

Bond Market Insight

Budget financing remains active

Comment on government bond placement

The Ministry of Finance raised more than UAH7bn (US\$242m) through military bills yesterday, mainly through UAH-denominated bonds. But demand for FX-denominated bills was also strong.

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 ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000225866	0.00	@Mty	27-Jul-22	834,507	978.60	816.65	834.51	9.50	2,829.93
UA4000225791	0.00	@Mty	2-Nov-22	664,523	952.51	632.96	664.52	10.00	3,919.16
UA4000225809	11.00	SA	21-Jun-23	4,038,810	1,039.90	4,199.96	4,038.81	11.34	21,983.95
Total UAH				5,537,840		5,649.57	5,537.84		28,733.04
UA4000225874	3.70	SA	25-May-23	49,515	1,016.35	1,486.89	1,462.97	3.73	1,462.97
Total USD				49,515		1,486.89	1,462.97		1,462.97

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

Yesterday, the largest demand was for 14-month securities, which came in above UAH4bn (US\$137m) at face value, and provided state budget with UAH4.2bn (US\$142m), or almost 60% of all borrowed funds. The state budget received another UAH0.8bn (US\$28m) and UAH0.6bn (US\$21m) from three-month and semi-annual instruments respectively.

Currently, domestic investors are most interested in military bills with the longest tenor with an interest rate of 11%, in contrast to shorter maturities that offer yields of 9.5% and 10%, respectively.

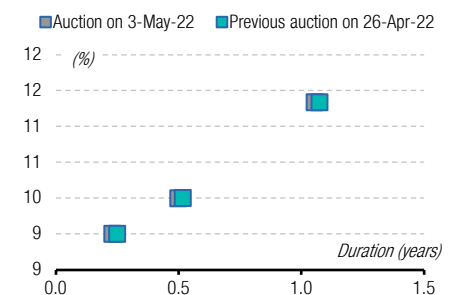
In total, UAH-denominated securities provided the state budget with UAH5.6bn (US\$192m), which covers the government's need to pay income on UAH-denominated bonds today and offsets part of budget expenditures for debt servicing earlier this year.

Investors were interested in FX-denominated bills, too. After partial refinancing of debt repayments in hard currency two weeks ago, FX liquidity in the market is still high and was gradually absorbed by the Ministry of Finance to cover critical budget expenditures during wartime.

Another US\$50m was borrowed yesterday in addition to US\$82m raised two weeks ago, which, together, now cover almost a third of USD-denominated repayments

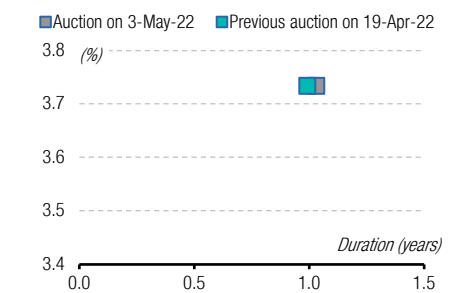
WEDNESDAY, 4 MAY 2022

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



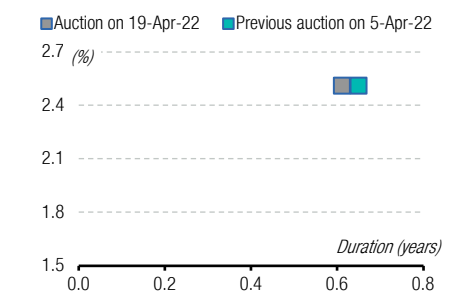
Source: Ministry of Finance of Ukraine, ICU.

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.

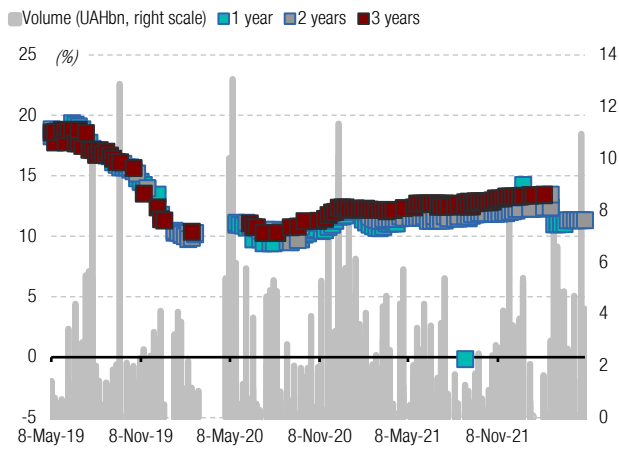
made in April.

Domestic funding remains at the usual level, averaging about UAH6.5bn (US\$220m) per week. Such borrowings, of course, do not cover the government's need to cover the budget deficit during wartime. However, it indicates that at least UAH-denominated redemptions can be refinanced thanks to the activity of banks and other domestic investors.

Appendix: Yields-to-maturity, repayments

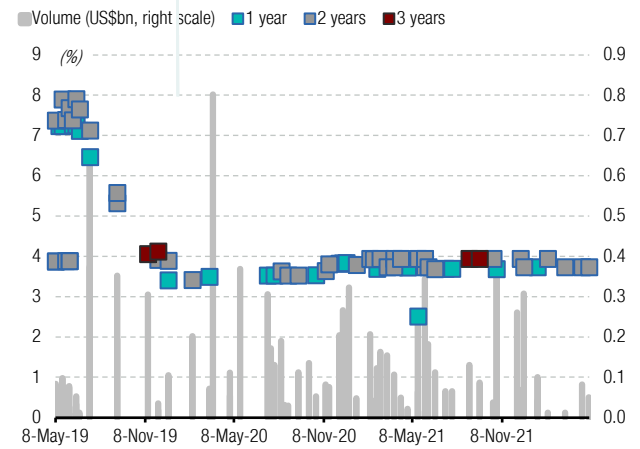
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

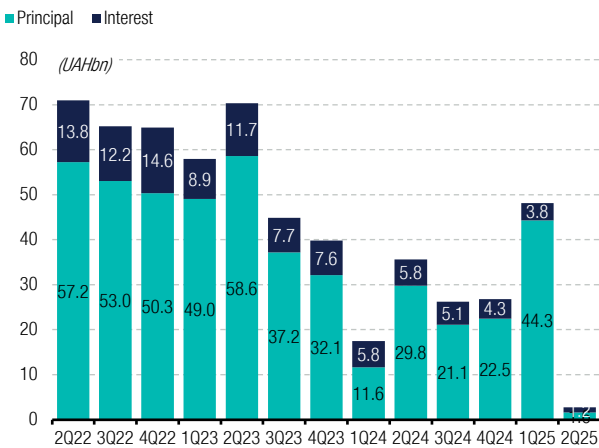
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

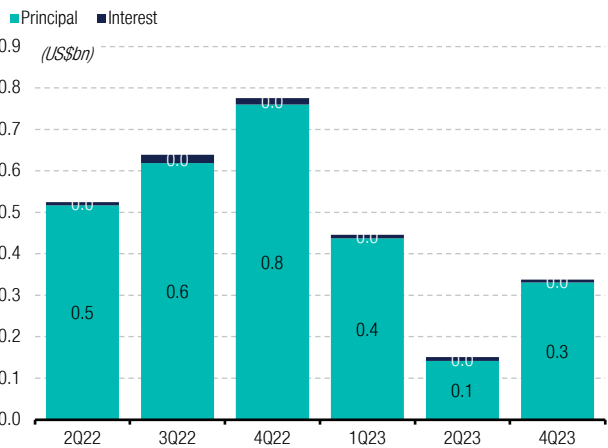
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

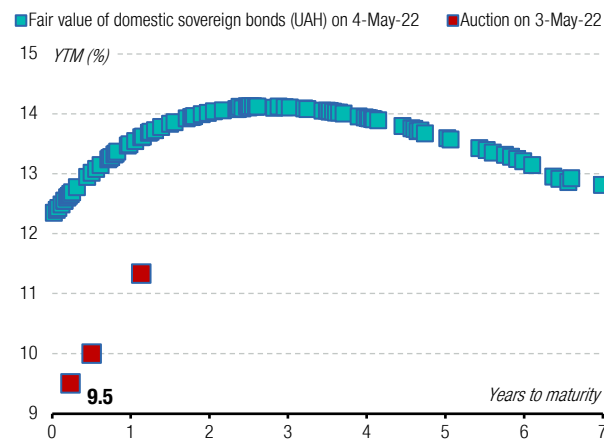
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

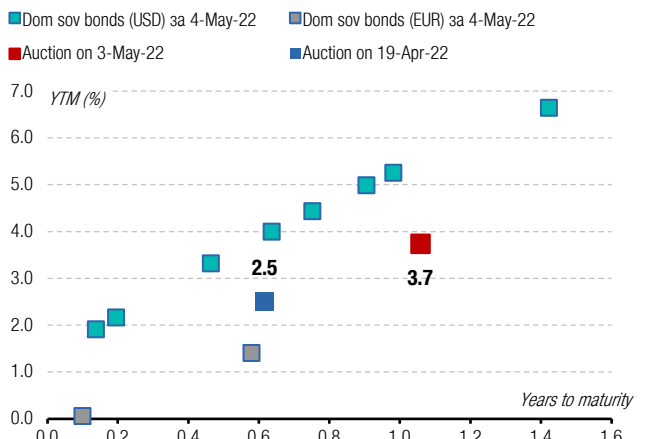
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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