

Bond Market Insight

Lowest borrowings of the year, but at constant rates

Comment on government bond placement

THURSDAY, 14 OCTOBER 2021

This Tuesday, only UAH513m was borrowed for the state budget, which was the lowest amount this year. Excluding FX-denominated bills, the amount raised this week was the second lowest amount raised in a primary auction, with the lowest borrowed in April.

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	290,507	1,011.28	293.78	290.51	11.86	7,369.50
UA4000221568	11.57	SA	18-Jan-23	6,270	1,026.30	6.43	6.27	11.94	6.27
UA4000213227	10.95	SA	1-Nov-23	25,801	1,022.62	26.38	25.80	12.82	7,462.46
UA4000219208	12.30	SA	3-Jul-24	17,503	1,028.37	18.00	17.50	12.92	3,470.72
UA4000218531	12.52	SA	13-May-26	162,336	1,042.44	169.23	162.34	13.19	5,466.48
Total UAH				502,417		513.83	502.42		23,775.43

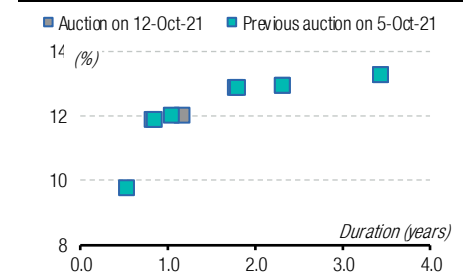
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.58/USD, 32.13/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

This week, the Ministry of Finance offered instruments with maturity from 11 months to five years, but demand was almost six times lower than last week. Without redemptions, local investors are in no hurry to invest in new paper. Foreigners are likely to have ignored the auction again, selling bonds from their portfolio instead.

Almost all demand was unanimous at the same cut-off rates as last week. Only the 15-month and three-year paper differed. For the 15-month, all demand was at the level of the weighted average rate of the last week's auction, so the cut-off rate slid by 3bp to 11.57%. And for the three-year note, the Ministry of Finance rejected one bid in the amount of UAH0.5m, which was at the rate of 12.5%, or 1bp higher than the rest of demand.

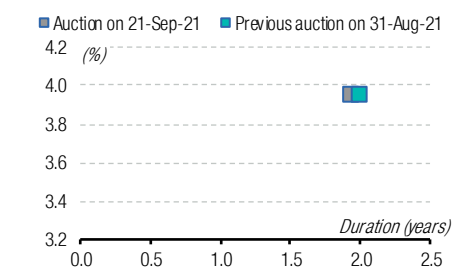
The Ministry's attempt to fix the current level of rates a week before the next revision of the NBU key policy rate resulted in a significant drop in borrowings. The situation could be improved, however, with paper that is scheduled to be offered. Next week and at the end of the month, USD-denominated paper will be offered. For the first time in October, a six-year UAH-denominated note will be offered at the end of the month, which last month received significant demand from foreigners.

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



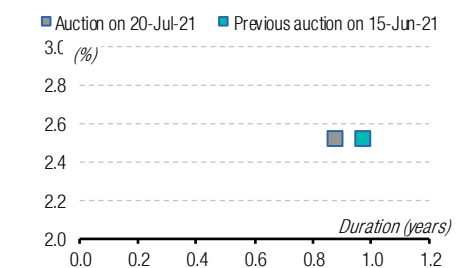
Source: Ministry of Finance of Ukraine, ICU.

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

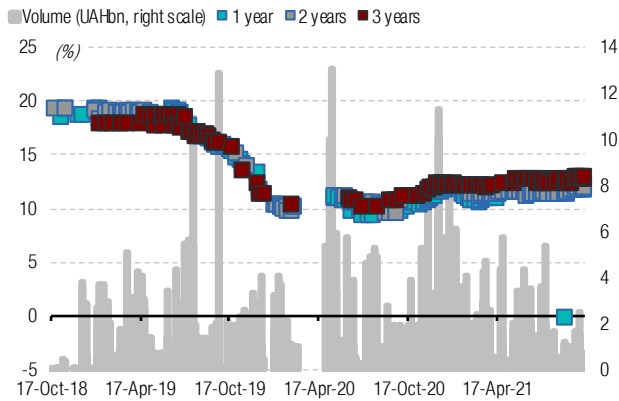


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

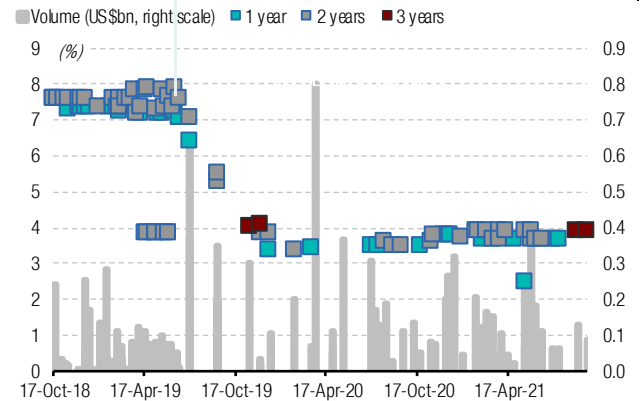
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

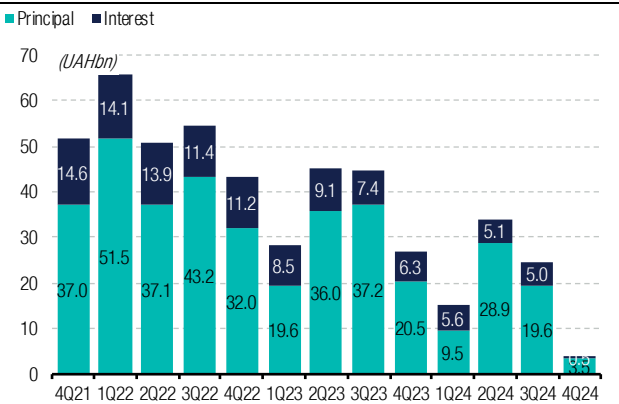
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

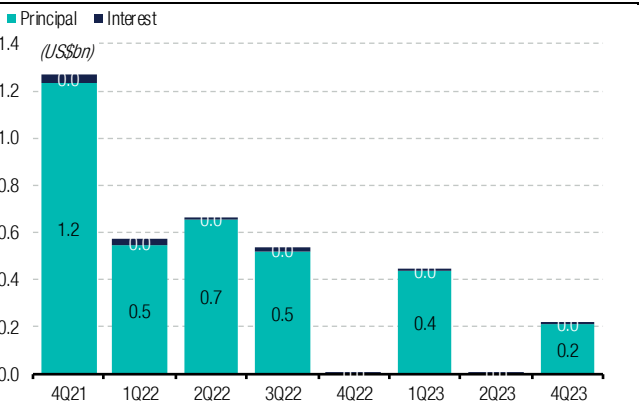
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

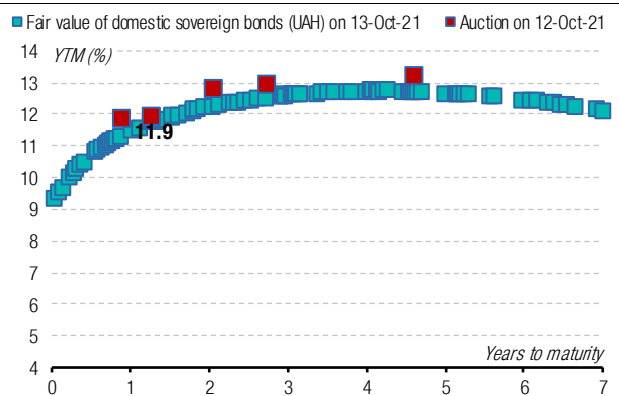
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

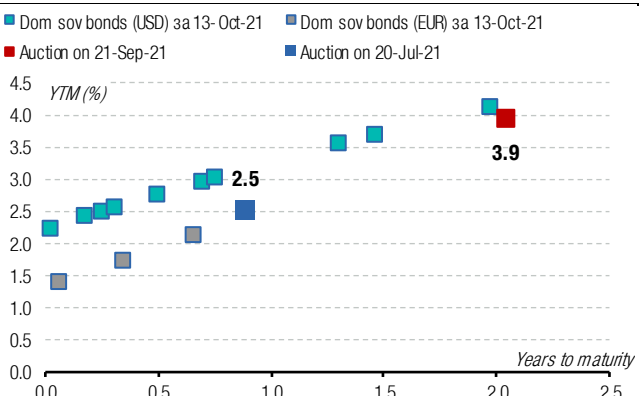
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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