

Bond Market Insight

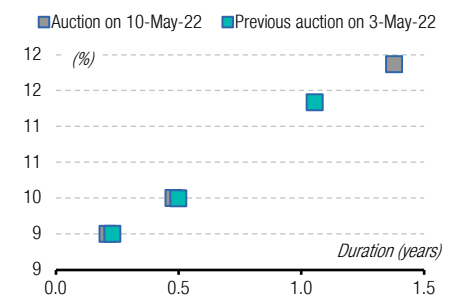
Maturity of military bonds lengthened

Comment on government bond placement

The Ministry of Finance raised UAH4.7bn (US\$161m) for the budget yesterday, which refinanced only part of today's redemption. However, the MoF added a new one-and-a-half-year issue, which could help increase borrowing at higher rates.

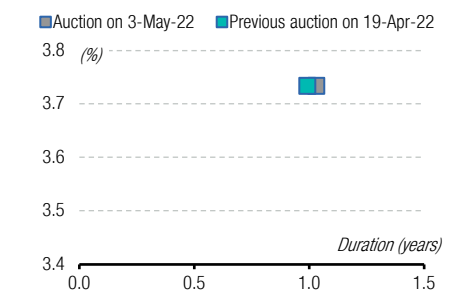
WEDNESDAY, 11 MAY 2022

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



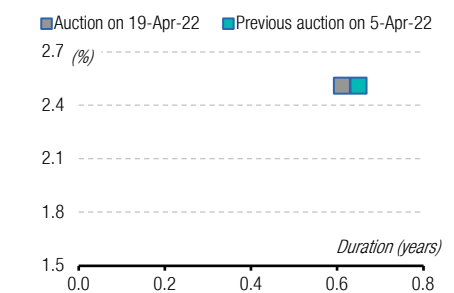
Source: Ministry of Finance of Ukraine, ICU.

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.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq 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	1,322,736	980.35	1,296.74	1,322.74	9.50	4,152.66
UA4000225791	0.00	@Mty	2-Nov-22	3,514,715	954.25	3,353.92	3,514.72	10.00	7,433.87
UA4000225908	11.50	SA	25-Oct-23	86,858	1,004.31	87.23	86.86	11.86	86.86
Total UAH				4,924,309		4,737.89	4,924.31		11,673.39

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.

Demand was mainly concentrated in the three-month and six-month bills, which amounted to UAH1.3bn (US\$44m) and UAH3.5bn (US\$114m), respectively. These bills were sold at the usual level of interest rates: 9.5% for three-month and 10% for half-year securities.

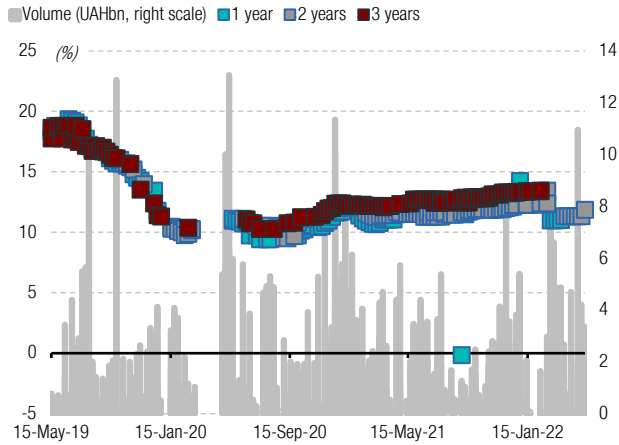
The new issue of military bills maturing in late October next year received the smallest demand yesterday. This is currently the longest maturity of military bills that the Ministry of Finance offered at primary auctions. The coupon rate was set at 11.5%, and UAH87m (US\$3m) was borrowed, mainly from non-competitive bids. Most investors likely postponed the purchase of these bonds until next week, waiting for the issuer's decision on the interest rate. At the same time, the most active of them submitted non-competitive bids.

So, although only a third of today's redemptions were refinanced yesterday, it is hoped that the Ministry of Finance's steps in the form of an offering longer bills will receive a positive response from the market. We expect that as early as next week, one-and-a-half-year bills may receive much greater demand from investors who would like to diversify the terms of assistance to the government during war-time.

Appendix: Yields-to-maturity, repayments

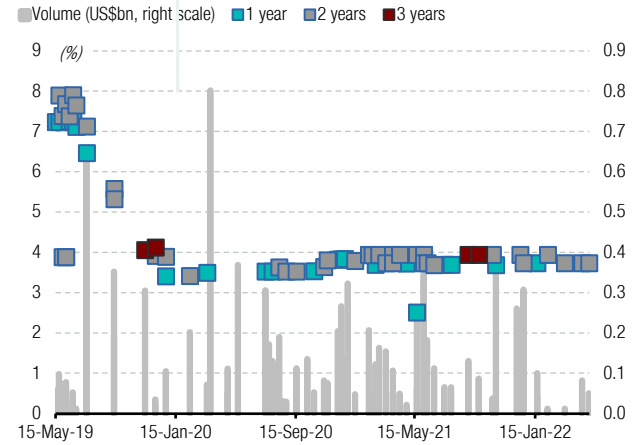
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

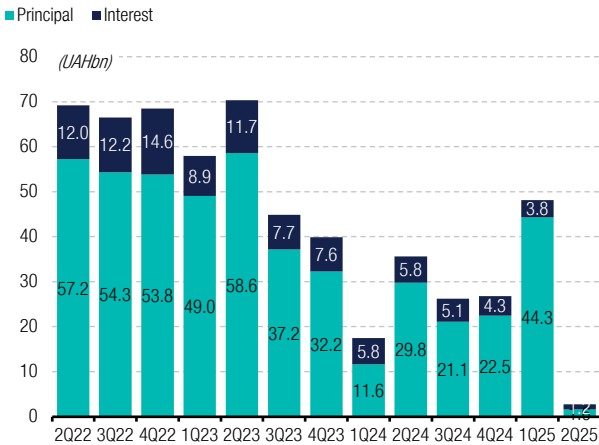
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

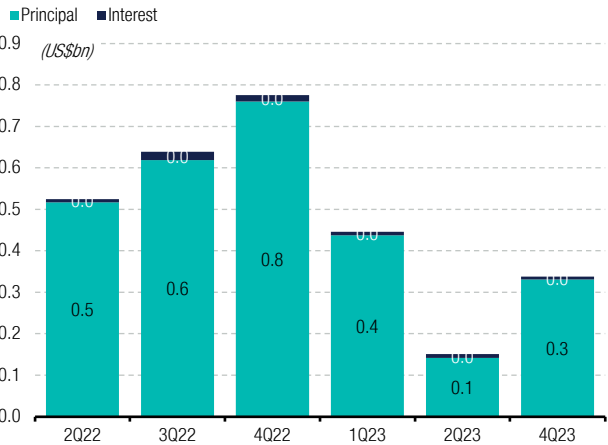
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

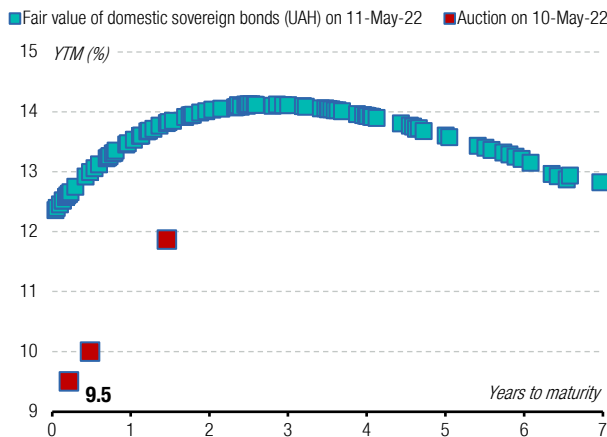
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

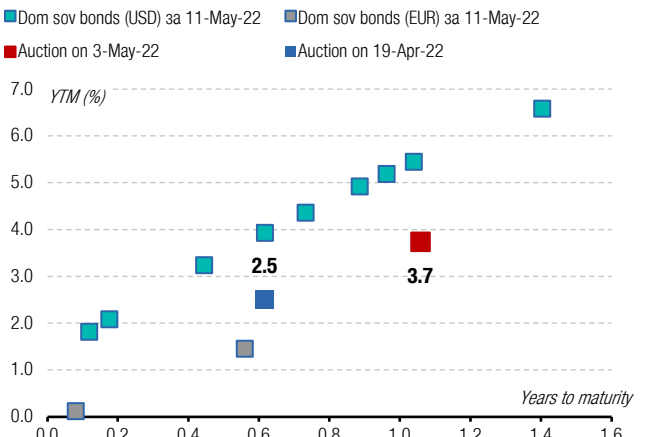
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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