

Bond Market Insight

Changes in rates increase borrowings

Comment on government bond placement

WEDNESDAY, 10 AUGUST 2022

Yesterday, only UAH3.5bn (US\$94m) was borrowed for the state budget. But almost all of this amount was attracted thanks to the increase in interest rates.

In general, demand was small, only UAH4.8bn (US\$131m), which was only UAH0.7bn (US\$19m) more than last week. While last Tuesday, demand was concentrated on 11- and 14-month bills on which interest rates were up at the end of June, yesterday's demand for 14-month paper was much smaller and moved to five-month T-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
UA4000225940	0.00	@Mty	11-Jan-23	3,530,028	951.86	3,360.08	3,530.03	11.99	6,309.97
UA4000226195	0.00	@Mty	5-Jul-23	10,312	887.95	9.16	10.31	14.00	2,249.22
UA4000226260	16.00	SA	27-Sep-23	48,490	1,057.85	51.30	48.49	16.69	6,458.27
Total UAH				3,588,830		3,420.53	3,588.83		15,017.46
UA4000226039	2.50	SA	15-Jun-23	853	1,003.83	32.12	32.00	2.51	2,079.53
Total EUR				853		32.12	32.00		2,079.53

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 36.92/USD, 37.51/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

In total, demand for five-month securities was in 17 bids, and almost all of them were with rates of 12%. So here, the Ministry had to choose whether to make a small step toward the market or to limit the amount of funds it could raise. As a result, UAH3.4bn (US\$92m) was raised with a cut-off rate of 12%. But the weighted average rate turned out to be lower at 11.99%, so demand for lower rates did not go unnoticed, although was small.

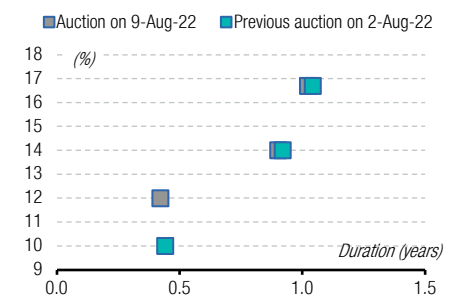
But a compromise could not be found on the 11-month bills. Here, most bids were with a rate of 14%. One participant wanted a higher rate of 18%, and although this bid could have provided the budget with more than UAH1bn (US\$27m), it was rejected. The rate for this issue was kept at 14%.

At the same time, interest in 14-month paper with a rate of 16% seems to have run out, because demand was less than UAH50m (US\$1.3m).

Investors were also not interested in EUR-denominated securities, the sale of which raised only EUR0.8m or UAH32m.

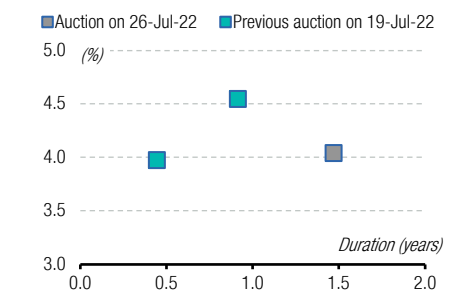
So, over several recent weeks, rates on UAH bills have gradually changed, allowing

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



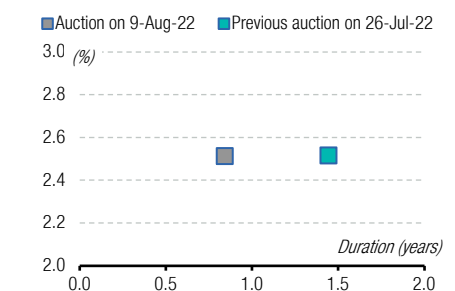
Source: Ministry of Finance of Ukraine, ICU.

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



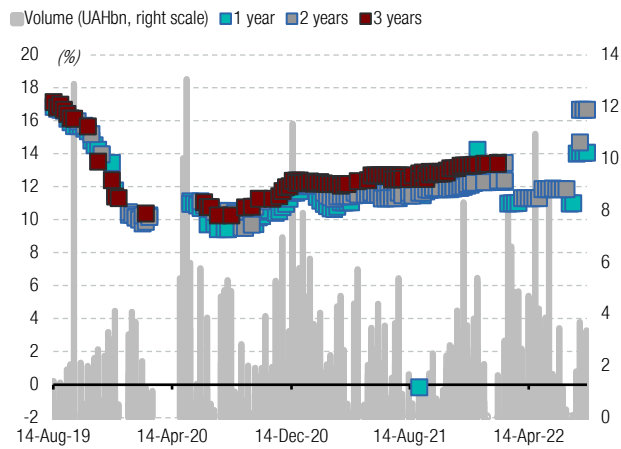
Source: Ministry of Finance of Ukraine, ICU.

the Ministry of Finance to attract small amounts every week. But after the NSSMC removed most of the restrictions on the bond market, the potential to purchase bonds on better terms than in the primary market increased. So, we expect a similar demand migration to higher rates for some time until the conditions in the primary and secondary markets meet and create a new yield curve.

Appendix: Yields-to-maturity, repayments

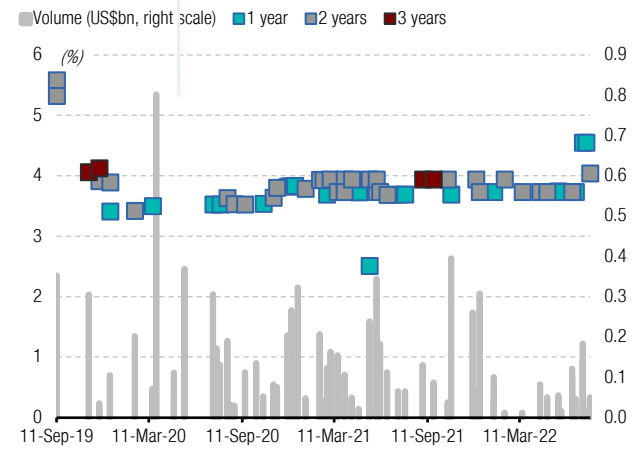
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

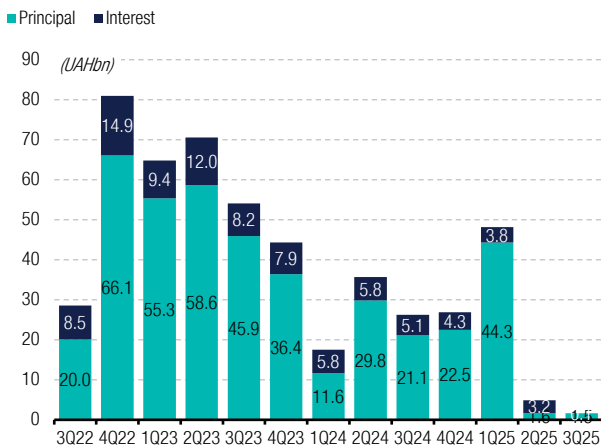
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

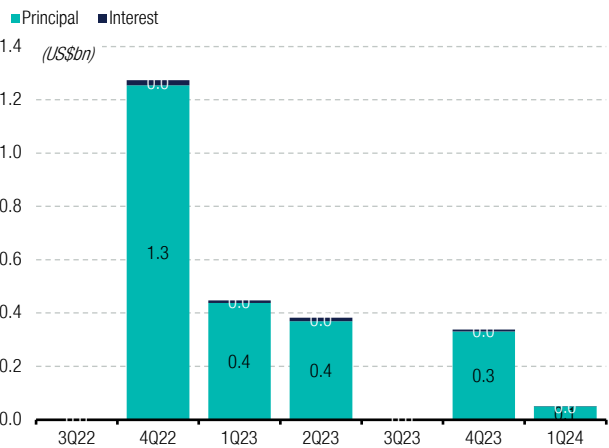
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

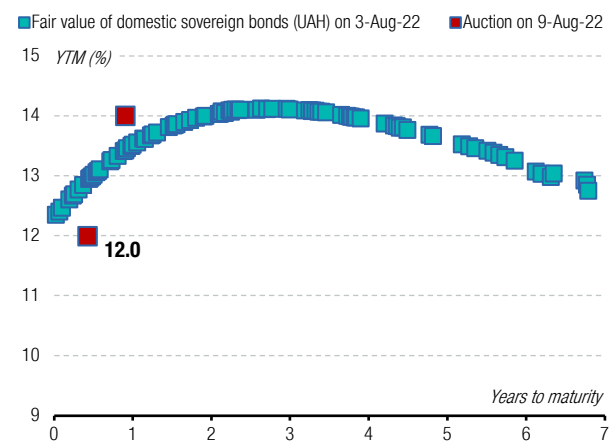
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

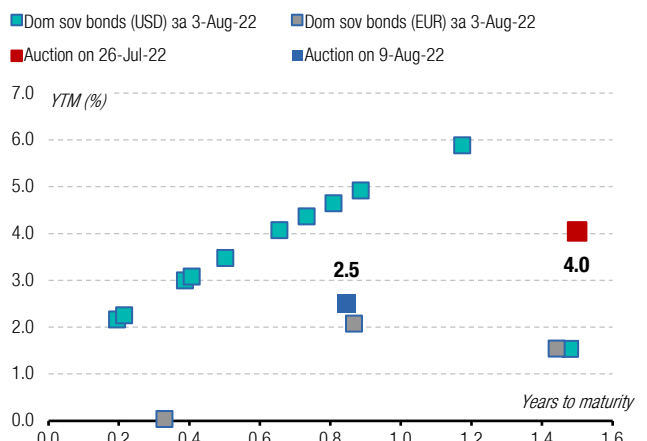
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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