

Bond Market Insight

Keeping rates on military bills unchanged results in lower borrowings

Comment on government bond placement

The Ministry of Finance decided not to change the interest rates on military bills, and borrowed only UAH810m (US\$27m) for the budget yesterday.

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
UA4000225981	0.00	@Mty	7-Sep-22	34,060	976.86	33.27	34.06	9.50	34.06
UA4000225940	0.00	@Mty	11-Jan-23	810,187	943.88	764.72	810.19	10.00	2,600.28
UA4000225908	0.00	SA	25-Oct-23	11,519	1,012.99	11.67	11.52	11.86	4,087.87
Total UAH				855,766		809.66	855.77		6,722.21

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 29.29/USD, 31.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

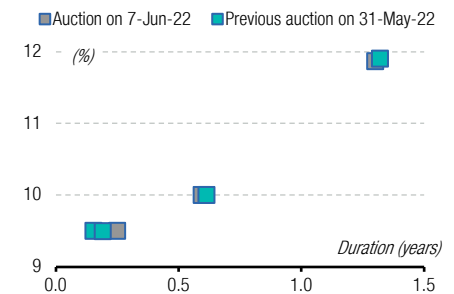
Demand for UAH military securities fell almost threefold compared with last week, both in face value and the number of bids. Most auction participants bought semi-annual bills, which provided the budget with almost UAH765m (US\$26m), but this was less than half what was raised last week. And the number of bids submitted for this paper declined from 40 to 12. The number of bids at yesterday's auction fell from 140 last week to 40.

The NBU's decision to raise the key policy rate sharply by 1,500bp up to 25% came as a surprise to the Ministry of Finance. Yesterday's auction, which the Ministry announced at fixed rates, unchanged from the previous auctions, showed the unwillingness of banks and other investors to accept such conditions.

As the next large bond redemption will be next week, the Ministry of Finance may try to keep interest rates at the previous level and refinance part of this redemption at a low cost. But in the face of urgent need for funds for budget expenditures, we can soon expect a reboot of the domestic bond market to find new equilibrium rates acceptable to both investors and for the state budget.

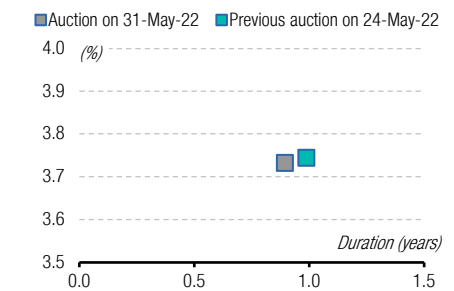
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



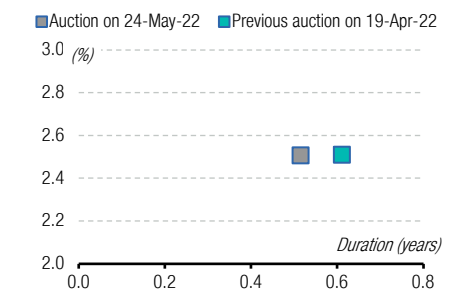
Source: Ministry of Finance of Ukraine, ICU.

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

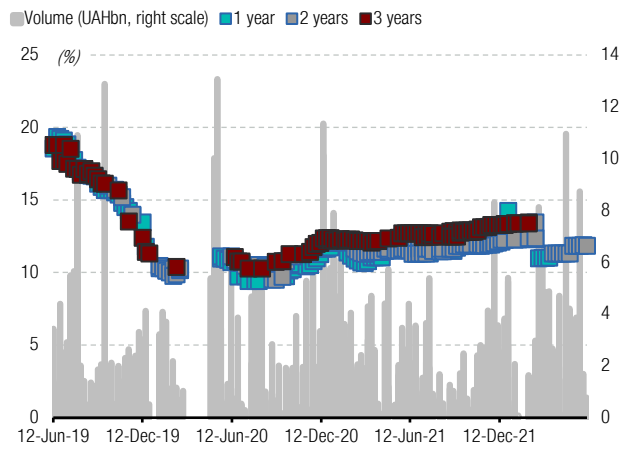


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

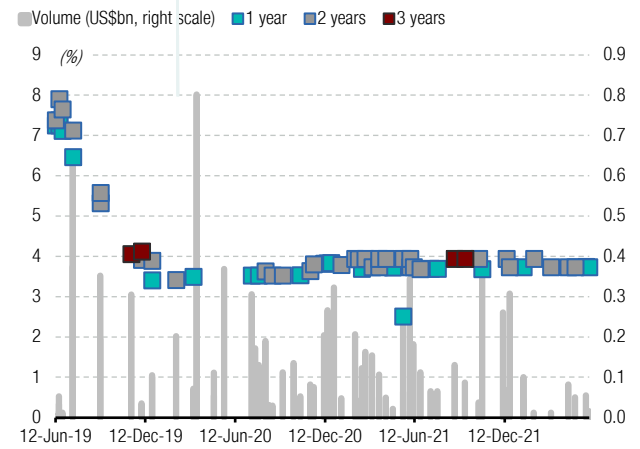
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

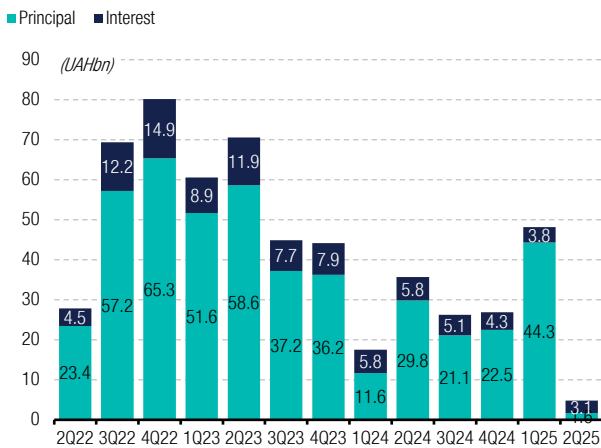
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

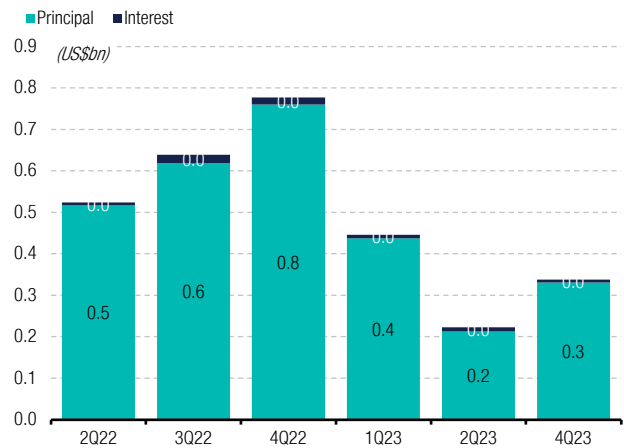
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

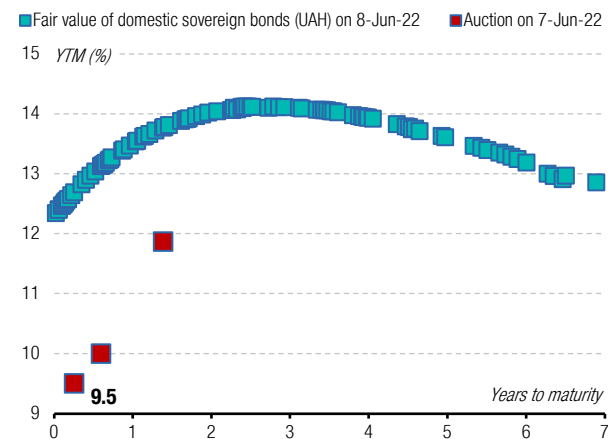
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

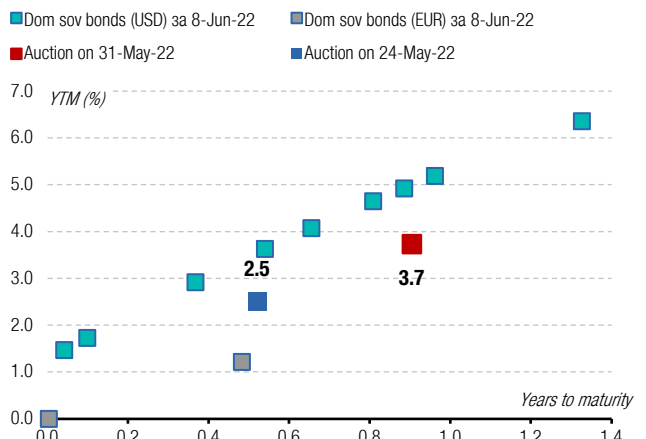
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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