

Bond Market Insight

Lower borrowings at unchanged rates

Comment on government bond placement

The Ministry of Finance kept interest rates unchanged from the previous auction and raised only UAH3.1bn (US\$85m) in local currency yesterday.

WEDNESDAY, 3 AUGUST 2022

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
UA4000225940	0.00	@Mty	11-Jan-23	23,710	957.75	22.71	23.71	10.00	2,779.94
UA4000226195	0.00	@Mty	5-Jul-23	23,036	885.84	20.41	23.04	14.00	2,238.91
UA4000226260	16.00	SA	27-Sep-23	2,909,784	1,054.73	3,069.04	2,909.78	16.69	6,409.78
Total UAH				2,956,530	3,112.15	2,956.53			11,428.63

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 36.92/USD, 37.66/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The 14-month bills maturing at the end of September 2023 received the most significant demand. These bills currently have the highest interest rate and saw growth in activity: 33 bids yesterday instead of one bid a week ago. At the same time, the amount of demand at par value was only UAH2.9bn (US\$80m), less than the UAH3.5bn (US\$96m) raised last week. All bids were at 16%, the same as at the previous auction, so they were satisfied.

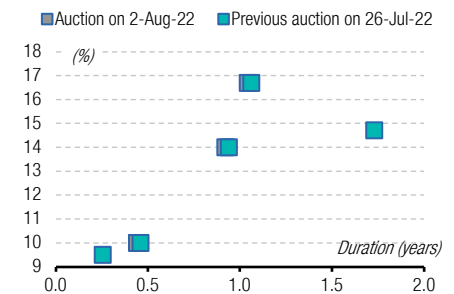
However, there were no bids at all for the two-year paper, the same paper that the Ministry of Finance placed last week with a rate of 14%.

The demand for five-month bills was low, but the vast majority of bidders were ready to buy them at a rate of 10%, so out of 24 applications, 22 were satisfied and almost UAH23m (US\$0.6m) was raised.

The Ministry was able to attract another billion hryvnias for 11 months, satisfying a large bid for UAH1.2bn (US\$33m) with a 20% interest rate, but they accepted only eight bids for only UAH23m (US\$0.6m) at face value.

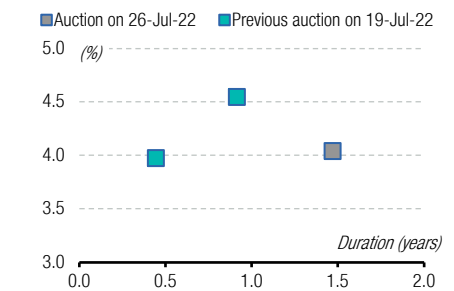
It was expected that investors would mainly be interested in securities with higher rates, especially the 14-month paper. Although this paper revived demand and will contribute to the increase in secondary market trading, it did not help to increase local-currency borrowings, which even decreased compared with the previous week. Therefore, without revising interest rates on UAH government bonds, the Ministry of Finance is unlikely to be able to sustainably attract more funds in the primary market.

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



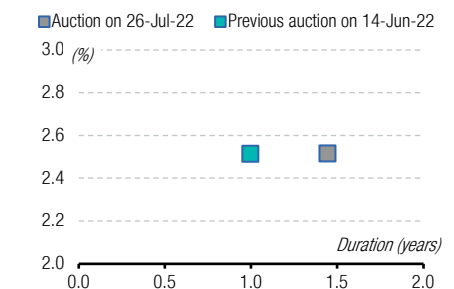
Source: Ministry of Finance of Ukraine, ICU.

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

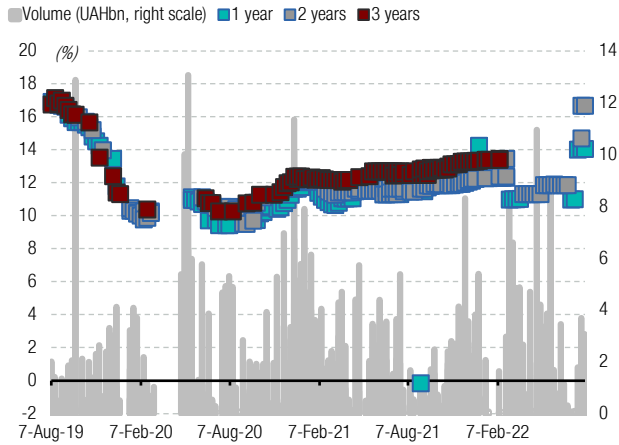


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

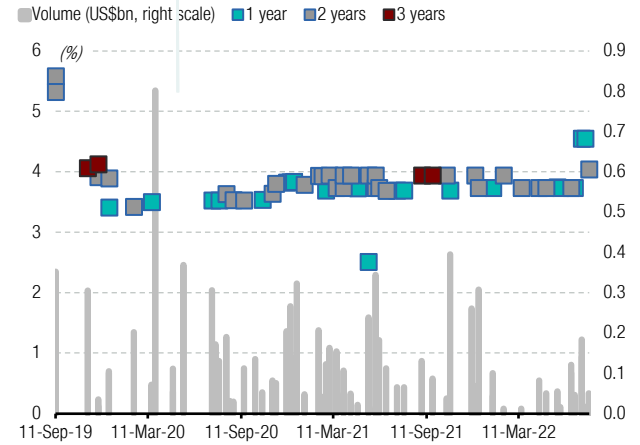
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

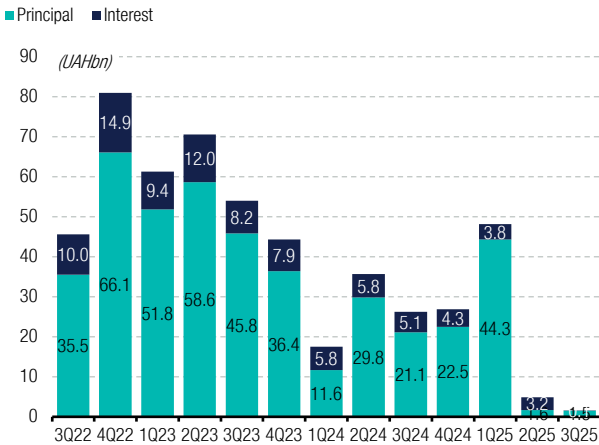
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

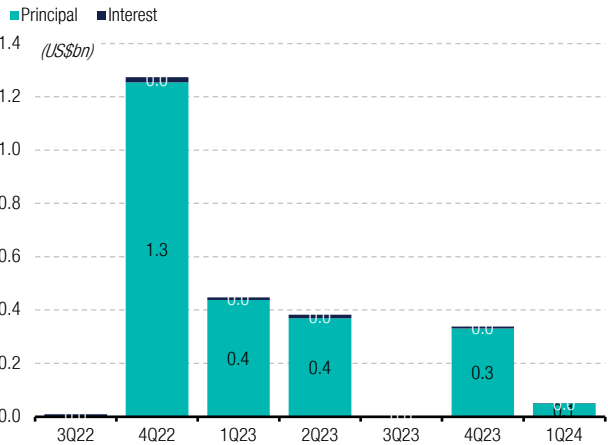
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

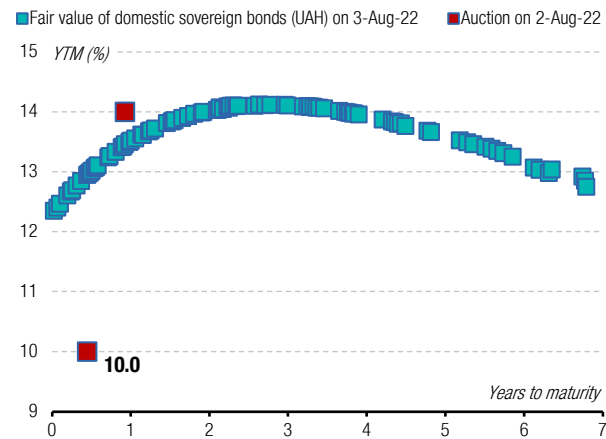
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

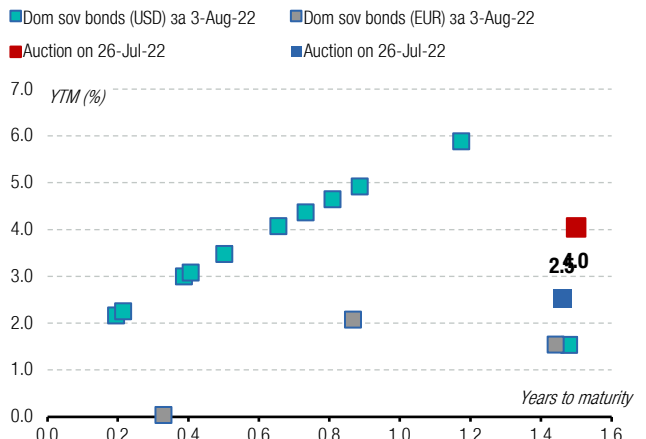
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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