

# Bond Market Insight

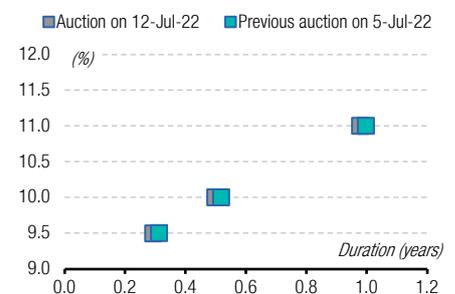
## MoF raises rates on USD, but not UAH bills

### Comment on government bond placement

For the second time in a row, the Ministry of Finance refused to accept bids that required increased rates on UAH bills. However, the MoF did increase rates for FX bills.

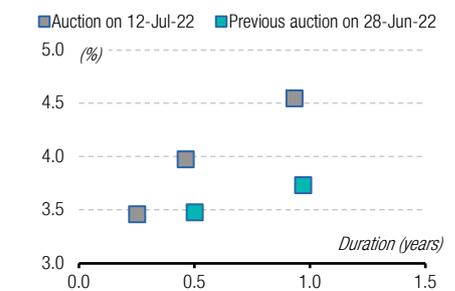
WEDNESDAY, 13 JULY 2022

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



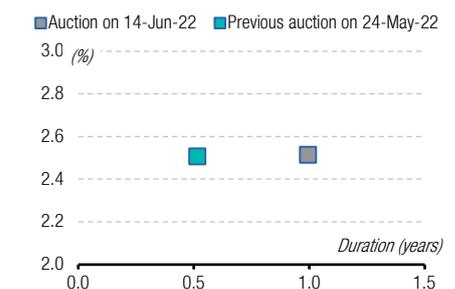
Source: Ministry of Finance of Ukraine, ICU.

### 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 <sup>1</sup>	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>
UA4000226187	0.00	@Mty	28-Oct-22	31,442	972.91	30.59	31.44	9.50	115.71
UA4000225940	0.00	@Mty	11-Jan-23	15,941	952.49	15.18	15.94	10.00	2,707.54
UA4000226195	0.00	@Mty	5-Jul-23	108,232	902.86	97.72	108.23	11.00	144.25
<b>Total UAH</b>				<b>155,615</b>		<b>143.49</b>	<b>155.62</b>		<b>2,967.50</b>
UA4000226211	0.00	@Mty	13-Oct-22	141,848	991.35	4,145.94	4,182.12	3.46	4,182.12
UA4000226138	0.00	@Mty	29-Dec-22	187,193	981.92	5,419.25	5,519.03	3.98	9,933.24
UA4000226120	3.70	SA	22-Jun-23	6,054	994.81	177.56	178.49	4.55	4,135.95
<b>Total USD</b>				<b>335,095</b>		<b>9,742.75</b>	<b>9,879.64</b>		<b>18,251.31</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 29.48/USD, 30.86/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The demand for UAH-denominated paper was up from UAH2.9bn (US\$100m) to UAH3.9bn (US\$133m). Still, the vast majority of demand was submitted at rates higher than the Ministry of Finance currently will accept. Therefore, only competitive bids with rates between 9.5–11% and non-competitive bids were satisfied. Only UAH143.5m (US\$4.8m) was borrowed in local currency, just UAH15m (US\$0.5m) more than last week.

The rest of the demand, mainly for three-month paper, was rejected.

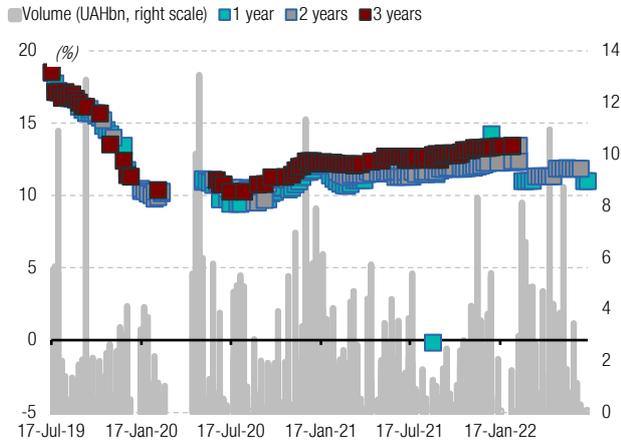
Borrowing improved for USD-denominated bills, where interest rates unexpectedly increased. For almost three years, the Ministry issued USD-denominated bills with rates no higher than 4%, but yesterday, they were raised by 50–80bp to 3.5–4.5%. This allowed the MoF to raise US\$330m or UAH9.7b at the official exchange rate.

Yesterday, UAH9.8bn (US\$335m) was raised for the budget, but local-currency funds accounted for only 1.5% of proceeds. As a result, refinancing of UAH redemptions worsened, and FX risks for the state budget increased.

# Appendix: Yields-to-maturity, repayments

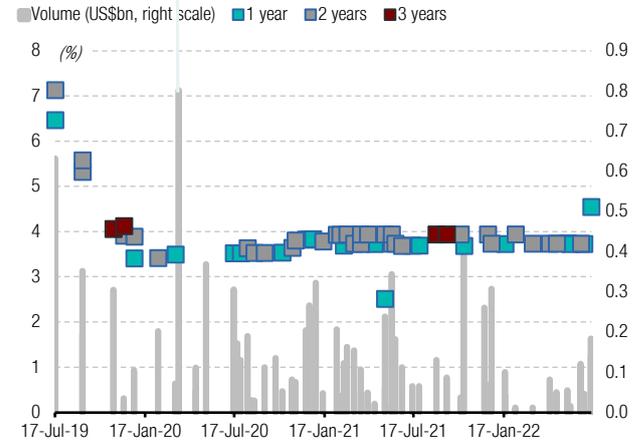
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

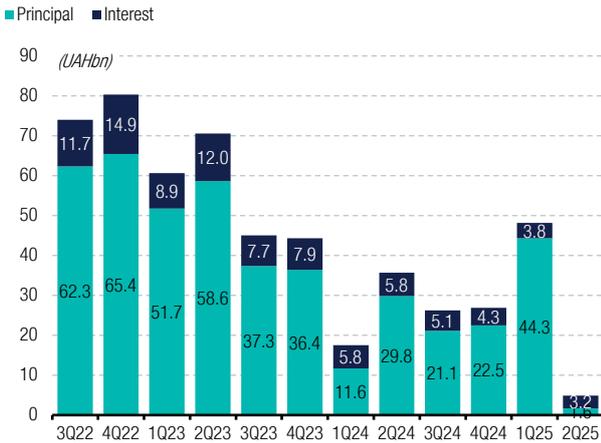
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

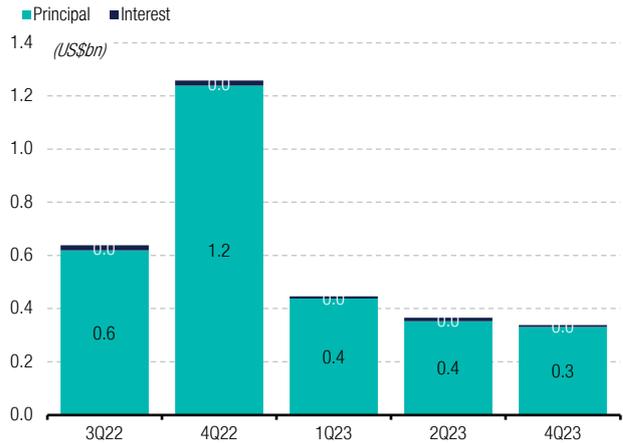
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

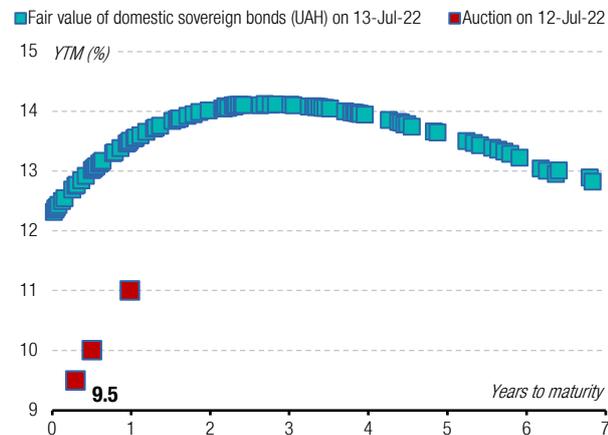
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

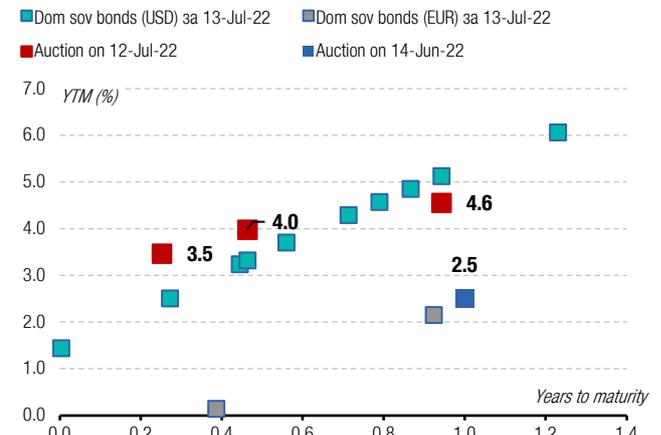
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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