

Bond Market Insight

Interest is in short instruments

Comment on government bond placement

The Ministry of Finance continues to attract small amounts of funds, mainly for short-term tenors. Despite higher rates, longer maturities are in very low demand.

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
UA4000226427	0.00	@Mty	5-Apr-23	270,297	939.46	253.93	270.30	12.00	319.22
UA4000226260	16.00	SA	27-Sep-23	4,337	1,095.23	4.75	4.34	14.53	6,622.92
UA4000226450	16.00	SA	13-Mar-24	5,904	1,002.96	5.92	5.90	16.69	171.88
Total UAH				280,538		264.60	280.54		7,114.02
UA4000215909	3.89	SA	2-Feb-23	12,336	1,004.80	457.78	455.60	4.02	12,656.59
Total USD				12,336		457.78	455.60		12,656.59

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 36.93/USD, 36.88/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The majority of the funds were raised yesterday for four months using USD-denominated bills. Ten bidders purchased this instrument for US\$12.4m (UAH453m at the official exchange rate), for 63% of the funds raised yesterday.

Another 35% of yesterday's proceeds were raised through six-month UAH bills. They were purchased by 16 bidders for UAH254m (US\$6.9m), and mostly with non-competitive bids. So, almost 99% of the funds that were borrowed yesterday will come due in February and April next year.

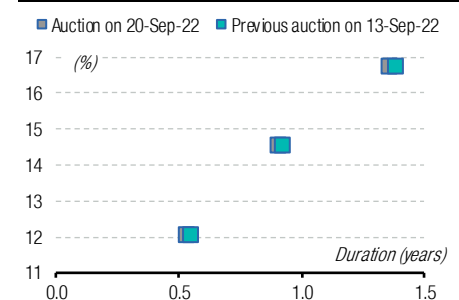
There was almost no interest in longer bills with maturities a year and 1.5 years out. There were seven and six bids for them, respectively. Together they brought only UAH10.7m (US\$0.3m) to the budget: UAH4.8m (US\$130,000) for 12-month and UAH5.9m (US\$162,000) for 1.5-year bills.

At the same time, interest rates for these bills remained unchanged again. For UAH securities, the Ministry kept interest rates at 12-16% and for USD-denominated bills at 4%.

Therefore, the Ministry of Finance does not see the prospects of attracting funds on the domestic market, giving the prerogative of financing the budget deficit to loans from international partners and grant aid. This can explain the effort to keep the rates on military bills almost half that of the NBU key policy rate and inflation for over four months.

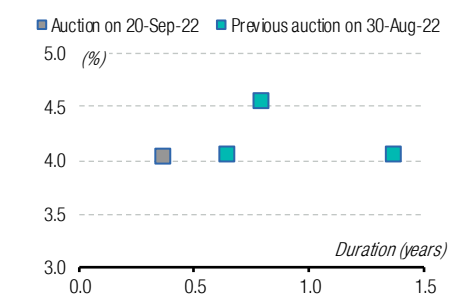
WEDNESDAY, 21 SEPTEMBER 2022

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



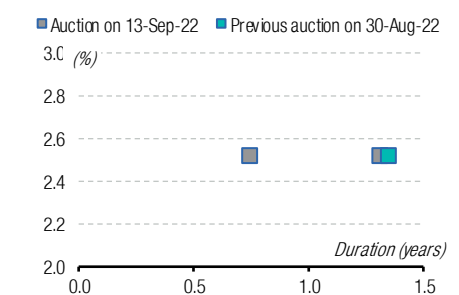
Source: Ministry of Finance of Ukraine, ICU.

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

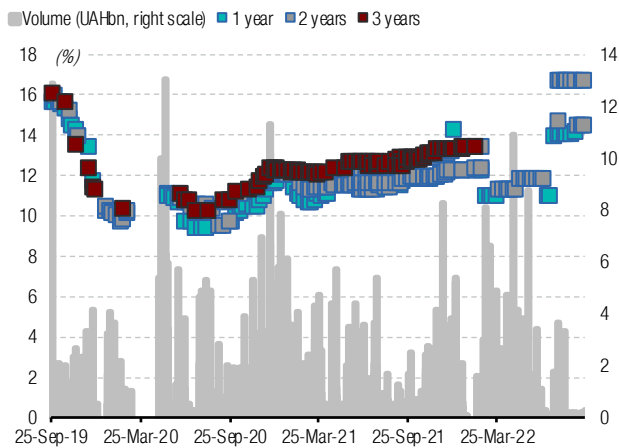


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

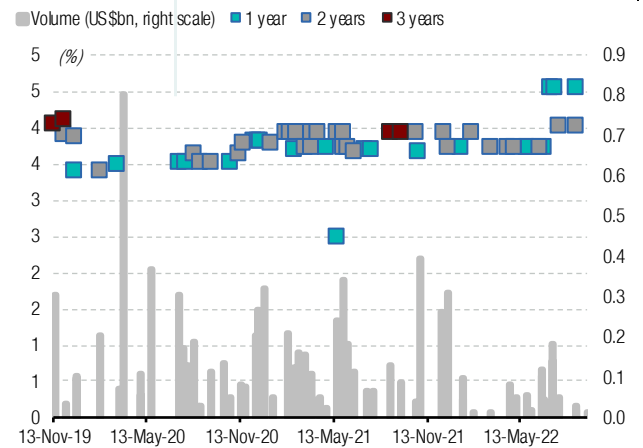
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

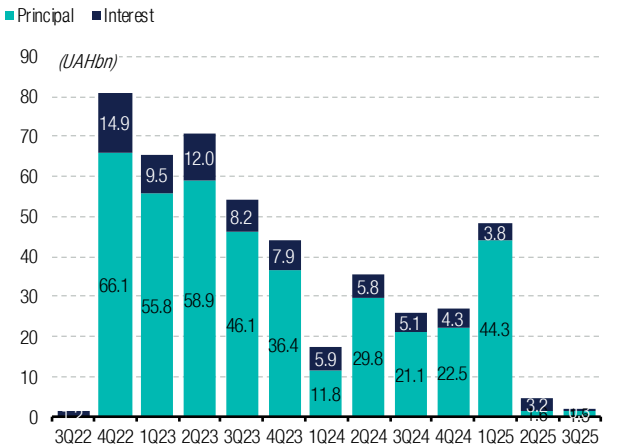
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

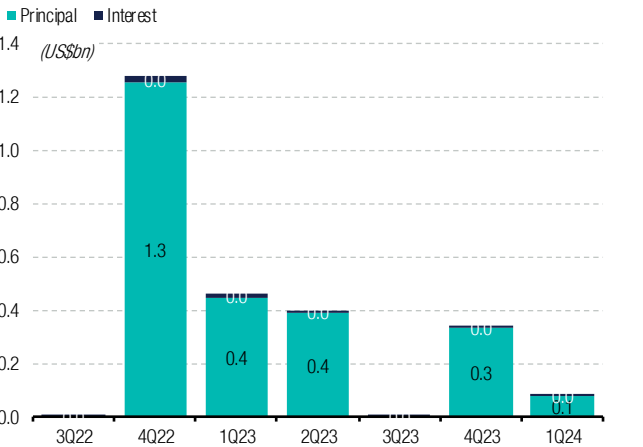
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

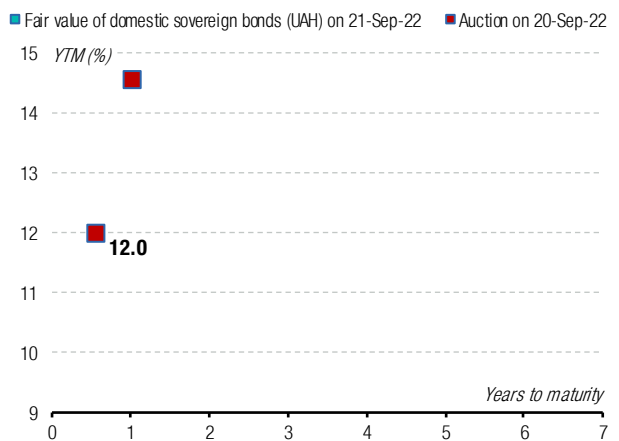
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

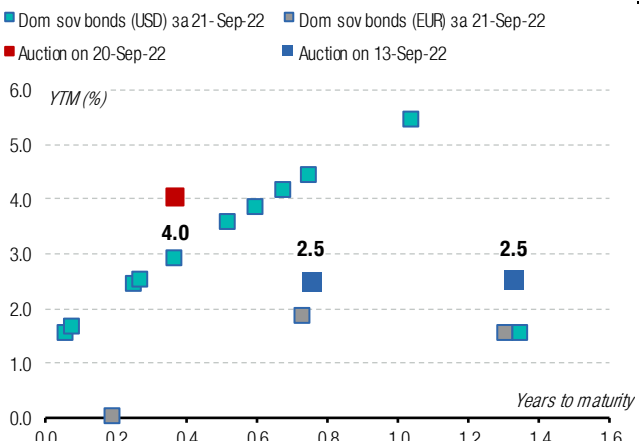
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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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

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