

Bond Market Insight

Amount borrowed down, but rates up

Comment on government bond placement

Although there were no debt redemptions this week, the Ministry of Finance attracted quite good demand, which amounted to UAH3.3bn (US\$115m) at par value, and they accepted UAH2.8bn (US\$97m). Interest rates were up for most of offered instruments.

Three-month bills were an exception. The MoF kept the cut-off rate at the same level as the four-month bills a week ago. But the shorter tenor by a month caused a decline of 11bp in the weighted-average rate to 9.89%. The decision to satisfy demand with rates up to 10% resulted in accepting 18 out of 19 bids and rejecting just one bid at 11% amounted to UAH1m.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000213219	0.00	@Mty	3-Mar-21	2,008,473	975.94	1,960.15	2,008.47	9.89	4,008.47
UA4000213300	0.00	@Mty	27-Oct-21	584,021	910.31	531.64	584.02	10.93	1,794.94
UA4000213227	10.95	SA	1-Nov-23	173,101	992.04	171.72	173.10	11.99	251.18
Total UAH				2,765,595		2,663.51	2,765.60		6,054.59

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

Other paper offered ended up with higher interest rates despite demand not being unanimous meaning the MoF had a choice.

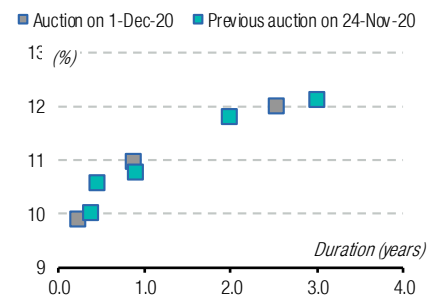
Similar to the three-month tenor, the MoF rejected just one bid for 11-month bills. However, it was with UAH200m (US\$7m) of demand or almost one-third of demand for this paper. Generally, rates in bids ranged between 10.8–11.2% or with maximum 40bp of possible rate increase from last week's level. Even though the amount in the most expensive bid was large, it was rejected. The cut-off rate was up 20bp to 11%, while weighted-average rate rose 18bp to 10.93%.

The largest increase in rates yesterday was for the three-year note. Two weeks ago, this paper was sold at 11.1%, but yesterday demand was expensive. Rates started at 11.5% and were up to 12%, therefore, a large part of demand was rejected. The MoF accepted eight out of 13 bids, selling just UAH173m (US\$6m) out of UAH473m (US\$17m) of demand (par value).

Generally, rates for UAH-denominated bonds are continuing to rise, which is gradually increasing the attractiveness of local-currency debt for new investments. But without

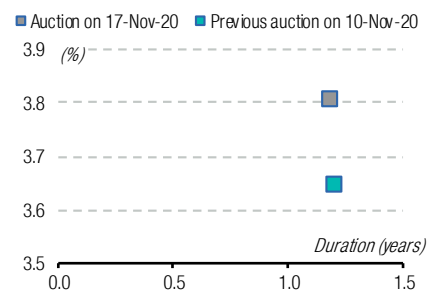
WEDNESDAY, 2 DECEMBER 2020

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



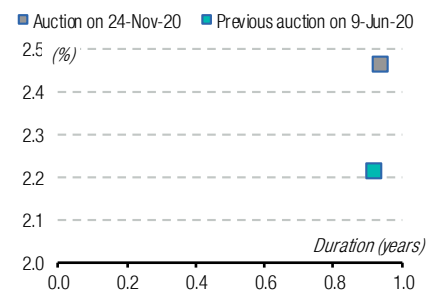
Source: Ministry of Finance of Ukraine, ICU.

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



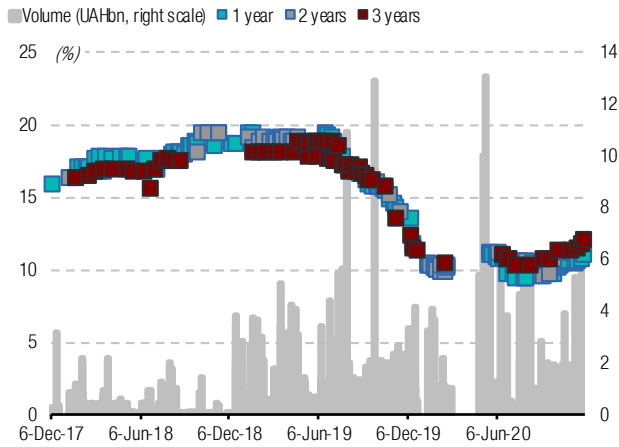
Source: Ministry of Finance of Ukraine, ICU.

repayments, demand is low. Investors are also looking for higher rates for new purchases. Therefore, when the MoF has large needs for new borrowings to finance the budget, rates will continue to increase.

Appendix: Yields-to-maturity, repayments

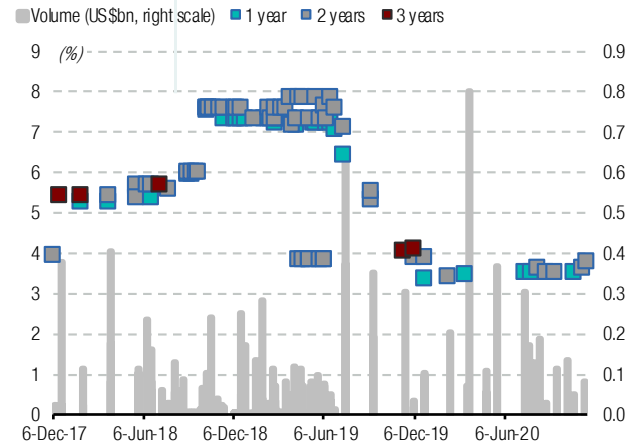
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

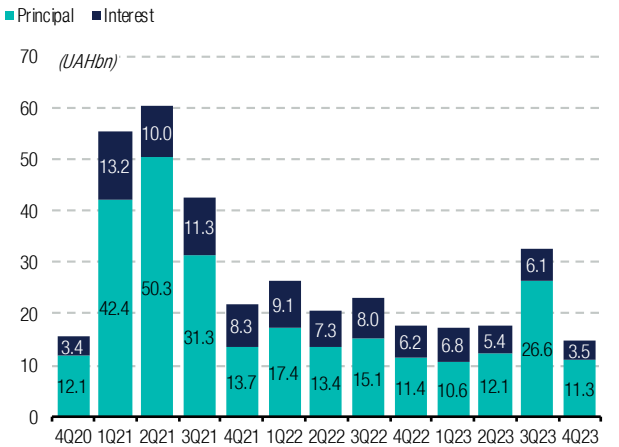
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

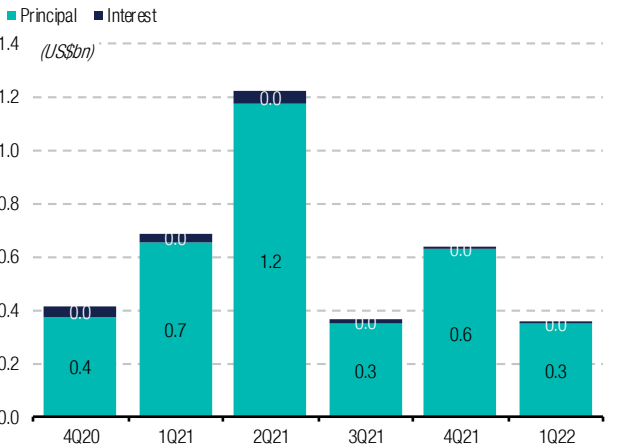
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

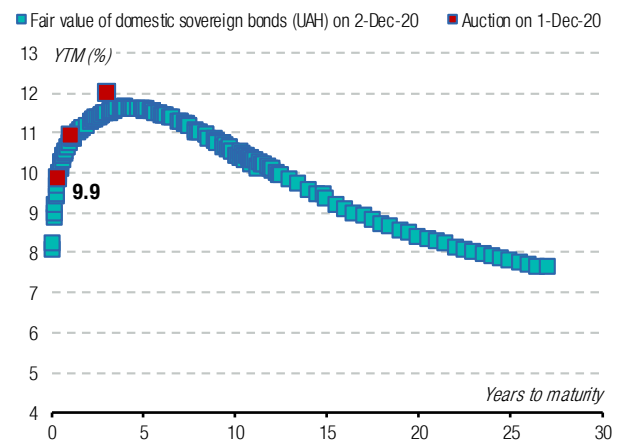
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

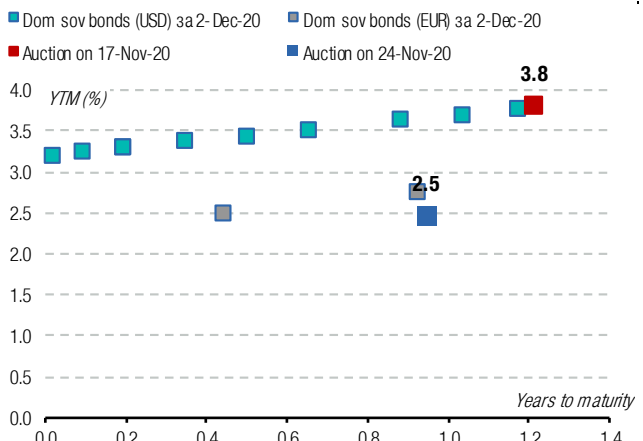
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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