

Bond Market Insight

Bond replacements in progress

Comment on government bond placement

WEDNESDAY, 14 SEPTEMBER 2022

Yesterday, the Ministry of Finance offered new 1.5-year paper, which replaced the 13-month bills. Again, most of the funds were raised through FX-denominated securities.

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	19,496	937.45	18.28	19.50	12.00	48.92
UA4000226260	16.00	SA	27-Sep-23	2,712	1,092.38	2.96	2.71	14.53	6,618.59
UA4000226450	16.00	SA	13-Mar-24	165,978	1,000.00	165.98	165.98	16.69	165.98
Total UAH				188,186		187.22	188.19		6,833.48
UA4000226039	2.50	SA	15-Jun-23	3,769	1,006.23	138.83	137.97	2.51	2,167.45
UA4000226294	2.50	SA	11-Jan-24	30,000	1,004.31	1,102.94	1,098.21	2.52	6,589.82
Total EUR				33,769		1,241.77	1,236.18		8,757.27

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

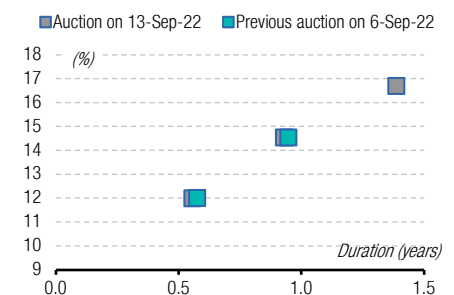
Last week, the Ministry of Finance started replacing UAH bonds offered on the primary market: instead of five-month bills, seven-month paper was introduced; 13-month bills were equated to the 12-month instrument. Finally, instead of 13-month paper, new 1.5-year bills were offered yesterday. Interest rates are set similarly, 16%, as it was until last week for the 13-month bills.

The new issue turned out to be quite popular, but it brought the budget only UAH166m (US\$4.5m) out of UAH187m (US\$5.1m) raised in local currency. Although shorter bills received quite a lot of bids, the volume of demand was even less than last week.

So, the situation of low proceeds was slightly corrected by FX-denominated securities. Bullet bills denominated in euros with a maturity in June 2023 received only EUR3.9m of demand, most of which was accepted. The issue of bills with the put option was bought by one participant, but for EUR30m.

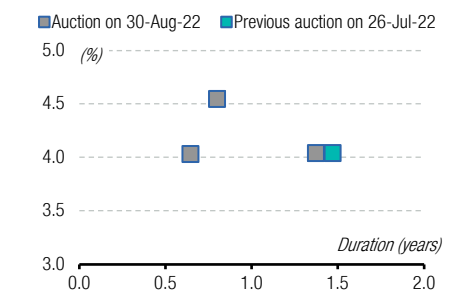
The Ministry of Finance keeps interest rates on military government bonds in local currency low, preferring borrowings in hard currency both on the domestic market and through support from international partners. Therefore, the demand in the local market remains small and does not contribute to the increase of domestic borrowing in local currency.

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



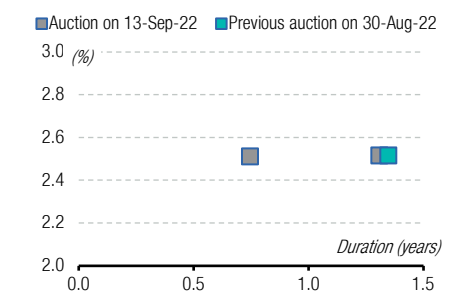
Source: Ministry of Finance of Ukraine, ICU.

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

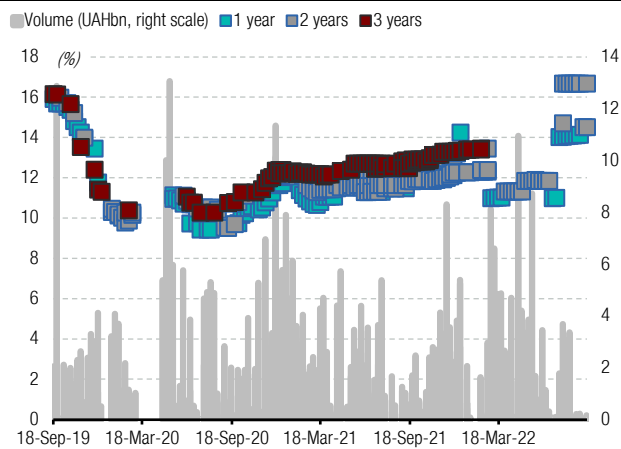


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

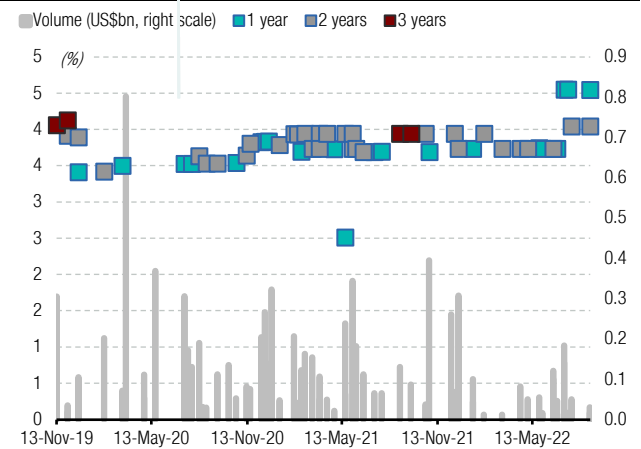
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

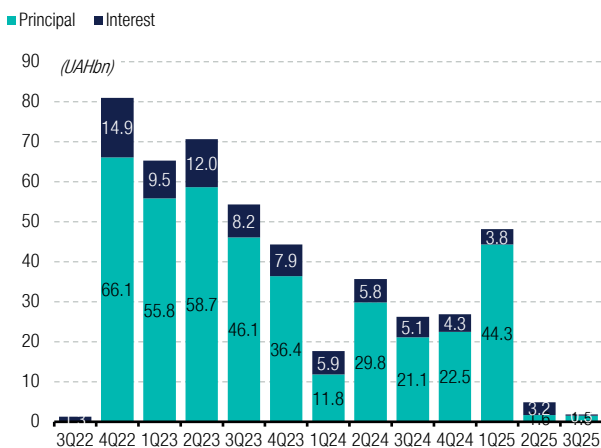
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

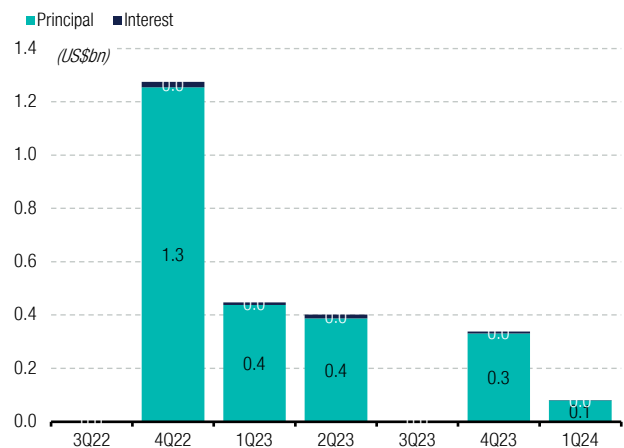
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

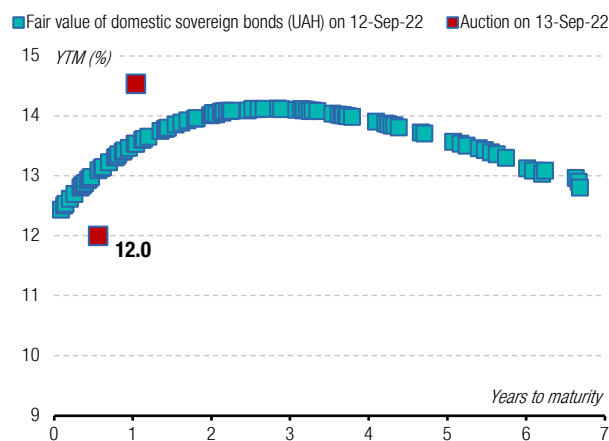
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

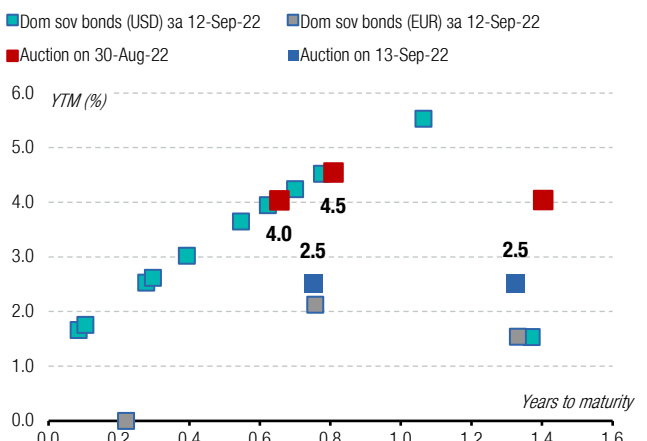
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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