

Bond Market Insight

Raising rates postponed

Comment on government bond placement

Yesterday's auction was the first since the NBU raised the key policy rate. In response, the Ministry of Finance raised rates only on the 13-month bills. The cut-off rates did not change on the other bonds offered yesterday. Under these conditions, a total of UAH3.1bn was borrowed for the budget, including proceeds from USD-denominated bills.

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 (UAHm)	Volume (UAHm)	YTM (%)	Outstanding (m) ⁴
UA4000219778	11.15	SA	26-Aug-22	877,520	1,046.35	918.20	877.52	11.49	877.52
UA4000216774	11.10	SA	23-Nov-22	291,366	1,016.47	296.16	291.37	11.65	9,691.95
UA4000213227	10.95	SA	1-Nov-23	70,393	1,002.82	70.59	70.39	12.49	4,140.50
UA4000219208	12.30	SA	3-Jul-24	12,547	1,007.62	12.64	12.55	12.68	867.25
UA4000207518	9.79	SA	26-May-27	78,452	895.29	70.24	78.45	13.19	7,096.93
Total UAH				1,330,278		1,367.83	1,330.28		22,674.14
UA4000218812	0.00	@Mty	23-Jun-22	67,359	967.73	1,758.29	1,816.92	3.69	6,768.29
Total USD				67,359		1,758.29	1,816.92		6,768.29

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 26.97/USD, 32.13/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

For the third time this month, the Ministry of Finance did not offer bonds with maturities of less than one year. The shortest maturity yesterday was 13-month paper with a semi-annual coupon. This issue attracted the greatest demand, although the amount was restrained at less than a billion hryvnias. Total demand for UAH-denominated bonds was slightly above UAH1.4bn. In fact, the Ministry of Finance increased interest rates only for the 13-month paper. Both the cut-off and the weighted-average rates were up by 16 bps to 11.15%.

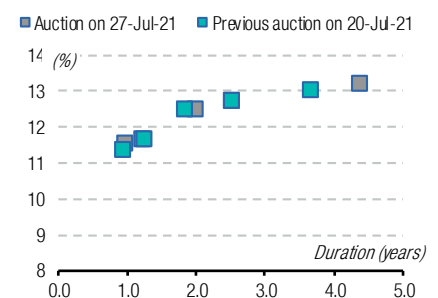
The remaining instruments did not receive much demand, although the weighted average rate on the three-year securities fell by 3 bps up to 12.27%.

The placement of USD-denominated bills was as usual. Eleven-month USD-denominated paper was sold at US\$67m par value with US\$65m of budget proceeds.

In general, the auction wasn't active, and although the number of bids in total was more than a hundred, the volume of demand was insignificant. It seems that those market participants who wanted to buy bonds directly from the Ministry of Finance

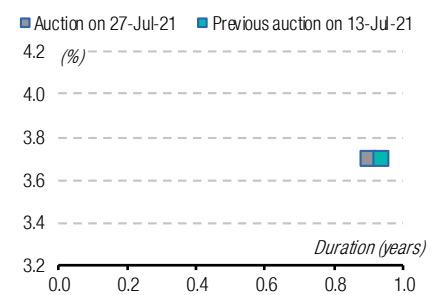
WEDNESDAY, 28 JULY 2021

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



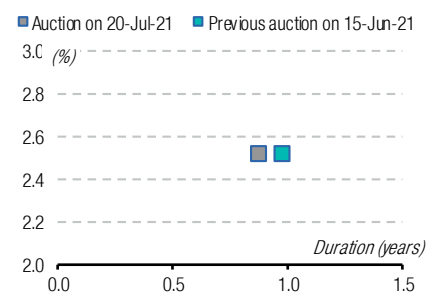
Source: Ministry of Finance of Ukraine, ICU.

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.

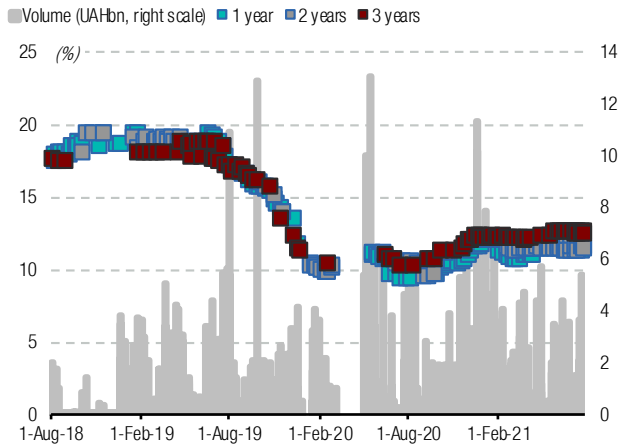
took part in the auction. Others likely are waiting to see how the Ministry responds to the performance of budget financing and its readiness to further increase interest rates and offer shorter maturities, e.g. three and six months.

So far, the primary bond market has barely reacted to the change in the key policy rate, so demand is unlikely to be high in the near future. Borrowings may increase in FX-denominated bills, as the MoF has to redeem US\$350m of bills this week and some of these funds may return to boost demand in the near future. Although the offering of FX-denominated bills is scheduled for the end of August, it may occur earlier.

Appendix: Yields-to-maturity, repayments

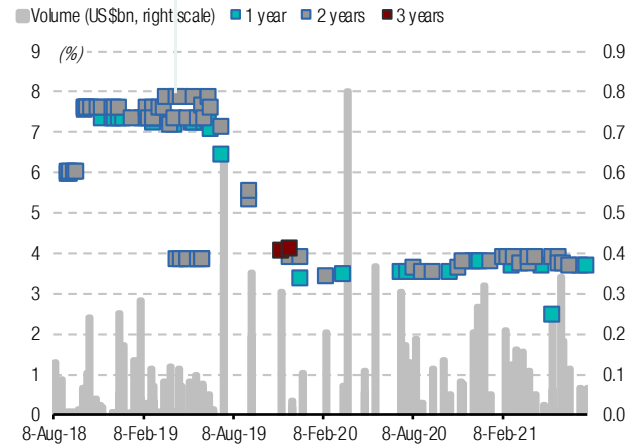
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

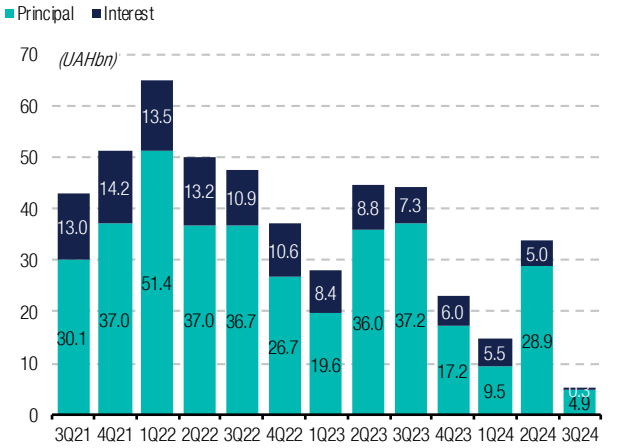
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

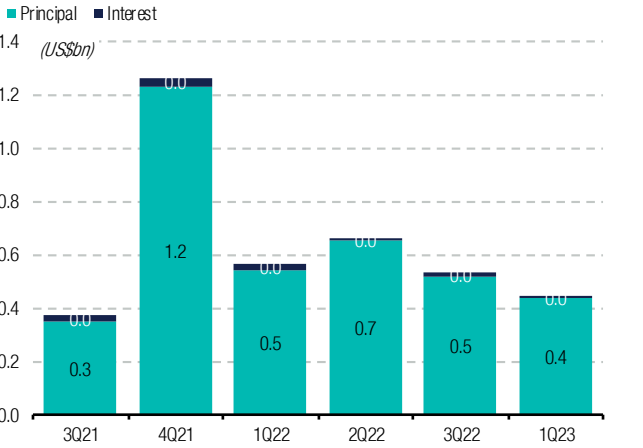
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

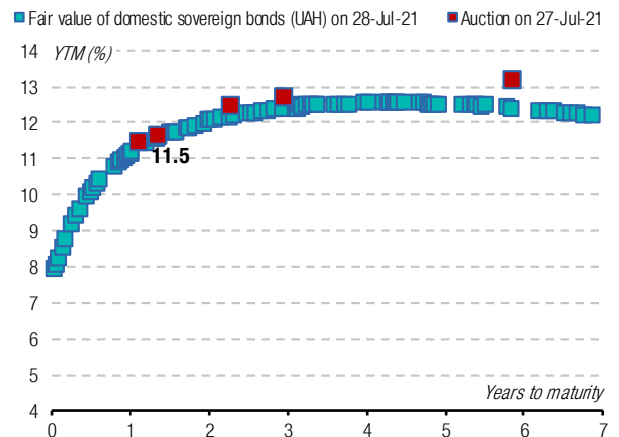
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

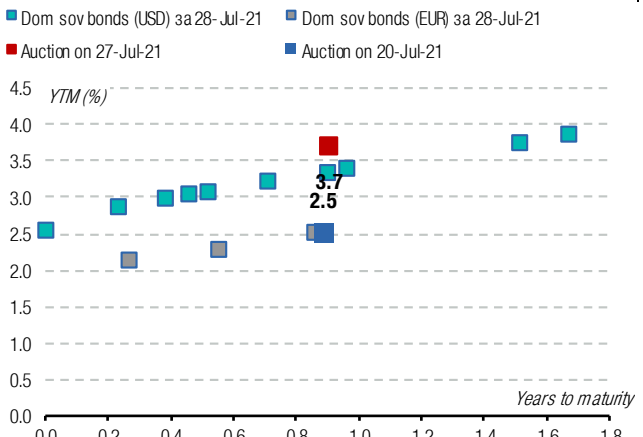
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

This page is intentionally left blank.



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua   

RESEARCH

Sergiy Nikolaychuk

Head of macro research
sergiy.nikolaychuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Junior financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

