

Bond Market Insight

Redemptions only partially refinanced

Comment on government bond placement

Pessimistic sentiment in global financial markets continues to affect domestic borrowing. Yesterday, the MoF was able to raise only UAH7.7bn (US\$285mn) at the primary auction, refinancing less than half of today's repayments by placing mostly hryvnia bonds.

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	1,926,736	1,001.94	1,930.48	1,926.74	11.32	15,342.24
UA4000216774	11.10	SA	23-Nov-22	142,409	1,014.32	144.45	142.41	11.65	9,400.58
UA4000173371	10.00	SA	23-Aug-23	5,369,848	1,002.45	5,383.00	5,369.85	12.49	20,963.01
UA4000219208	12.30	SA	3-Jul-24	18,025	1,004.60	18.11	18.03	12.72	854.70
UA4000218531	12.52	SA	13-May-26	16,379	1,018.76	16.69	16.38	13.02	4,921.86
Total UAH				7,473,397		7,492.73	7,473.40		51,482.39
UA4000218747	2.50	SA	9-Jun-22	8,140	1,002.87	261.78	261.03	2.51	2,208.56
Total EUR				8,140		261.78	261.03		2,208.56

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 27.29/USD, 32.07/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Again, the greatest demand was for the two-year securities. This time, these bills brought almost UAH5.4bn (US\$198m) to the budget at an unchanged interest rate of 12.09% or almost three-quarters of yesterday's UAH-denominated proceeds.

In general, yesterday, all bonds were placed at rates that have not changed for several weeks. Just the 12-month paper received a bid at a rate of 4bp below the cut-off level to buy needed amount in case demand was greater than supply. But it turned out demand was a little less than the cap, and it was completely satisfied at the rate of 10.99%, providing the budget with UAH1.9bn (US\$71m) in funds today.

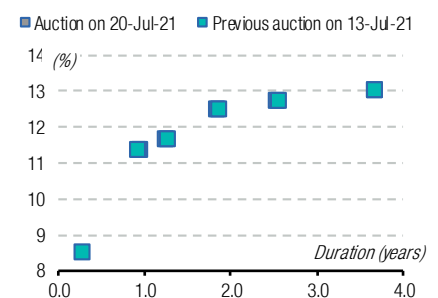
Demand and volumes of proceeds from other local-currency paper amounted to tens of millions of hryvnias, but also without changes in rates.

EUR-denominated bills saw a little demand, just over EUR8mn. One small bid out of 18 received was at higher rate than at the auction a month ago, so it was rejected.

In general, although the amount of borrowing was considerable, the auction was not successful. After all, today, the Ministry of Finance has to repay almost UAH16bn (about US\$0.6bn) of UAH-denominated debt, so it fell short of refinancing this

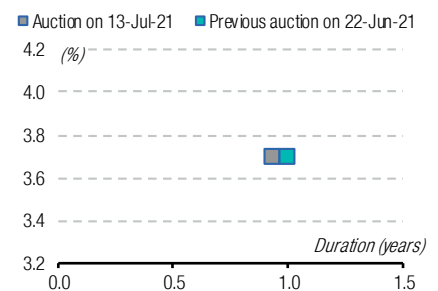
WEDNESDAY, 21 JULY 2021

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



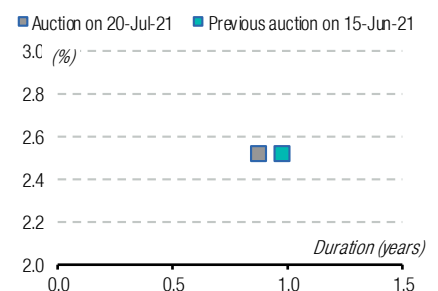
Source: Ministry of Finance of Ukraine, ICU.

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



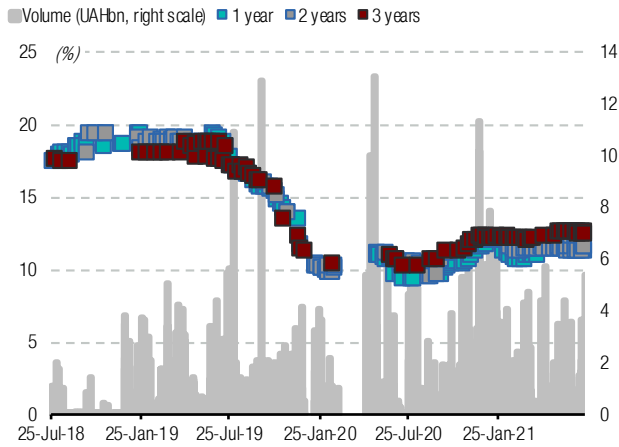
Source: Ministry of Finance of Ukraine, ICU.

payment by about half. The passivity of foreign investors due to high inflation expectations and the likely revision of the NBU discount rate this Thursday have prompted investors to be reluctant to respond to this auction. We expect domestic investors to become more active next week.

Appendix: Yields-to-maturity, repayments

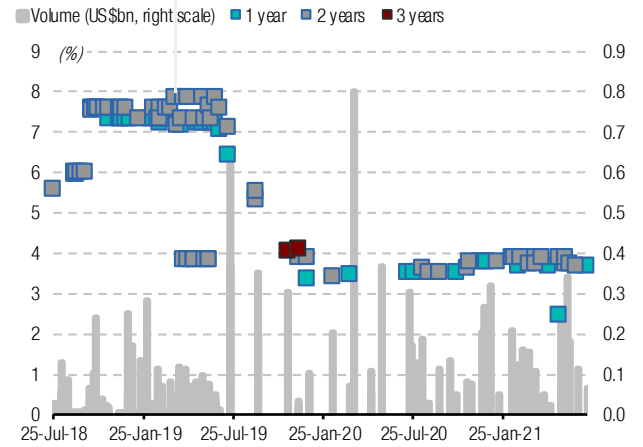
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

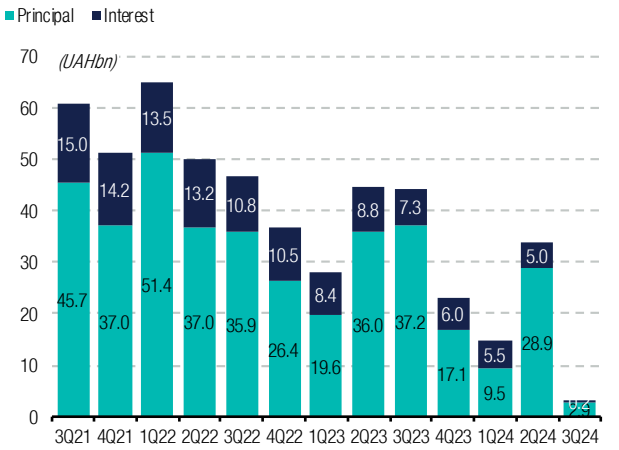
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

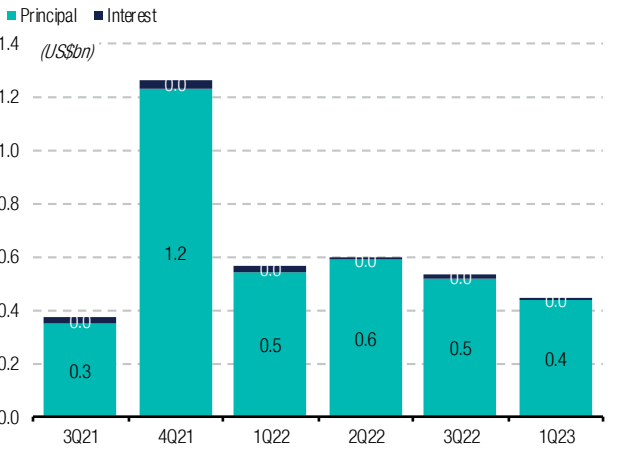
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

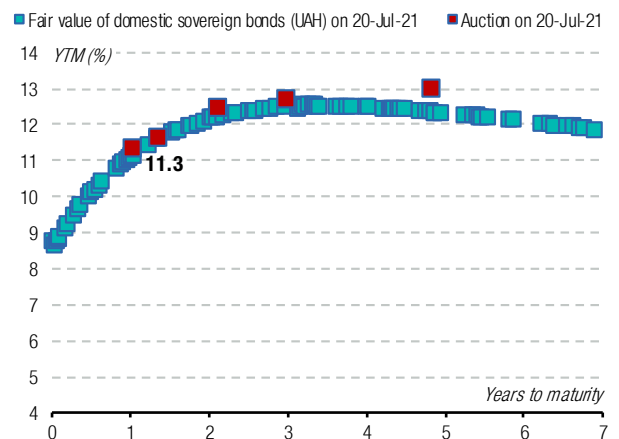
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

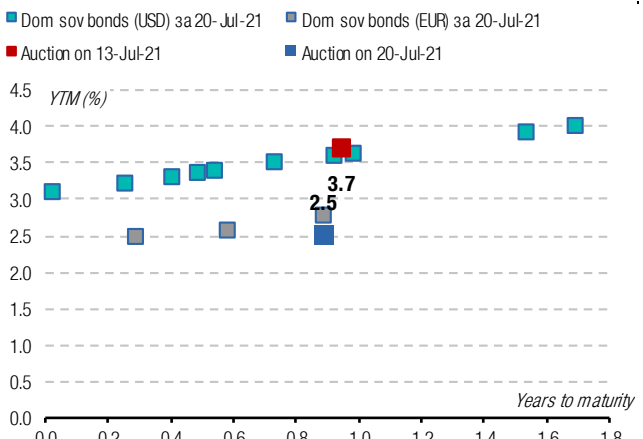
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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