

Bond Market Insight

Borrowings fell to a minimum

Comment on government bond placement

Yesterday, the Ministry of Finance attracted only UAH47.3m (US\$1.3m) through military government bills, the smallest amount since they began issuing these instruments in March, and the smallest amount of proceeds in local currency in more than two years.

At this auction, only two UAH military bills were offered with maturities of seven and almost 13 months. Demand was very restrained, and some bids for longer maturities were at different interest rates.

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
UA4000226427	0.00	@Mty	5-Apr-23	29,423	935.42	27.52	29.42	12.00	29.42
UA4000226260	16.00	SA	27-Sep-23	18,195	1,089.54	19.82	18.20	14.53	6,615.87
Total UAH				47,618		47.35	47.62		6,645.30

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 36.82/USD, 37.02/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

There were eight bids for the seven-month paper, among which approximately two-thirds of the volume was requested through non-competitive bids. All competitive demand was at a rate of 12%, which was acceptable to the Ministry of Finance, so all bids were satisfied, and UAH27.5m (US\$0.8m) was raised.

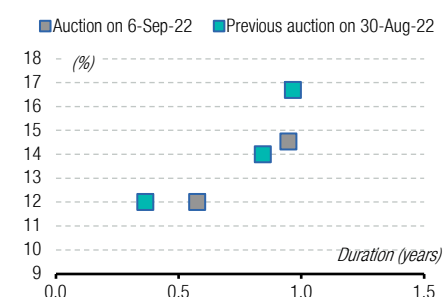
Seventeen bidders were interested in paper with maturity at the end of September 2023, but the interests of the Ministry of Finance did not coincide with all of them. Three-quarters of the demand was in non-competitive bids, so they were all satisfied. From the competitive demand, the Ministry chose only bids with interest rates at 14%. Nine bids for UAH1.4m with interest rates of 16% were rejected. It is interesting that this issue was placed at a rate of 16% as recently as last week, but by yesterday's auction, the Ministry equated it with 12-month bills and actually decreased the rate to 14%, the rate at which securities with maturities of 10-12 months had been sold.

Thus, the volume of borrowings in local currency fell to the lowest level not only this year, or since the full-scale Russian invasion, but also in more than two years. In 2020, foreigners had actively reduced their portfolios, and during periods of instability, domestic investors traditionally preferred FX-denominated instruments. Therefore, low local-currency proceeds were not accidental.

They are not accidental even now, as due to high inflation and with a NBU key policy

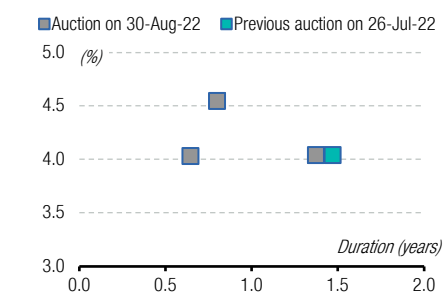
WEDNESDAY, 7 SEPTEMBER 2022

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



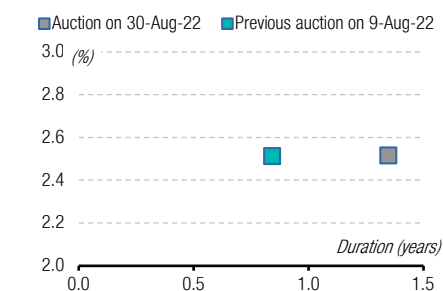
Source: Ministry of Finance of Ukraine, ICU.

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



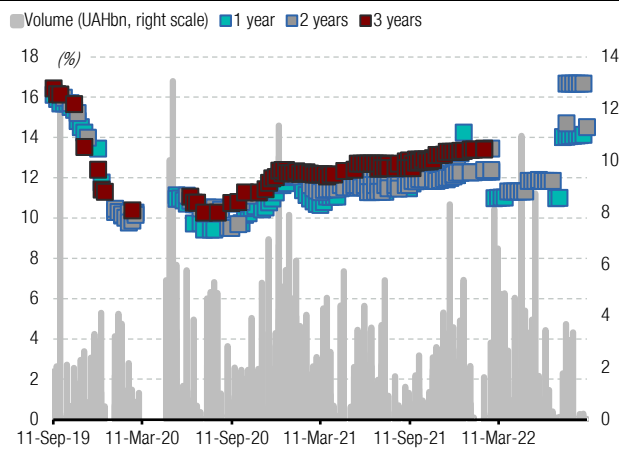
Source: Ministry of Finance of Ukraine, ICU.

rate of 25%, investors are in no hurry to buy new bonds on the primary market with rates of 12-14%, especially on the eve of the regular meeting of the NBU board on monetary policy, where the key policy rate will be set for the coming weeks.

Appendix: Yields-to-maturity, repayments

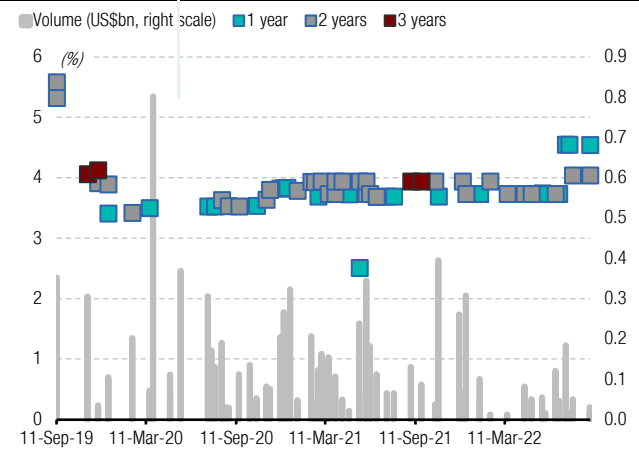
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

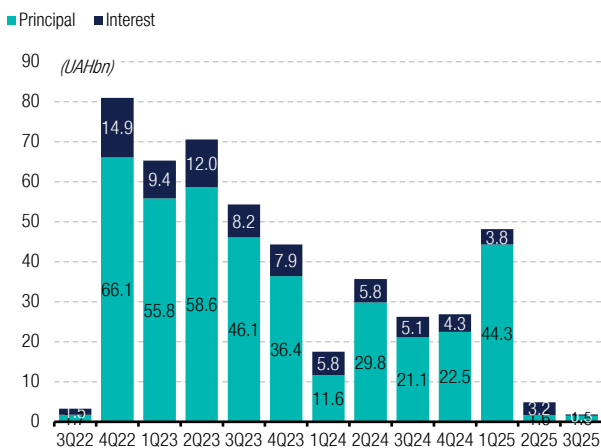
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

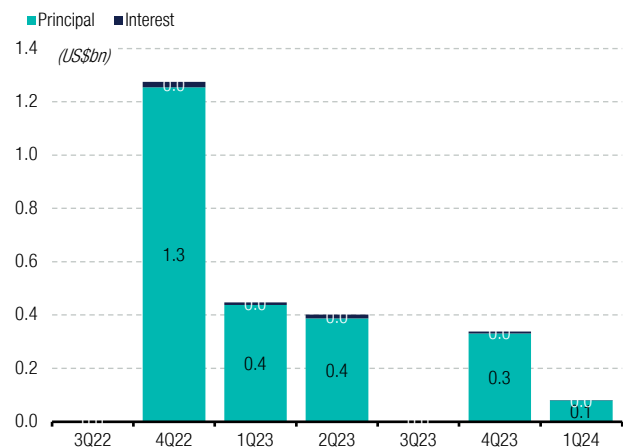
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

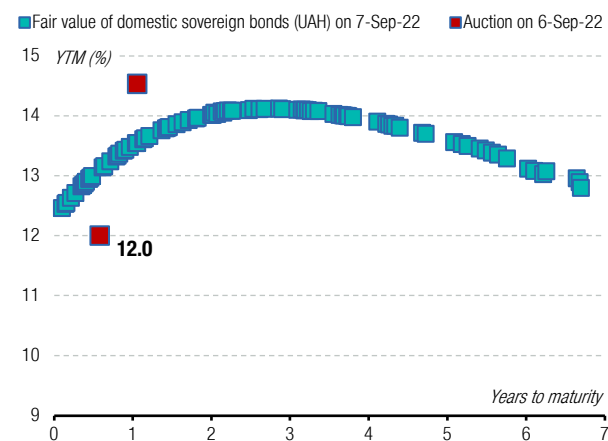
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

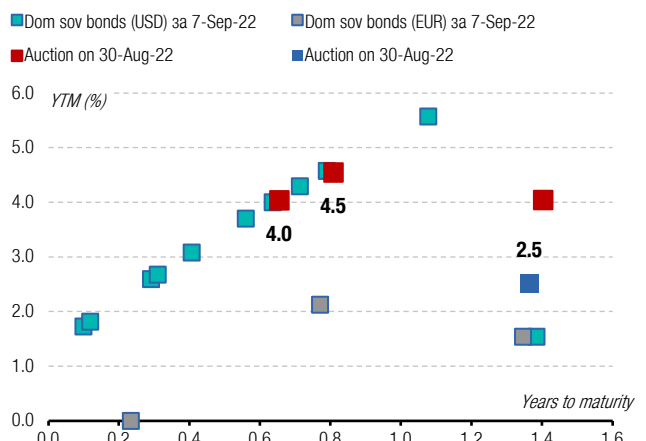
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

