

Bond Market Insight

Redemptions refinanced, but not in full

Comment on government bond placement

October ends with large debt payments and only partial refinancing. Over the past week and today, much more was repaid in debt principal than was borrowed for the budget.

In terms of hryvnia repayments, 96% of redemptions were refinanced in October, which is not the worst monthly indicator this year. But in hard currency, it is a little worse, because only 65% of repayments this month were refinanced.

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 ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000215495	0.00	@Mty	2-Feb-22	8,914	975.13	8.69	8.91	9.50	11,166.31
UA4000219778	11.15	SA	26-Aug-22	2,360,513	1,015.65	2,397.45	2,360.51	11.86	10,779.67
UA4000221568	11.57	SA	18-Jan-23	168,235	1,030.75	173.41	168.24	11.94	174.51
UA4000213227	10.95	SA	1-Nov-23	1,872,737	1,026.30	1,921.98	1,872.74	12.89	9,437.88
UA4000219208	12.30	SA	3-Jul-24	600,650	1,031.70	619.69	600.65	12.99	4,071.37
UA4000207518	9.79	SA	26-May-27	1,847,875	910.94	1,683.29	1,847.88	13.57	11,961.50
Total UAH				6,858,924		6,804.52	6,858.92		47,591.23
UA4000221907	0.00	@Mty	20-Oct-22	408,994	965.07	10,429.76	10,807.26	3.69	10,807.26
Total USD				408,994		10,429.76	10,807.26		10,807.26

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

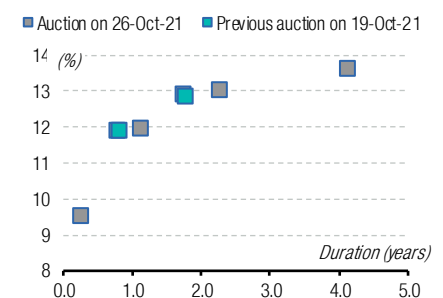
o yesterday, overall demand, expectedly, grew, reaching almost UAH18bn, which includes FX-denominated paper. Of course, the demand for USD-denominated bills prevailed, amounting to almost UAH11bn (US\$409m), but UAH-denominated securities were also popular.

Investors were most interested in bonds maturing in August 2022, in November 2023, and in May 2027. Foreigners likely participated in buying bonds maturing in 2027.

Although the NBU maintained the key policy rate at 8.5% last week, this auction was not without a rise in interest rates. Market participants were not aggressive, but they did want higher interest rates and mostly demand was with slightly higher rates. Therefore, the Ministry had to meet this demand for UAH-denominated bills with maturities from two to six years and increase the cut-off rates by 6-8bp. In particular, for two-year bills by 7bp up to 12.47%, for the three-year note by 8bp up to 12.57%,

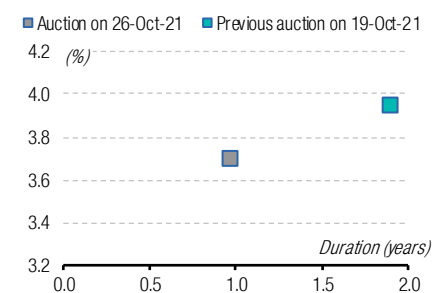
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



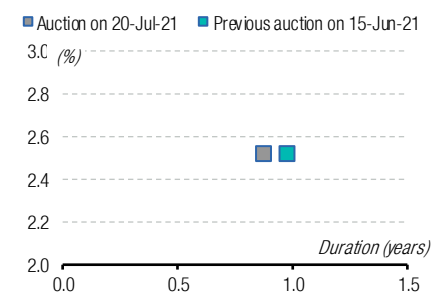
Source: Ministry of Finance of Ukraine, ICU.

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.

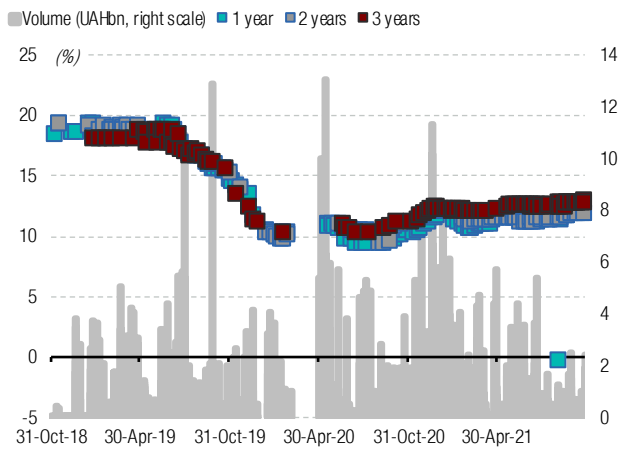
and for six-year paper by 6bp up to 13.1%.

The Ministry of Finance is trying to refrain from a sharp rise in interest rates, but net financing of the state budget for hryvnia bonds remains low. Since the beginning of the year, borrowings in hryvnia have exceeded redemptions in the local currency by less than UAH10bn, while the budget law included a much larger difference. According to our estimates, borrowings in local currency should exceed redemptions by more than UAH100bn. This increases risk that MoF will have to borrow a lot to cover the budget deficit at the end of the year.

Appendix: Yields-to-maturity, repayments

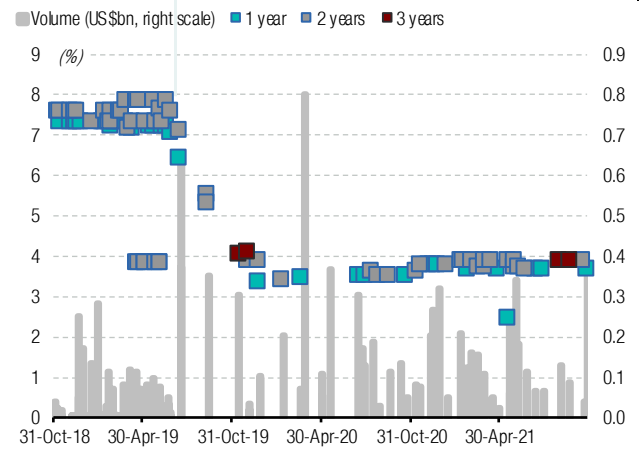
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

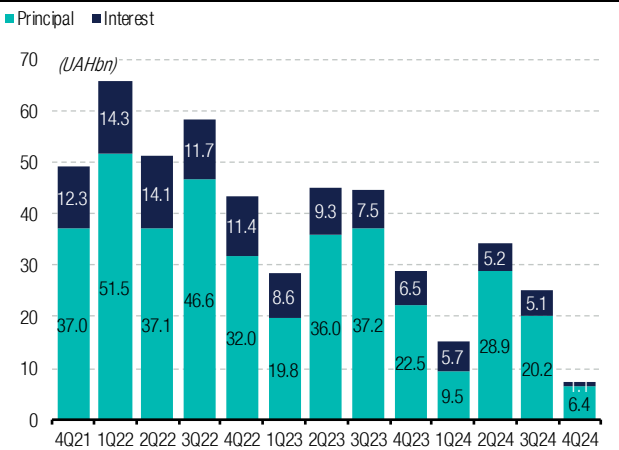
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

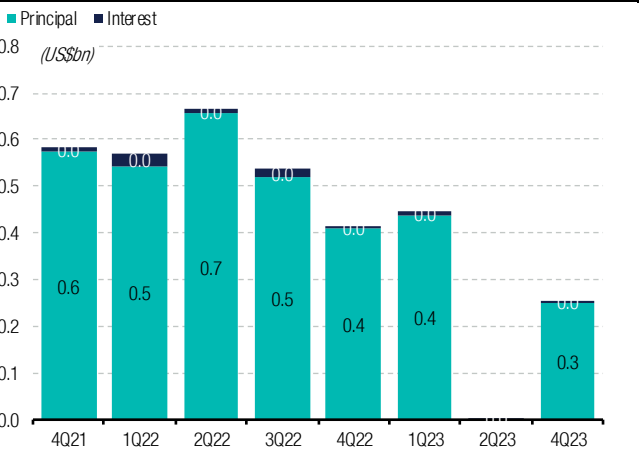
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

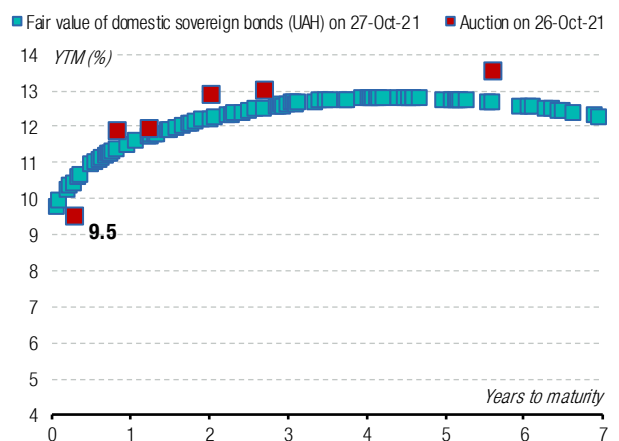
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

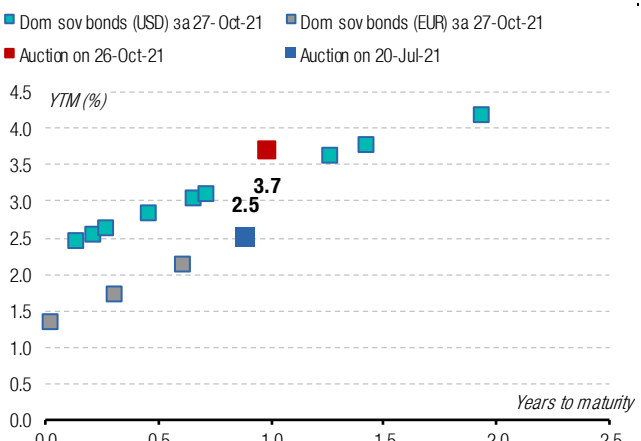
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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