

# Bond Market Insight

## Increase in borrowings at constant rates

### Comment on government bond placement

WEDNESDAY, 17 NOVEMBER 2021

There was greater investor activity in yesterday's auction than in previous weeks, and the Ministry of Finance attracted almost UAH8.2bn for the budget, refinancing almost 70% of today's redemption.

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

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> (%)	Outstanding (m) <sup>4</sup>
UA4000221436	0.00	@Mty	27-Apr-22	2,581,836	955.74	2,467.56	2,581.84	10.56	5,575.91
UA4000222145	11.50	SA	14-Dec-22	3,940,342	1,047.95	4,129.28	3,940.34	11.95	6,922.46
UA4000221568	11.57	SA	18-Jan-23	41,023	1,037.46	42.56	41.02	11.97	358.27
UA4000213227	10.95	SA	1-Nov-23	85,555	978.35	83.70	85.56	12.92	11,138.30
UA4000222152	12.70	SA	30-Oct-24	657,049	1,004.75	660.17	657.05	13.16	3,585.22
UA4000218531	12.52	SA	13-May-26	63,023	992.30	62.54	63.02	13.21	5,919.18
UA4000207518	9.79	SA	26-May-27	781,337	912.25	712.77	781.34	13.74	15,099.57
<b>Total UAH</b>				<b>8,150,165</b>		<b>8,158.59</b>	<b>8,150.17</b>		<b>48,598.91</b>

Note: [1] payment frequency abbreviations: M - monthly, Qtrly - 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 26.36/USD, 30.23/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

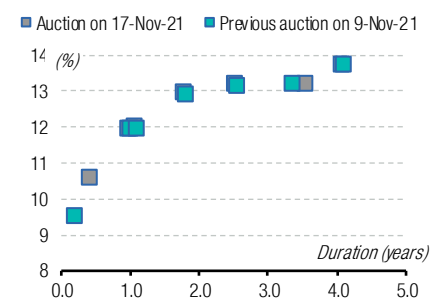
Although redeeming almost UAH12bn of debt, the Ministry of Finance did not set caps on the amount of bonds offered. However, they did not agree to raise rates due to the relatively small additional amount of borrowings.

The greatest demand was for short-term bills—semi-annual and 13-month — which provided the budget with UAH6.6bn or almost 81% of all funds received. For the semi-annual bills, the Ministry rejected only one bid in the amount of UAH100m, which was 50bp higher than all other demand.

In addition to semi-annual bills, there was also interest in the six-year notes, where demand was even less unanimous. Of the 14 bids, four had rates higher than the cut-off level of the last week's auction, and the MoF decided to reject them and 1/5 of demand of almost UAH200m. The three-year securities brought almost UAH0.7bn to the budget.

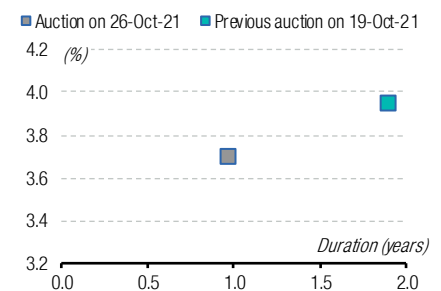
However, the other three instruments — 14-months, two and five-year notes — received little demand and had little effect on the amount of borrowing.

Although it was a good auction in general, the vast majority of the funds raised will be due next year, so they likely were bought mainly by domestic investors. Foreigners were not very active yesterday, probably limiting their investments to the six-year securities.



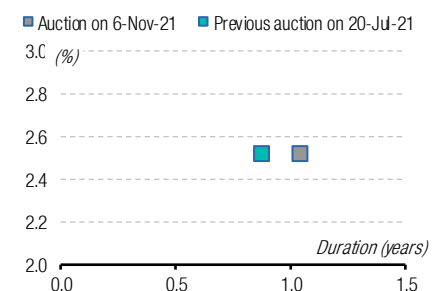
Source: Ministry of Finance of Ukraine, ICU.

### 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

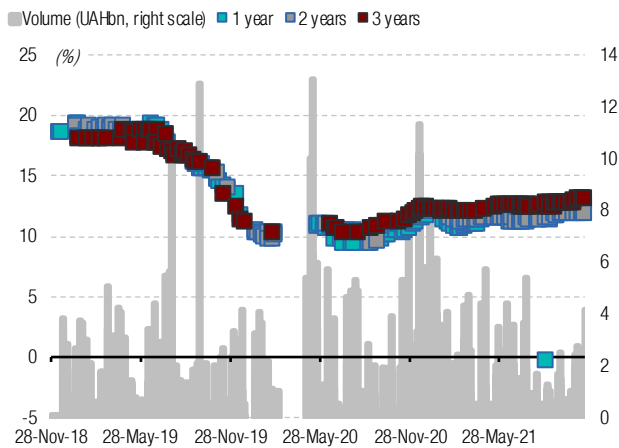


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

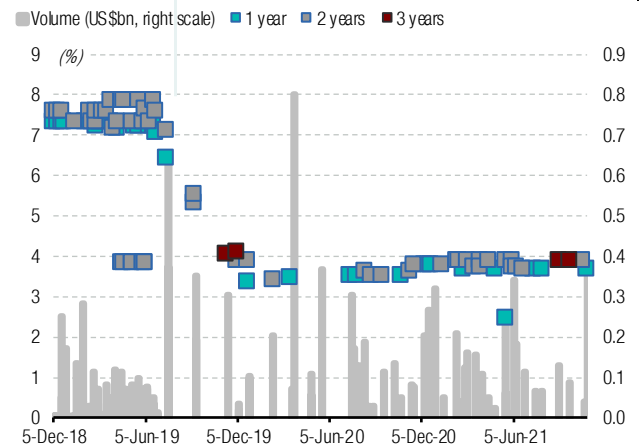
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

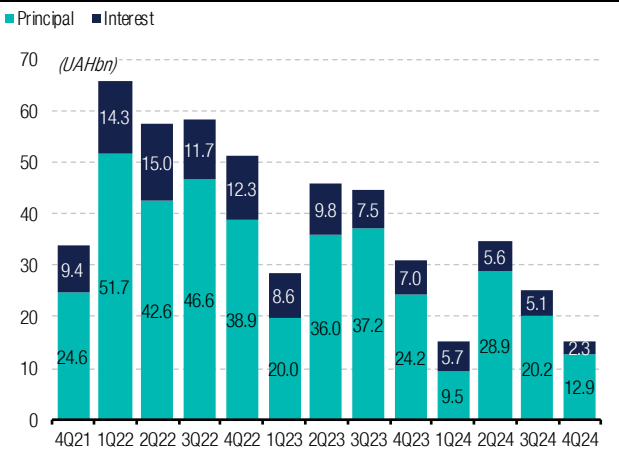
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

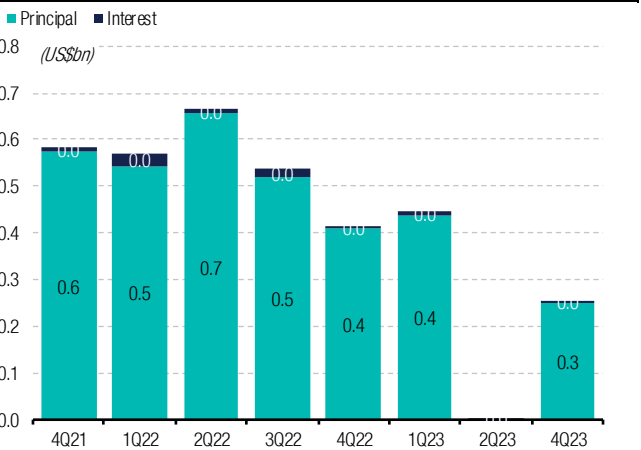
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

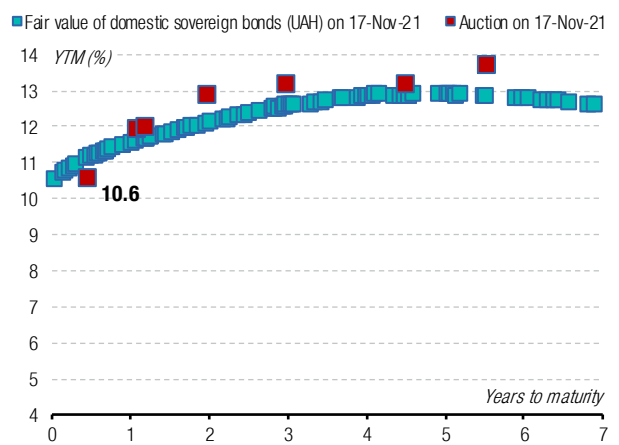
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

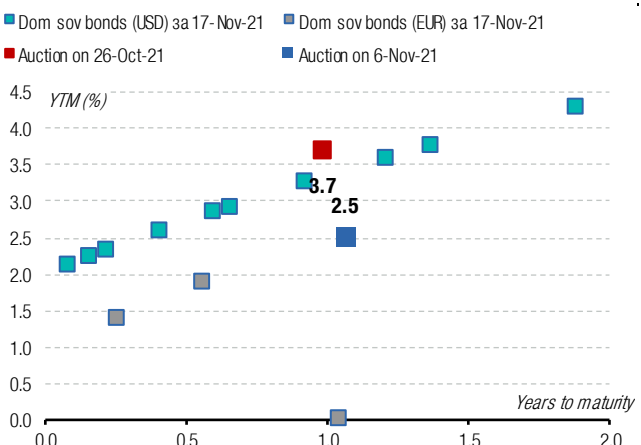
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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