

Bond Market Insight

Demand decreased somewhat

Comment on government bond placement

Yesterday, the MoF was able to raise only UAH2.5bn (US\$93mn), although they were able to sell all seven offered issues.

Most in demand were the 13-month bills and five-year notes. The MoF added the five-year notes to the auction after it announced the other six instruments. Likely, the primary dealers saw higher potential demand for this paper, and they were right. From the 13-month bills, the MoF received UAH744mn (US\$27.3mn), and from the five-year note, they received UAH554mn (US\$20.4mn).

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	111,340	1,054.62	117.42	111.34	8.71	11,848.35
UA4000218325	11.20	SA	20-Jul-22	707,140	1,051.43	743.51	707.14	11.32	10,465.41
UA4000216774	11.10	SA	23-Nov-22	201,600	1,007.91	203.19	201.60	11.65	7,518.15
UA4000201255	16.00	SA	24-May-23	472,123	1,081.35	510.53	472.12	12.40	19,046.29
UA4000207880	9.99	SA	22-May-24	80,018	954.36	76.37	80.02	12.72	18,104.79
UA4000218531	12.52	SA	13-May-26	548,050	1,011.61	554.41	548.05	13.02	4,789.24
UA4000207518	9.79	SA	26-May-27	368,491	887.47	327.02	368.49	13.18	7,018.48
Total UAH				2,488,762		2,532.46	2,488.76		78,790.69

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 27.38/USD, 32.51/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand was not strong for the three-month bills and three-year note. These maturities garnered the least amount of interest, and provided state budget with only UAH117mn (US\$4.3mn) and UAH76mn (US\$2.8mn), respectively.

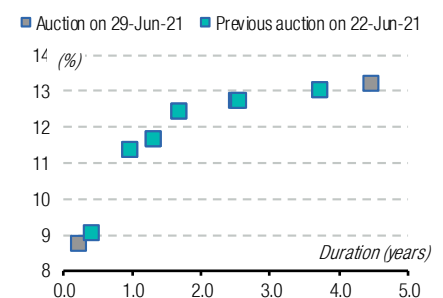
The rest of the instruments offered saw small, but active demand: the 1.5-year paper provided the budget with UAH203mn (US\$7.5mn) and the six-year note with UAH327mn (US\$12mn) of proceeds. The two-year paper brought in an amount close to the five-year paper of UAH510mn (US\$18.8mn).

The Ministry accepted all demand in full and without changes in cut-off rates as demand was mostly unanimous. However, minimum rates for some instruments were different, causing small changes in the weighted average rates by 2bp and 8bp. Therefore, we can consider that interest rates were mostly unchanged.

In the end, the auction proceeds allowed the MoF to refinance just part of today's debt

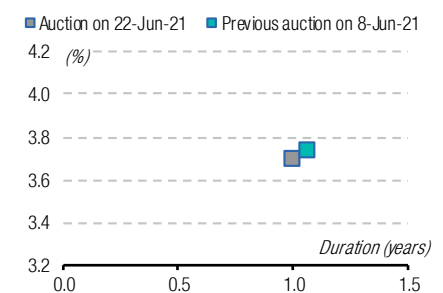
WEDNESDAY, 30 JUNE 2021

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



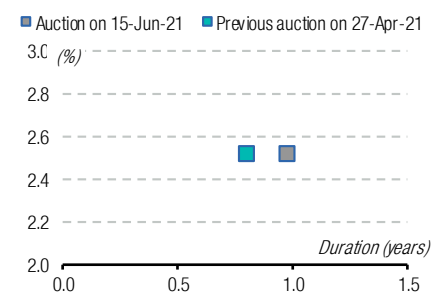
Source: Ministry of Finance of Ukraine, ICU.

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



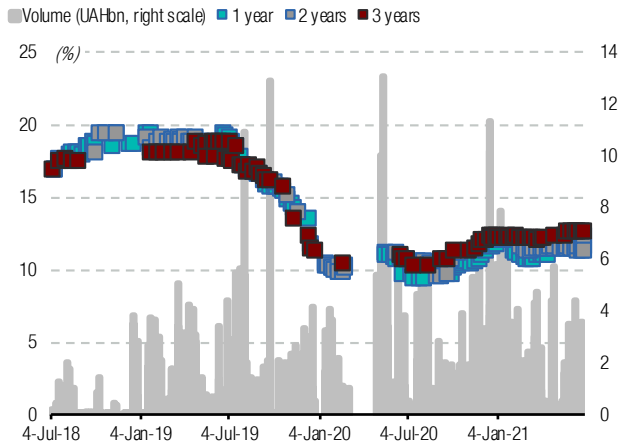
Source: Ministry of Finance of Ukraine, ICU.

redemption. But with the huge amount of budget revenues received last Friday, borrowing a larger amount of new funds was not necessary. We expect borrowings to increase after the hryvnia steadies and the risk of volatility diminishes.

Appendix: Yields-to-maturity, repayments

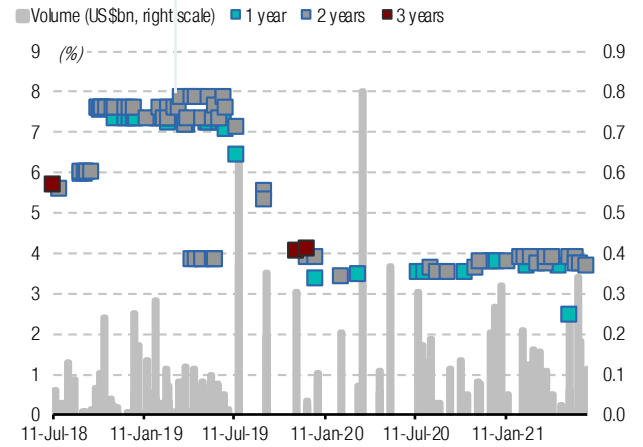
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

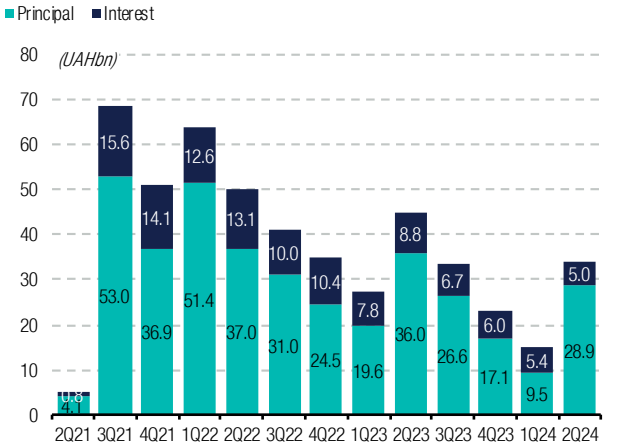
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

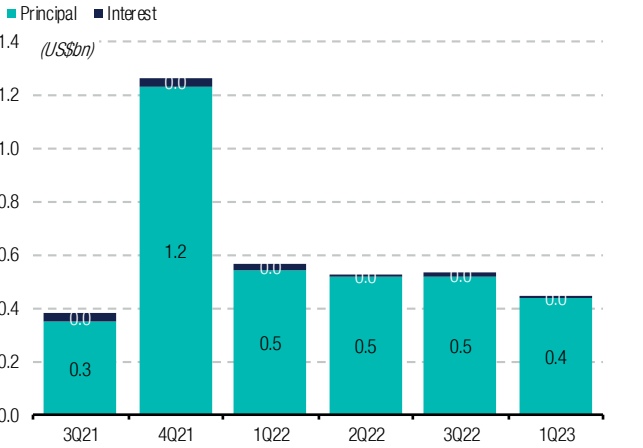
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

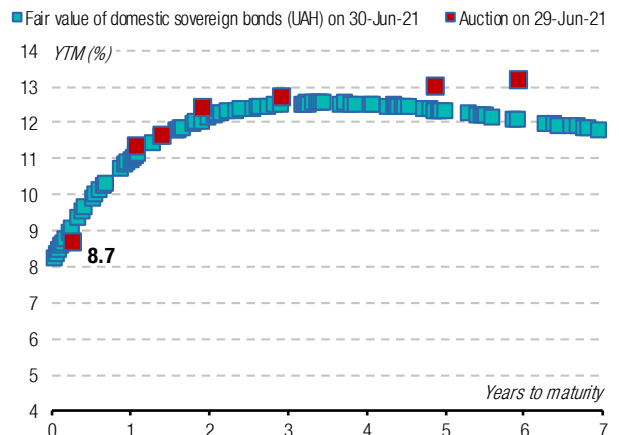
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

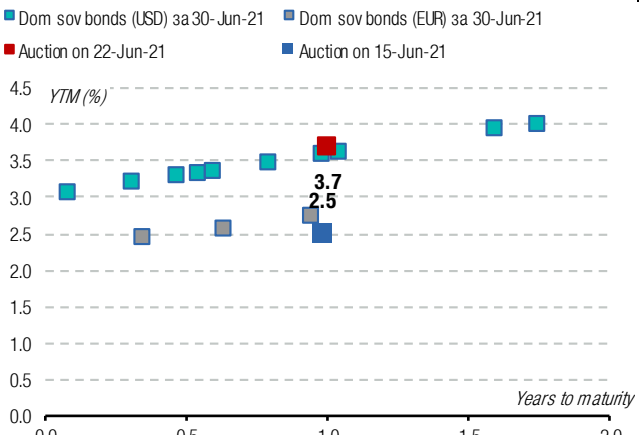
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Sergiy Nikolaychuk

Head of macro research
sergiy.nikolaychuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Junior financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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