

Bond Market Insight

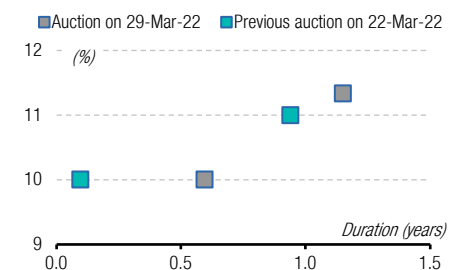
Less money raised from new Military Bonds

Comment on government bond placement

WEDNESDAY, 30 MARCH 2022

Yesterday, the Ministry of Finance replaced both issues of UAH-denominated bills that were offered in March, the funds from which were used to finance the armed forces and other critical expenditures, the so-called as military bonds. However, this replacement led to a reduction in demand in the primary market.

UAH-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
UA4000225791	0.00	@Mty	2-Nov-22	715,451	943.88	675.30	715.45	10.00	715.45
UA4000225809	11.00	SA	21-Jun-23	2,580,987	1,029.25	2,656.48	2,580.99	11.34	2,580.99
Total UAH				3,296,438		3,331.78	3,296.44		3,296.44

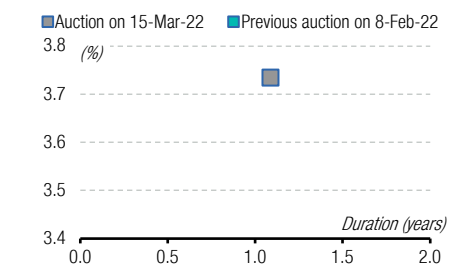
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 29.4/USD, 33.81/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Instead of one-month and 11-month bills, two new issues of UAH-denominated paper with a maturity of seven and 15 months were offered, with the same terms as before: 10% interest rate for the shorter and 11% for the longer maturities.

Banks have already bought a large amount of military bonds and can trade only these instruments. Consequently, they do not have much in the way of free funds. The next redemption of UAH-denominated bond will take place in late April. On the other hand, small investors cannot participate in the primary auction, so demand from them immediately declined.

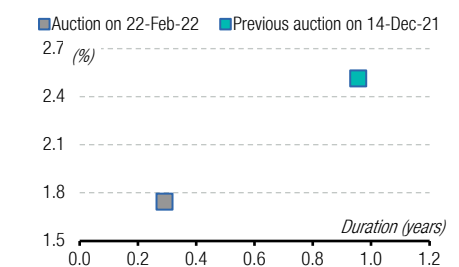
Nonetheless, demand yesterday amounted to UAH3.3bn (US\$113m), which is a very positive result even in such conditions. Next week the interest may expand even more.

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

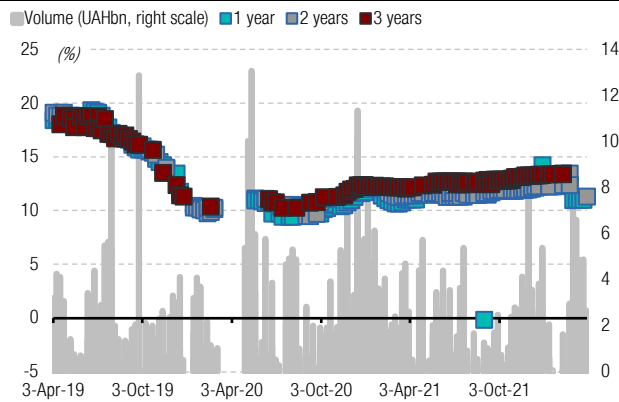


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

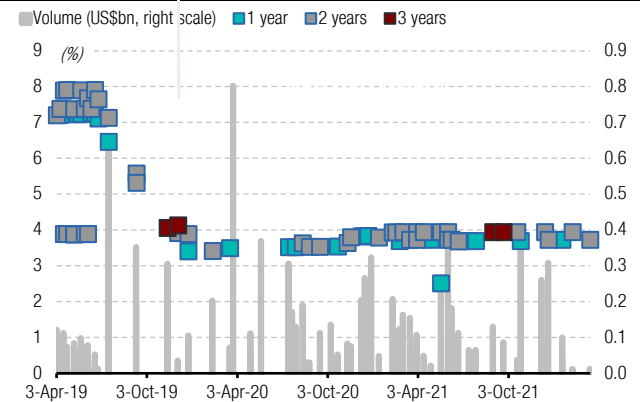
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

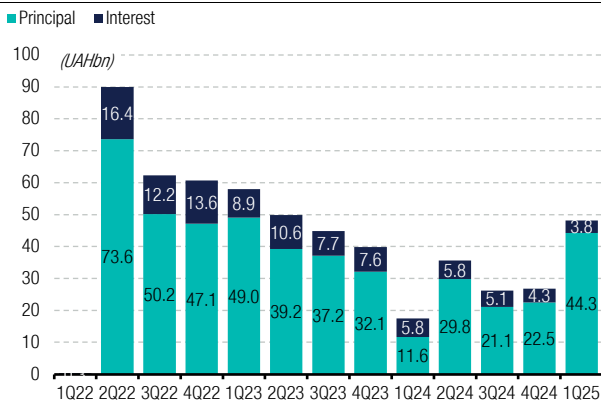
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

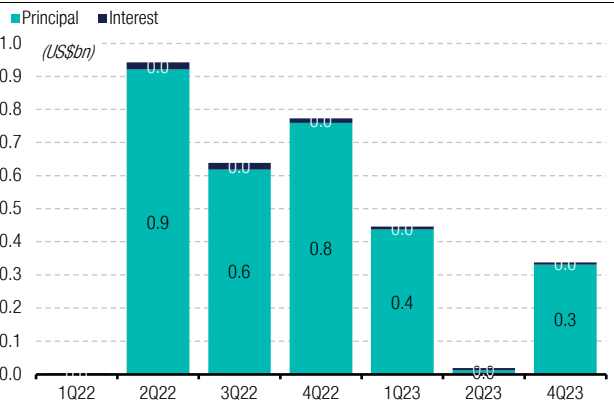
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

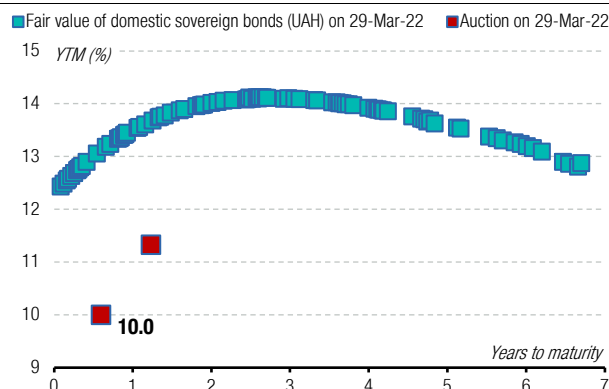
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

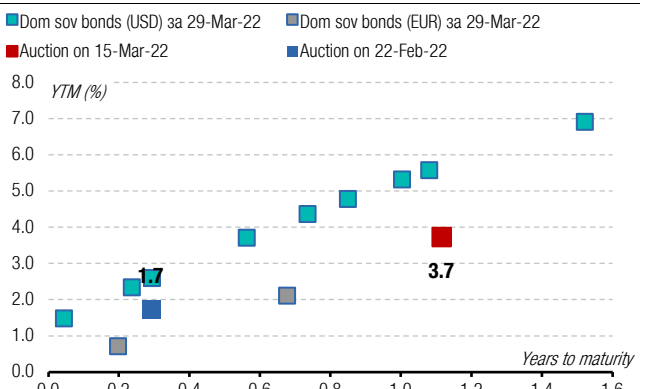
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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