

# Bond Market Insight

## Borrowings increase despite increased tensions

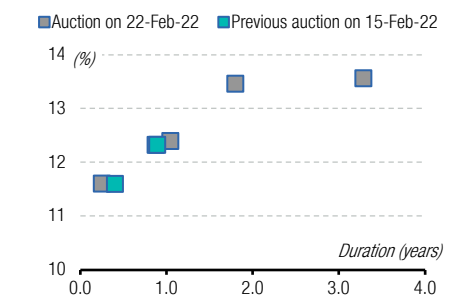
### Comment on government bond placement

WEDNESDAY, 23 FEBRUARY 2022

The amount of funds raised at yesterday's auction rose to UAH3.5bn despite geopolitical risks and increased tension coming from the Russia.

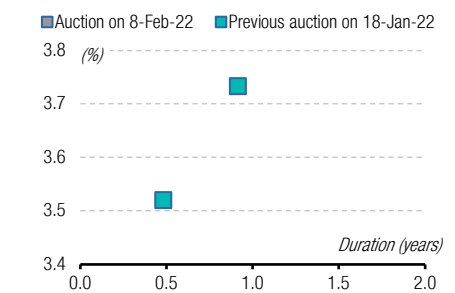
Mostly in local currency, borrowings came through three-month bills, which provided the budget with UAH3bn, another UAH229m were borrowed through 11-month securities, and the remaining, almost UAH60m, were from instruments maturing between one and four years. The budget received another EUR7.2m from four-month FX-denominated bills.

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



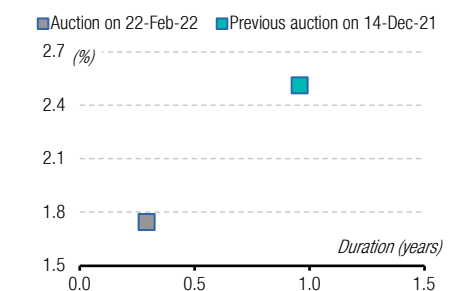
Source: Ministry of Finance of Ukraine, ICU.

### 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	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Out-standing (m) <sup>4</sup>
UA4000223861	10.80	@Mty	25-May-22	3,054,467	971.89	2,968.61	3,054.47	11.60	14,362.63
UA4000221568	11.57	SA	18-Jan-23	225,760	1,007.87	227.54	225.76	12.32	2,358.40
UA4000200885	15.97	SA	19-Apr-23	23,461	1,096.41	25.72	23.46	12.40	12,572.01
UA4000224380	12.94	SA	14-Feb-24	27,305	1,001.39	27.34	27.31	13.46	2,124.59
UA4000218531	12.52	SA	13-May-26	3,794	1,015.14	3.85	3.79	13.56	6,052.44
<b>Total UAH</b>				<b>3,334,787</b>		<b>3,253.06</b>	<b>3,334.79</b>		<b>37,470.07</b>
UA4000218747	2.50	SA	9-Jun-22	7,105	1,007.42	235.52	233.78	1.75	4,334.28
<b>Total EUR</b>				<b>7,105</b>		<b>235.52</b>	<b>233.78</b>		<b>4,334.28</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, 32.9/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

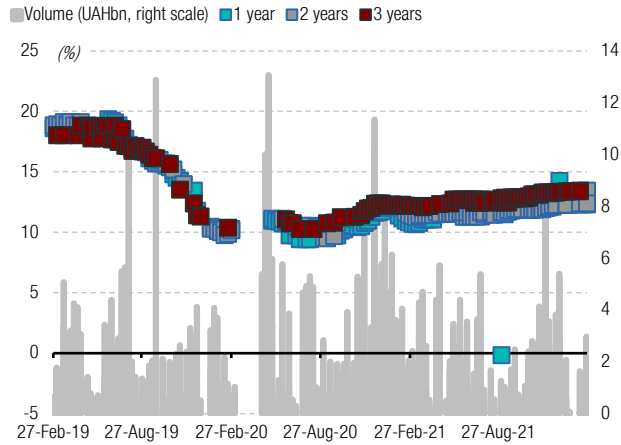
Interest rates did not change much. The increase occurred only in three-month bills by a mere 10bp to 11.6%. For 11-month and four-year instruments, cut-off rates slid by 7bp and 1bp, respectively, to the level of weighted average rates of the previous auction. There was no competitive demand, and the Ministry of Finance again used its right to accept non-competitive bids at the level of the previous auction.

With today's repayment of UAH18bn, some activity from Ukrainian banks was to be expected, but it was restrained by the deterioration in the geopolitical situation due to the recognition by the Russian Federation of the self-proclaimed republics in the Donbass region. So for now, this could be seen as a very good result for the primary auction and allows at least partial refinancing of today's redemptions.

# Appendix: Yields-to-maturity, repayments

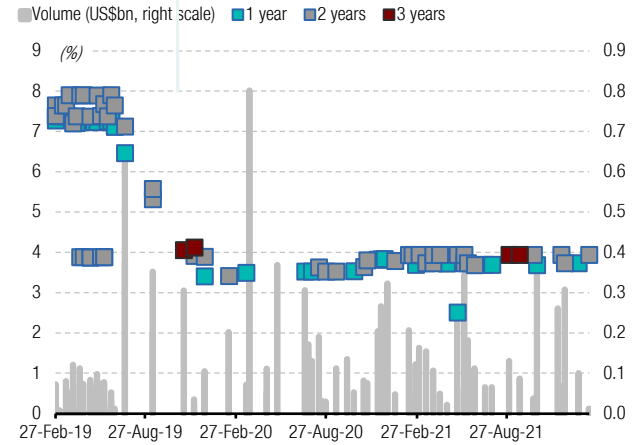
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

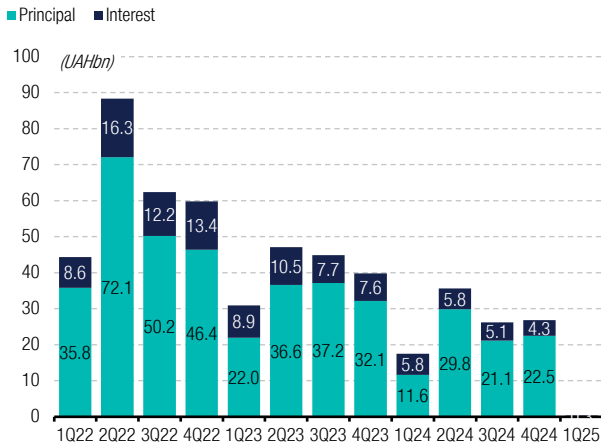
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

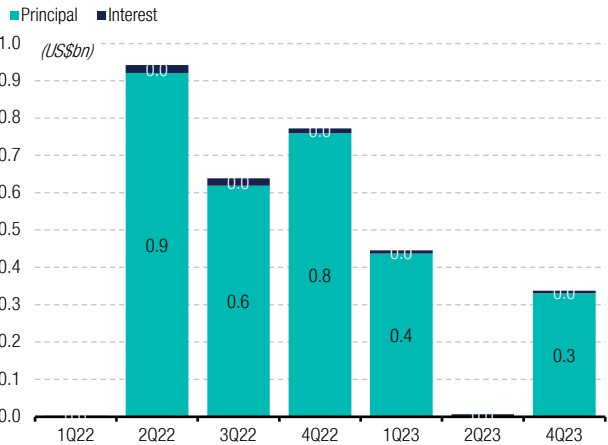
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

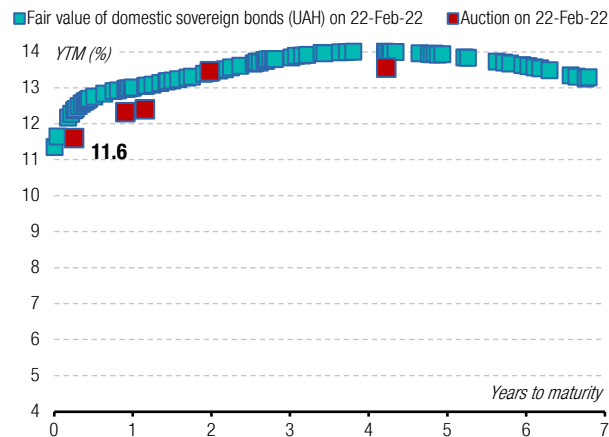
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

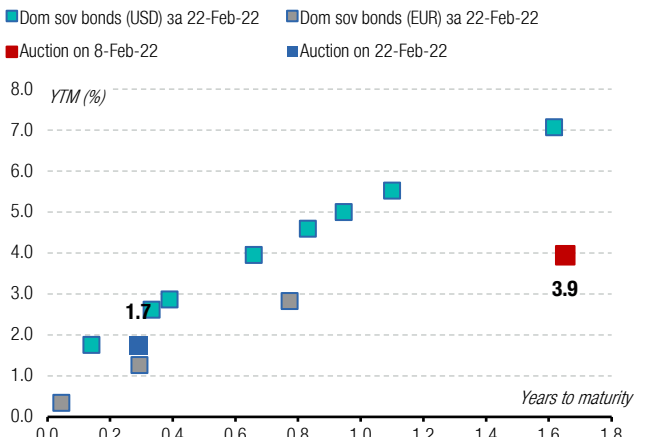
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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