

# Bond Market Insight

## Not much demand for new bills

### Comment on government bond placement

WEDNESDAY, 16 FEBRUARY 2022

The Ministry of Finance sold only two bills yesterday and raised just a mere UAH66m. Demand was a little higher, but the MoF decided not to raise the cut-off rate on the 11-month paper.

**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>
UA4000224570	0.00	@Mty	13-Jul-22	57,901	955.37	55.32	57.90	11.60	69.17
UA4000221568	11.57	SA	18-Jan-23	11,102	1,005.61	11.16	11.10	12.32	2,132.64
<b>Total UAH</b>				<b>69,003</b>		<b>66.48</b>	<b>69.00</b>		<b>2,201.82</b>

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

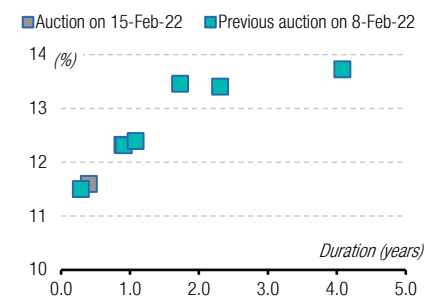
For five-month bills, all demand was at a rate of 11.6%, which was 10bp higher than at the beginning of the month. These bills brought UAH55m to the budget. However, 11-month bills received bids amounted to UAH16m with rates ranging from 11.93% to 12.1%. Therefore, the Ministry decided that raising the rate for UAH5m was not worth it, so it kept both the cut-off and the weighted average rate at the same level as last week, 12% and 11.93%, respectively.

The Ministry of Finance decided not to offer the rest of the bond issues that were scheduled for yesterday. Obviously, there was no demand for them, and if there had been, it could be too expensive under current conditions.

Fortunately, it appears that budget revenues are sufficient to meet current budget expenditures, including debt payments.

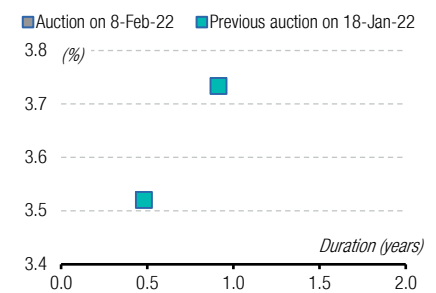
Sentiment in the bond markets has deteriorated due to the threat of a Russian invasion in the near future, which discourages investors. Therefore, borrowing in the near term may continue to be difficult until there is some reassurance that the situation at the eastern border has improved and information flow is more positive in general.

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



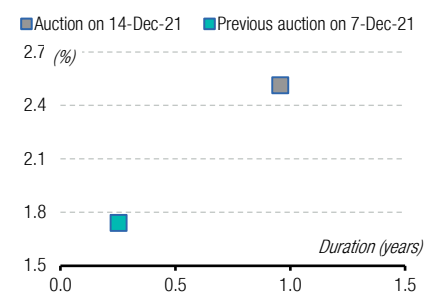
Source: Ministry of Finance of Ukraine, ICU.

### 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

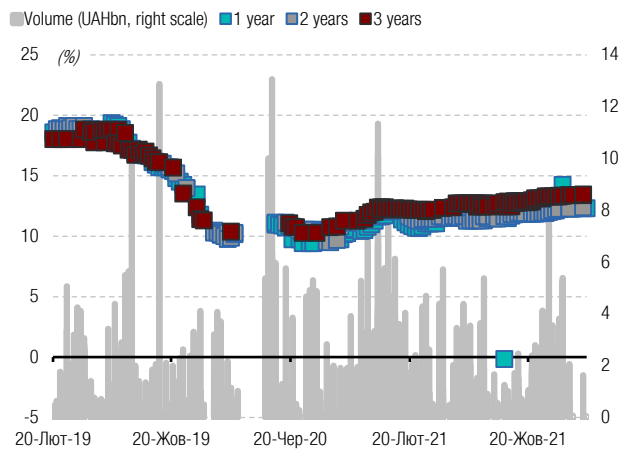


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

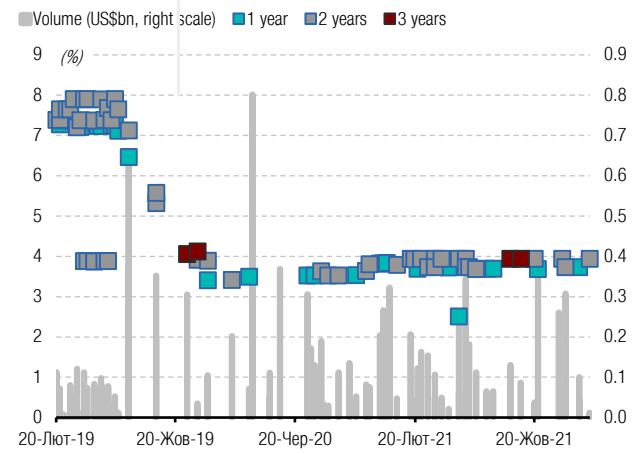
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

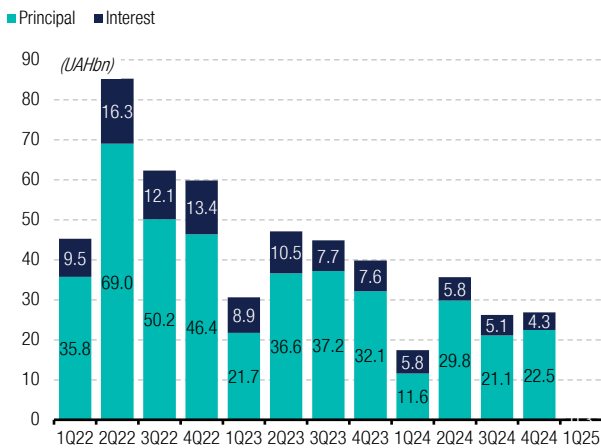
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

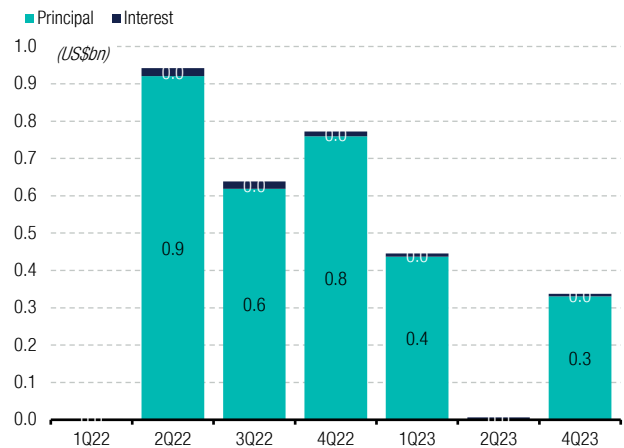
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

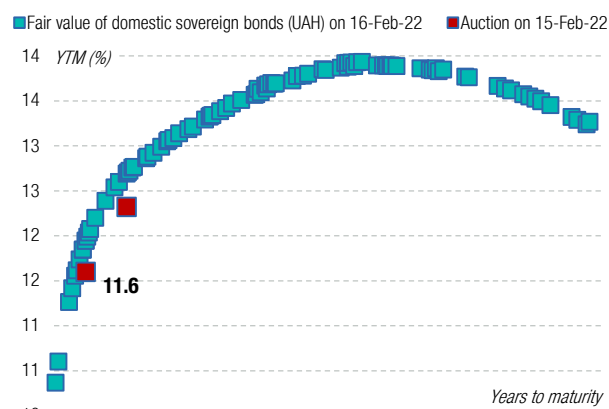
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

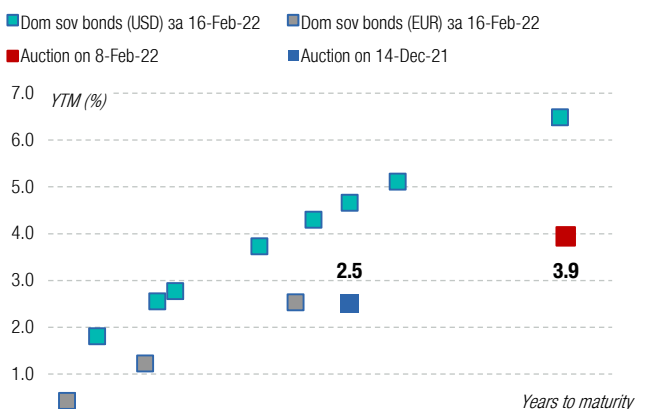
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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