

Bond Market Insight

Increased demand for local-currency bonds

Comment on government bond placement

Total demand for domestic bonds rose by a third, although not due to offering FX-denominated bills. Demand rose sizably for UAH-denominated bonds. Out of UAH19bn (US\$704m) of yesterday's total proceeds, UAH14bn (US\$522m) was from UAH-denominated instruments.

The most interesting offering was the new five-year paper. It is likely a replacement for notes due 2025, which are in the watch list for the JPMorgan GBI-EM index. This paper received more than UAH4bn (US\$150m) of demand, while MoF set the cap at UAH2bn (US\$74m). Thanks to oversubscription, the MoF set a coupon rate at 12.52% and was able to sell the entire offered amount. Demand for this paper came in with rates ranging between 12.47% and 12.69%, but the cut-off rate was set at 12.59% where the offered amount was filled.

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

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000214498	0.00	@Mty	1-Dec-21	110,876	958.66	106.29	110.88	9.00	12,190.52
UA4000218325	11.20	SA	20-Jul-22	3,262,294	1,042.87	3,402.14	3,262.29	11.54	5,786.22
UA4000216774	11.10	SA	23-Nov-22	1,684,595	1,001.53	1,687.17	1,684.60	11.65	5,799.27
UA4000201255	16.00	SA	24-May-23	4,090,424	1,073.22	4,389.92	4,090.42	12.45	13,880.73
UA4000207880	9.99	SA	22-May-24	2,702,773	947.81	2,561.72	2,702.77	12.72	17,144.79
UA4000201853	12.52	SA	13-May-26	2,000,000	1,007.02	2,014.04	2,000.00	12.95	2,000.00
Total UAH				13,850,962		14,161.28	13,850.96		56,801.52
UA4000218333	3.70	SA	14-Jul-22	179,499	1,014.92	4,937.91	4,865.32	3.73	14,055.60
Total USD				179,499		4,937.91	4,865.32		14,055.60

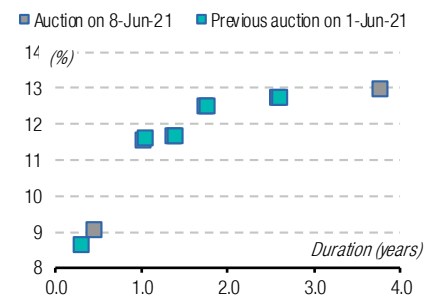
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.11/USD, 33.68/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The largest amount of proceeds was provided by the 14-month and two-year bills, UAH3.4bn (US\$125m) and UAH4.4bn (US\$162m), respectively. These bills and the half-year paper saw just a 1bp change in weighted-average rates with unchanged cut-off rates. However, unlike the longer bills, the half-year paper saw the lowest demand yesterday, just UAH111m (US\$4m) in six bids.

Demand for local-currency debt increased and with such activity, the MoF will be able to increase budget financing and improve covering the budget deficit with

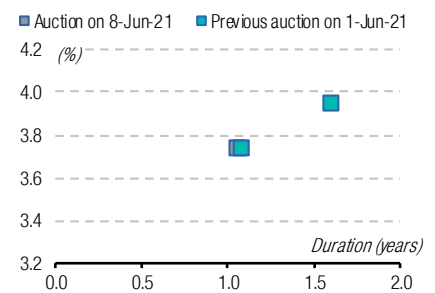
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



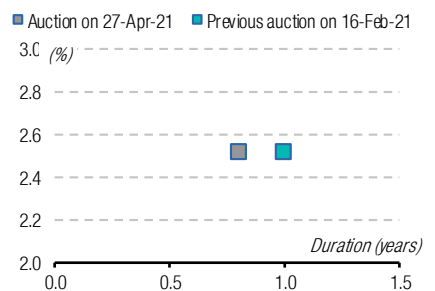
Source: Ministry of Finance of Ukraine, ICU.

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



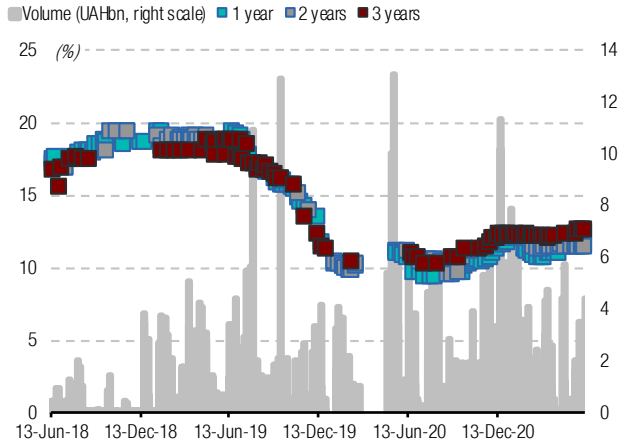
Source: Ministry of Finance of Ukraine, ICU.

UAH-denominated borrowings. Such large demand for the five-year note increased its chances to be included in the GBI-EM index, but the MoF will have to offer it more often without caps to sell the amount needed to meet the index requirements.

Appendix: Yields-to-maturity, repayments

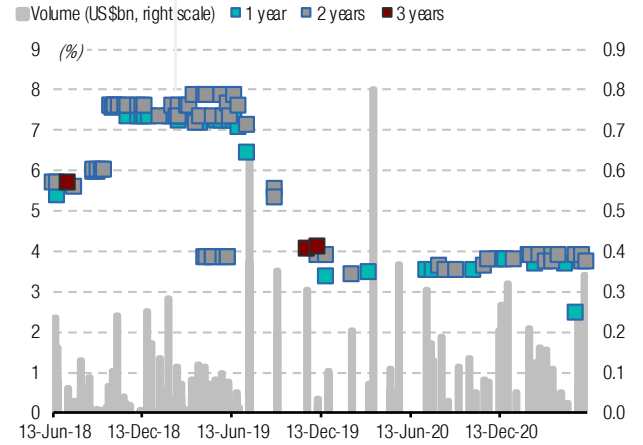
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

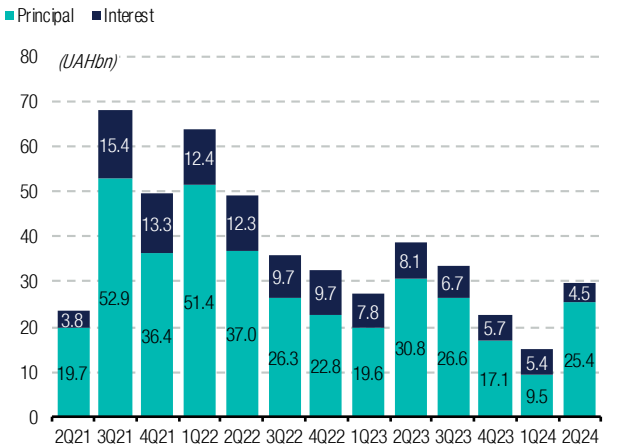
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

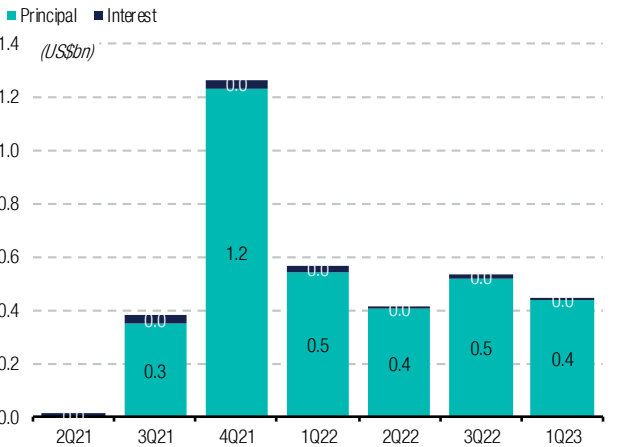
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

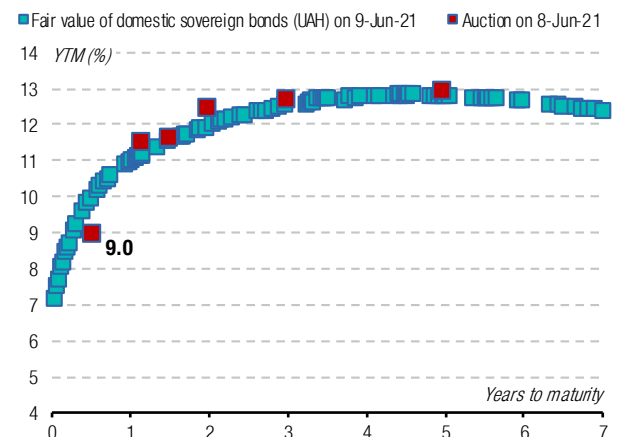
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

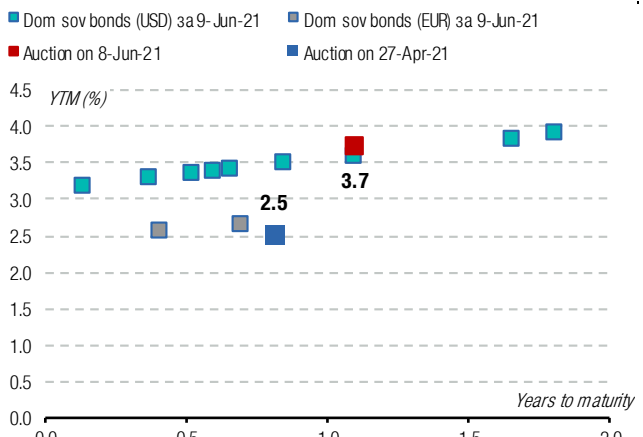
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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