

Bond Market Insight

Larger borrowings, but higher rates

Comment on government bond placement

NBU's key policy rate hike last week to 7.5% brought with it an impact on rates in the primary bond market. Yesterday's auction was the first step toward a new level of the yield curve. Next week, the MoF will have to increase rates for other maturities that were not offered yesterday.

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 (%)	Outstanding (m) ⁴
UA4000194567	16.65	SA	30-Jun-21	30,983	1,066.05	33.03	30.98	8.70	4,143.68
UA4000215156	11.73	SA	9-Mar-22	4,327,779	1,018.01	4,405.72	4,327.78	11.49	17,778.11
UA4000216774	11.10	SA	23-Nov-22	2,486	1,041.74	2.59	2.49	11.65	1,636.54
UA4000207518	9.79	SA	26-May-27	165,719	914.25	151.51	165.72	13.19	6,649.99
Total UAH				4,526,967	4,592.85	4,526.97			30,208.31

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 27.93/USD, 33.42/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The largest increase in rates was at the short end for the three-month paper, which now has a rate of 8.5%. These bills were sold last time at 7.77%, or just 27bp above the new key policy rate. Banks expectedly were asking for at least a 100bp premium to NBU's seven-day CDs.

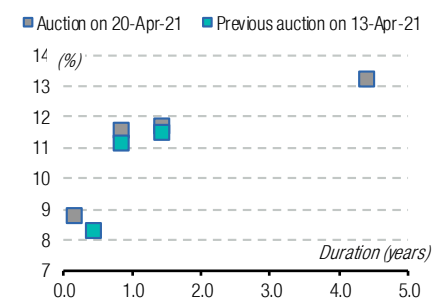
For the rest of the bonds offered yesterday, rates rose by 20-40bp, but demand was concentrated in the 11-month bills. For this paper, rates were up by 40bp to 11.15%, but this issue provided UAH4.4bn of proceeds out of a total of UAH4.6bn from the entire auction.

In general, the amount of budget financing has improved over the last two weeks. This can be the result of potential increases in rates and foreigners selling of local-currency bills in the secondary market at a slower pace. Likely, they purchased a small portion of new bonds yesterday, as they are interested in six-year paper at a slightly higher yield.

Therefore, we anticipate that next week, interest rates will continue to rise, but for maturities that were not offered yesterday. At least a large part of next week's redemption of UAH11bn needs to be refinanced, so according to the auction schedule, there will be a new compromise level of rates for six-month, two- and three-year instruments. They will move up to smooth the yield-curve after yesterday's increases.

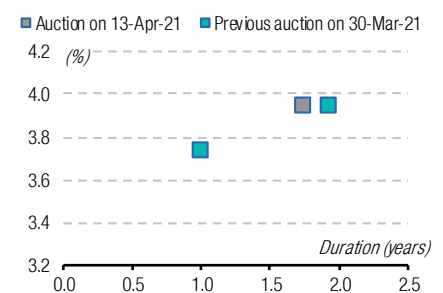
WEDNESDAY, 21 APRIL 2021

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



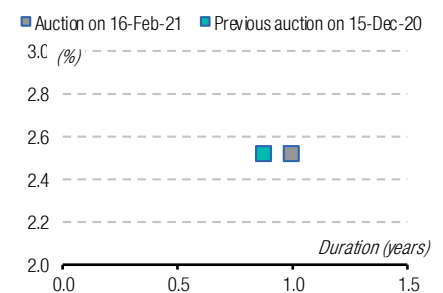
Source: Ministry of Finance of Ukraine, ICU.

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

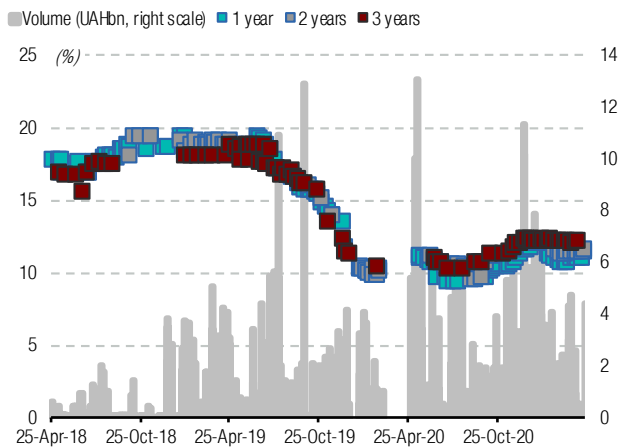


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

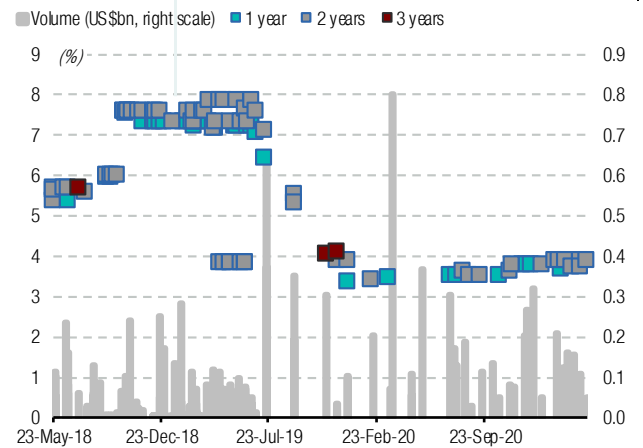
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

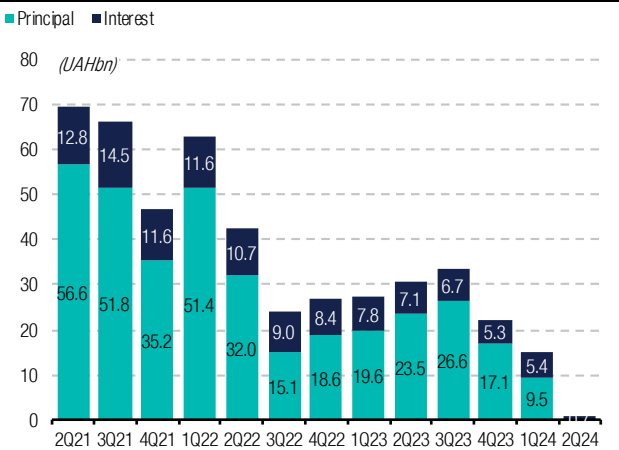
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

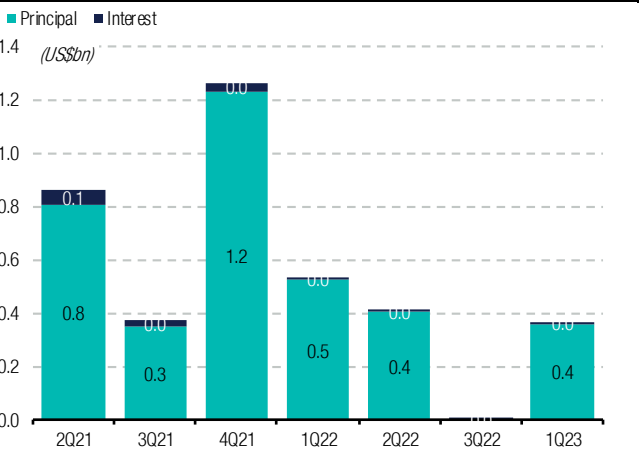
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

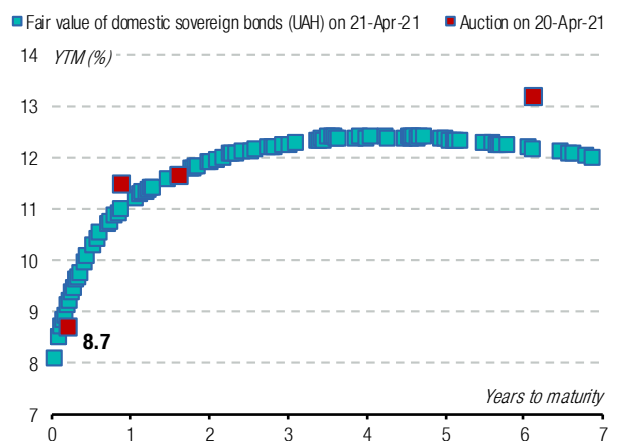
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

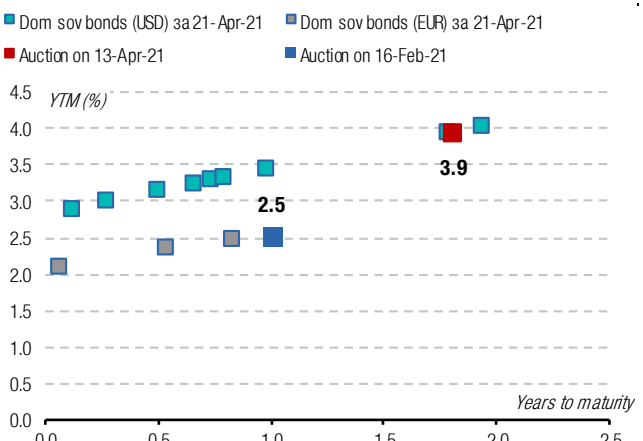
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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