

Bond Market Insight

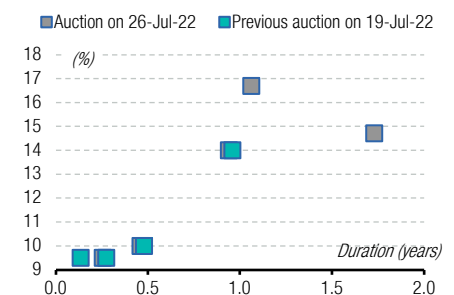
Ministry of Finance expands choice of bonds

Comment on government bond placement

Yesterday, the Ministry of Finance was able to place all offered instruments, despite some having specific conditions. In total, almost UAH9.9bn (US\$267m) was raised for the budget, with more than half of the funds in hard currency.

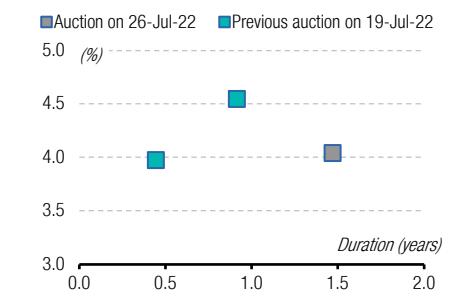
WEDNESDAY, 27 JULY 2022

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



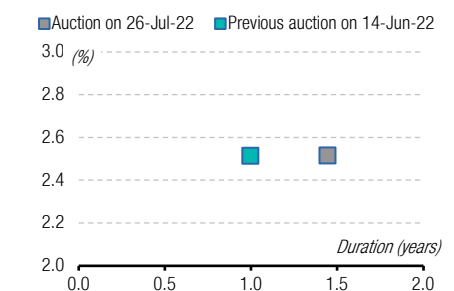
Source: Ministry of Finance of Ukraine, ICU.

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 frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000226187	0.00	@Mty	28-Oct-22	550,438	976.37	537.43	550.44	9.50	784.61
UA4000225940	0.00	@Mty	11-Jan-23	29,907	956.00	28.59	29.91	10.00	2,756.23
UA4000226195	0.00	@Mty	5-Jul-23	52,838	883.73	46.69	52.84	14.00	2,215.87
UA4000226260	16.00	SA	27-Sep-23	3,500,000	1,051.61	3,680.64	3,500.00	16.69	3,500.00
UA4000226286	14.00	SA	26-Jun-24	3,684	1,007.72	3.71	3.68	14.71	3.68
Total UAH				4,136,867		4,297.06	4,136.87		9,260.39
UA4000226278	4.00	SA	25-Jan-24	50,010	1,000.00	1,825.84	1,825.84	4.04	1,825.84
Total USD				50,010		1,825.84	1,825.84		1,825.84
UA4000226294	2.50	SA	11-Jan-24	100,009	1,000.96	3,729.33	3,725.75	2.52	3,725.75
Total EUR				100,009		3,729.33	3,725.75		3,725.75

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 36.51/USD, 37.25/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The Ministry of Finance continued to review interest rates for UAH bills. Last week, 12-month paper saw an increase to 14%. Yesterday, the MoF offered 14-month and two-year bills and set rates for them at 16% and 14%, respectively. However, for short tenors of less than a year, interest rates remained unchanged: 9.5% for three and 10% for six months.

The new 14-month paper was bought by only one participant for UAH3.5bn (US\$96m) (par value), which meant paying almost UAH3.7bn (US\$101m). On the other hand, the Ministry accepted 19 bids worth UAH52m at 14% for 11-month bills.

The FX bills were placed on rather specific terms. These were two 18-month bills denominated in USD and euros that have a put option and can be submitted for early redemption at any time with a portion of the accrued interest. So, they are unlikely to be available on the secondary market.

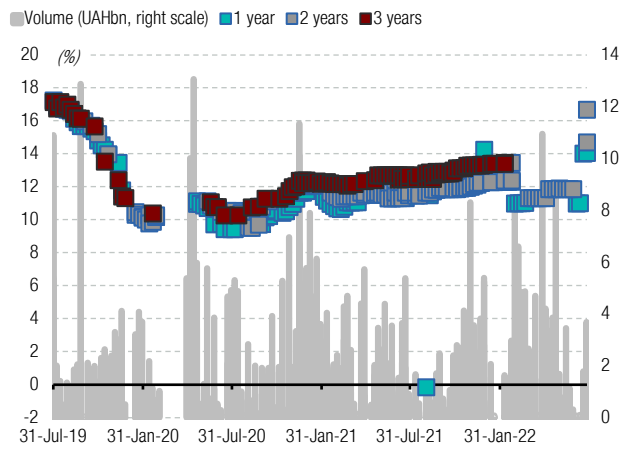
The Ministry of Finance has taken another step towards changing rates in the primary market. However, it is trying to change them selectively, even offering specific instruments, such as a 14-month maturity, which do not appear in the auction

schedule for the following two months. However, interest rates at 14% for both one and two years are unlikely to be very attractive to investors in the near future, as it will not compensate for inflation in the country. Therefore, in August, the volume of borrowings may decrease again unless the MoF offers higher rates or specific bills issues.

Appendix: Yields-to-maturity, repayments

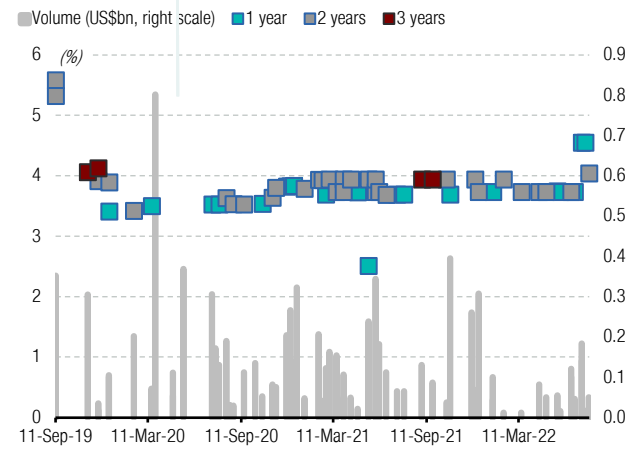
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

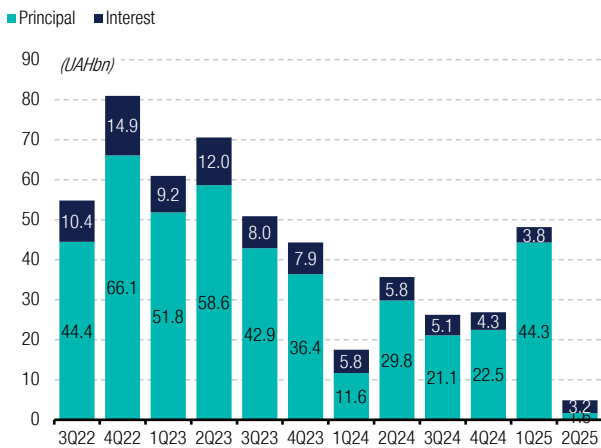
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

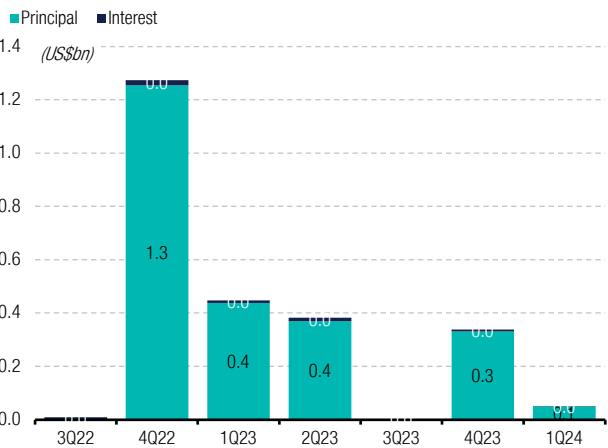
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

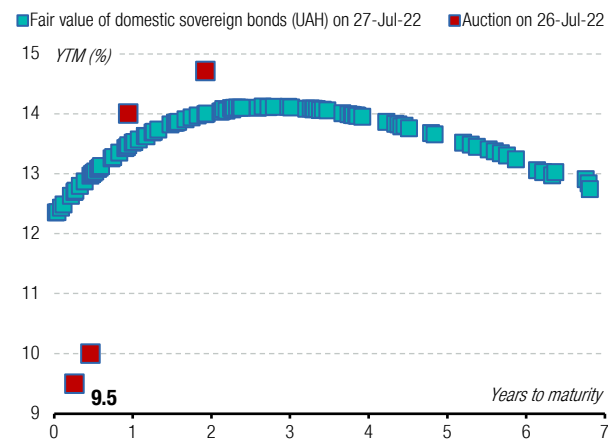
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

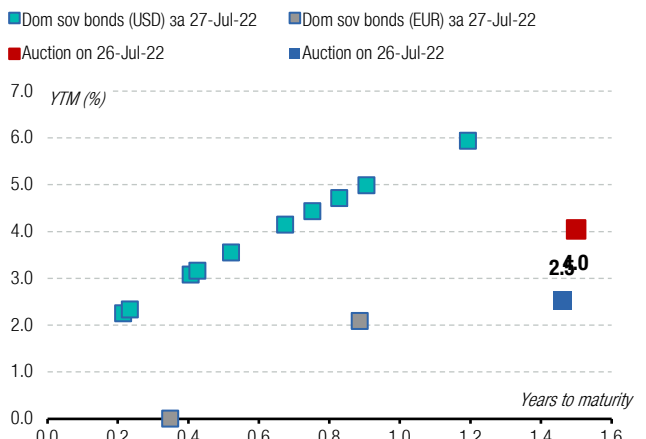
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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