

Bond Market Insight

Interest rates up

Comment on government bond placement

WEDNESDAY, 15 DECEMBER 2021

The increase in the NBU key policy rate received an immediate response from investors in local-currency bonds and the Ministry of Finance. Not for all issues, but interest rates increased by 5-50 bp for some of them.

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 ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000209886	10.57	SA	23-Feb-22	2,156,000	1,032.33	2,225.70	2,156.00	10.81	11,284.63
UA4000223457	0.00	@Mty	29-Jun-22	1,546,542	945.42	1,462.13	1,546.54	10.75	2,713.05
UA4000222145	11.50	SA	14-Dec-22	489,444	997.53	488.23	489.44	12.15	10,248.70
UA4000200885	15.97	SA	19-Apr-23	120,110	1,073.62	128.95	120.11	12.27	12,493.23
UA4000213227	10.95	SA	1-Nov-23	1,412,815	984.60	1,391.06	1,412.82	13.09	14,221.22
UA4000222152	12.70	SA	30-Oct-24	108,744	1,010.78	109.92	108.74	13.30	4,740.46
UA4000218531	12.52	SA	13-May-26	12,708	993.61	12.63	12.71	13.46	5,931.89
Total UAH				5,846,363		5,818.62	5,846.36		61,633.17
UA4000220412	3.90	SA	5-Oct-23	68,361	1,007.46	1,864.78	1,850.97	3.94	8,634.07
Total USD				68,361		1,864.78	1,850.97		8,634.07
UA4000222509	2.50	SA	1-Dec-22	102,361	1,000.96	3,123.50	3,120.51	2.51	8,169.27
Total EUR				102,361		3,123.50	3,120.51		8,169.27

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 27.08/USD, 30.49/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

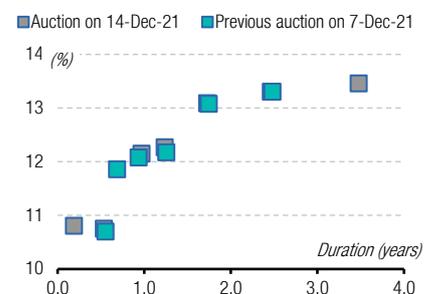
Yesterday, several bonds offered were the same as last week. There were a few differences, though, mostly for hard-currency denominated securities, where maturities were much longer than a week ago, but without changes in interest rates. Also, the MoF added bills maturing in February 2022 to its offerings.

The shortest UAH-denominated paper brought the most funds to the budget, but the interest rate had to be increased by 50bp, similar to the increase in the NBU key policy rate. So, for now, the benchmark interest rate on three-month bills is 10.5%.

Interest rates on semi-annual, annual, and one-and-a-half-year bills increased by 5-15bp, which was quite expected. They raised over UAH2bn for the budget. Rates also rose on a five-year note that the MoF has twice refused to sell in recent weeks in order not to raise rates for small amounts. Maybe it was the right decision, but we saw an increase for another small amount of money - only UAH12.6mn.

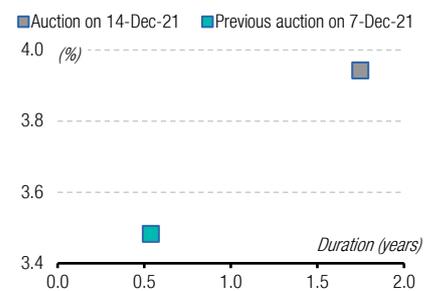
A total of UAH10.8bn was raised for the budget, of which UAH5.8bn came from

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



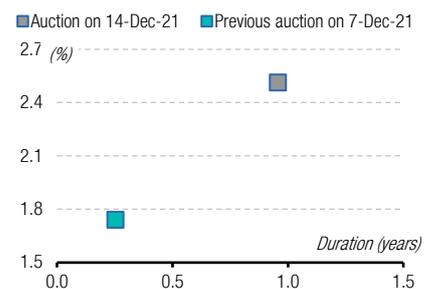
Source: Ministry of Finance of Ukraine, ICU.

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.

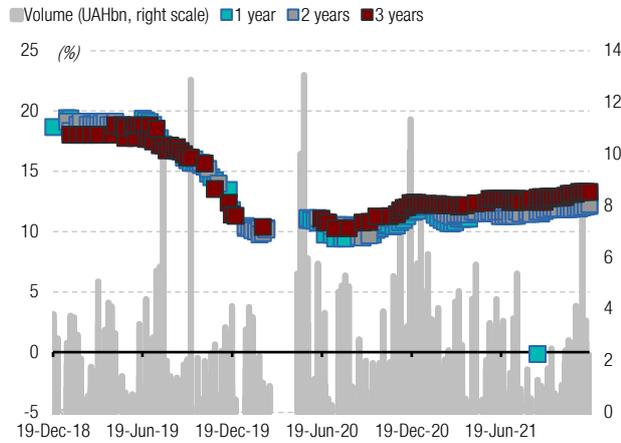
UAH-denominated securities, more than half of all borrowings. This was much less than last week when UAH16.6bn was raised. But it looks like some investors have decided to watch what the Ministry of Finance will decide at the first auction after reviewing the NBU key policy rate and at what level the rates will rise.

Then, demand may rise, and even more investors will insist on higher rates. But whether the issuer will agree with this sentiment is yet to be seen, because yesterday part of the expensive demand was rejected.

Appendix: Yields-to-maturity, repayments

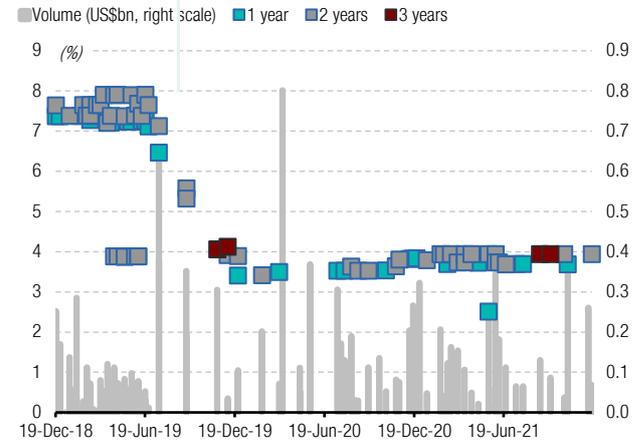
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

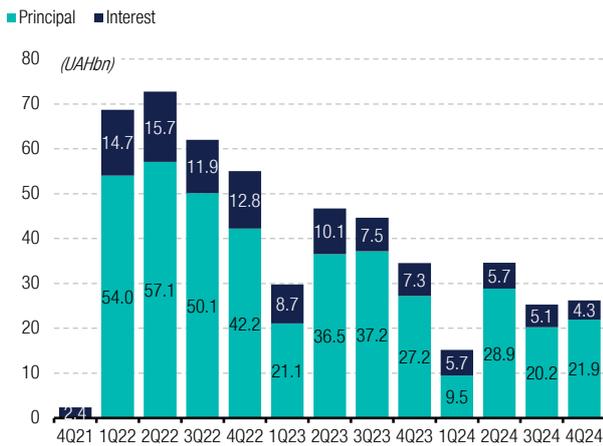
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

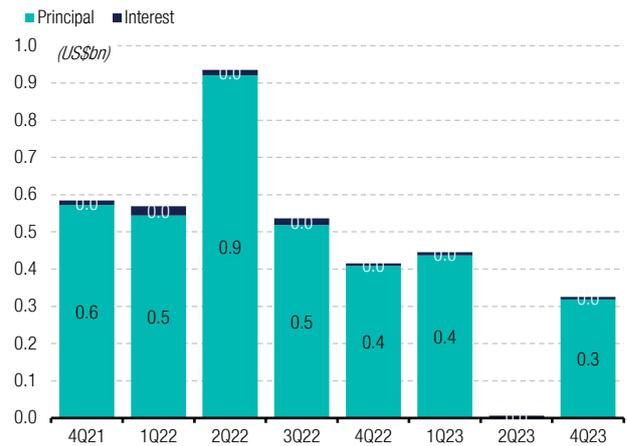
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

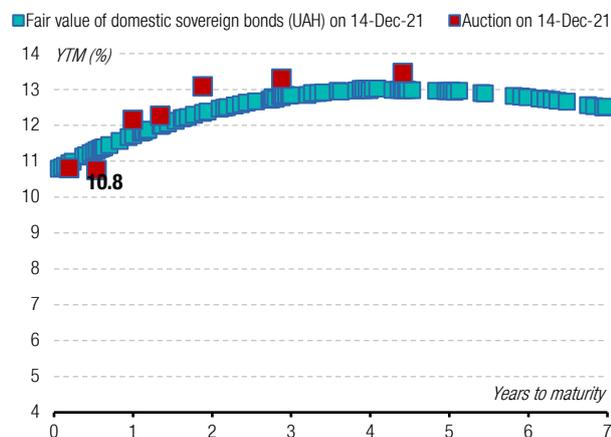
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

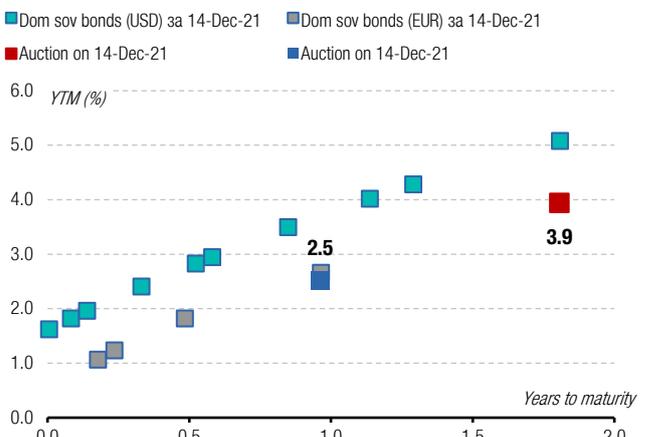
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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