

Bond Market Insight

Rates increased on selected securities

Comment on government bond placement

Yesterday, the Ministry of Finance raised the interest rate on 12-month bills, which allowed them to increase borrowing in local currency to UAH1.9bn (US\$65m). In addition, almost UAH1bn or US\$32mn was raised through FX-denominated bills.

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

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000225981	0.00	@Mty	7-Sep-22	16,024	987.41	15.82	16.02	9.50	1,715.29
UA4000226187	0.00	@Mty	28-Oct-22	118,460	974.63	115.45	118.46	9.50	234.17
UA4000225940	0.00	@Mty	11-Jan-23	18,781	954.25	17.92	18.78	10.00	2,726.33
UA4000226195	0.00	@Mty	5-Jul-23	2,018,785	881.67	1,779.91	2,018.79	14.00	2,163.03
Total UAH				2,172,050		1,929.11	2,172.05		6,838.82
UA4000226138	0.00	@Mty	29-Dec-22	15,604	982.66	450.84	458.80	3.98	10,364.88
UA4000226120	3.70	SA	22-Jun-23	16,880	995.66	494.16	496.31	4.55	4,620.96
Total USD				32,484		945.00	955.11		14,985.84

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

The offer of two-month paper in line with three-month and six-month securities was not enough incentive for investors to invest at 9.5–10%. Part of the demand was at higher rates than before and was rejected. Therefore, only UAH149m (US\$5m) was raised from these three instruments together, mainly through non-competitive bids.

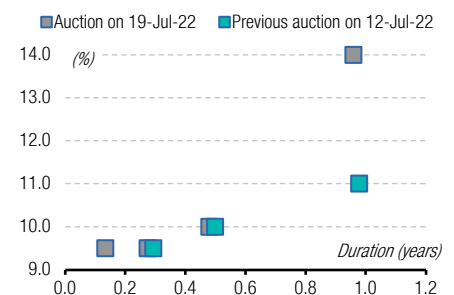
For the 12-month paper, the Ministry of Finance likely indicated a possible increase in interest rates, so it received UAH5.5bn (US\$187m) in demand. Such demand for this paper made it possible to receive almost UAH5.8bn (US\$196m) of bids for local-currency bills at the auction. It was the largest volume of demand for UAH bills in the last two months.

Rates were in the range from 11% to 18% for 12-month paper, so the Ministry decided to increase the cut-off and the weighted average rates by 300bp up to 14% for both. At the same time, almost 2/3 of the demand was rejected and only UAH2bn (US\$68m) of bills were sold for UAH1.8bn (US\$60m) of budget proceeds.

The demand for FX-denominated bills fell tenfold, to US\$32m from US\$335m last week, while interest rates remained unchanged at 4% and 4.5% for five and 11 month maturities.

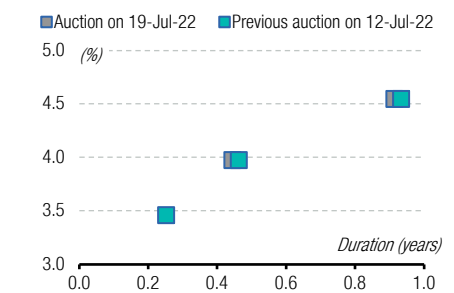
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



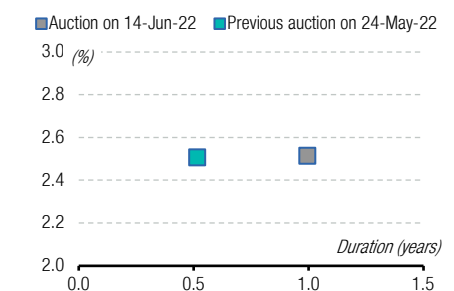
Source: Ministry of Finance of Ukraine, ICU.

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



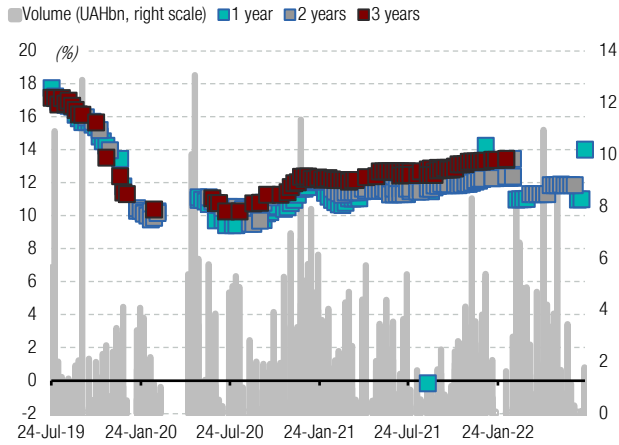
Source: Ministry of Finance of Ukraine, ICU.

The MoF's selectivity in raising rates only for annual borrowings can be explained by the large volume of demand compared with other instruments. But this does not explain why the decision was to stop at 14%. The state budget could attract much more funds if the cut-off rate increased more than by 300bp, but the weighted average cost of the borrowings would increase much less. Therefore, the next auction in a week will allow us to assess the perspective and expediency of such a decision and a possible change in rates for other instruments.

Appendix: Yields-to-maturity, repayments

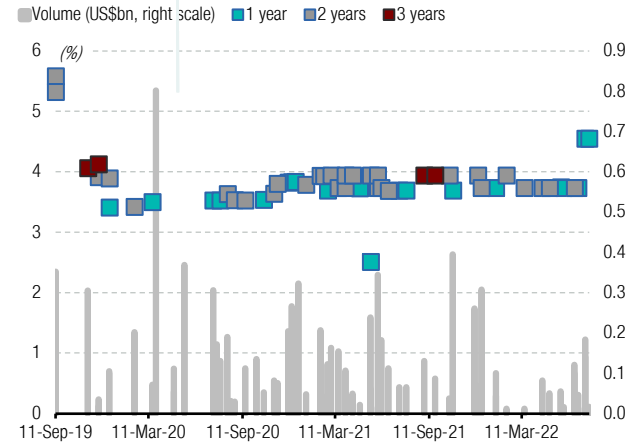
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

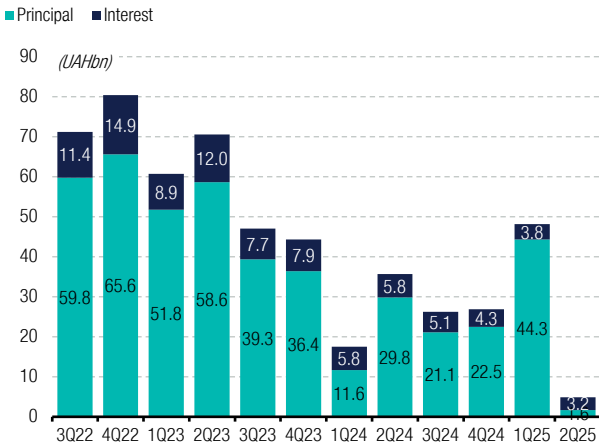
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

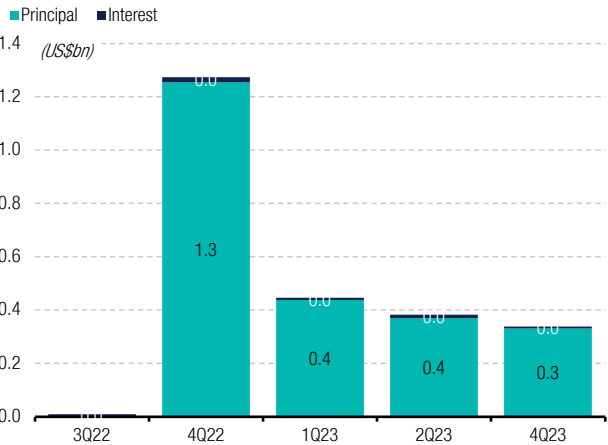
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

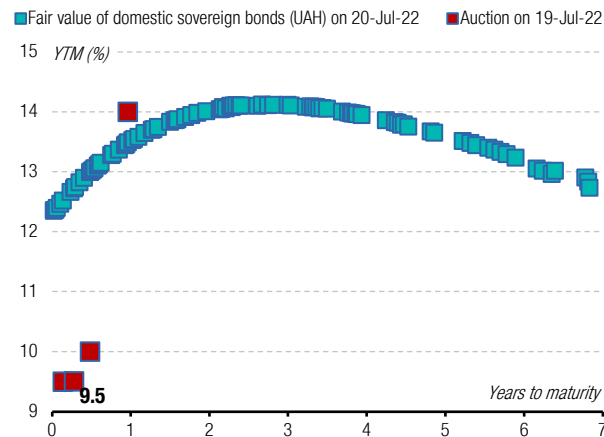
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

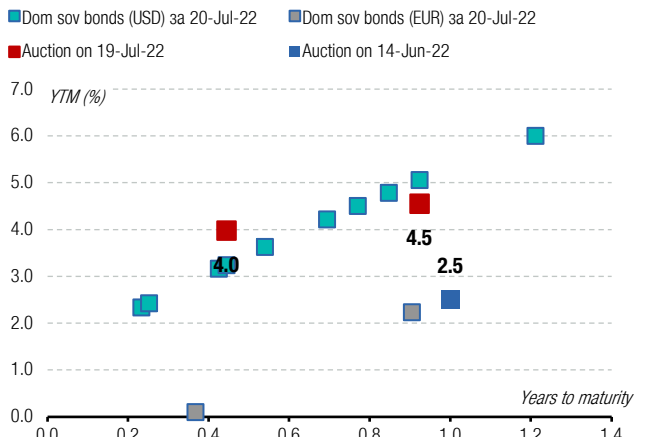
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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