

Bond Market Insight

Demand for military bills is narrowing

Comment on government bond placement

WEDNESDAY, 24 AUGUST 2022

Borrowing at the primary auction increased almost four times yesterday, but remains small. Demand is very small to allow for an increase borrowing even with increased rates.

After the MoF rejected most of last week's demand because it did not want to increase interest rates, yesterday's demand narrowed further with only two small bids requiring a rate hike.

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
UA4000225940	0.00	@Mty	11-Jan-23	217,234	956.00	207.68	217.23	12.00	6,562.21
UA4000226195	0.00	@Mty	5-Jul-23	53,290	892.20	47.55	53.29	14.00	2,309.42
UA4000226260	16.00	SA	27-Sep-23	21,703	1,064.13	23.09	21.70	16.69	6,510.14
Total UAH				292,227		278.32	292.23		15,381.76

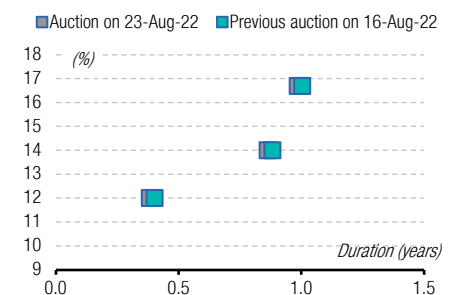
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 36.92/USD, 37.69/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand was concentrated in five-month bills. There were 19 bids for this paper. Only one of them for UAH1m (US\$0.03m) was at a rate of 18%, while the remaining 18 bids for UAH217m (US\$6m) were satisfied at a rate of 12%. Similarly, there were 20 bidders for 13-month paper looking to purchase UAH27m (US\$0.7m). Only one of them required a rate increase to 24% for UAH5m (US\$0.1m) of bonds at face value, so this bid was also rejected.

For 11-months bills, all demand was unanimous with rates of 14%, so all seven bids for UAH53m (US\$1.5m) were satisfied.

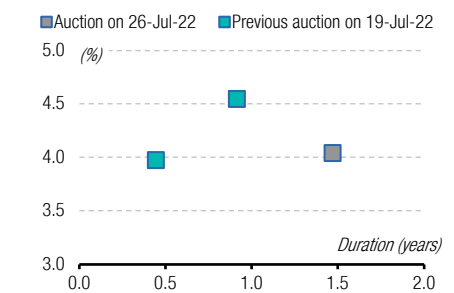
In general, there is still demand for military government bonds, but it has decreased. Likely, the buyers are banks and traders who work with individuals and make government military bills available for their clients. But at this level of interest rates, the shape of potential investors narrowed, which led to less demand at the primary auction to meet the needs of this small group of potential investors. The rest of the market players prefer the secondary market with ordinary bonds and expect changes in the conditions at the primary auctions before they will take part.

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



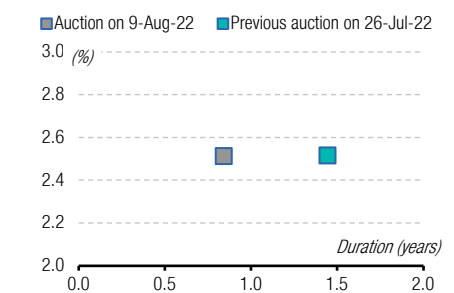
Source: Ministry of Finance of Ukraine, ICU.

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

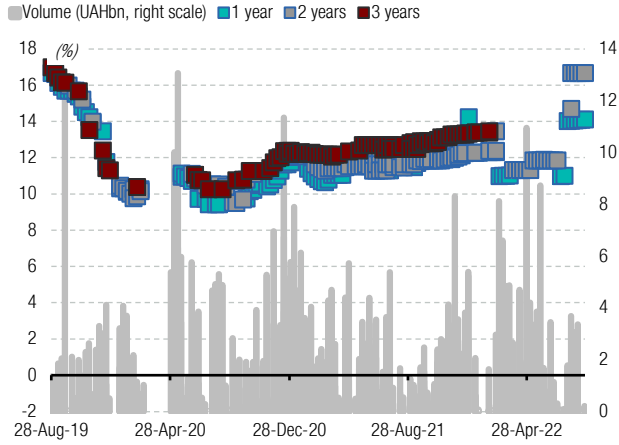


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

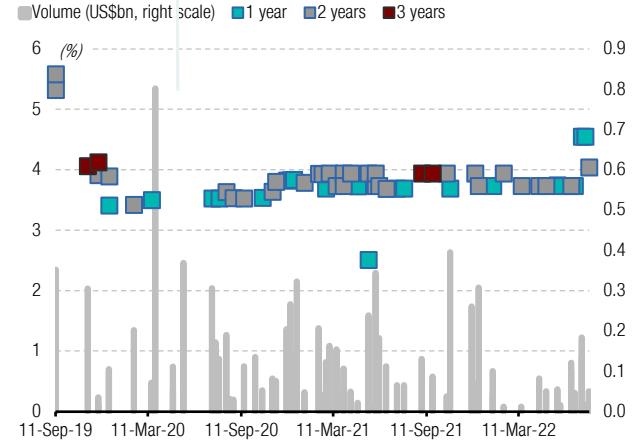
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

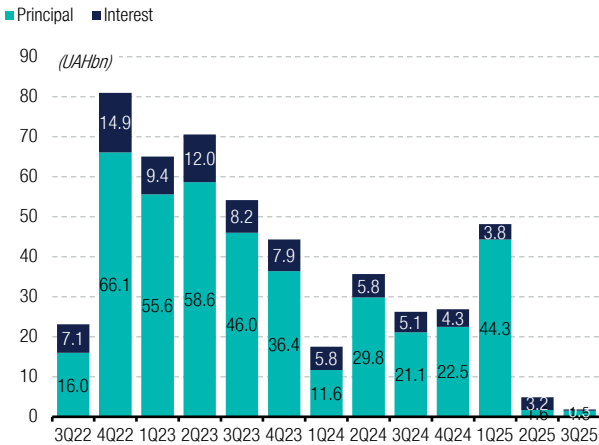
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

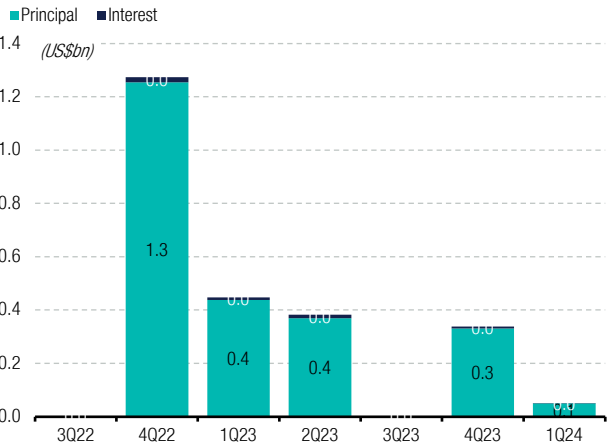
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

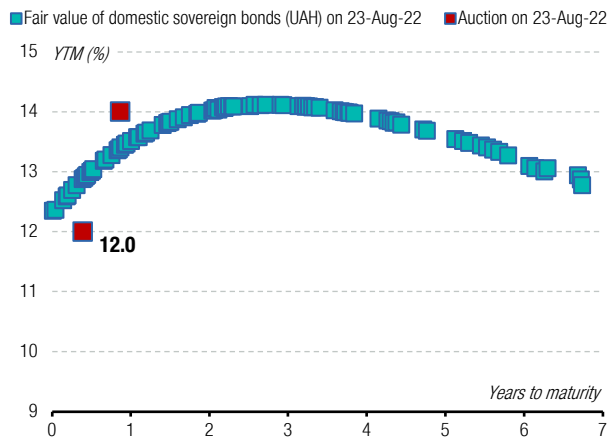
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

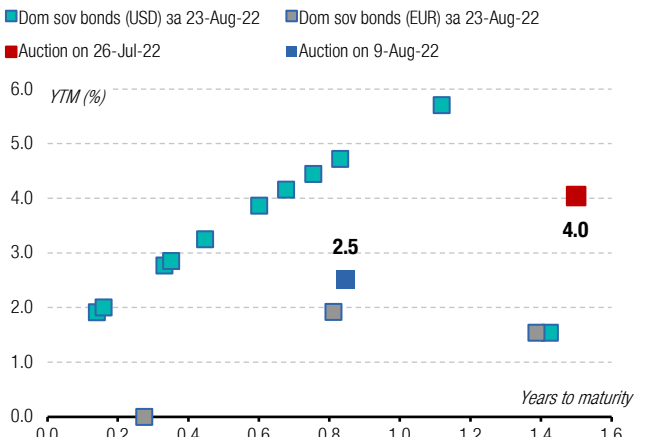
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

This page is intentionally left blank.



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko, CFA

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

