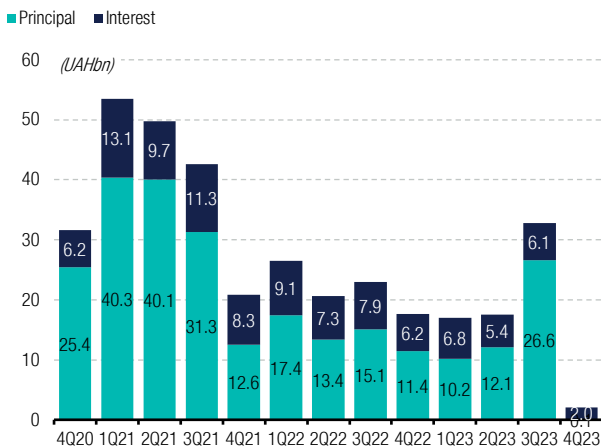
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

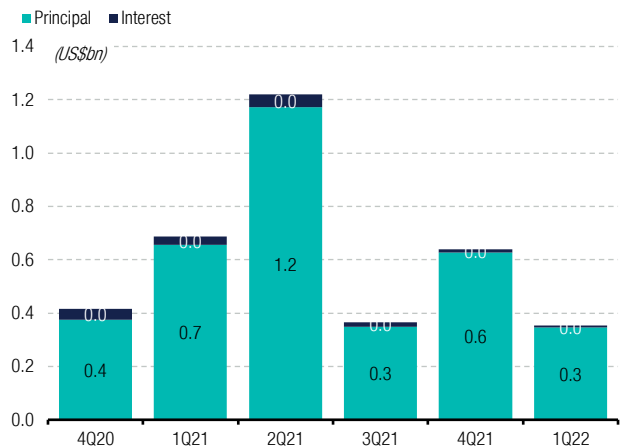
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

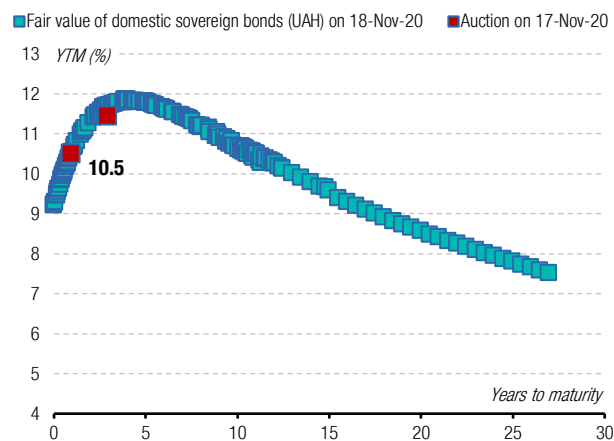
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

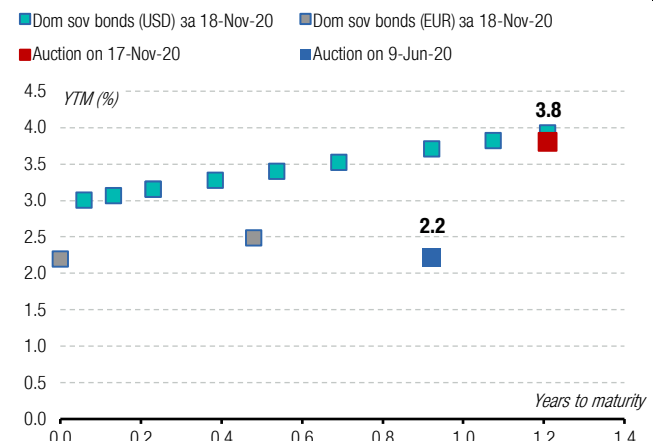
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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