

Bond Market Insight

Interest in military bills declines

Comment on government bond placement

WEDNESDAY, 15 JUNE 2022

Yesterday, almost UAH5.5bn (US\$190m) was raised for the budget through the primary auction. However, only UAH2.0bn (US\$73m) was raised through military bills.

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
UA4000225957	0.00	@Mty	10-Aug-22	3,500,406	985.63	3,450.11	3,500.41	9.50	4,050.64
UA4000225981	0.00	@Mty	7-Sep-22	195,017	978.60	190.84	195.02	9.50	229.08
UA4000225940	0.00	@Mty	11-Jan-23	13,916	945.60	13.16	13.92	10.00	2,614.20
UA4000225908	11.50	SA	25-Oct-23	132,076	1,015.17	134.08	132.08	11.86	4,219.95
Total UAH				3,841,415		3,788.19	3,841.42		11,113.86
UA4000226039	2.50	SA	15-Jun-23	54,587	1,000.00	1,678.88	1,678.88	2.52	1,678.88
Total EUR				54,587		1,678.88	1,678.88		1,678.88

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

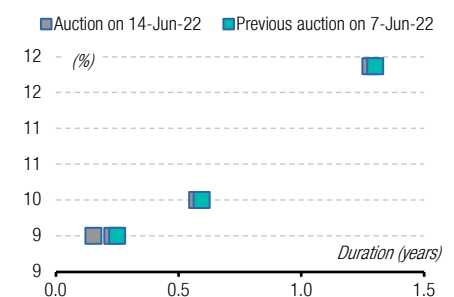
Most funds, almost UAH3.5bn (US\$117m), were raised through two-month non-military bills, which cannot be traded in the secondary market. This paper was offered for the first time two weeks ago. Some demand likely came from foreign investors or from banks and other investors that have internal caps limiting their investments in military bills. However, yesterday, there were only two buyers who chose to invest in non-military bills, despite they can't be traded in the secondary market.

The second-largest amount of borrowed funds came from military bills denominated in euros. It brought the budget EUR54.6m (UAH1.7bn) for a year.

The hryvnia-denominated military bills were not in great demand. The total volume of bids fell more than two-fold compared with last week to UAH341m (US\$11.6m) from UAH856m (US\$29m). However, the number of bids increased to 51 from 40 last Tuesday.

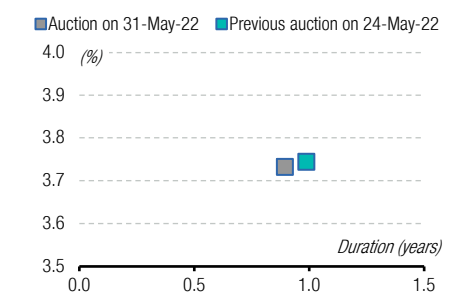
Thus, the budget attracted quite a good amount of funds to cover current needs, refinancing part of today's principal and interest repayments of UAH-denominated debt. But due to expectations of high inflation and with the NBU key policy rate now at 25%, investors are looking for a compromise level of interest rates on military bills that would be acceptable to the Ministry of Finance. Nonetheless, investors appear to be ready to buy more bills that cannot be traded in the secondary bond market during martial law, which helps the budget during war-time.

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



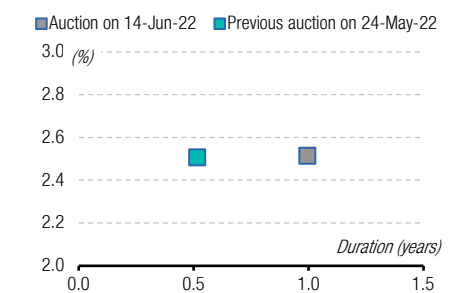
Source: Ministry of Finance of Ukraine, ICU.

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

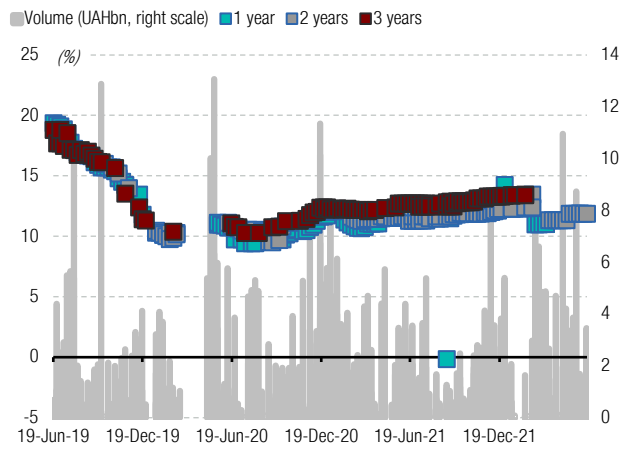


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

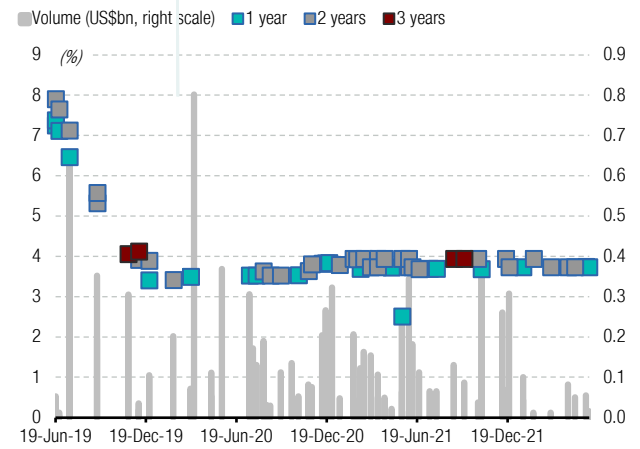
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

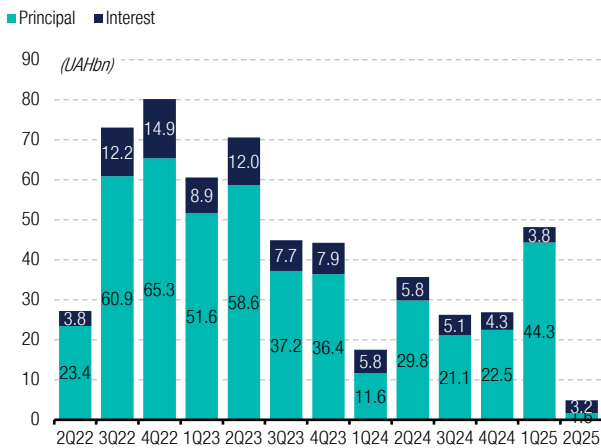
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

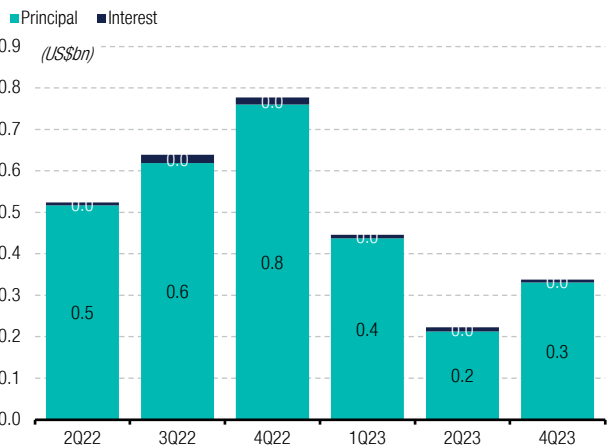
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

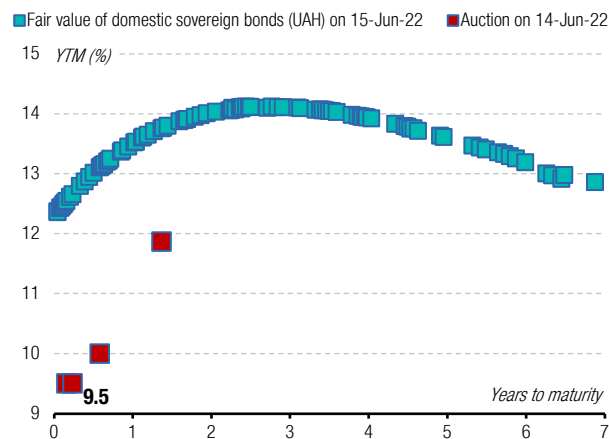
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

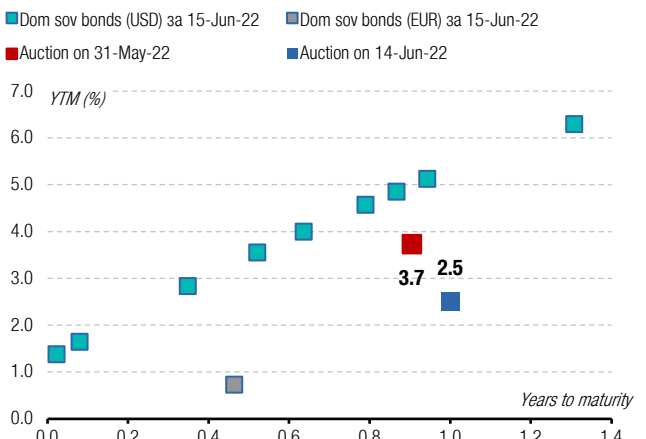
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

This page is intentionally left blank.



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko, CFA

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

