

# Bond Market Insight

## Investor's focus on short-term loans

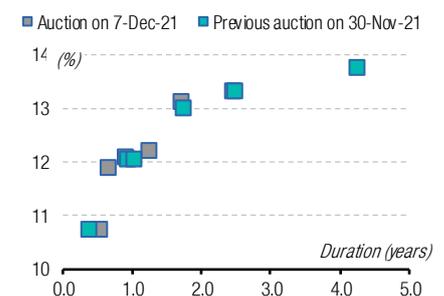
### Comment on government bond placement

The first auction in December provided the budget with proceeds of UAH16.6bn. The number of bills maturing next year increased, and the share of new borrowings with redemption next year rose to almost 94%.

Yesterday, the Ministry of Finance expanded the range of instruments offering nine-month UAH-denominated bills for the first time this year, and reducing the tenor of FX-denominated bills. However, they did not offer three-month local-currency bills. Instead, three-month euro securities and six-month USD paper were offered. The shortest term of borrowings in hryvnia was also six months.

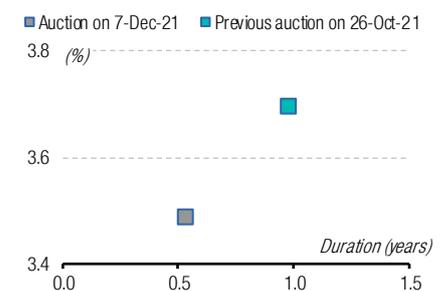
WEDNESDAY, 8 DECEMBER 2021

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



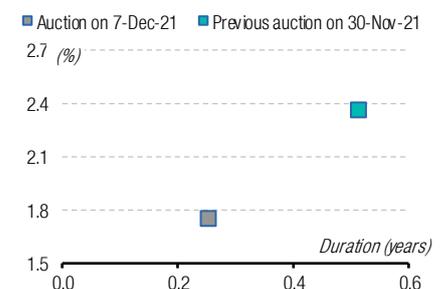
Source: Ministry of Finance of Ukraine, ICU.

### 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.

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

ISIN	Coupon rate (%)	Payment frequency <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>
UA4000223457	0.00	@Mty	29-Jun-22	1,166,511	943.83	1,100.99	1,166.51	10.70	1,166.51
UA4000219778	11.15	SA	26-Aug-22	3,463,555	1,028.86	3,563.50	3,463.56	11.86	14,243.23
UA4000222145	11.50	SA	14-Dec-22	2,579,198	1,053.36	2,716.82	2,579.20	12.08	9,759.25
UA4000200885	15.97	SA	19-Apr-23	454,022	1,072.37	486.88	454.02	12.17	12,373.12
UA4000213227	10.95	SA	1-Nov-23	525,030	982.43	515.81	525.03	13.08	12,808.41
UA4000222152	12.70	SA	30-Oct-24	14,759	1,008.36	14.88	14.76	13.30	4,631.71
<b>Total UAH</b>				<b>8,203,075</b>		<b>8,398.89</b>	<b>8,203.08</b>		<b>54,982.23</b>
UA4000218812	0.00	@Mty	23-Jun-22	265,872	981.55	7,121.83	7,255.70	3.48	14,103.41
<b>Total USD</b>				<b>265,872</b>		<b>7,121.83</b>	<b>7,255.70</b>		<b>14,103.41</b>
UA4000223440	1.75	SA	10-Mar-22	36,298	1,004.37	1,120.96	1,116.09	1.74	1,116.09
<b>Total EUR</b>				<b>36,298</b>		<b>1,120.96</b>	<b>1,116.09</b>		<b>1,116.09</b>

Note: [1] payment frequency abbreviations: M - monthly, Qly - 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 27.29/USD, 30.75/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

It was nine-month bills that brought the budget the largest amount of funds in local currency yesterday. But the record holder of this auction was US\$-denominated bills, which provided the budget with the equivalent of UAH7.1bn.

These borrowings came with an increase in interest rates. The nine-month paper was placed for the first time since June of last year, and the rate was set closer to 12-month securities at 11.5%. This represented a premium of 80bp to the semi-annual bills for an additional two months of tenor.

Rates on 12-month, 17-month, and even two-year local-currency instruments rose by

5bp, 15bp, and 10bp, respectively.

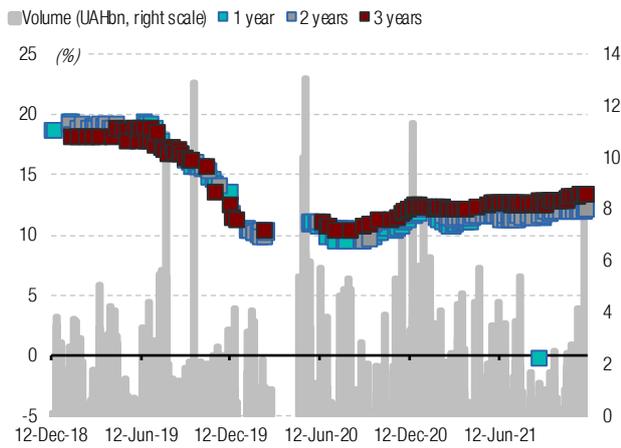
On the other hand, rates fell for FX-denominated securities with reduced tenors. Bills in euros fell by 60bp to 1.75%, with half the length of time to maturity. Bills in US\$ fell by 20 bp to 3.5% for six months, also half the time to maturity compared with bills sold in October.

The Ministry of Finance was able to attract more funds, but, traditionally, for the end of the year, maturities are reduced and rates increased. Under such conditions, there is a chance to significantly improve budget funding, shifting the need for funds to the first half of next year.

# Appendix: Yields-to-maturity, repayments

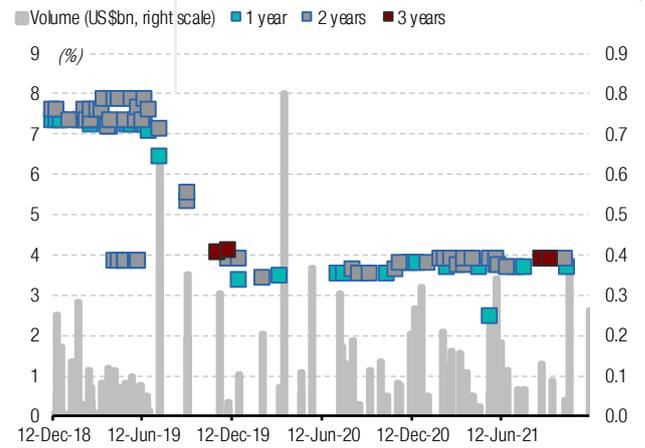
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

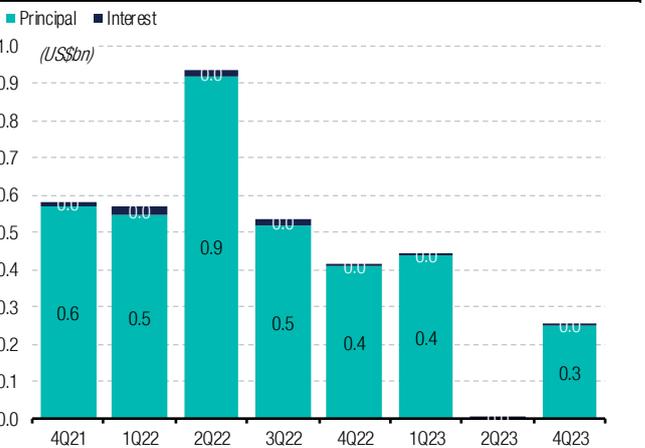
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

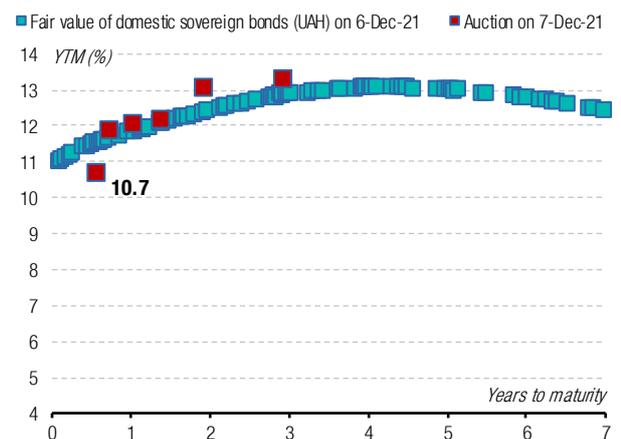
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

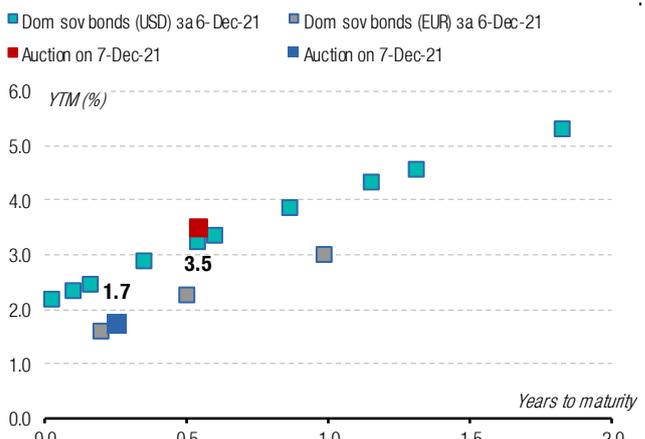
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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