

Bond Market Insight

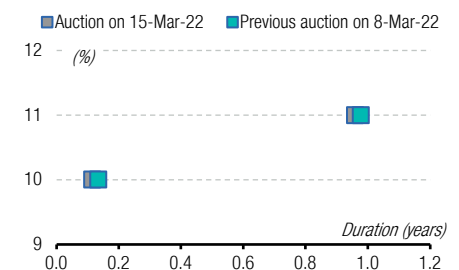
Demand for military bonds solid

Comment on government bond placement

The third auction with military bonds brought the budget another UAH5.4bn, including almost US\$12m in hard currency.

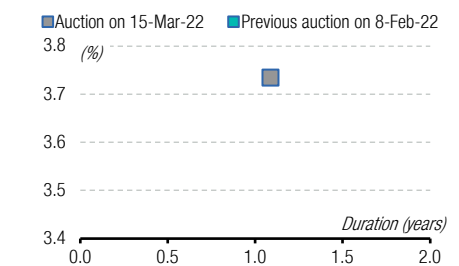
WEDNESDAY, 16 MARCH 2022

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



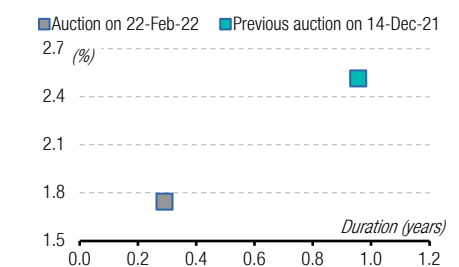
Source: Ministry of Finance of Ukraine, ICU.

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 ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000221436	0.00	@Mty	27-Apr-22	208,111	988.62	205.74	208.11	10.00	15,237.48
UA4000225668	0.00	@Mty	1-Mar-23	5,361,431	904.58	4,849.84	5,361.43	11.00	21,690.87
Total UAH				5,569,542		5,055.59	5,569.54		36,928.35
UA4000225775	3.70	SA	27-Apr-23	11,739	1,014.20	359.26	354.23	3.74	354.23
Total USD				11,739		359.26	354.23		354.23

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 30.18/USD, 33.81/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

In general, the terms of UAH-denominated bills have not changed. The market was offered the same instruments maturing in April this year and in March 2023. In addition, USD-denominated bills maturing at the end of April 2023 were offered.

Demand for the shortest paper has grown, and UAH208m was raised for the budget. This time, though, demand for 12-month bills was slightly lower. Despite 33 bids, only UAH 5.4 billion at face value was seen in demand.

Investors were not much interested in the USD-denominated bills, so they had minimal impact on total borrowings, adding only UAH360m to budget proceeds.

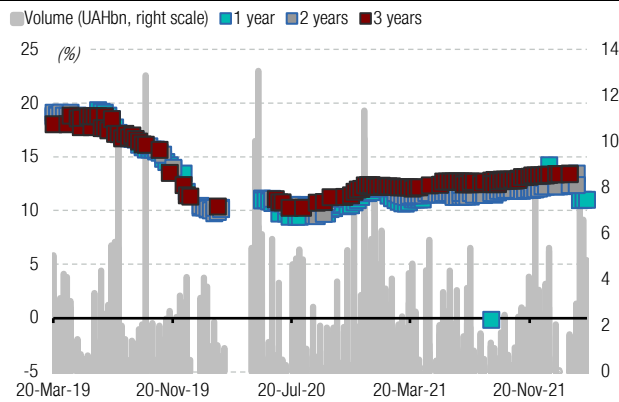
A likely reason is that the interest rate was the same as on USD-denominated bills offered before the war, 3.7%, but given the current situation and market conditions, these instruments were even less attractive than earlier.

Overall, in general, the budget received a reassuring amount of money; however, there was a tendency in this auction to lower the amount in demand. This could be temporary, since the range of investors is gradually expanding. The volume of borrowings through this instrument should stabilize, giving the government, perhaps not large amounts of support, but every week.

Appendix: Yields-to-maturity, repayments

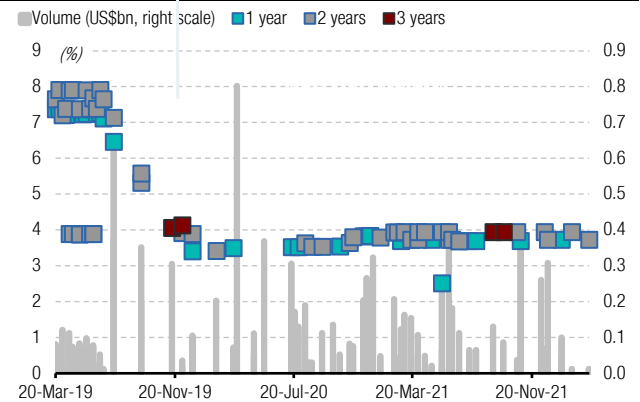
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

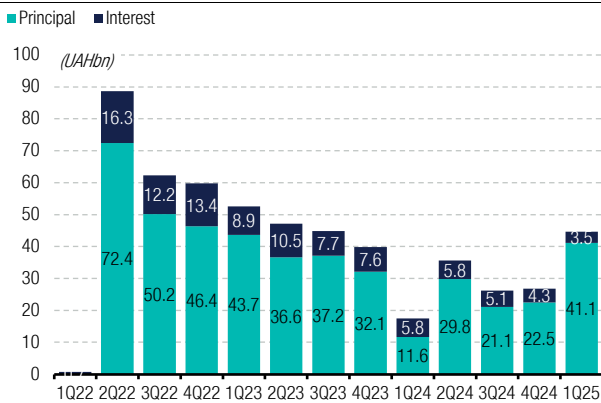
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

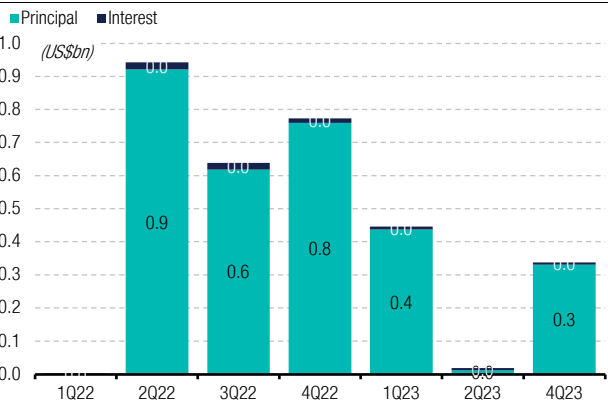
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

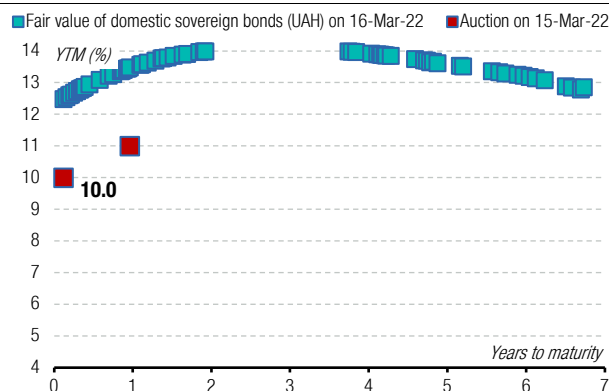
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

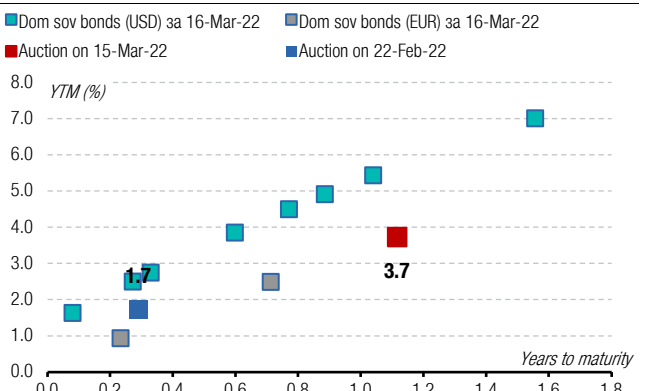
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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