

Bond Market Insight

Return of double-digit rates

Comment on government bond placement

Yesterday, the Ministry of Finance sharply increased the amount of borrowings to UAH16.8bn (US\$589m). But to do this, it had to raise interest rates just as sharply for the UAH-denominated instruments. Actually, rates for all maturities are now in double-digits.

The largest increase was for four-month bills. Compared with 119-days bills, the shortest maturity sold at the beginning of November, yesterday's bills were three weeks longer, but interest rates were up 250bp to 10%. There was a chance to increase rates to only 9.5%, but as the weighted-average rate was set at 10%, too, the amount of demand at 9.5% was insufficient.

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
UA4000213771	0.00	@Mty	14-Apr-21	7,223,370	963.07	6,956.60	7,223.37	10.00	7,223.37
UA4000194377	16.75	SA	2-Jun-21	3,024,475	1,112.53	3,364.81	3,024.48	10.54	11,302.42
UA4000213300	0.00	@Mty	27-Oct-21	573,548	909.97	521.91	573.55	10.75	1,210.92
UA4000207682	9.84	SA	15-Feb-23	410,208	996.17	408.64	410.21	11.76	3,122.88
UA4000207880	9.99	SA	22-May-24	202,171	952.05	192.48	202.17	12.08	2,332.47
Total UAH				11,433,772		11,444.43	11,433.77		25,192.05
UA4000213789	2.45	SA	4-Nov-21	157,494	1,001.42	5,318.29	5,310.74	2.46	5,310.74
Total EUR				157,494		5,318.29	5,310.74		5,310.74

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 28.2/USD, 33.72/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The increase in rates on six-month paper was half, just 125bp, as the cut-off and weighted-average rates were set at 10.25%.

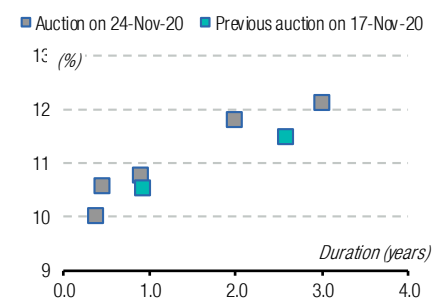
However, for longer maturities, which have not seen single-digit rates for a long time, the increase in interest rates was less sizable. For 12-month paper, the cut-off rate was up 30bp to 10.8%, for two-year bills by 45bp to 11.4%, and for the 3.5-year note by 60bp to 11.7%.

Rates increased for EUR-denominated bills too, by 25bp to 2.45% compared with June 2020, when the same paper was sold.

Generally, this auction can be considered successful. When budget revenues and budget financing are weak, full refinancing of UAH-denominated repayments

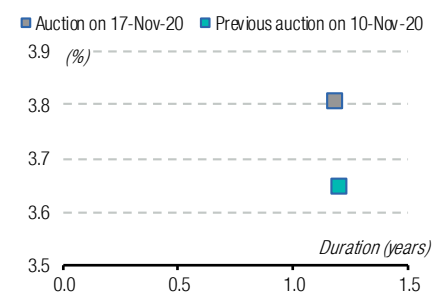
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



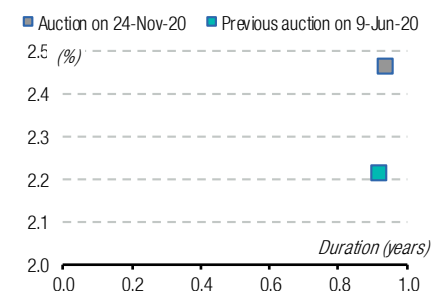
Source: Ministry of Finance of Ukraine, ICU.

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.

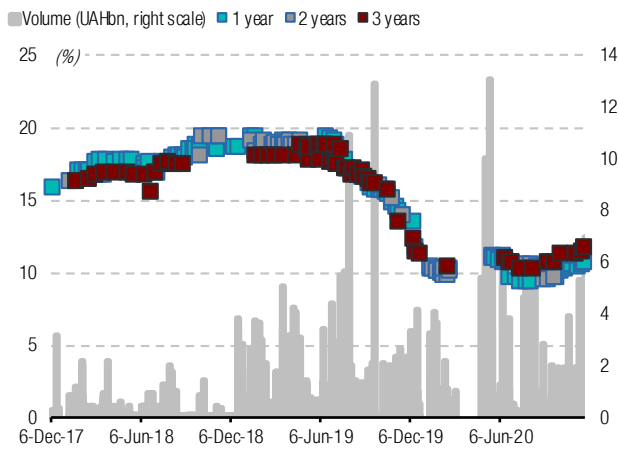
is a positive result. But the increase in rates was unprecedented. This summer, bills with three to six months maturities were sold at 7–8% and earlier this month at 7.5–9%.

With yesterday's decision, it looks like the MoF has entered into the final stage of this year's budget execution and is ready for a sharp increase in rates when they receive sizable demand. On one hand, this will allow the MoF to improve budget financing, but on the other, after yesterday's decision, it does not look like rates will return to single-digits very soon.

Appendix: Yields-to-maturity, repayments

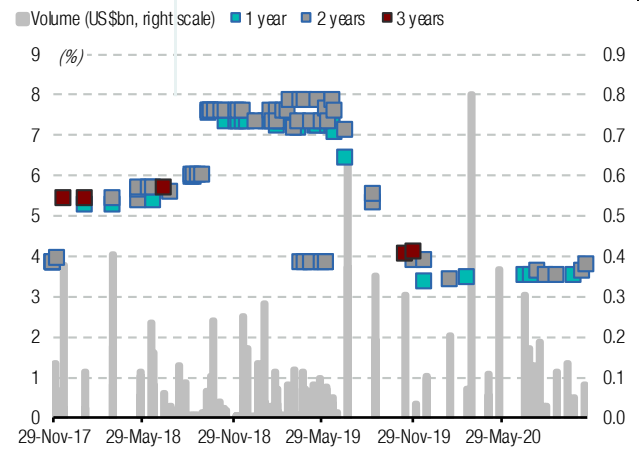
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

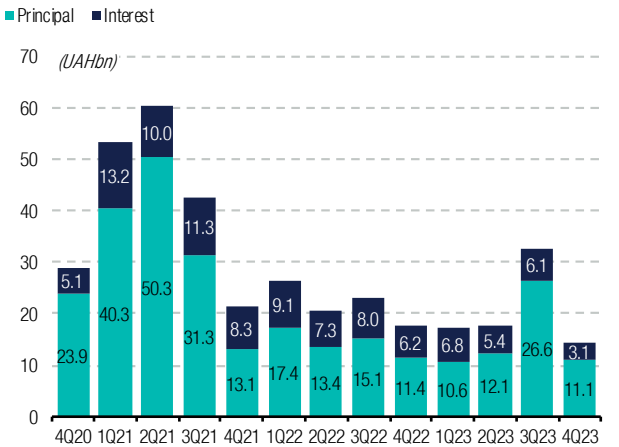
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

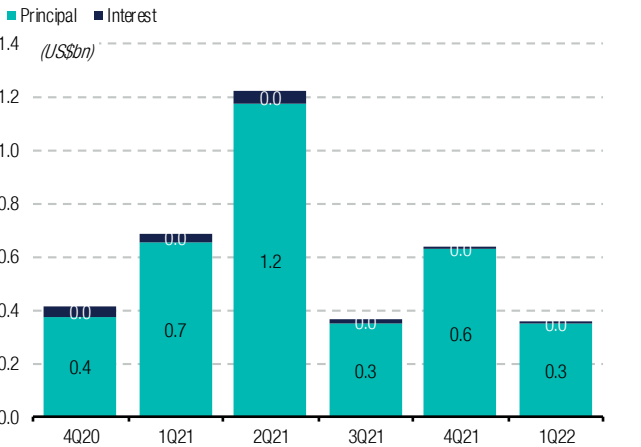
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

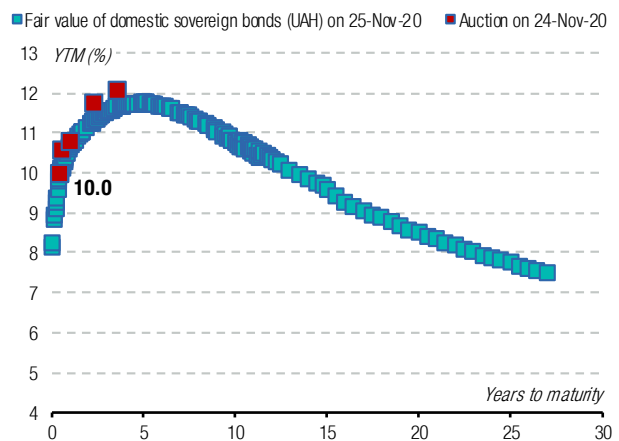
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

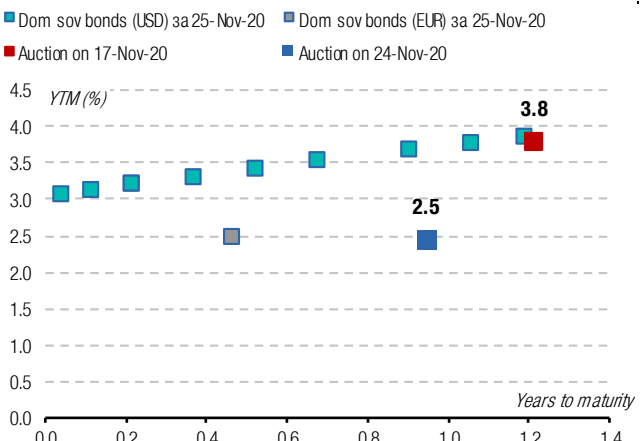
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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