

# Bond Market Insight

## Auction reflects market expectations

### Comment on government bond placement

Yesterday, the Ministry of Finance raised only UAH128m (US\$4m) for the budget, accepting less than 5% of the demand it received out of the total volume of bids for UAH2.9bn (US\$99m).

**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment frequency <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000226187	0.00	@Mty	28-Oct-22	84,266	971.18	81.84	84.27	9.50	84.27
UA4000225940	0.00	@Mty	11-Jan-23	14,417	950.77	13.71	14.42	10.00	2,691.60
UA4000226195	0.00	@Mty	5-Jul-23	36,015	901.15	32.45	36.02	11.00	36.02
<b>Total UAH</b>				<b>134,698</b>		<b>128.00</b>	<b>134.70</b>		<b>2,811.88</b>

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 29.55/USD, 30.86/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

It was the first auction after the NBU key policy rate increase that investors could send bids with a "wished-for" interest rate. This auction provided the Ministry of Finance with an understanding of the yield-curve that is expected by banks and other investors and, accordingly, it gave them perspective on the amount of possible borrowings at such interest rates. Unfortunately, the published results provide only the maximum level of interest rates in submitted bids and not the range of interest rates in rejected bids.

So, for the new three-month bill issue, demand reached UAH2.3bn (US\$77m), but only UAH84m (US\$3m) of bids were with a rate of 9.5% or non-competitive. Seven bids for almost UAH2.2bn (US\$74m) were rejected with rates higher than 9.5% and up to 23.5%.

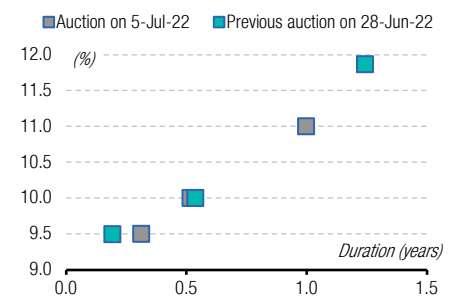
Demand for semi-annual paper exceeded UAH0.6bn (US\$21m), but only UAH14.4m (US\$0.5m) of bids were accepted at a rate of 10%. Three bids with rates up to 22% in the amount of UAH600m (US\$20m) were rejected.

But for annual bills, which the Ministry offered again after a two-month break, the maximum interest rate in demand was even lower. The highest rate in bids was 20%, but demand was already lower than for shorter maturities. In total, UAH41m (US\$1.4m) of bids were received, of which UAH36m (US\$1.2m) were satisfied at the usual level of 11%.

The only T-bill issue that showed the full range of desired rates was the two-year

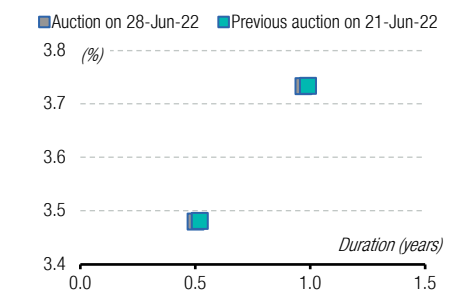
### WEDNESDAY, 6 JULY 2022

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



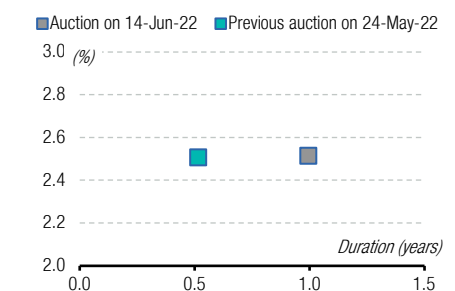
Source: Ministry of Finance of Ukraine, ICU.

#### 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.

instrument, which was being offered for the first time since the full-scale Russian invasion. Investors were looking for a coupon rate at the level of 15–18%, which is significantly less than the rate they wanted for three-month paper. But demand for this instrument was the smallest yesterday, only UAH5.2m (US\$0.2m). Therefore, the MoF decided not to accept these bids at all.

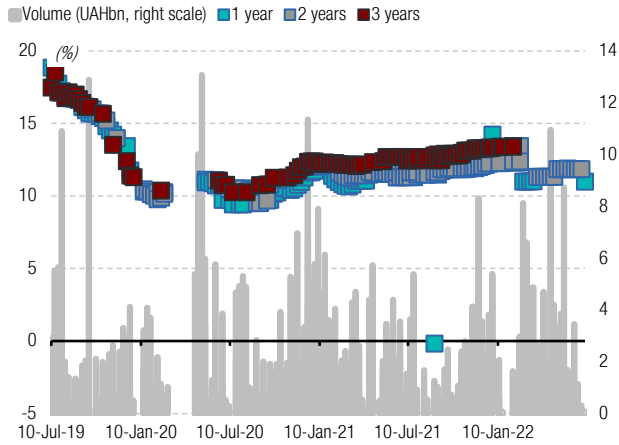
In this auction, investors signalled to the MoF the range of interest rates they are looking for, which will establish the yield curve for the entire market and a possible maximum level for local-currency bonds in the primary market. For short-term paper, the market will accept a rate as high as 23.5%, or 150bp below the NBU key policy rate and only 50bp above the rate for NBU CDs. The market sees lower rates for longer bonds: 22% for six-month bills, 20% for 12-month paper, and 15–18% for two-year instruments. Such bids indicate the market's expectation that the NBU will move quickly to lower the key policy rate in about six months.

So, based on yesterday's indications, we may see slightly higher rates for bills in the primary market next week.

# Appendix: Yields-to-maturity, repayments

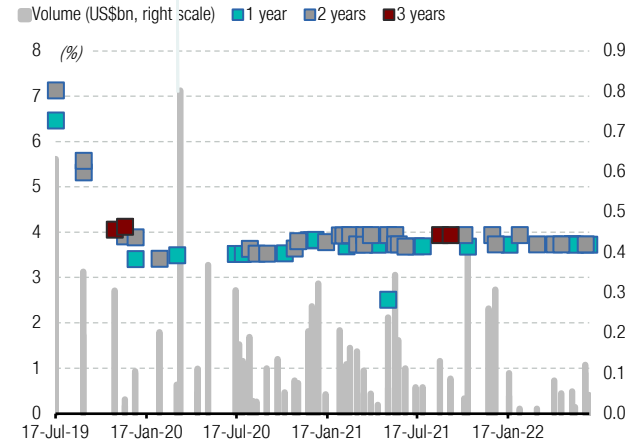
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

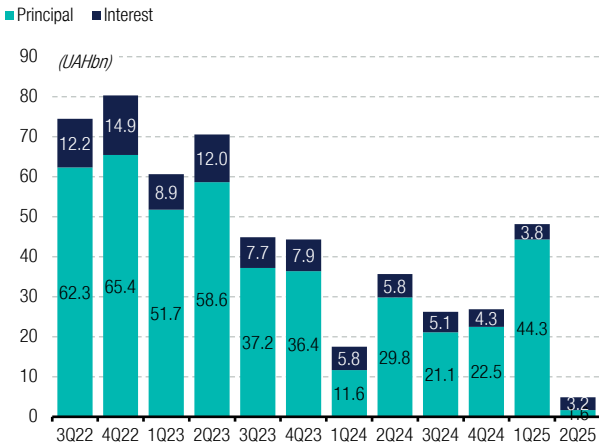
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

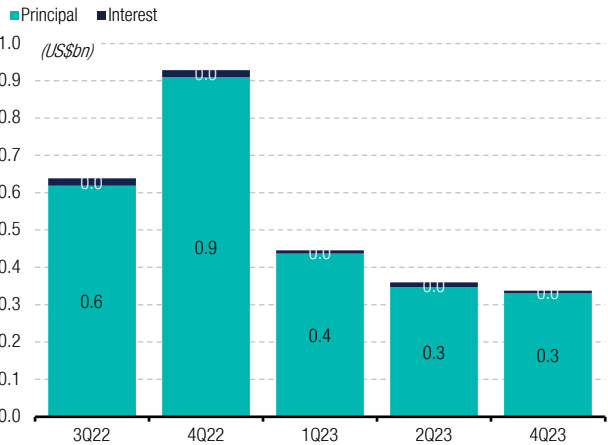
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

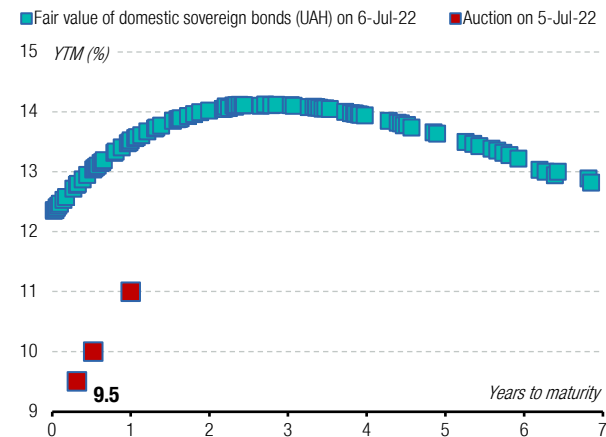
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

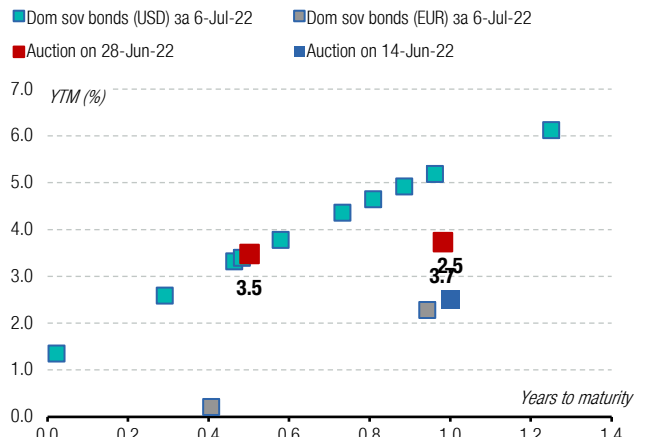
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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