

# Bond Market Insight

## Expansion of bond offerings did not increase borrowing

### Comment on government bond placement

WEDNESDAY, 8 SEPTEMBER 2021

Yesterday, the Ministry of Finance returned half-year bills to its offerings, but this did not result in increased borrowing. On the contrary, demand fell by almost half and become more expensive.

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

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Out-standing (m) <sup>4</sup>
UA4000209886	10.57	SA	23-Feb-22	34,106	1,007.69	34.37	34.11	9.99	9,111.63
UA4000219778	11.15	SA	26-Aug-22	54,284	1,003.58	54.48	54.28	11.49	3,142.42
UA4000216774	11.10	SA	23-Nov-22	1,003,620	1,029.44	1,033.17	1,003.62	11.65	12,682.59
UA4000213227	10.95	SA	1-Nov-23	153,204	1,016.50	155.73	153.20	12.49	4,830.72
UA4000219208	12.30	SA	3-Jul-24	25,488	1,017.38	25.93	25.49	12.88	2,161.06
UA4000218531	12.52	SA	13-May-26	62,575	1,035.64	64.81	62.58	13.02	4,984.44
<b>Total UAH</b>				<b>1,333,277</b>	<b>1,368.48</b>	<b>1,333.28</b>			<b>36,912.85</b>

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

After a break of almost three months, the Ministry again offered half-year bills, this time with redemption next year, so as to not increase this year's need for refinancing. Nevertheless, demand for them was very restrained, with only UAH136m in eight bids with rates ranging from 9.5% to 11.15%. Under the circumstances, the issuer decided to satisfy only five bids with rates ranging from 9.5% to 9.8% for the amount of only UAH34m.

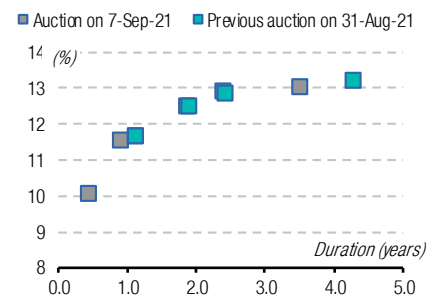
The placement of one-year, two-year, and five-year bonds was similar. Most of demand was rejected due to high bid rates.

Only the one-and-a-half-year securities received decent demand, which was over a billion hryvnias in four bids. All were at the rate of 11.3%, so they were satisfied in full. Demand for three-year paper was also fully accepted.

It was these bonds that brought the vast majority of proceeds out of the UAH1.4bn borrowed yesterday.

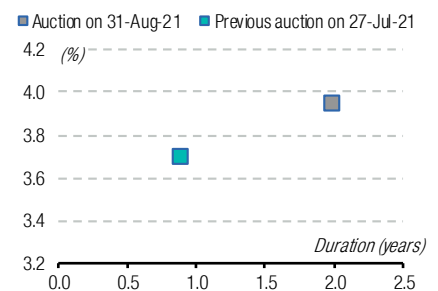
As expected, the issuer's decision last week to raise rates on three-year bonds was the reason that four out of the six bonds offered yesterday received bids with higher rates than last time. And if for six months bills the Ministry agreed to raise rates, for others it maintained the level of previous weeks.

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



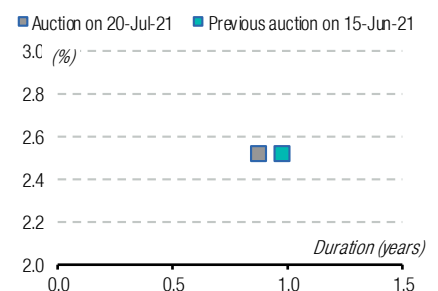
Source: Ministry of Finance of Ukraine, ICU.

### 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



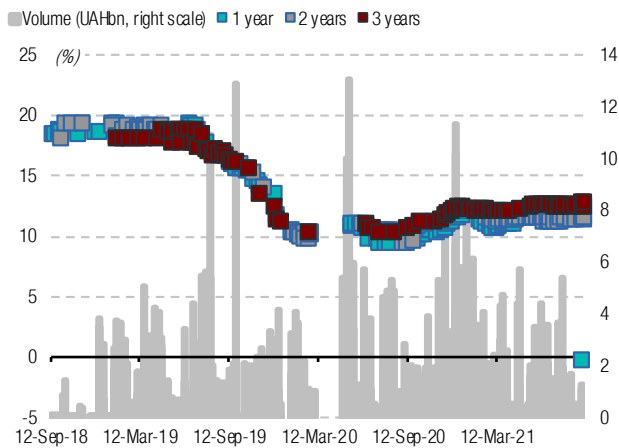
Source: Ministry of Finance of Ukraine, ICU.

With no particular need for financing the budget deficit, the Ministry of Finance has so far refrained from raising rates on most offered maturities. This time, the rate was raised only for the shortest maturity, bringing it closer to the current level of the yield curve and pending the decision of the NBU on the key policy rate tomorrow.

# Appendix: Yields-to-maturity, repayments

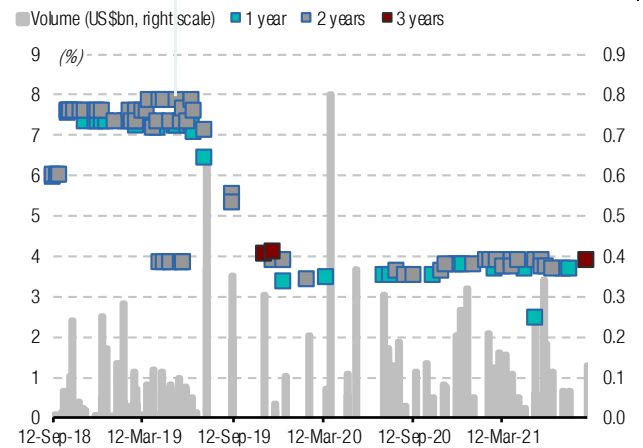
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

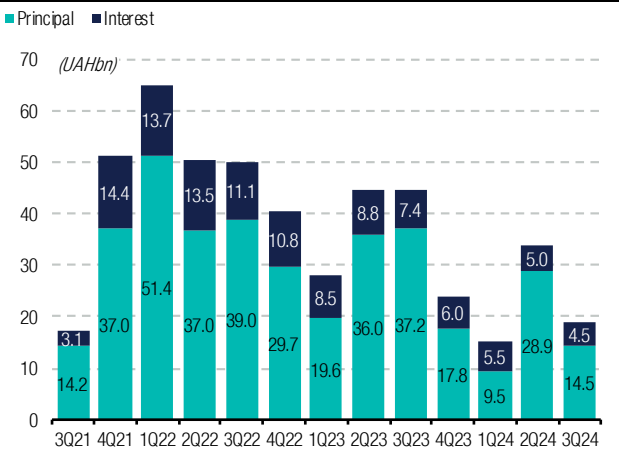
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

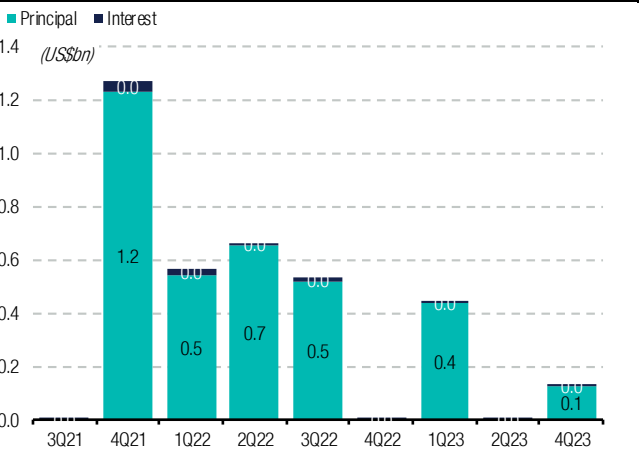
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

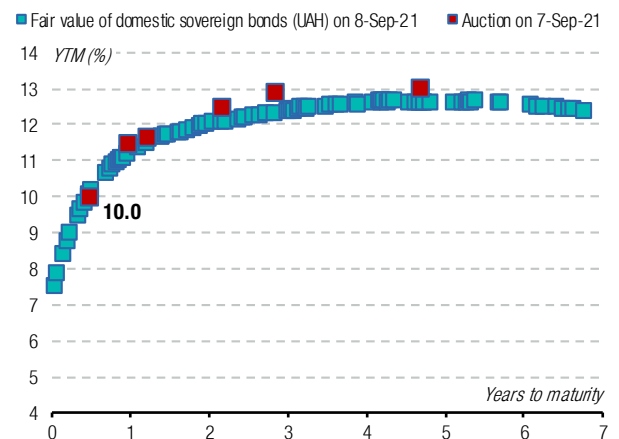
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

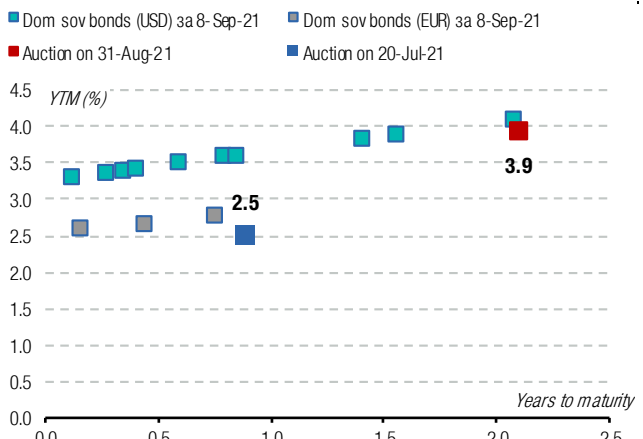
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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.

This page is intentionally left blank.



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

**WEB** [www.icu.ua](http://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

**Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).**

## DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copy right and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

**Additional information is available upon request.**

