

Bond Market Insight

Low demand results in small borrowings

Comment on government bond placement

Yesterday, the Ministry of Finance was able to raise only UAH788m for the budget. This was three times less than last week's auction despite accepting more than 90% of demand.

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
UA4000219778	11.15	SA	26-Aug-22	524,742	1,053.02	552.56	524.74	11.48	2,993.54
UA4000216774	11.10	SA	23-Nov-22	48,122	1,022.93	49.23	48.12	11.65	10,451.07
UA4000219208	12.30	SA	3-Jul-24	184,100	1,013.87	186.65	184.10	12.72	1,051.35
Total UAH				756,964		788.44	756.96		14,495.96

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

Having received bids for UAH806mn, the MoF rejected only one bid for UAH50mn at a rate of 11.2%, which was 5 bp higher than last week's cut-off rate. This was for the 12-month paper, which received almost UAH575mn in demand in 30 bids. The lowest rate in the bids was 11.10%, which decreased the weighted average rate by 1 bp to 11.14%, with the cut-off rate unchanged at 11.15%.

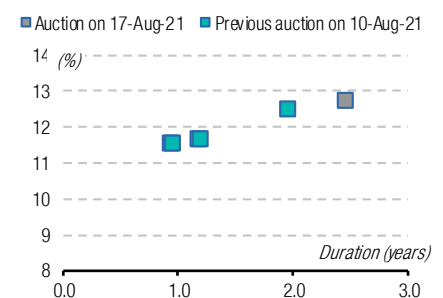
However, the rest of offered bills received a small amount of demand. The 1.5-year paper received only UAH48mn of demand, and the three-year instrument received UAH184mn. All bids were unanimous, so bids were satisfied in full.

Currently, this auction was the least successful this year in terms of raising funds, taking into account proceeds from FX-denominated bills (equivalent). Talking only about UAH-denominated securities, the lowest amount of borrowings in the national currency was in April for UAH216mn. This happened when foreigners withdrew funds from UAH-denominated debt, which began in March and lasted until the end of May. Therefore, now low volumes of borrowings in August once more coincided with a decrease in foreign interest in the Ukrainian bond market.

There will be no primary auction next week due to the Independence Day in Ukraine. The next auction will take place on the last day of August. According to the schedule, this time, FX-denominated bills will be offered, and there may be delayed demand due to the break in auctions. Therefore, the volume of borrowings may increase, in particular due to selling of FX-denominated bills.

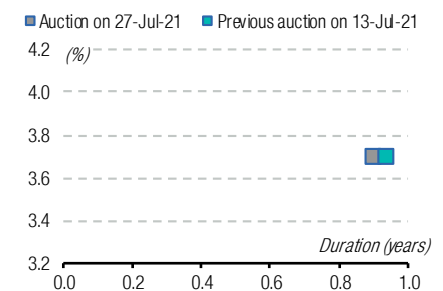
WEDNESDAY, 18 AUGUST 2021

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



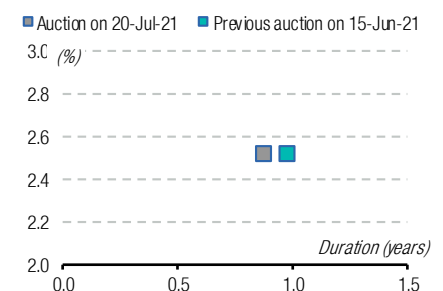
Source: Ministry of Finance of Ukraine, ICU.

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

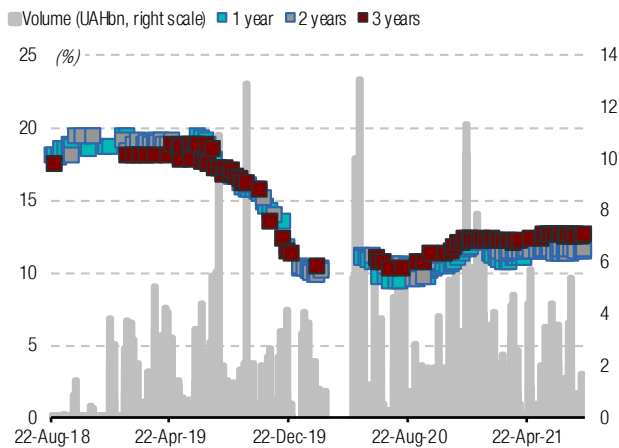


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

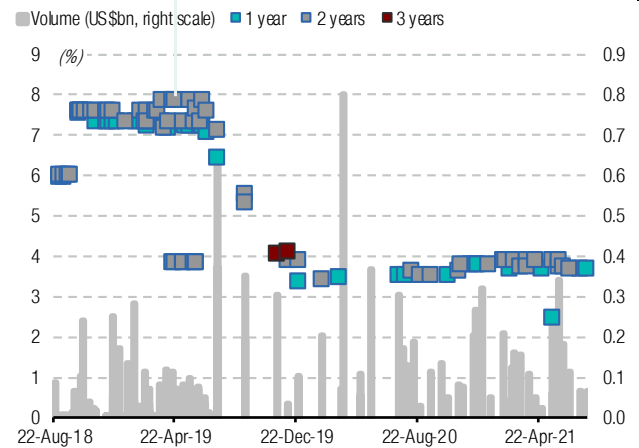
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

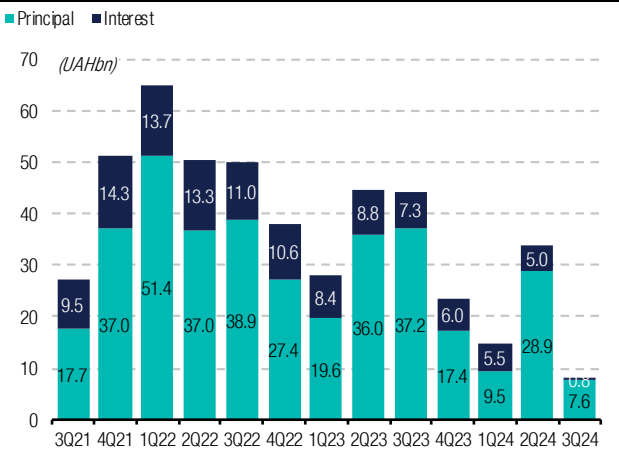
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

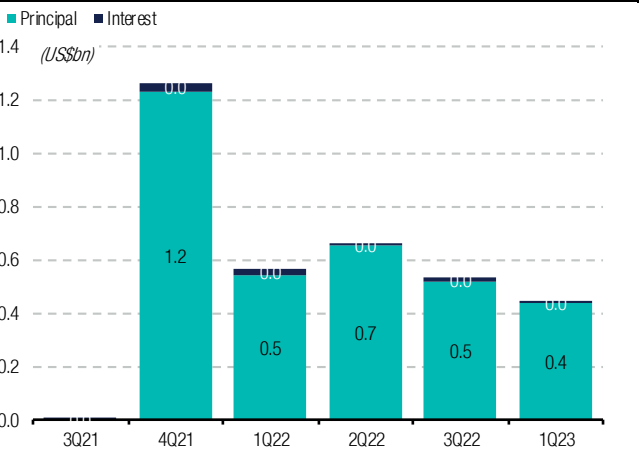
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

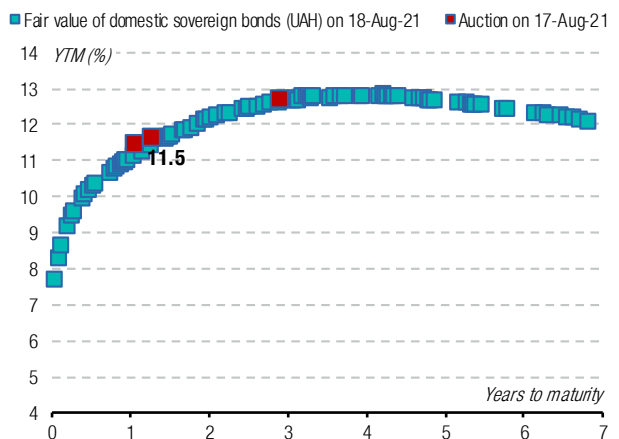
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

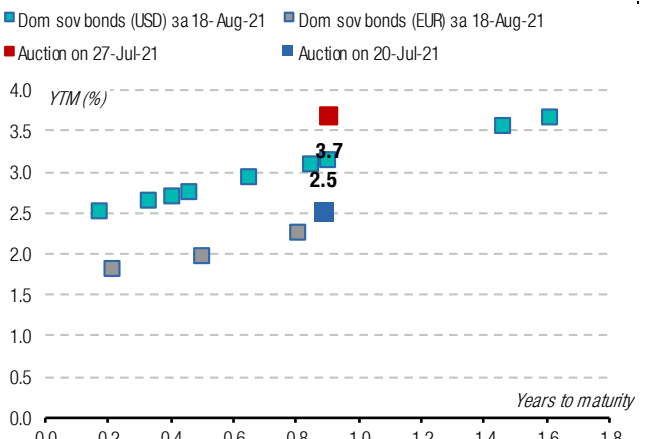
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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