

Bond Market Insight

Step toward meeting market sentiment

Comment on government bond placement

Yesterday, the MoF took an important step toward meeting prevailing market sentiment and accepted an increase in interest rates.

The Ministry increased rates for the 2.5-year bills, where demand was seen in the range of 10.25–10.5%. The Ministry either had to increase rates or cancel the auction. The second part of this decision was how to increase the rates so that it was rational. Taking into account the weighted-average rate and low amount of non-competitive demand, demand was concentrated mostly at 10.5%.

Therefore, the Ministry took a step towards the market, and accepted an increase in rates for this issue. The cut-off rate was increased by 50bp to 10.50%, and weighted-average rate was up 46bp to 10.46%. It was unexpected, but this move brought rates a bit closer to the secondary market. Distributed between all bidders, the budget received UAH657m of proceeds (US\$24m).

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
UA4000204986	15.36	SA	29-Sep-21	291,743	1,127.70	329.00	291.74	9.52	4,955.82
UA4000207682	9.84	SA	15-Feb-23	662,473	992.54	657.53	662.47	10.76	1,946.63
Total UAH				954,216		986.53	954.22		6,902.45

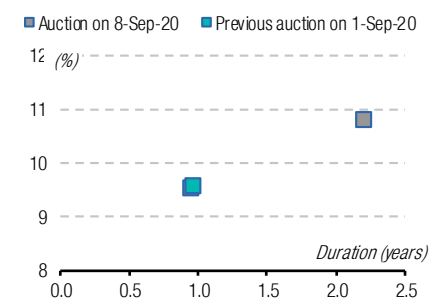
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.5USD, 30.23EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

However, for 13-month bills the Ministry decided not to change rates and keep them at the same level as a week before. Last week, the Ministry increased rates for this issue by 9bp to 9.29%, and despite the huge demand received yesterday, they did not increase rates. Total demand for this maturity was almost UAH800m (US\$29m), where just one bid had a rate above last week's cut-off level. That bid amounted to UAH500m (US\$18m) with 12.5% rate.

As a result, all the instruments sold after the lockdown started now are on a normally shaped yield curve in the primary market. The 2.5-year rate is now above rate for 1.5-year, which was sold a month ago at 10.25%. The shape of the yield curve now ranges from 7% for three-month bills up to 10.50% for 2.5-year instruments. Therefore, we do not expect a further increase in rates any time soon.

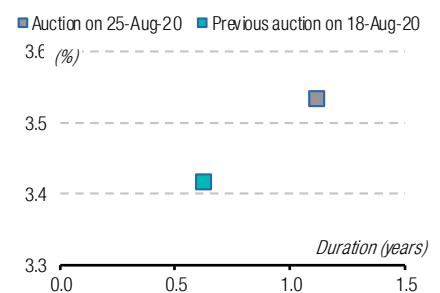
WEDNESDAY, 9 SEPTEMBER 2020

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



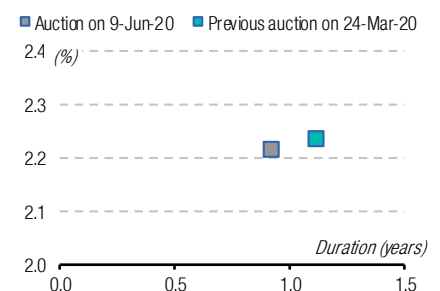
Source: Ministry of Finance of Ukraine, ICU.

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

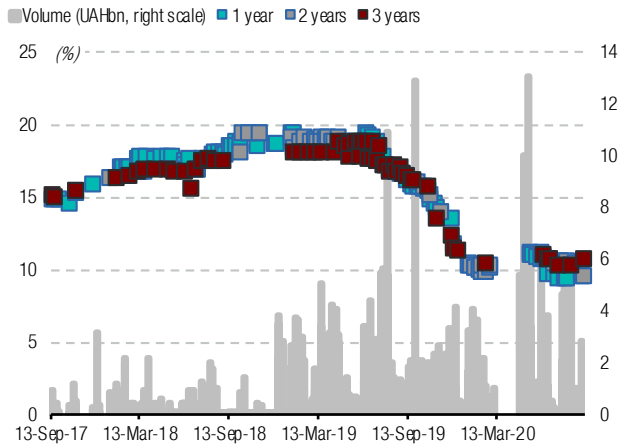


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

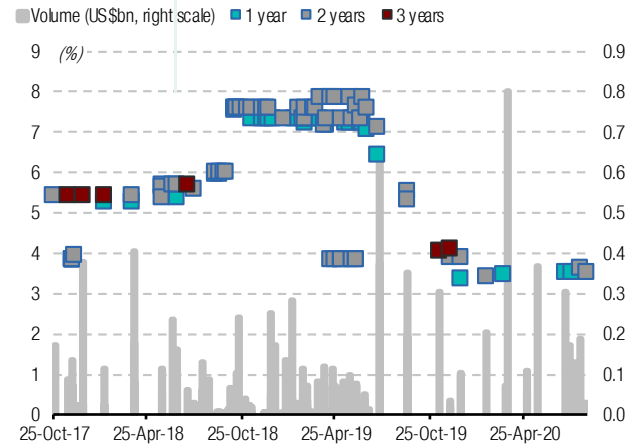
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

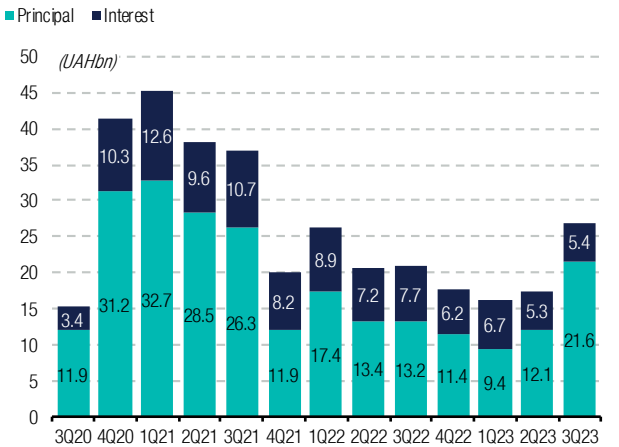
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

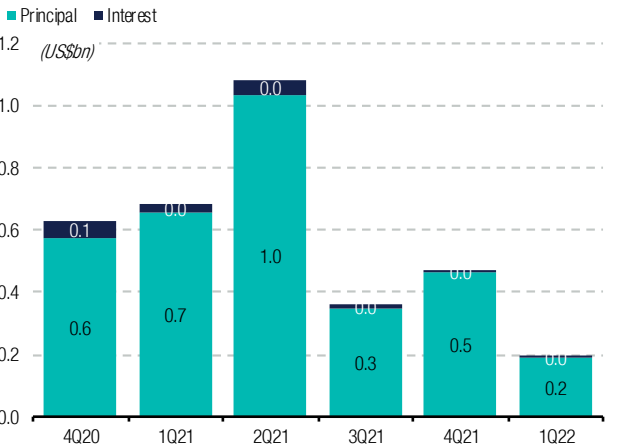
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

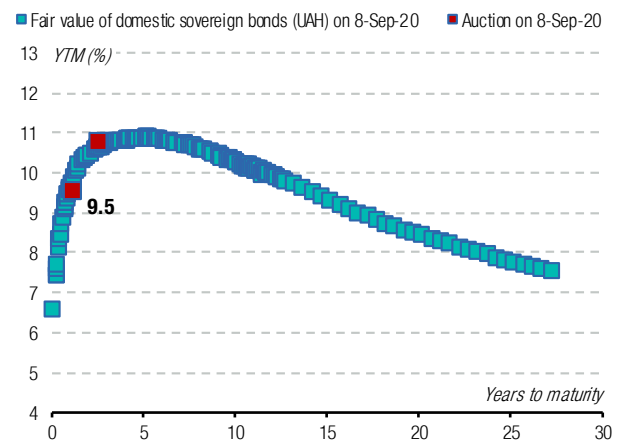
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

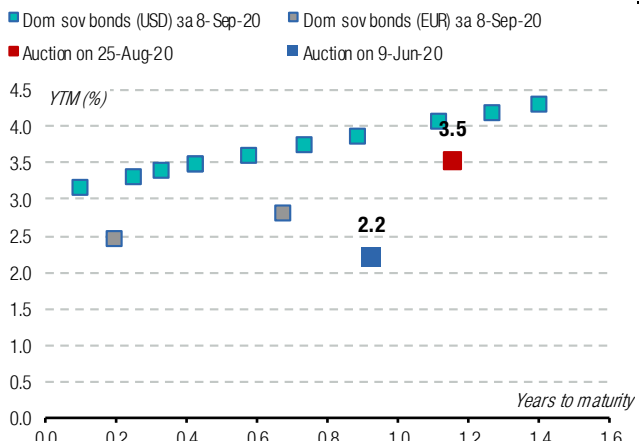
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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