

Bond Market Insight

Borrowings decline

Comment on government bond placement

At yesterday's auction, the MoF raised only UAH2.1bn for the budget, of which only UAH350m (US\$12m) was in hryvnia.

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	312,447	982.11	306.86	312.45	9.50	1,699.27
UA4000225940	0.00	@Mty	11-Jan-23	31,668	949.04	30.05	31.67	10.00	2,677.19
UA4000225908	11.50	SA	25-Oct-23	12,365	1,019.54	12.61	12.37	11.87	4,255.28
Total UAH				356,480		349.52	356.48		8,631.73
UA4000226138	0.00	@Mty	29-Dec-22	47,244	982.85	1,371.56	1,395.49	3.48	4,422.41
UA4000226120	3.70	SA	22-Jun-23	13,122	1,000.71	387.87	387.60	3.73	3,964.81
Total USD				60,366		1,759.43	1,783.08		8,387.23

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

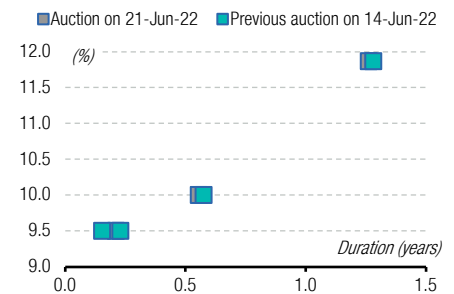
FX-denominated bills, again, became a key source of funding. Through this instrument, US\$60m or almost UAH1.8bn was raised: US\$47m through semi-annual securities at a rate of 3.5% and US\$13m through 12-month bills at a rate of 3.7%.

However, as was the case last week, UAH-denominated bills were not in demand. The auction received 52 bids, but for only UAH356m (US\$12m) at face value. The vast majority of demand, UAH312m (US\$10.5m) in 23 bids, was submitted for two-month paper, while semi-annual and 12-month bills received UAH32m (US\$1m) and UAH12m (US\$0.4m) of demand, respectively.

Rates on all military bills in local currency remain unchanged at 9.5–11.5%, causing a further decline in demand for UAH-denominated instruments. Yesterday, the demand for them was the lowest of all placements since the NBU key policy rate was raised to 25%. Therefore, if attempts to keep rates at the previous level continue, the volume of borrowings from hryvnia instruments will remain low.

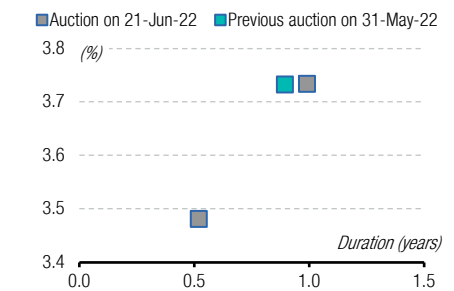
WEDNESDAY, 29 JUNE 2022

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



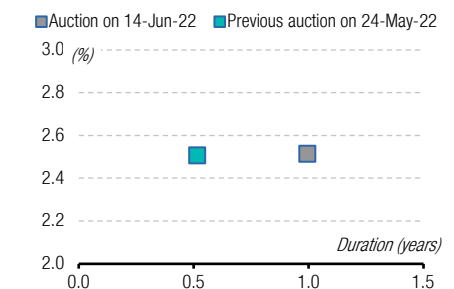
Source: Ministry of Finance of Ukraine, ICU.

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

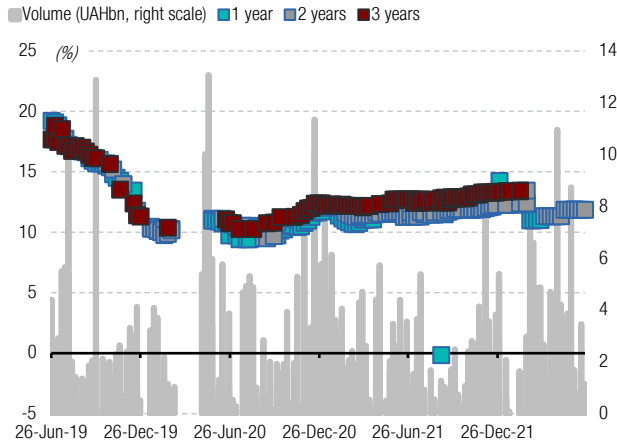


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

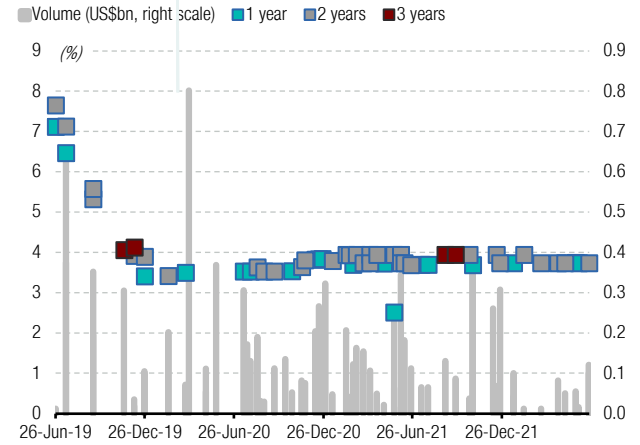
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

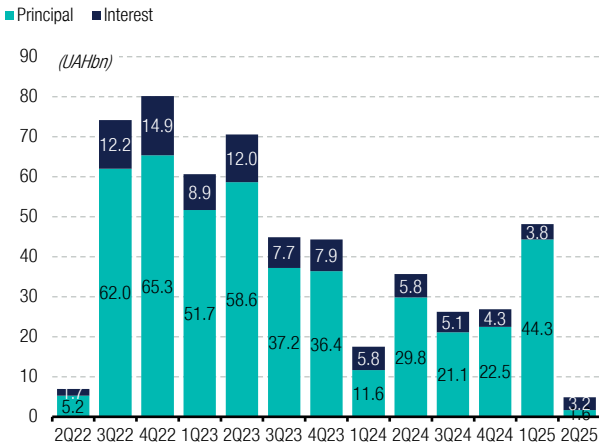
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

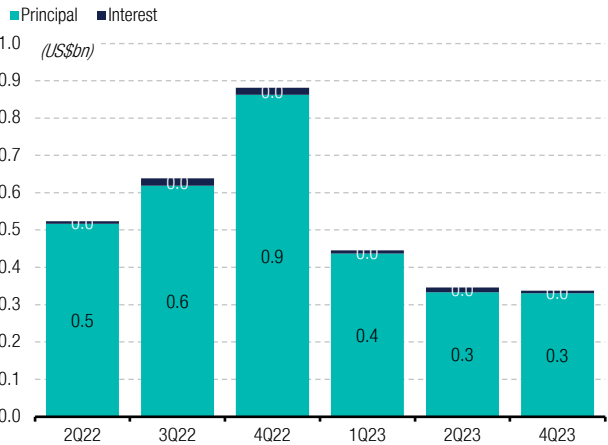
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

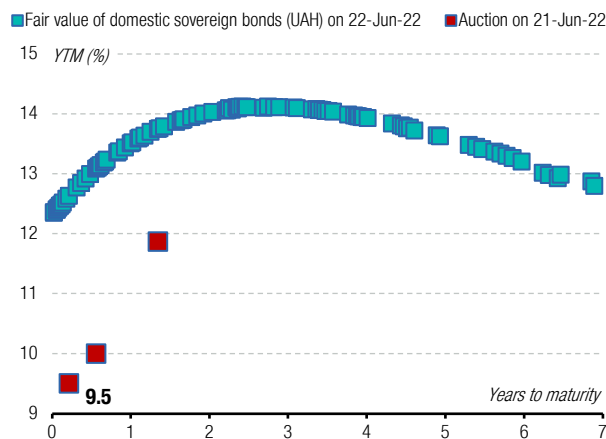
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

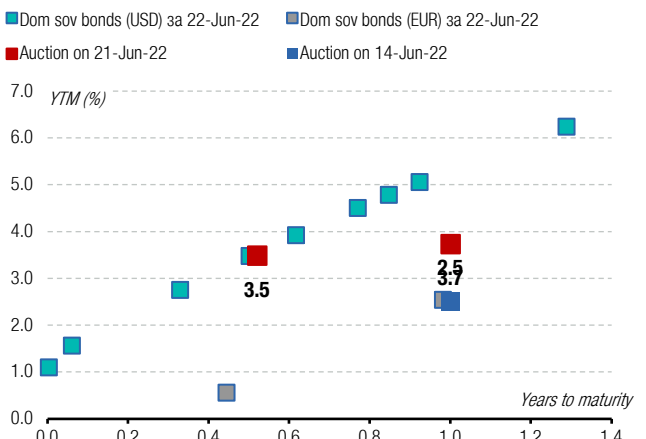
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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