

Bond Market Insight

Significant refinancing of repayments

Comment on government bond placement

WEDNESDAY, 27 APRIL 2022

Yesterday, the Ministry of Finance borrowed almost UAH13bn (US\$0.4bn), which refinanced most of today's redemptions and UAH-denominated debt repayments in general.

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
UA4000225866	0.00	@Mty	27-Jul-22	1,995,421	976.86	1,949.25	1,995.42	9.50	1,995.42
UA4000225791	0.00	@Mty	2-Nov-22	94,597	950.77	89.94	94.60	10.00	3,254.63
UA4000225809	11.00	SA	21-Jun-23	10,550,074	1,037.76	10,948.44	10,550.07	11.34	17,945.14
Total UAH				12,640,092	12,987.63	12,640.09			23,195.20

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

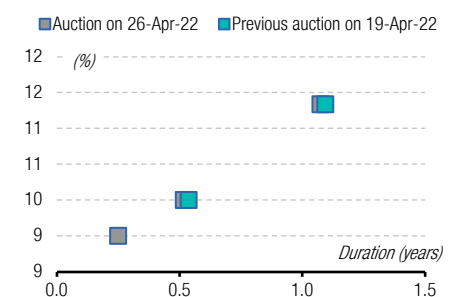
Since the beginning of the offering of military bonds, the Ministry has been issuing two-month bills with a gradual reduction of the tenor to one month. Yesterday, after a month's break, MoF offered new three-month paper. The Ministry even set the cut-off rate at 9.5%, 50bp lower than for two-month bills in early March. This paper provided the state budget with almost UAH2bn (US\$66m) of funds. This amount is more than was raised in March through two-month bills.

Semi-annual securities could not compete with three-month paper, so at a rate of 10%, the Ministry sold only UAH90m (US\$3m).

The longest of the military bonds—maturing in June 2023—received the most significant demand and brought the budget almost UAH11bn (US\$0.4bn). Although the number of bids was relatively small, it is clear that buyers were those investors who will receive redemptions tomorrow and, in the current conditions, do not have an alternative for investing.

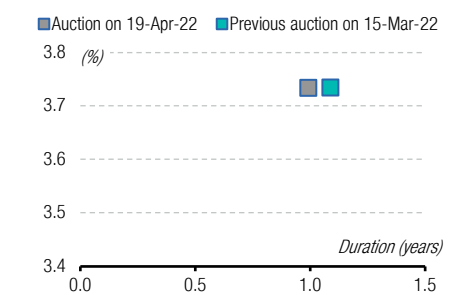
Therefore, given the state budget's needs for funds for urgent expenditures during martial law, such refinancing is a positive result. And although these funds will be used to redeem old bonds, including two-month military bills placed in March, the government will have to use significantly fewer funds received through tax payments for debt repayments.

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



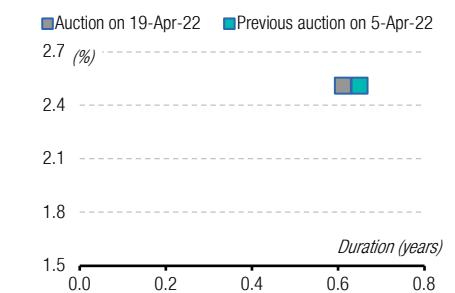
Source: Ministry of Finance of Ukraine, ICU.

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

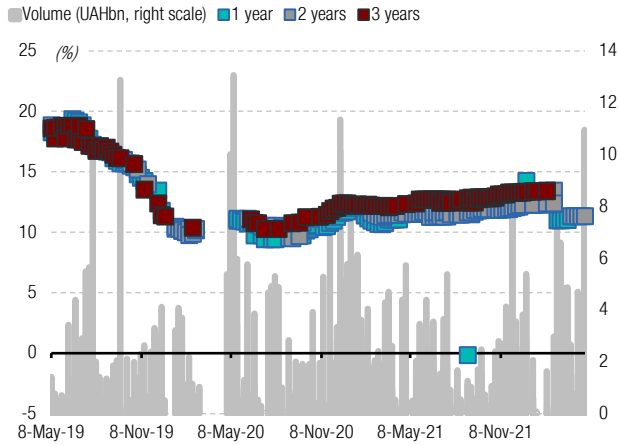


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

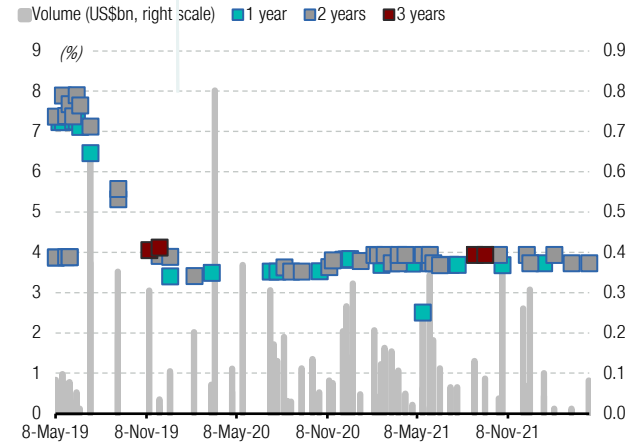
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

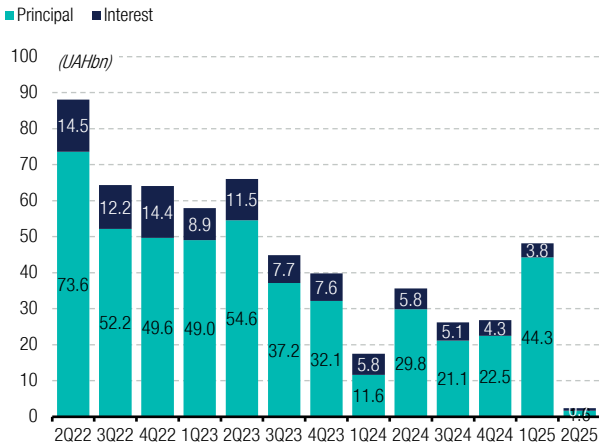
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

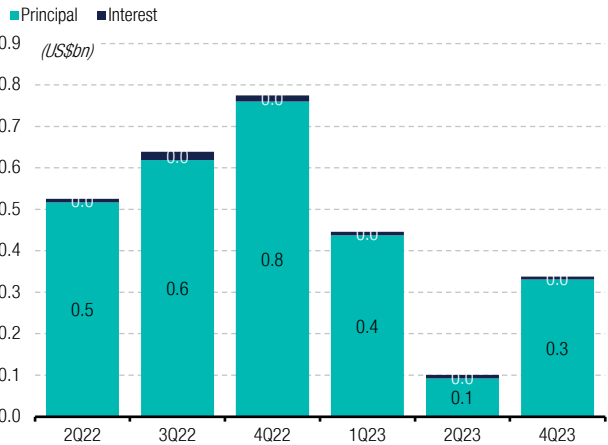
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

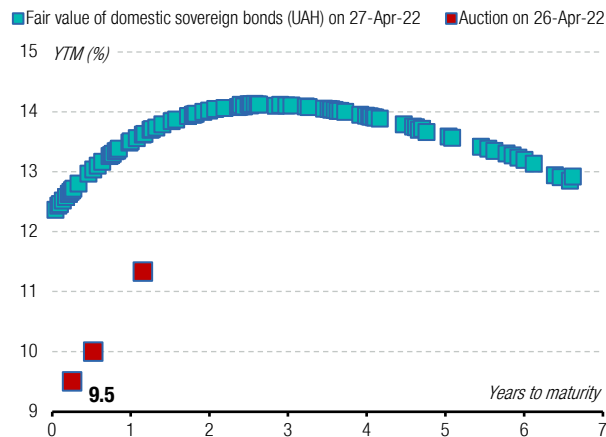
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

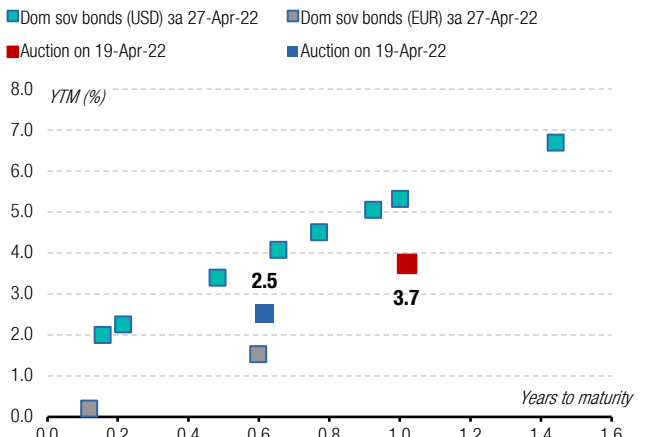
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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