

Bond Market Insight

MoF raises interest rates again

Comment on government bond placement

WEDNESDAY, 30 NOVEMBER 2022

Yesterday's auction brought more than UAH21bn (US\$573m) to the state budget. Although the majority of funds was raised in euros for short tenors, it was important that the Ministry of Finance resumed raising rates for military government bonds.

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 |
|------------------|-----------------|--------------------------------|-----------|-------------------|------------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000226427 | 0.00 | @Mty | 5-Apr-23 | 3,405,415 | 953.90 | 3,248.43 | 3,405.42 | 14.00 | 17,969.08 |
| UA4000226260 | 16.00 | SA | 27-Sep-23 | 247,916 | 1,027.06 | 254.62 | 247.92 | 16.68 | 7,357.62 |
| UA4000224380 | 12.94 | SA | 14-Feb-24 | 5,147 | 978.64 | 5.04 | 5.15 | 19.41 | 4,155.61 |
| UA4000226450 | 16.00 | SA | 13-Mar-24 | 307,004 | 1,000.04 | 307.02 | 307.00 | 19.96 | 1,815.20 |
| UA4000222152 | 12.70 | SA | 30-Oct-24 | 21,176 | 908.09 | 19.23 | 21.18 | 20.24 | 6,304.24 |
| Total UAH | | | | 3,986,658 | 3,834.33 | 3,986.66 | | | 37,601.76 |
| UA40002268S4 | 0.00 | @Mty | 11-May-23 | 386,992 | 986.94 | 14,571.97 | 14,764.76 | 2.98 | 14,764.76 |
| UA4000226294 | 2.50 | SA | 11-Jan-24 | 71,533 | 1,009.60 | 2,755.37 | 2,729.17 | 2.52 | 9,597.25 |
| Total EUR | | | | 458,525 | 17,327.34 | 17,493.93 | | | 24,362.01 |

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 36.8/USD, 38.15/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Five-month military bills in Euros brought the largest volume of funds to the budget. The MoF raised the interest rate for this paper by 50bp to 3% compared with the previous similar placement. The Ministry accepted all 12 bids and received almost EUR382m. Another issue offered in euros with maturity in January 2024 with the put-option was less attractive to investors and brought the budget EUR72m at the unchanged rate of 2.5%.

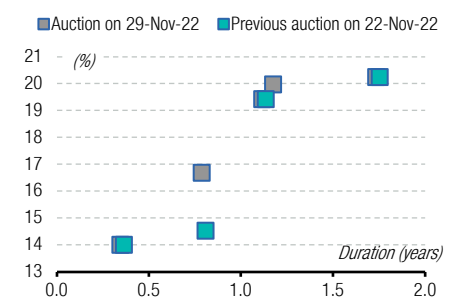
The MoF raised UAH3.8bn (US\$105m) in local currency, which was three times more than last Tuesday, despite there was less aggressive demand.

For four-month military bills, the Ministry of Finance rejected only one bid for UAH100m (US\$2.7m) with a rate of 24.5% and attracted UAH3.2bn. The interest rate for this paper remained unchanged at 14%.

Demand for the 10-month securities was significantly lower than last week, but compared with the shorter paper, they saw two aggressive bids at rates of up to 25%. The rest of the demand had rates between 14% and 16%. So, the Ministry set a new compromise rate level, increased the cut-off rate sharply by 200bp up to 16% (the coupon rate for this paper), and the weighted average rate by 199bp up to 15.99%. UAH255m (US\$7m) was raised with this instrument.

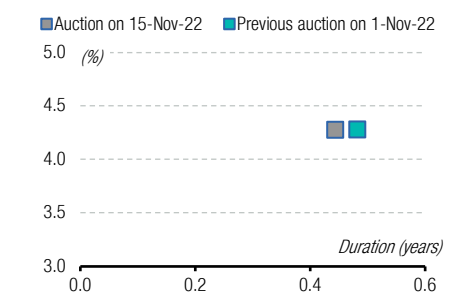
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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



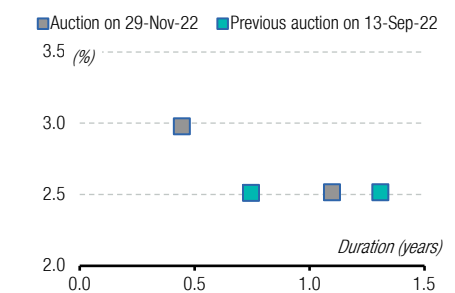
Source: Ministry of Finance of Ukraine, ICU.

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 agreed to raise rates on 15-month military government bonds by 50bp up to 19%, which made it possible to attract another UAH307m (US\$8.4m).

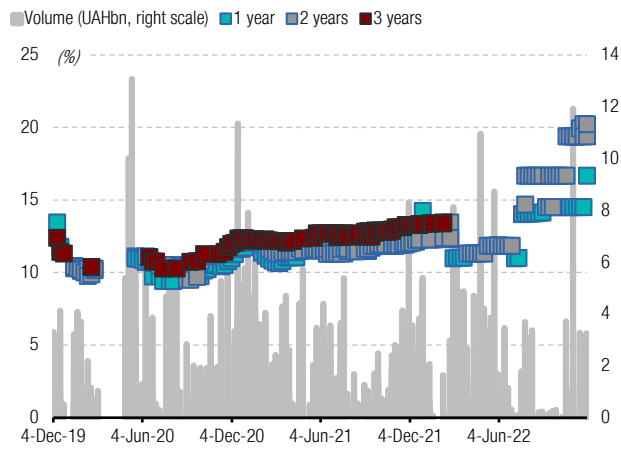
Rates for ordinary (non-military) bonds with maturities of 14 months and almost two years did not change, but demand for them was also insignificant. Together, they brought only UAH24m (US\$0.7m) to the budget.

Therefore, the Ministry of Finance continued to shift the yield curve for military government bonds, although the rates of primary placements still remain significantly below the NBU key policy rate. Under such conditions and refusal to satisfy aggressive demand, investors direct free funds partly to the secondary market, as evidenced by active bond trading last Friday. Under such conditions, investors will continue submitting more attractive bids. Still, the Ministry will again try to raise rates sparingly and attract more funds at a lower price using, in particular, FX-denominated bonds.

Appendix: Yields-to-maturity, repayments

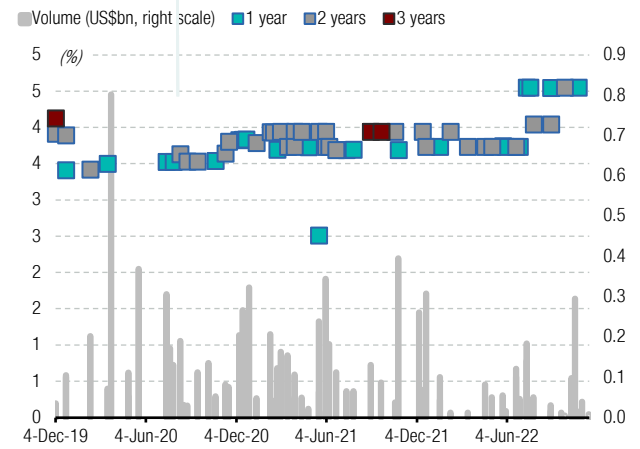
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

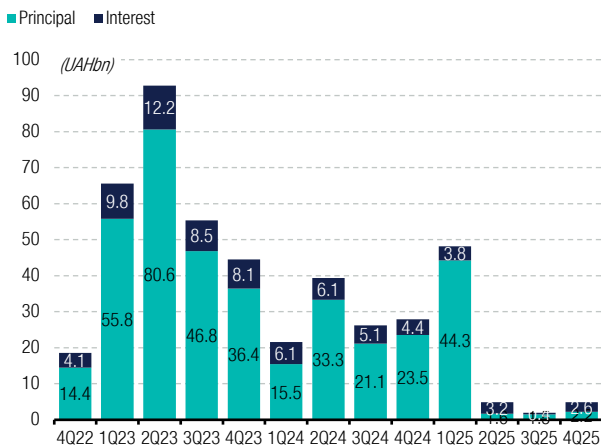
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

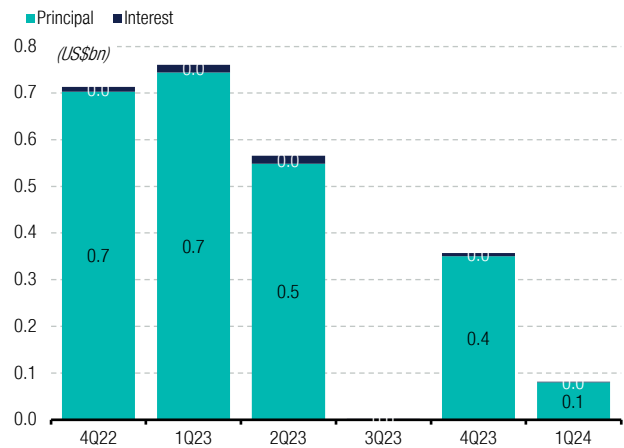
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

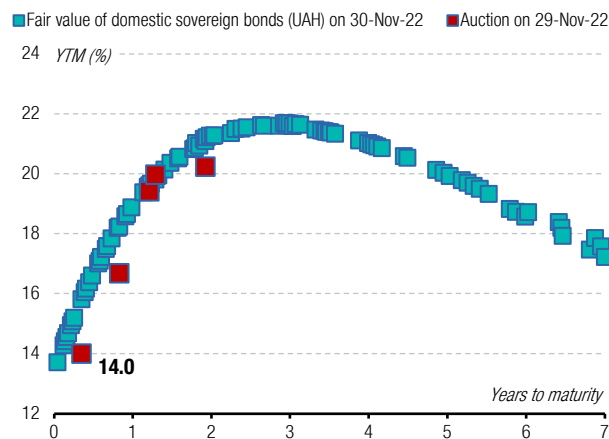
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

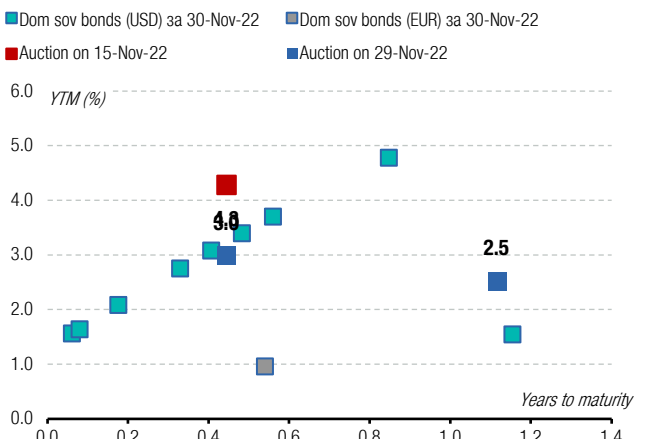
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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