

Bond Market Insight

Demand was restrained

Comment on government bond placement

The primary bond market is still inactive without much interest from foreigners and with restrained demand from domestic investors.

Although the volume of borrowings increased yesterday, it remains small and did not improve domestic budget financing.

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 (%)	Out-standing (m) ⁴
UA4000219778	11.15	SA	26-Aug-22	1,591,281	1,050.76	1,672.06	1,591.28	11.49	2,468.80
UA4000216774	11.10	SA	23-Nov-22	710,993	1,020.77	725.76	710.99	11.65	10,402.94
UA4000213227	10.95	SA	1-Nov-23	273,014	1,007.36	275.02	273.01	12.49	4,413.51
Total UAH				2,575,288		2,672.84	2,575.29		17,285.25

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 26.91/USD, 32.13/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

In general, demand amounted to UAH2.6bn at a mostly unanimous level of rates. Only for 13-month bills was the minimum rate lower than the vast majority of demand.

Therefore, the Ministry accepted all submitted bids. Caps for two instruments did not have any impact, as demand was lower.

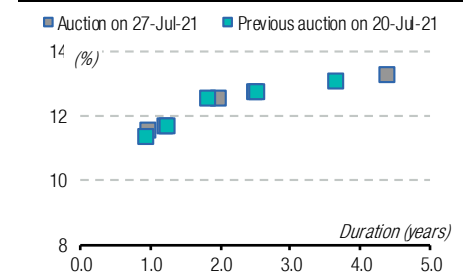
Thirteen-month bills were the most in demand, with 27 bids totalling UAH1.6bn at face value. Although the minimum rate was 11.09%, it did not affect the weighted average rate due to its small volume.

Demand for one-and-a-half-year and two-year bills was in 12 and 21 bids, respectively, while volume was higher for the shorter one, UAH0.7bn and UAH0.3bn, respectively.

In total, almost UAH2.7bn was raised for the budget, which was more than last week, but it is just almost one-quarter of today's redemptions. It looks like domestic investors are waiting for the Ministry of Finance to possibly review its interest rate policy and agree to a rate hike to increase borrowing amounts.

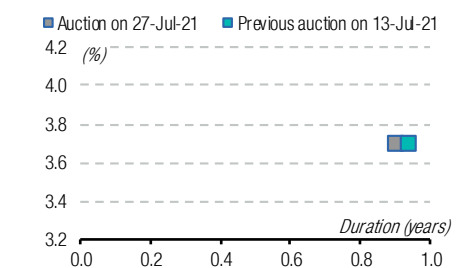
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



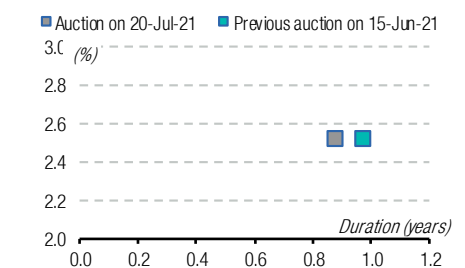
Source: Ministry of Finance of Ukraine, ICU.

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

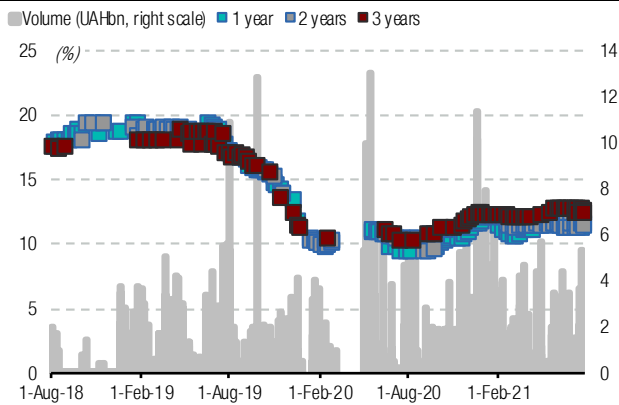


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

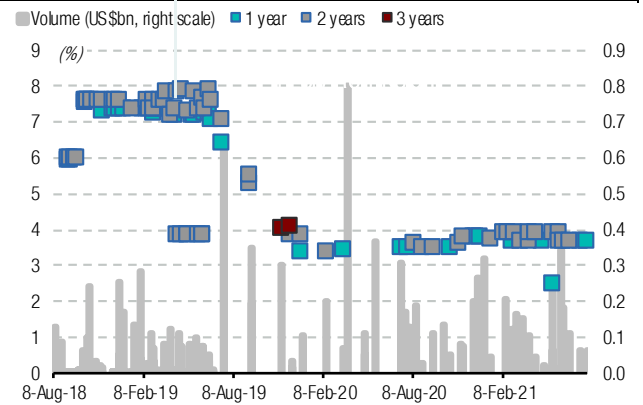
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

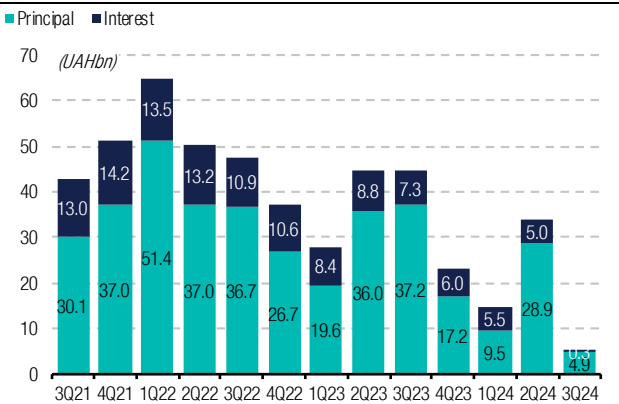
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

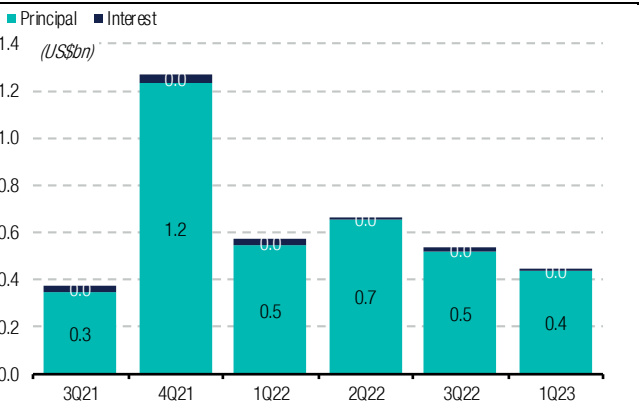
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

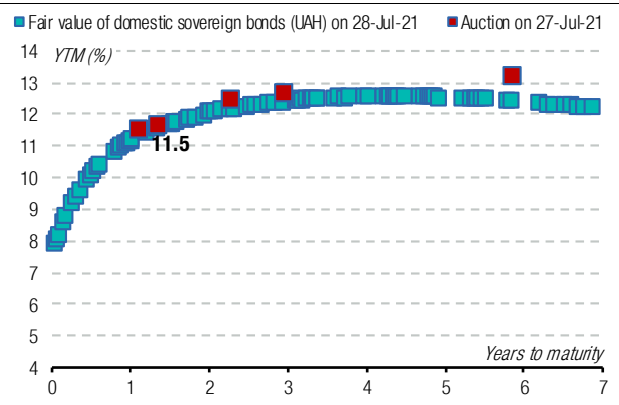
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

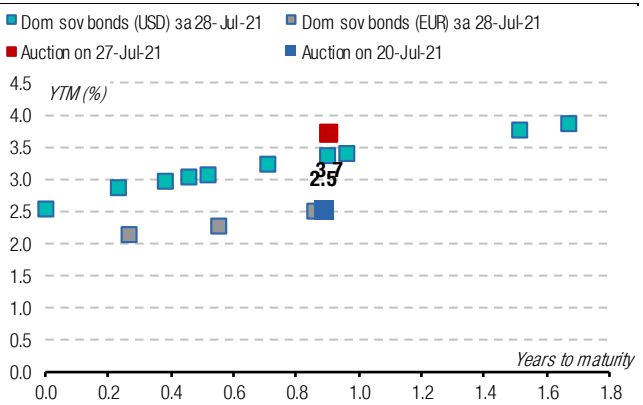
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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