

Bond Market Insight

Extended offering results in larger proceeds

Comment on government bond placement

WEDNESDAY, 22 DECEMBER 2021

The Ministry of Finance expanded the set of instruments they offered yesterday, and borrowed UAH20.5bn for the budget, including UAH12bn from UAH-denominated securities. Again, interest rates were up on most issues.

The most interesting offers were two instruments with a very similar maturity, both very close to other instruments. In previous weeks, the Ministry usually offered paper maturing in November 2023 and October 2024, but yesterday, the offering also included bills with maturities in May and July 2024. Of course, the difference in tenor was slight, and interest rates for them were very similar.

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

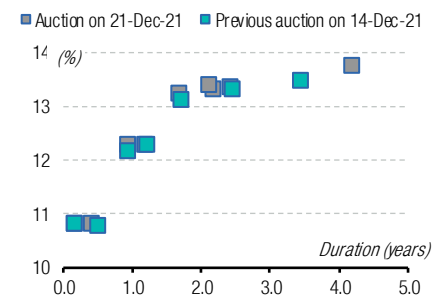
ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000209886	10.57	SA	23-Feb-22	1,636,684	1,034.37	1,692.94	1,636.68	10.80	12,921.31
UA4000223861	10.80	@Mty	25-May-22	4,000,315	956.42	3,825.98	4,000.32	10.80	4,000.32
UA4000222145	11.50	SA	14-Dec-22	2,597,824	998.76	2,594.59	2,597.82	12.27	12,846.52
UA4000200885	15.97	SA	19-Apr-23	3,781	1,076.00	4.07	3.78	12.27	12,497.01
UA4000213227	10.95	SA	1-Nov-23	2,070,635	984.87	2,039.30	2,070.64	13.23	16,291.86
UA4000207880	9.99	SA	22-May-24	930,000	949.51	883.04	930.00	13.30	19,034.79
UA4000219208	12.30	SA	3-Jul-24	884,886	1,043.99	923.81	884.89	13.35	4,956.25
UA4000222152	12.70	SA	30-Oct-24	71,025	1,012.47	71.91	71.03	13.34	4,811.48
UA4000207518	9.79	SA	26-May-27	68,498	874.26	59.89	68.50	13.73	15,268.74
Total UAH				12,263,648		12,095.53	12,263.65		102,628.2
									7
UA4000223853	3.70	SA	22-Dec-22	307,463	1,000.00	8,353.25	8,353.25	3.73	8,353.25
Total USD				307,463		8,353.25	8,353.25		8,353.25

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 27.17/USD, 30.69/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

For the paper maturing in May 2024, the Ministry set the same interest rate as for the two-year paper, where the cut-off rate was up by 20bp to 12.85%. And for securities maturing in July 2024, the Ministry set the rate at 12.9%, 5bp higher, the same level as the rate on three-year paper maturing in October 2024. In fact, the Ministry of Finance borrowed money for the entire period of two to three years at mostly the same price.

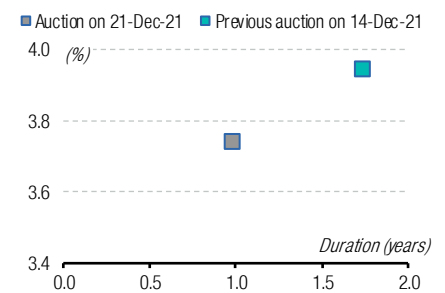
But most funds — almost UAH4bn — came from five-month bills, which have already

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



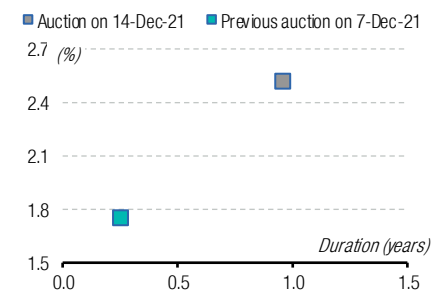
Source: Ministry of Finance of Ukraine, ICU.

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.

been added at the last call to the auction, another step in expanding the auction yesterday.

Demand for USD-denominated bills also increased to US\$307mn. As the Ministry paid almost US\$600m in hard currency redemptions last week, it refinanced more than half of these repayments yesterday.

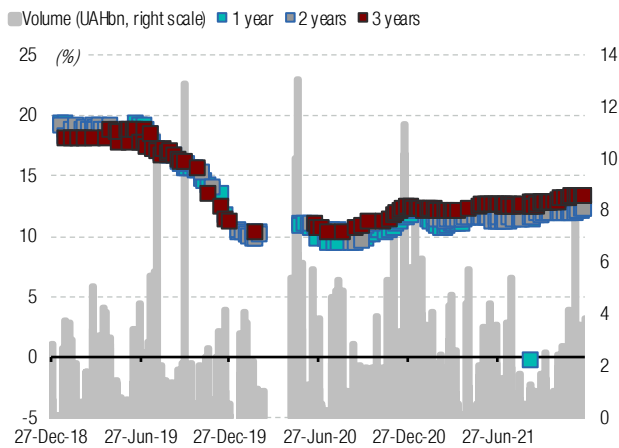
Thus, this auction became the most active in terms of budget proceeds, breaking the record set in June, when a little more than UAH19bn was borrowed. Although unlike in June when it was mostly bonds with a maturity of more than one year and up to five years were sold and a large part was purchased by foreigners, yesterday, most of the purchases were bills with a maturity of up to one year and participation from foreigners was low.

Next week, a week prior to the New Year holiday, activity may decrease again. Yesterday, interest may have included postponed demand from the previous auction, and before the New Year, foreigners' participation may be low. Therefore, the volume of demand from the market may be even smaller.

Appendix: Yields-to-maturity, repayments

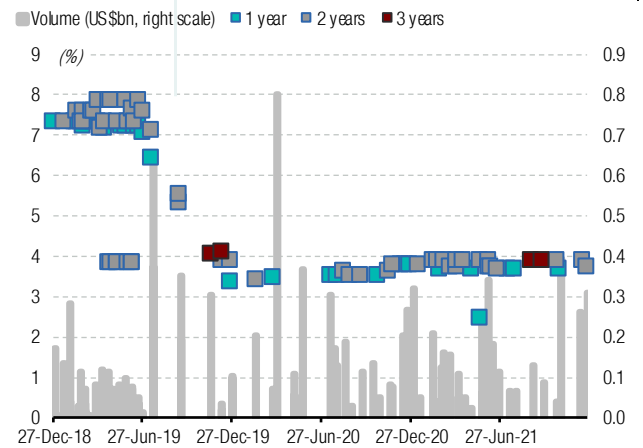
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

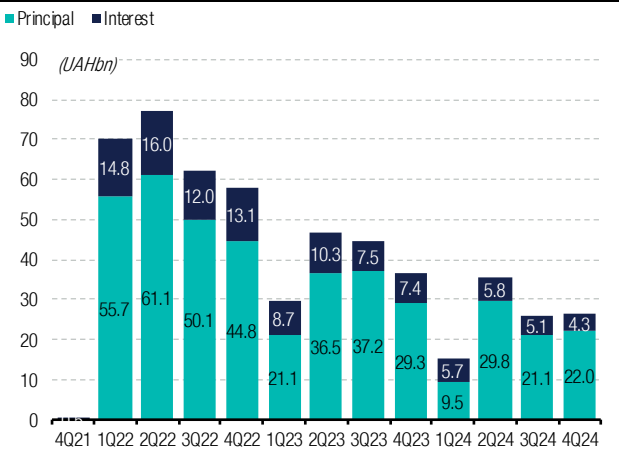
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

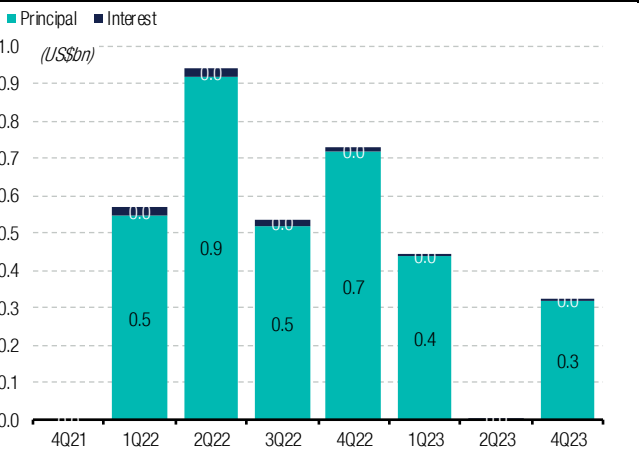
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

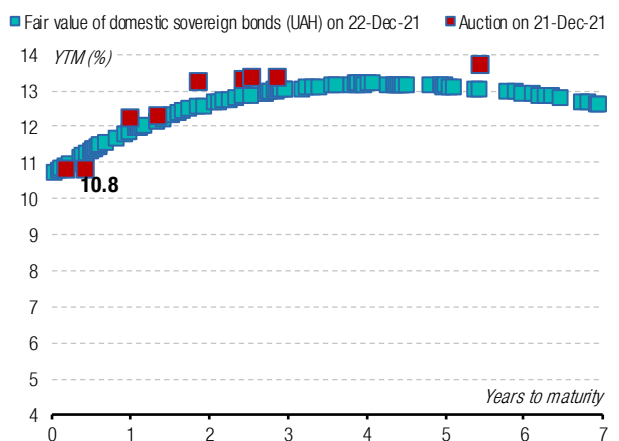
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

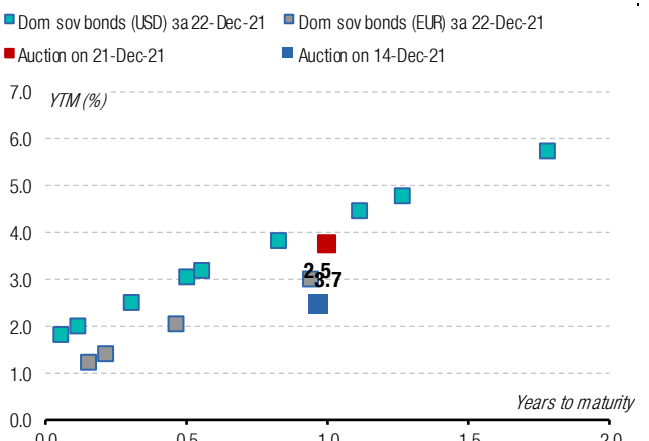
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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