

# Bond Market Insight

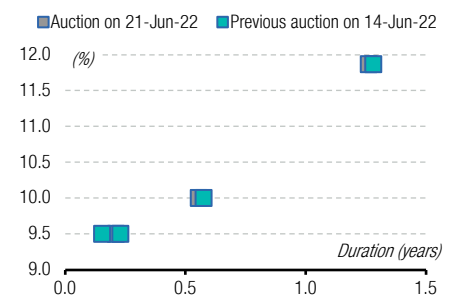
## FX bills dominate budget financing

### Comment on government bond placement

WEDNESDAY, 22 JUNE 2022

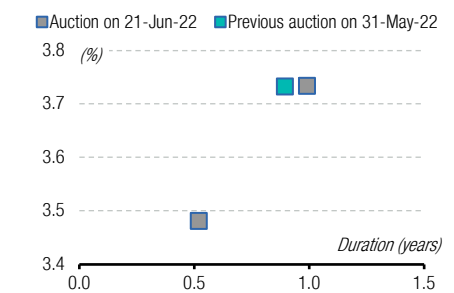
At yesterday's auction, almost UAH7.7bn (US\$262m) was raised for the budget. The vast majority of funds were raised through FX-denominated bills, which brought the budget US\$220m (UAH6.5bn) or 85% of all funds raised.

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



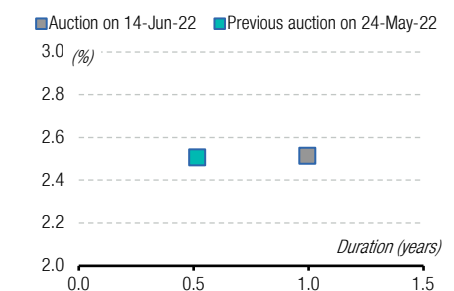
Source: Ministry of Finance of Ukraine, ICU.

### 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 frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000225981	0.00	@Mty	7-Sep-22	1,157,744	980.35	1,134.99	1,157.74	9.50	1,386.82
UA4000225940	0.00	@Mty	11-Jan-23	31,322	947.31	29.67	31.32	10.00	2,645.52
UA4000225908	11.50	SA	25-Oct-23	22,963	1,017.35	23.36	22.96	11.87	4,242.91
<b>Total UAH</b>				<b>1,212,029</b>		<b>1,188.03</b>	<b>1,212.03</b>		<b>8,275.25</b>
UA4000226138	0.00	@Mty	29-Dec-22	102,476	982.20	2,974.11	3,028.01	3.48	3,028.01
UA4000226120	3.70	SA	22-Jun-23	121,106	1,000.00	3,578.50	3,578.50	3.73	3,578.50
<b>Total USD</b>				<b>223,582</b>		<b>6,552.61</b>	<b>6,606.51</b>		<b>6,606.51</b>

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

UAH securities are usually for June not in great demand. Yesterday, bills maturing in September received almost UAH1.2bn (US\$39m) of demand, while bids for longer maturities totalled only UAH54m (US\$1.8m). All military bills were sold at the usual interest rates of 9.5–11.5%, which were set by the MoF at the beginning of the full-scale Russian invasion.

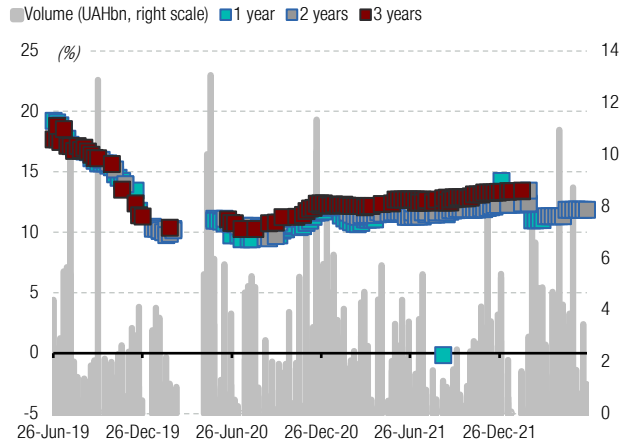
The offer of USD-denominated bills helped MoF improve borrowings and replenish FX reserves before tomorrow's US\$0.5bn of redemptions. Although the number of bids was minor, the budget received US\$222m from six and 12-month FX-denominated bills. Interest rates on them remained unchanged and were set at 3.5% and 3.7%, respectively.

Although the UAH military bills brought slightly more funds to the budget than in previous weeks, the total amount of borrowings through this instrument remains low. In March and May, the budget attracted UAH29bn (US\$1bn) per month through military bills; in April MoF was able to borrow UAH20bn (US\$0.7bn). But in June, just UAH2.3bn (US\$79m) was borrowed through this instrument. This month, an additional UAH3.5bn (US\$120m) was raised through non-military bonds, which are not admitted for trading on the secondary market. This will lead to fewer borrowings in June than in April.

# Appendix: Yields-to-maturity, repayments

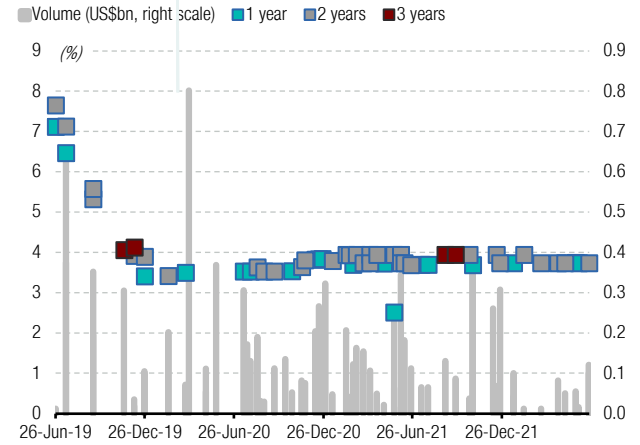
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

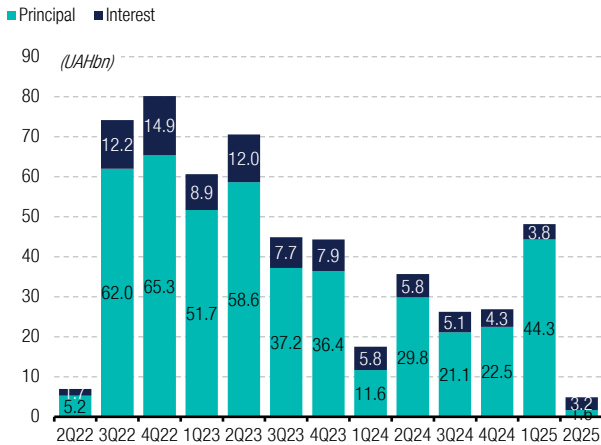
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

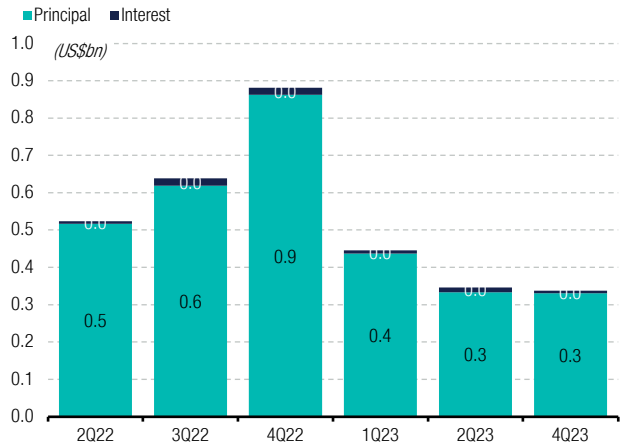
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

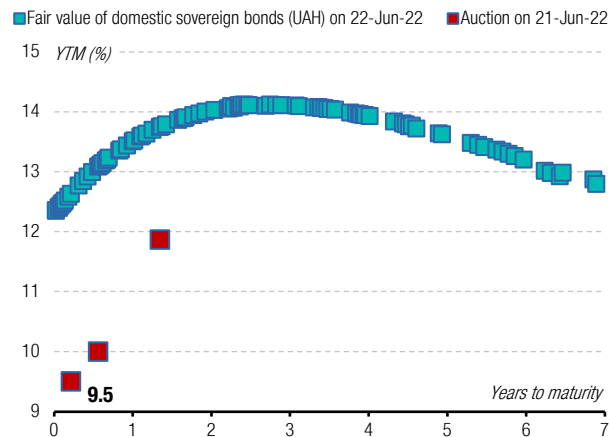
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

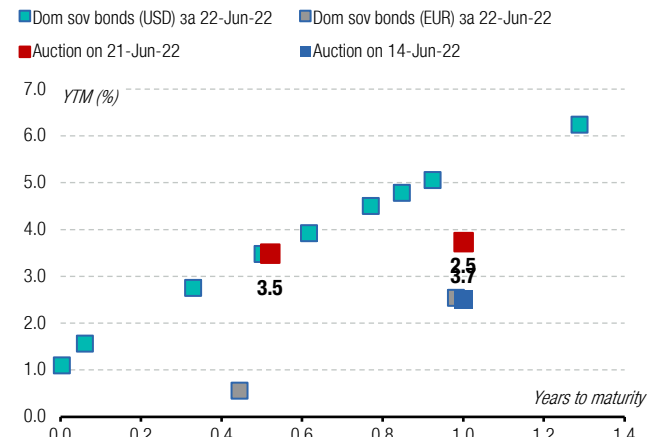
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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