

Bond Market Insight

Pressure on rates increases

Comment on government bond placement

Yesterday, the MoF was able to borrow more, but caps on UAH-denominated bills and unwillingness to pay more for borrowings in hard currency resulted in a low level of rate acceptance. Overall, the Ministry accepted 53% of demand, while for UAH-denominated bonds, it accepted only 49%.

As expected, the debut cap for 1.5-year paper resulted in a decline in rates. The cut off rate was down by 30bp to 11.45%, and the weighted-average rate declined by 44bp to 11.3%. However, in addition, due to the cap, the Ministry accepted only 28% of demand, which is the lowest ratio for this auction. The Ministry collected UAH5.3bn (US\$190m) in 41 bids, but accepted only those within the cap, UAH1.5bn (US\$54m) in 21 bids, and some of them partially.

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
UA4000209381	0.00	@Mty	19-May-21	500,000	977.89	488.94	500.00	9.07	10,770.98
UA4000215495	0.00	@Mty	2-Feb-22	1,000,000	904.90	904.90	1,000.00	10.96	3,000.00
UA4000214506	11.75	SA	15-Jun-22	1,500,000	1,025.40	1,538.10	1,500.00	11.65	11,533.35
UA4000200885	15.97	SA	19-Apr-23	1,534,515	1,128.92	1,732.34	1,534.52	12.22	4,439.28
UA4000207880	9.99	SA	22-May-24	1,308,089	968.40	1,266.75	1,308.09	12.45	8,385.13
Total UAH				5,842,604		5,931.03	5,842.60		38,128.73
UA4000215909	3.89	SA	2-Feb-23	41,736	1,001.48	1,166.56	1,164.84	3.93	1,164.84
Total USD				41,736		1,166.56	1,164.84		1,164.84
UA4000215891	2.50	SA	17-Feb-22	70,494	1,000.00	2,381.81	2,381.81	2.52	2,381.81
Total EUR				70,494		2,381.81	2,381.81		2,381.81

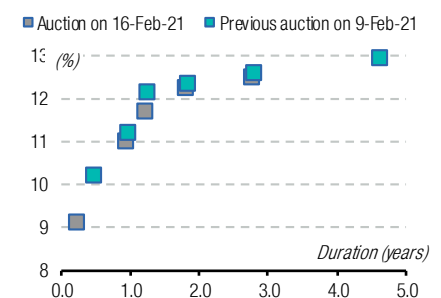
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.91/USD, 33.79/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The placement of 12-month bills was similar. The MoF rejected 18 out of 44 bids, interest rates declined, and it accepted only 35% of demand.

The acceptance ratio for USD-denominated paper was a bit lower at 33%, but it was due to the MoF's unwillingness to increase the rate, not due to the cap. The demand that was accepted was submitted with rates up to 3.9% or in non-competitive bids. This level last week was set for 14-month bills, while yesterday's maturity was almost two years. Therefore, most of demand was at higher rates, but did not meet the MoF view.

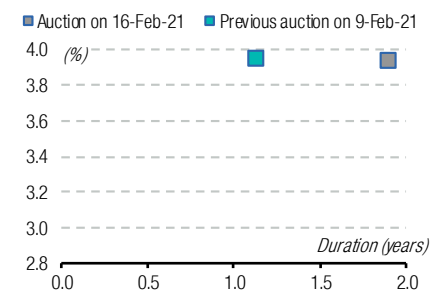
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



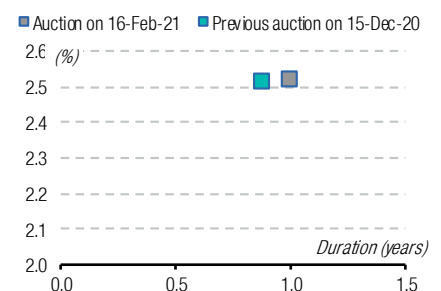
Source: Ministry of Finance of Ukraine, ICU.

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.

For the three-month bills, the MoF accepted more than half of demand, as it was at just UAH0.9bn. Nonetheless, this paper saw the largest decline in interest rates: the cut-off rate was down 35bp to 9.15%. This is the lowest level of rates for three-month bills since last March when the lockdown in Ukraine started due to COVID-19 pandemic.

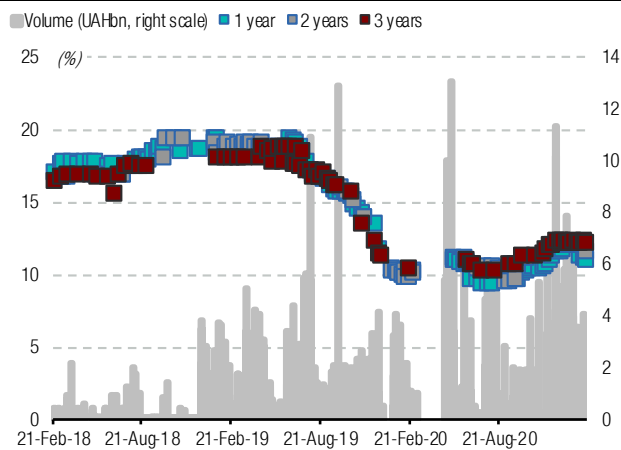
So, the downward pressure on rates at the primary market continues, and was increased by the Ministry through caps. But rates slid a bit without caps too. The lowest rates for two and three-year instruments declined, which brought down the weighted -average rates by 6bp and 10bp, respectively.

The Ministry's decisions indicate that the budget has enough funds for current needs and debt principal repayments, although it is also attempting to decrease the cost of borrowings by bringing down rates. At the same time, the most important goal of setting caps may be to switch demand to longer maturities and lower the amount of new borrowings due in 2021 and 2022.

Appendix: Yields-to-maturity, repayments

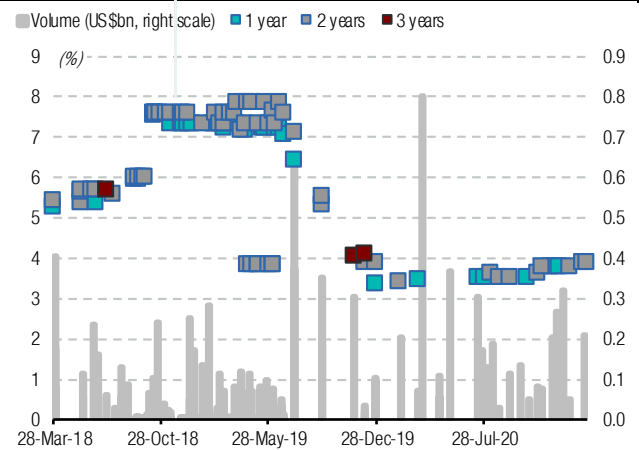
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

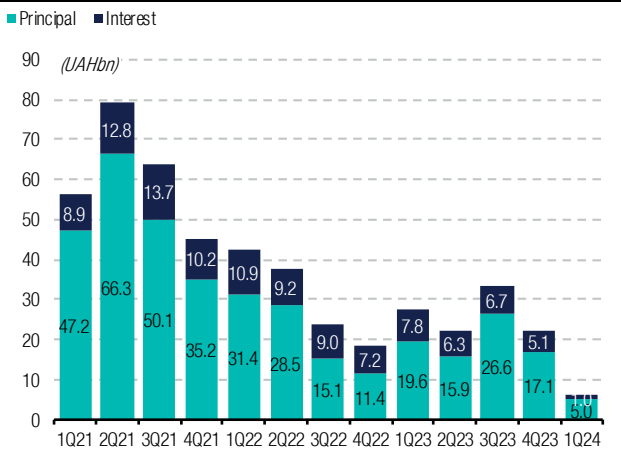
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

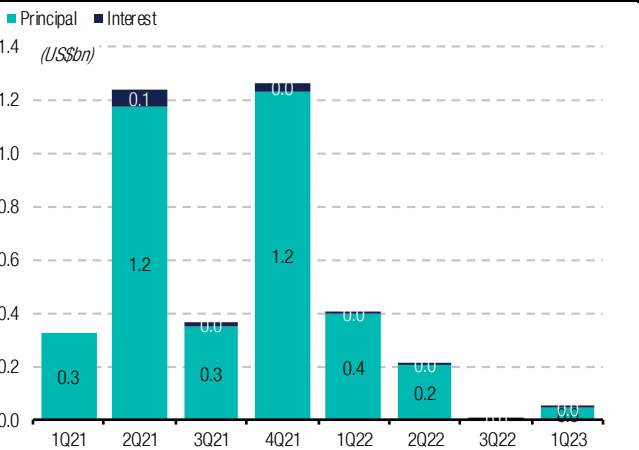
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

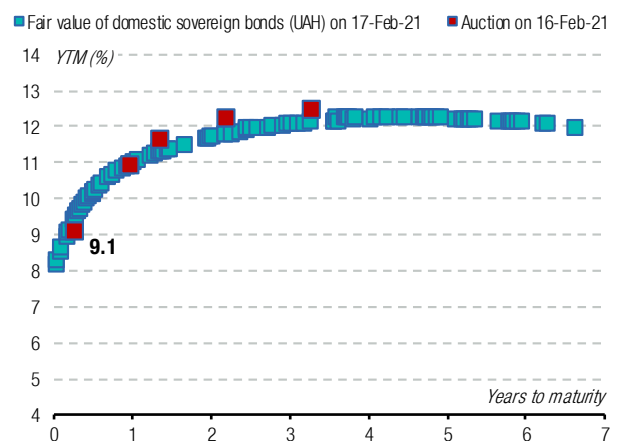
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

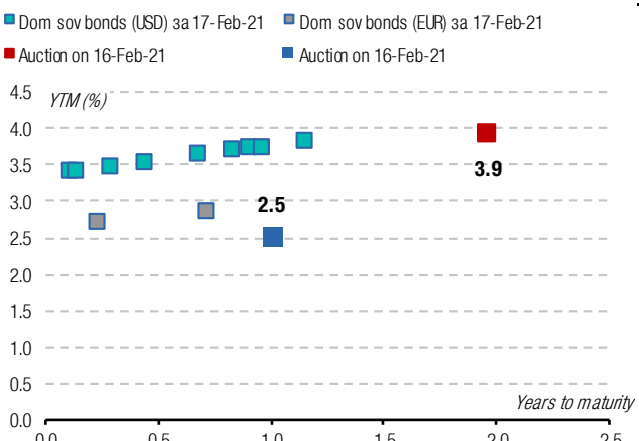
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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