

Bond Market Insight

Partial refinancing of redemptions

Comment on government bond placement

For the second time in a row, yesterday, the Ministry of Finance has borrowed less than it had to pay today. The pause in investor activity continues, although there are currently enough preconditions for this pause to end.

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

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000218325	11.20	SA	20-Jul-22	950,094	1,053.59	1,001.01	950.09	11.32	11,415.50
UA4000216774	11.10	SA	23-Nov-22	83,317	1,010.04	84.15	83.32	11.65	7,601.47
UA4000173371	10.00	SA	23-Aug-23	1,542,077	998.53	1,539.81	1,542.08	12.46	11,943.55
UA4000219208	12.30	SA	3-Jul-24	386,522	1,000.00	386.52	386.52	12.72	386.52
UA4000218531	12.52	SA	13-May-26	79,416	1,013.99	80.53	79.42	13.02	4,868.65
Total UAH				3,041,426		3,092.03	3,041.43		36,215.69

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.

Relatively high interest rates on UAH bonds both in nominal and real terms make these assets attractive to both non-residents and domestic investors. In addition, some adjustment of the exchange rate against the background of a steady current account surplus and favourable terms of trade improved conditions for non-residents.

However, currently, neither non-residents nor domestic investors are in a hurry to buy new local-currency debt. In some cases, they are looking for an even higher rate.

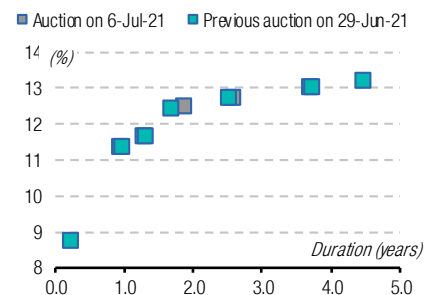
The greatest demand yesterday was for the two-year securities. It was for this issue that the Ministry of Finance even raised rates to meet all demand. On one hand, this indicates the desire of investors for higher yields, and on the other, the Ministry's need for funds is gradually increasing. During the second half of the year, debt redemptions in local currency will amount to almost UAH86bn (US\$3.1bn), and it is necessary to attract about UAH108bn (US\$3.9bn) more to meet budget requirements.

However, the rate increase was only for one issue, and it was insignificant, only 9bp to 12.09%. Earlier this year, similar securities were sold at a very close level, 12.05%. The rest of the instruments offered yesterday received bids at the level of the cut-off rate of the previous auction.

There was considerable demand for 12-month bills, but other instruments did not see as much demand. So, there is no particular excitement at the moment. However,

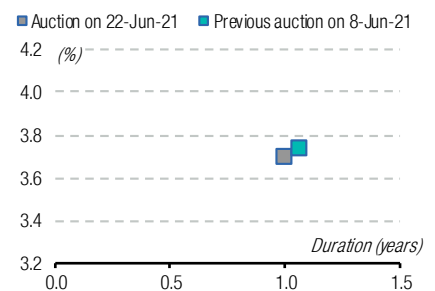
WEDNESDAY, 7 JULY 2021

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



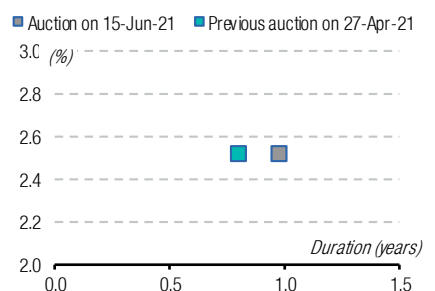
Source: Ministry of Finance of Ukraine, ICU.

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



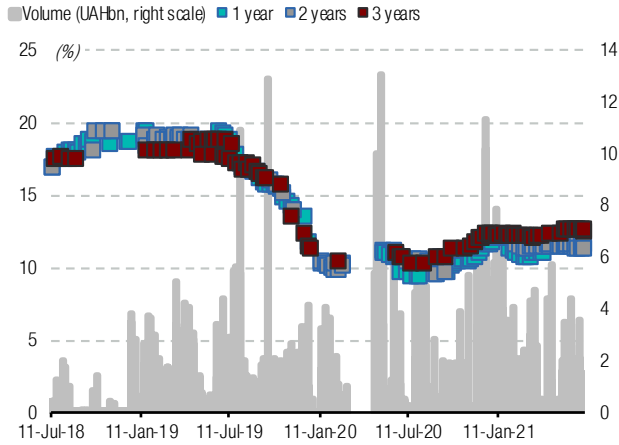
Source: Ministry of Finance of Ukraine, ICU.

taking into account the repayment schedule, the coming weeks are not problematic for the Ministry of Finance. The next redemption in the amount of UAH15.6bn (US\$0.6bn) in local currency is scheduled for 21 July, and there is enough time to accumulate the necessary resources in budget accounts for this redemption.

Appendix: Yields-to-maturity, repayments

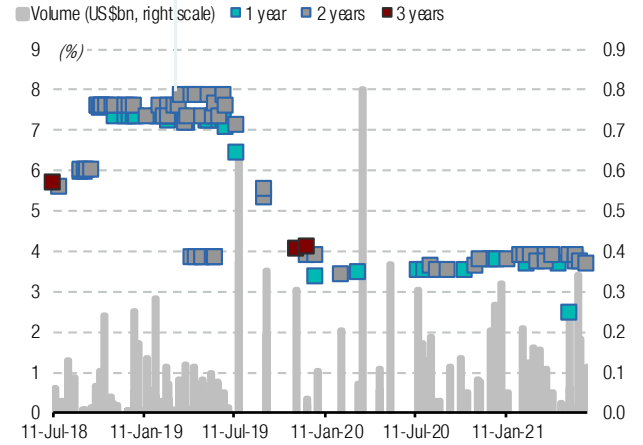
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

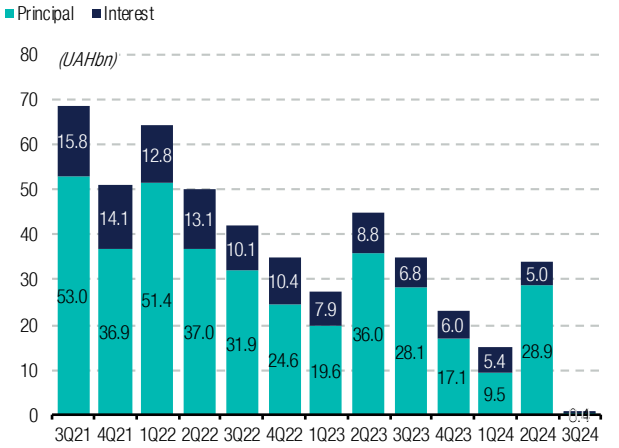
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

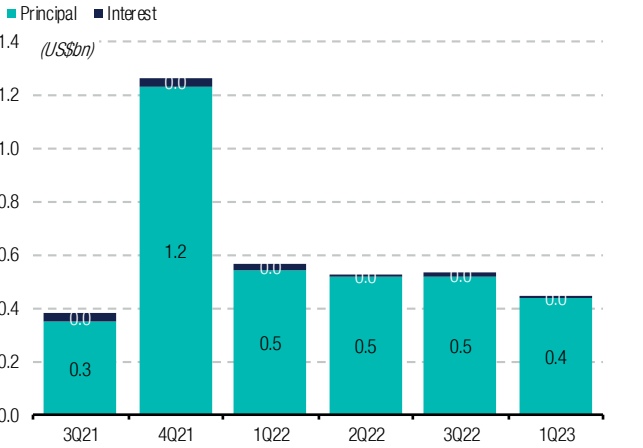
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

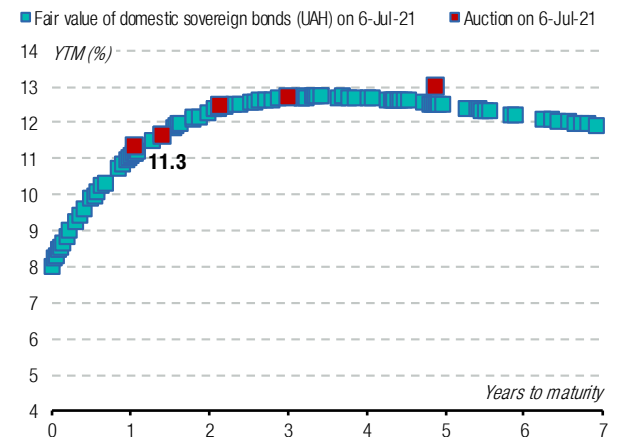
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

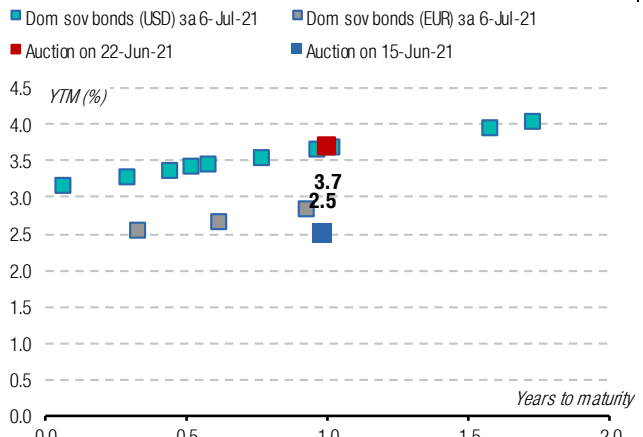
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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