

Bond Market Insight

Borrowings fall to a minimum

Comment on government bond placement

WEDNESDAY, 17 AUGUST 2022

The Ministry of Finance again refused to revise interest rates on military government bills. Therefore, they attracted the smallest amount of funds since military bills were first offered in March of this year.

Demand at the auction was more than UAH1.2bn (US\$34m) (par value), but at rates that were in bids last week amounting to UAH72m (US\$2m). Two bids totaling more than a billion hryvnias did not fit into this framework.

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	35,006	953.90	33.39	35.01	12.00	6,344.98
UA4000226195	0.00	@Mty	5-Jul-23	6,909	890.07	6.15	6.91	14.00	2,256.13
UA4000226260	16.00	SA	27-Sep-23	30,160	1,060.99	32.00	30.16	16.69	6,488.43
Total UAH				72,075		71.54	72.08		15,089.54

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

Last Tuesday's increase in the rate for five-month paper by 200bp up to 12% did not increase demand. Instead, demand decreased 100 times to UAH35m (US\$1m), providing the state budget with just UAH33.4m (US\$0.9m). The offering of 14-month bills at a rate of 16%, which brought UAH32m (US\$0.9m) to the budget, took place in almost the same way. With these two bond issues, the Ministry satisfied all bids.

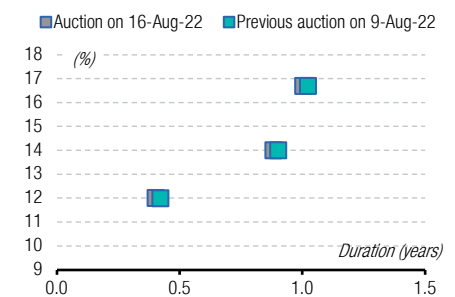
For the 11-month securities, although demand was the largest at almost UAH1.2bn (US\$32m), it included rates higher than 14% and up to 20% in two out of 10 bids. Therefore, the MoF decided not to accept these two bids and to limit the amount of borrowings to UAH6.1m(US\$0.2m).

The Ministry of Finance borrowed the smallest amount in local-currency as early as mid-February, shortly before the full-scale Russian invasion, when market participants were nervous about the news and were in no rush to buy new bonds.

Yesterday's auction was a vivid demonstration that demand is running out for military bonds at the rates desired by the Ministry of Finance. Free liquidity is being directed to the secondary market, where bonds with a much higher yield and greater variability in terms of circulation are now available.

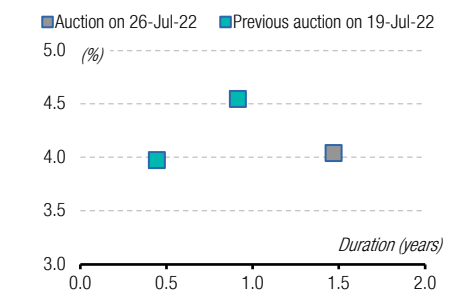
In this way, keeping rates in the primary market unchanged can limit the Ministry

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



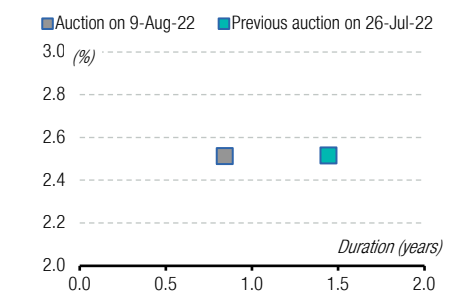
Source: Ministry of Finance of Ukraine, ICU.

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



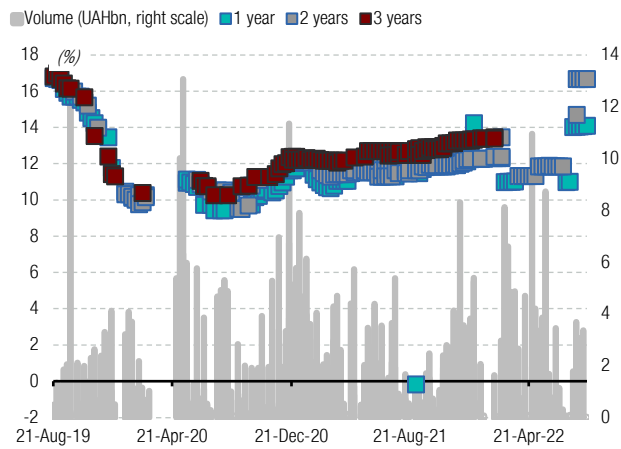
Source: Ministry of Finance of Ukraine, ICU.

of Finance to attracting funds in very small amounts. This will necessitate either seeking further support from the National Bank of Ukraine, or MoF will have revise interest rates to bring them closer to the secondary market for ordinary, non-military, government bonds.

Appendix: Yields-to-maturity, repayments

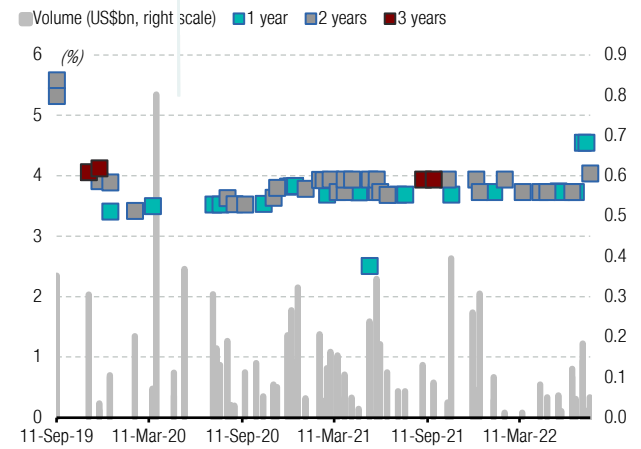
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

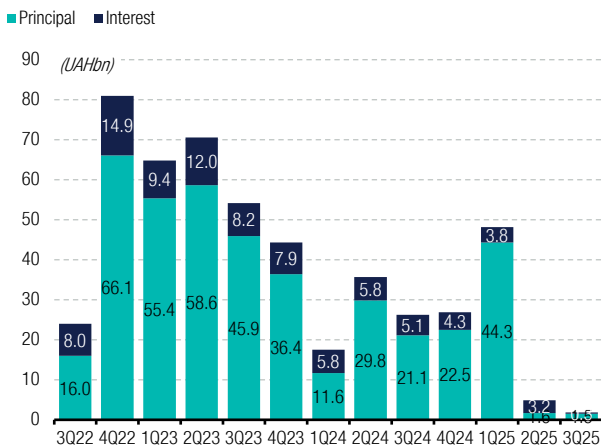
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

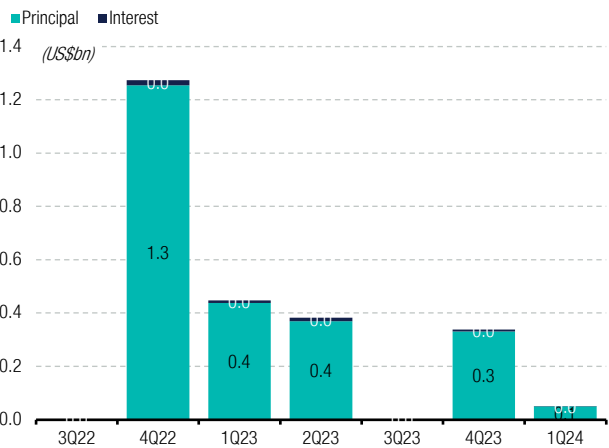
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

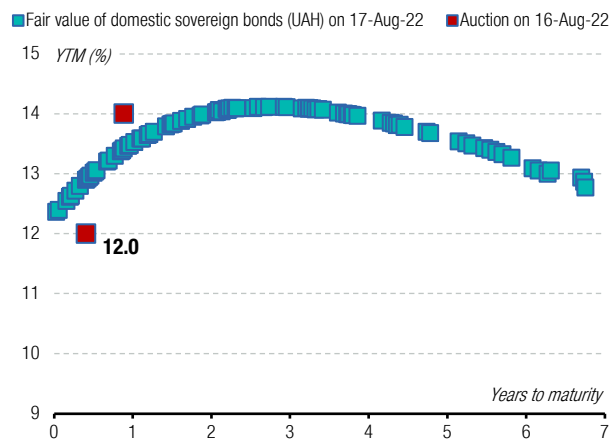
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

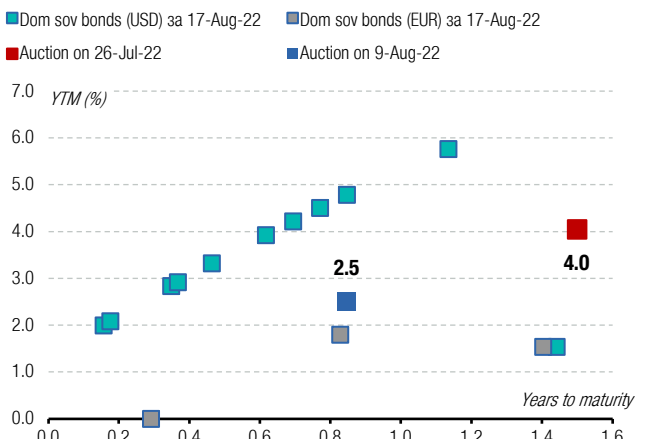
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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