

Bond Market Insight

FX bills to the rescue

Comment on government bond placement

WEDNESDAY, 31 AUGUST 2022

Yesterday, MoF borrowed almost UAH4bn (US\$107m) for the budget. Only UAH323m (US\$8.8m) was in local currency, and the rest was in hard currency.

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	237,527	958.11	227.58	237.53	12.00	6,799.74
UA4000226195	0.00	@Mty	5-Jul-23	2,167	894.34	1.94	2.17	14.00	2,311.58
UA4000226260	16.00	SA	27-Sep-23	87,541	1,067.29	93.43	87.54	16.69	6,597.68
Total UAH				327,235		322.95	327.24		15,709.00
UA4000225775	3.70	SA	27-Apr-23	2,084	1,010.85	77.35	76.52	4.03	4,039.82
UA4000226120	3.70	SA	22-Jun-23	16,180	1,000.79	594.55	594.08	4.55	6,364.60
UA4000226278	4.00	SA	25-Jan-24	30,000	1,003.82	1,105.72	1,101.51	4.04	2,937.73
Total USD				48,264		1,777.62	1,772.11		13,342.15
UA4000226294	2.50	SA	11-Jan-24	50,007	1,003.35	1,845.02	1,838.86	2.52	5,516.40
Total EUR				50,007		1,845.02	1,838.86		5,516.40

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 36.72/USD, 36.77/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

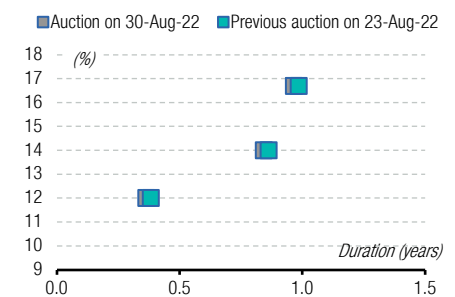
Hryvnia bonds remain of little interest at the primary auctions. Although the volumes of demand and borrowings have increased slightly, they remain low with cautious attempts from market players to indicate the desired interest rate level. While the highest rate in demand for four-month bills remained at 18%, for 10- and 13-month securities, maximum rates in demand decreased by 500bp and 700bp to 15% and 17%, respectively.

But most of the bids were submitted with the usual interest rates, and they were accepted by the Ministry of Finance. Therefore, one bid with maximum rates for each paper was rejected.

Demand for FX-denominated bills again proved to be a saving grace for the budget. Thanks to these instruments, it was possible to raise almost US\$100m equivalent, mostly in euros. Most bids were for shorter issues of USD-denominated bills, but in small volumes. In addition, the Ministry of Finance offered bills with put options, which provided most of the proceeds: US\$30.1m in US dollars and EUR50.2m in euros.

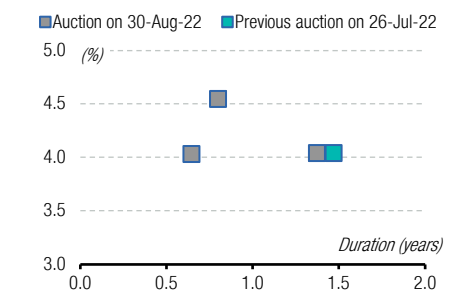
The Ministry of Finance used a similar tactic at the end of July, when it was possible to attract three times more funds, thanks to both hryvnia and FX instruments. Interest

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



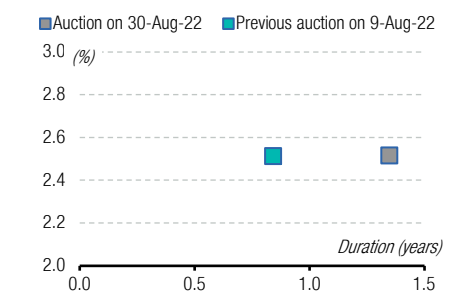
Source: Ministry of Finance of Ukraine, ICU.

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



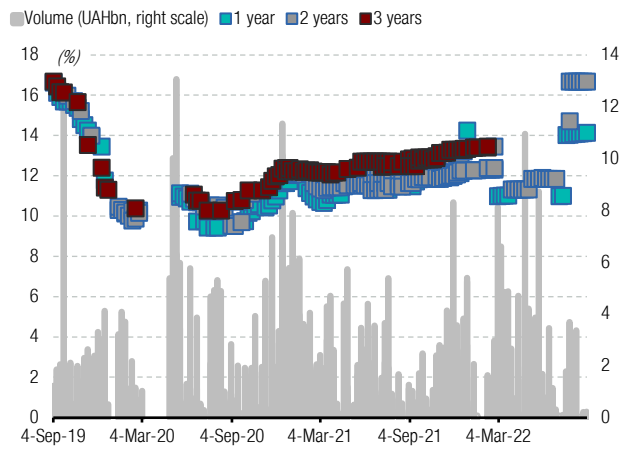
Source: Ministry of Finance of Ukraine, ICU.

in the primary market showed a decrease since last week. Investors are looking for at least a minimal increase in rates for UAH bills or the possibility of early repayment of bills in hard currency. However, because sizeable redemptions of government bonds will take place as early as October, the Ministry of Finance is unlikely to take steps toward raising rates in the coming weeks so that investors will focus on the secondary market.

Appendix: Yields-to-maturity, repayments

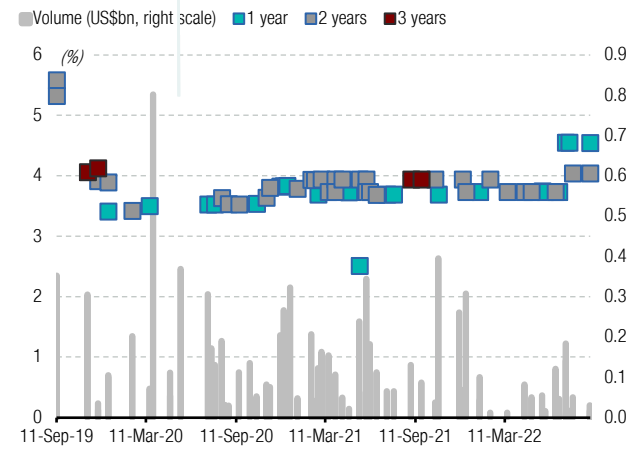
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

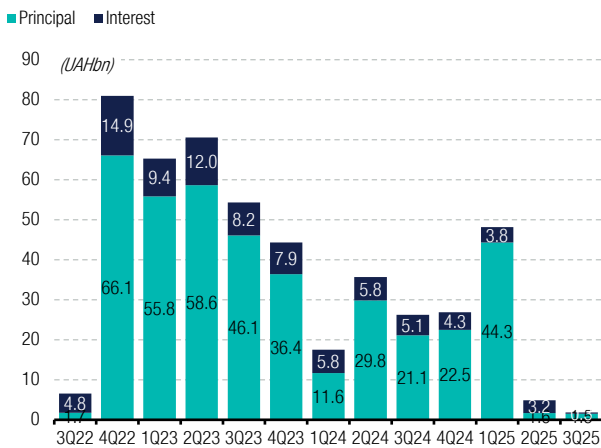
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

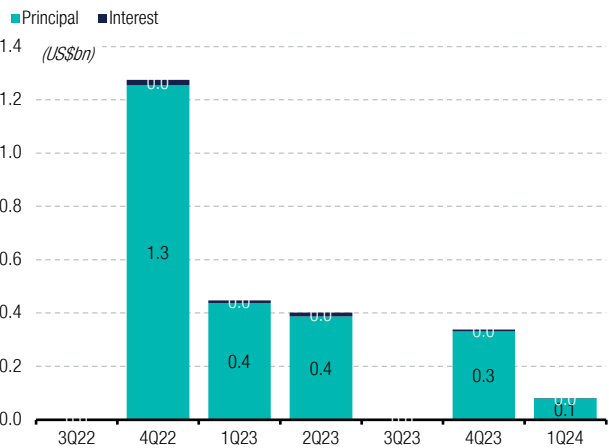
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

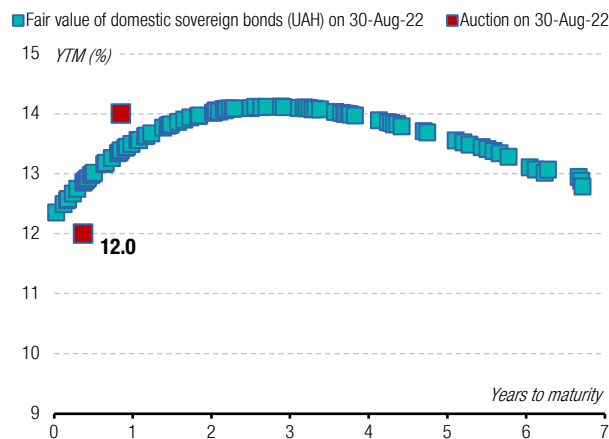
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

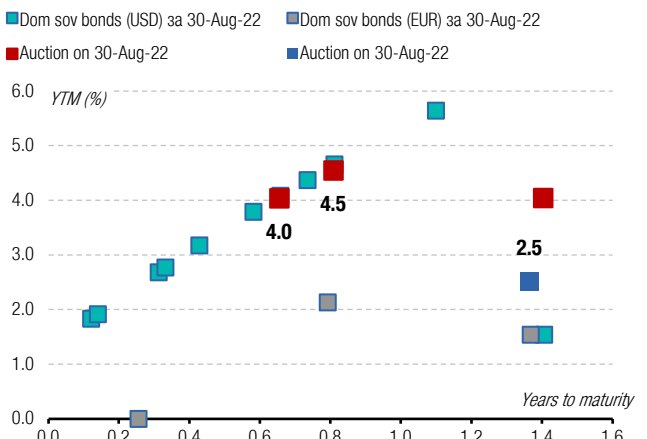
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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