

Bond Market Insight

A new record for low borrowings

Comment on government bond placement

WEDNESDAY, 5 OCTOBER 2022

The amount of UAH borrowings continue to decline, setting new, two-year, record low yesterday.

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	17,594	943.54	16.60	17.59	12.00	438.20
UA4000226260	16.00	SA	27-Sep-23	14,228	1,020.73	14.52	14.23	14.53	6,638.48
UA4000226450	16.00	SA	13-Mar-24	13,290	1,008.92	13.41	13.29	16.69	486.60
Total UAH				45,112		44.53	45.11		7,563.28

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

Military bonds were offered yesterday with usual maturities from six to 18 months, which the Ministry of Finance sought to sell at constant rates from 12% to 16%. Therefore, demand turned out to be very restrained and distributed evenly between the three issues that were offered.

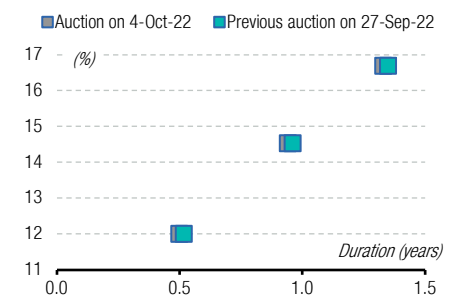
The six-month bills received the fewest bids—only eight—but they brought UAH16.6m (US\$0.45m) to the budget, the largest amount yesterday. The 12-month paper was between both parameters with 10 bids and brought UAH14.5m (US\$0.4m) of funds for the budget. The 18-month securities received the most bids, 14, but brought the least amount of proceeds to the budget, only UAH13.4m (US\$0.37m).

So, in the end, the budget received only UAH44.5m (US\$1.22m), which was the lowest amount since the summer of 2020.

Previous record low borrowings were seen at the beginning of September when UAH47.3m (US\$1.3m) was raised, which was on the eve of the NBU board meeting on monetary policy. It is now two weeks before the NBU's next meeting, which can further deter active investment in the upcoming auctions.

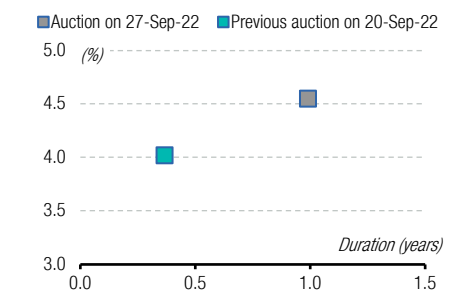
Next week, the Ministry of Finance has to pay at least UAH16bn (US\$437m) in domestic debt principal and interest in redemptions for ordinary (non-military) government bonds. Therefore, investors will prefer non-military instruments on the secondary market, not military bills in the primary market, with probably a small increase in demand at the auction.

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



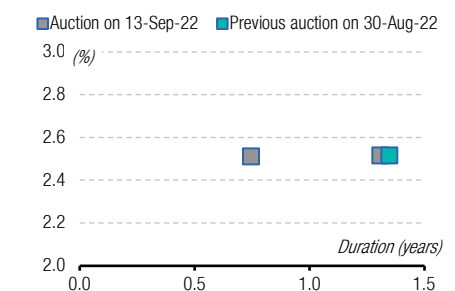
Source: Ministry of Finance of Ukraine, ICU.

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

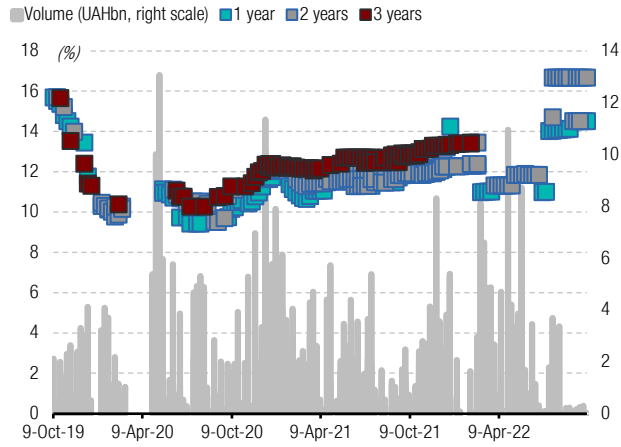


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

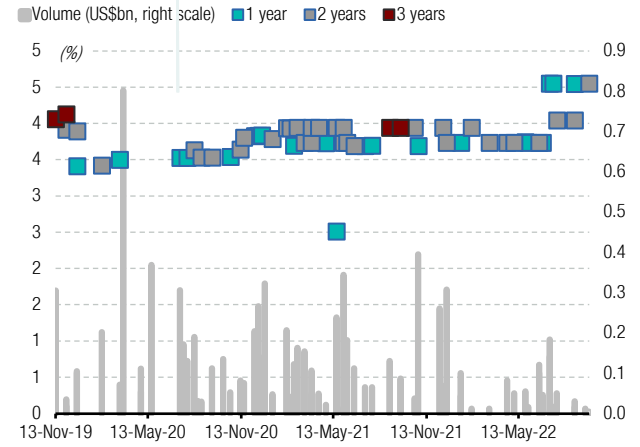
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

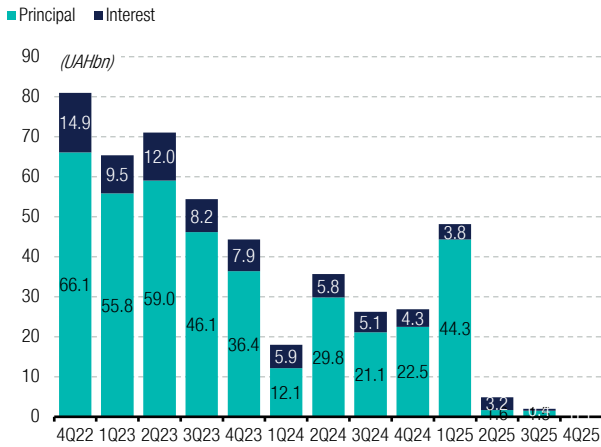
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

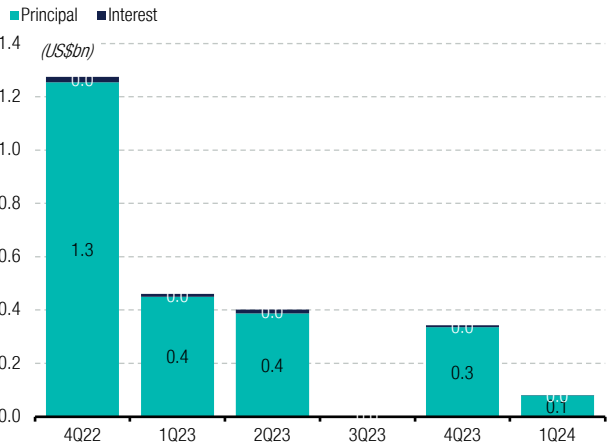
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

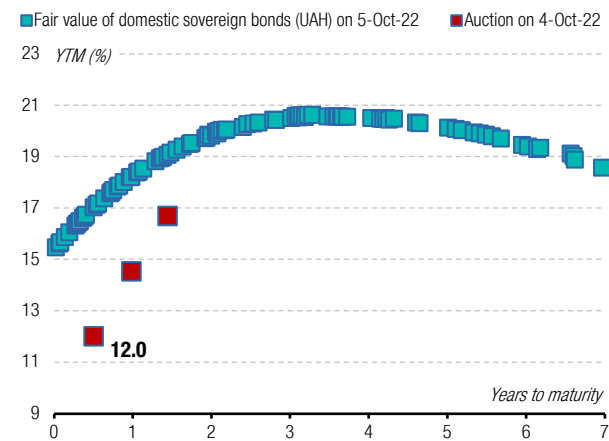
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

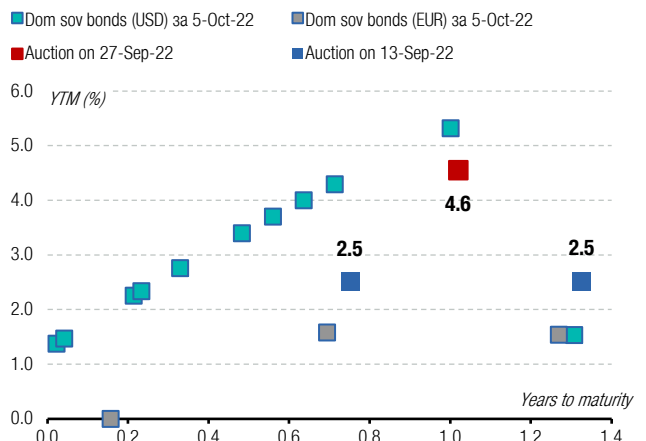
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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