

Bond Market Insight

Borrowings stay low

Comment on government bond placement

On the eve of the revision of the NBU key rate, the Ministry of Finance managed to increase borrowings, but reduced the number of instruments and offered FX-denominated paper. In hryvnia terms, borrowings doubled compared with the previous week, while in hard currency, borrowings more than halved compared with their offering in September.

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

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds (UAHm)	Volume (UAHm)	YTM (%)	Outstanding (m) ⁴
UA4000219778	11.15	SA	26-Aug-22	1,049,657	1,013.45	1,063.77	1,049.66	11.87	8,419.16
UA4000213227	10.95	SA	1-Nov-23	102,683	1,024.99	105.25	102.68	12.82	7,565.14
Total UAH				1,152,340		1,169.02	1,152.34		15,984.31
UA4000220412	3.90	SA	5-Oct-23	37,134	1,001.49	976.00	974.55	3.94	6,574.59
Total USD				37,134		976.00	974.55		6,574.59

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

Bills maturing in 10 months received fairly good demand, more than one billion hryvnia, which was more than a three-time increase over last week. Demand remained unanimous — all competitive bids were submitted at a rate of 11.5% — so all of them and all non-competitive bids were accepted in full.

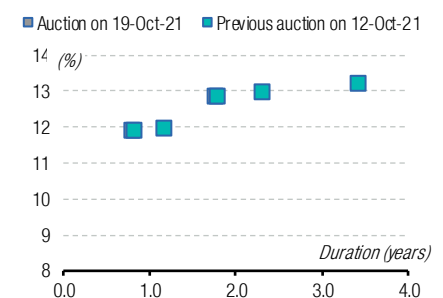
But there was no unanimity on the two-year paper. Out of the 13 bids received, three competitive bids were submitted with rates higher than the cut-off rate a week ago. Therefore, out of almost UAH353mn of demand, only UAH103mn were sold in 10 competitive and non-competitive bids at a rate of 12.4%.

The view on rates for USD-denominated bills has not changed. Two-year securities once again received unanimous demand at 3.9%, and it was completely satisfied. In contrast to UAH-denominated bills, demand for FX-denominated paper was mainly in non-competitive bids, as investors do not expect these rates to be revised and, in the event of changes, do not want to be left without bonds.

Therefore, borrowings in general rose four times, and in hryvnia it more than doubled. Of course, this is a very small amount for the budget, but the result was expected. A few factors impacted the results. Tomorrow, the NBU will announce its decision on the key policy rate. Redemption of USD-denominated bonds is happening today and

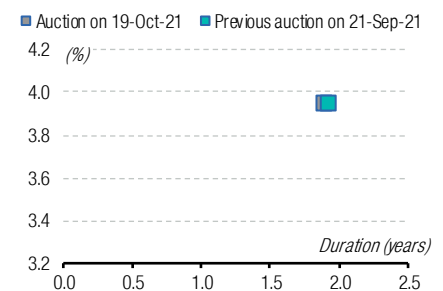
WEDNESDAY, 20 OCTOBER 2021

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



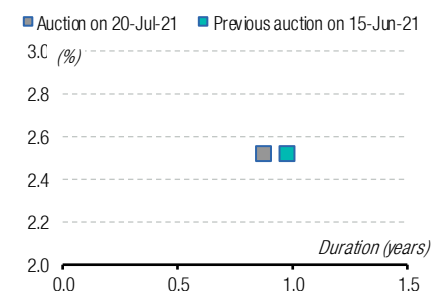
Source: Ministry of Finance of Ukraine, ICU.

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



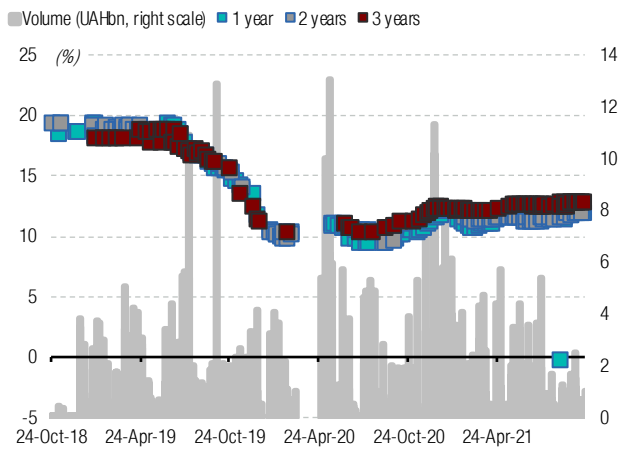
Source: Ministry of Finance of Ukraine, ICU.

we will have to wait until next week to talk about reinvestment of these funds. Redemption of UAH-denominated bonds is scheduled for next week causing increase in demand for local currency bonds next Tuesday. Therefore, in general, borrowings may increase quite sharply next week, as they did in late September.

Appendix: Yields-to-maturity, repayments

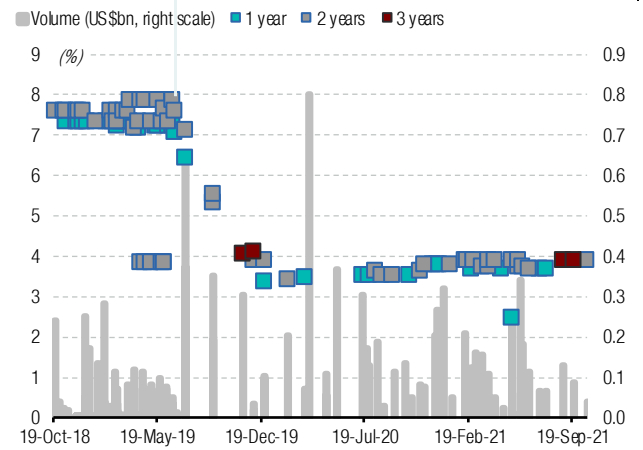
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

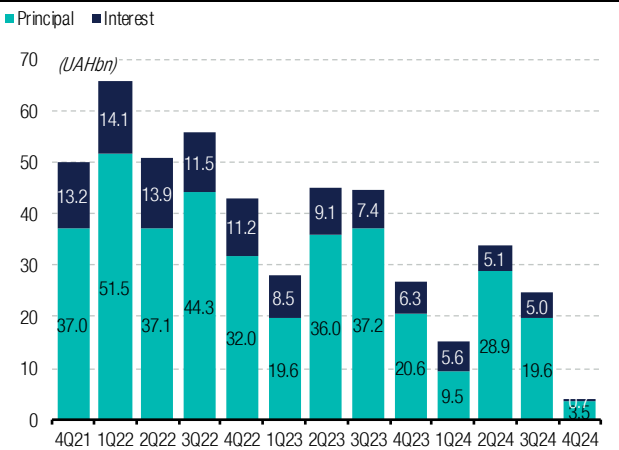
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

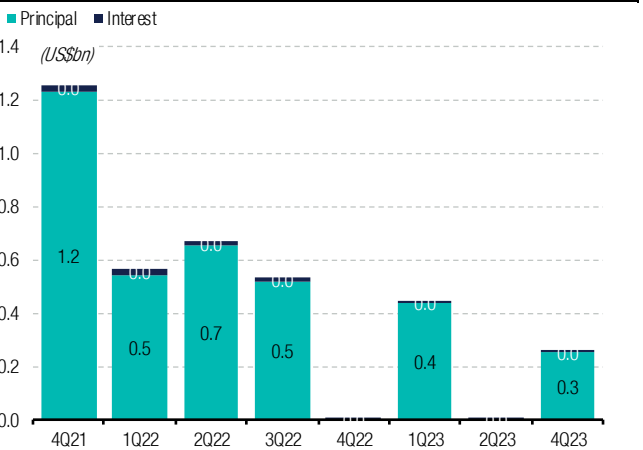
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

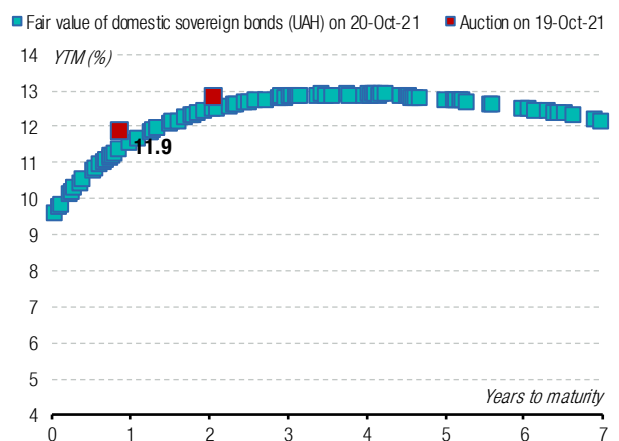
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

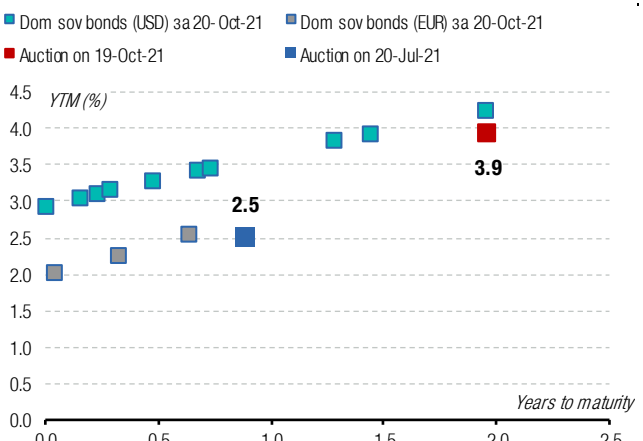
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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



RESEARCH

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

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

Taras Kotovych

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

Dmitriy Dyachenko, CFA

Financial analyst
dmitriy.dyachenko@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. Copyright 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.

