

Bond Market Insight

Slight increase in borrowings

Comment on government bond placement

WEDNESDAY, 9 FEBRUARY 2022

The total amount of funds raised yesterday from the primary bond auction increased to UAH2.1bn, but, again, it required specific decisions from the Ministry of Finance.

The majority of funds were raised through three-month bills. Demand amounted to UAH1.7bn at face value in 28 bids and provided the budget with UAH1.6bn of proceeds. Interest rates in demand were mostly at 11.5%, the same as two weeks ago, so there were no changes in the cut-off and weighted average rates.

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
UA4000223861	10.80	@Mty	25-May-22	1,688,353	967.98	1,634.29	1,688.35	11.50	11,308.17
UA4000221568	11.57	SA	18-Jan-23	22,764	1,003.40	22.84	22.76	12.32	2,121.54
UA4000200885	15.97	SA	19-Apr-23	20,706	1,091.50	22.60	20.71	12.40	12,548.55
UA4000224380	12.94	SA	14-Feb-24	65,281	1,061.10	69.27	65.28	13.46	2,097.28
UA4000222152	12.70	SA	30-Oct-24	1,359	1,028.10	1.40	1.36	13.41	5,265.74
UA4000207518	9.79	SA	26-May-27	2,659	889.49	2.37	2.66	13.73	15,281.69
Total UAH				1,801,122		1,752.77	1,801.12		48,622.97
UA4000220412	3.90	SA	5-Oct-23	12,088	1,013.46	342.80	338.24	3.94	9,261.02
Total USD				12,088		342.80	338.24		9,261.02

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

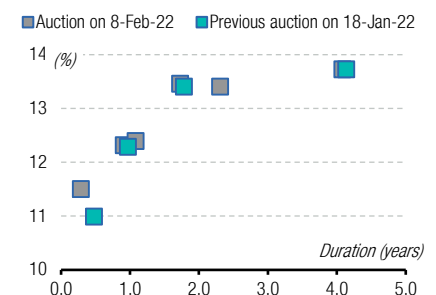
After two unsuccessful placements of 12-month securities, yesterday, demand was more diverse, and the MoF agreed to increase the cut-off rate by 10bp to 12%. Most bids were satisfied, but for very small amounts. Out of UAH322m in demand, two bids for UAH300m were rejected, as they requested an increase the cut-off rate up to 12.49%.

The same level of 12% was set by the Ministry for 15-month bills, but accepted demand was a mere UAH20m.

For the rest of the UAH-denominated instruments, rates did not change. Demand for two-year securities was at the same level as before, and for longer maturities, there were no competitive bids at all. Therefore, once again, the MoF had to use the right to accept non-competitive bids at the same level of interest rates as previously.

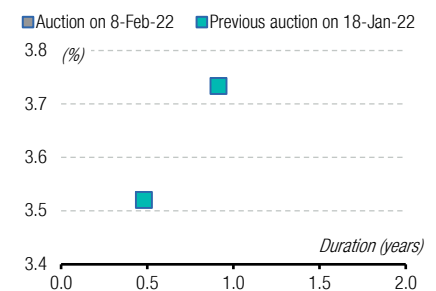
Demand for USD-denominated bills remained low also. Although almost tripling

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



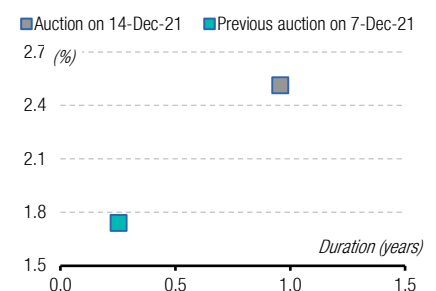
Source: Ministry of Finance of Ukraine, ICU.

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.

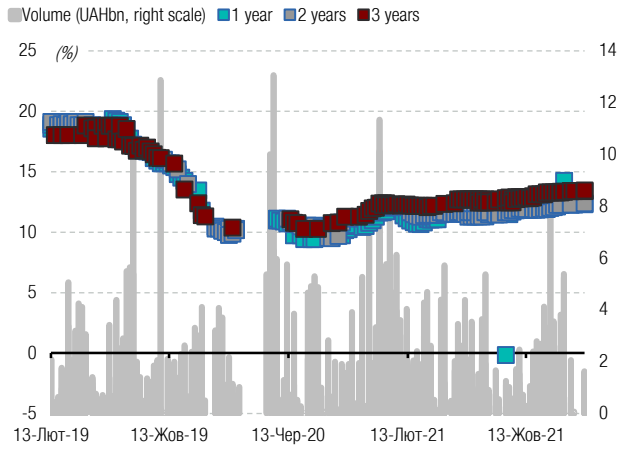
compared with last week, it was only US\$12m. Compared with last week's debt repayments in USD, it did not even cover last week's interest repayment.

Therefore, although the amount of borrowings has increased, it wasn't enough to improve refinancing of debt redemptions done since the beginning of the year. Under current market conditions, the government should not expect large borrowings at current rates. To attract most of the funds from demand, they will likely have to gradually raise interest rates to increase investors' interest in the primary auctions.

Appendix: Yields-to-maturity, repayments

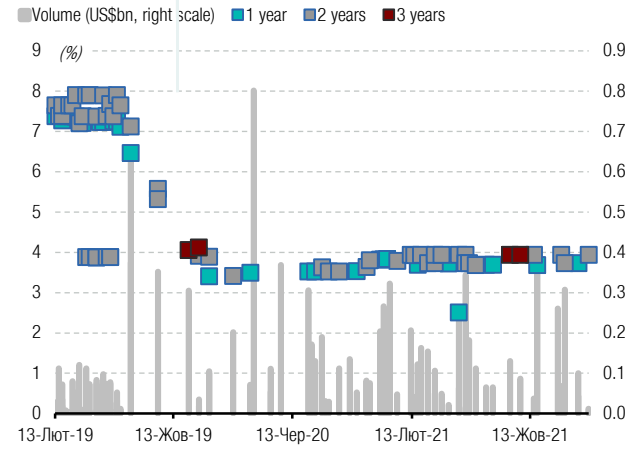
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

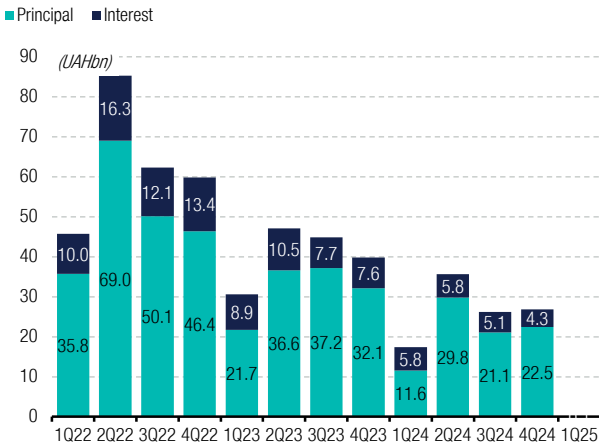
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

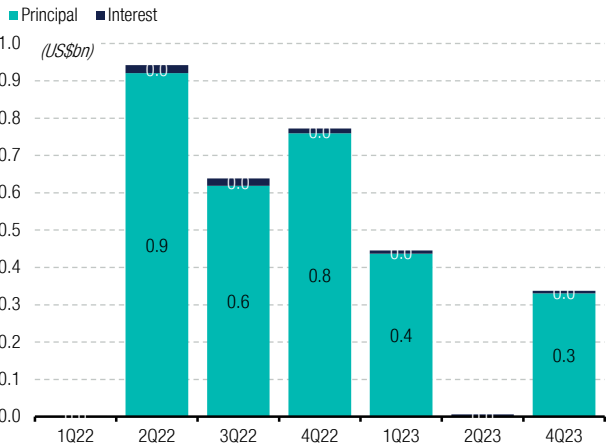
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

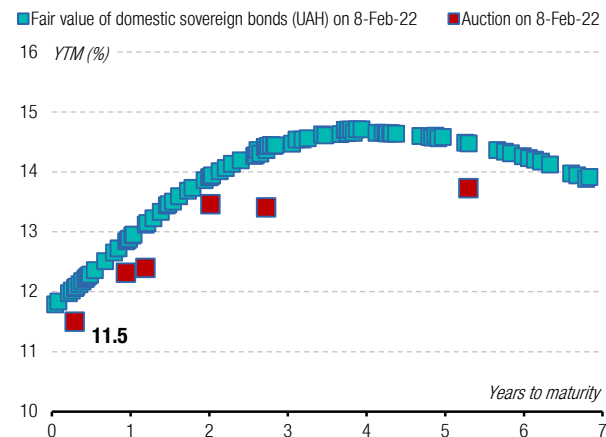
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

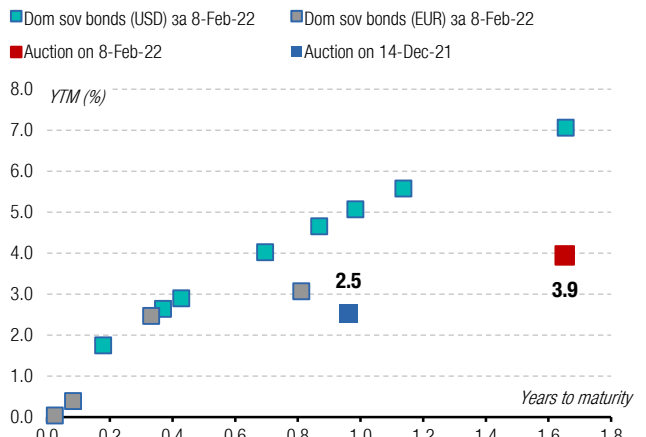
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

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

Dmitriy Dyachenko, CFA

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

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

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