

Bond Market Insight

Domestic borrowings increase

Comment on government bond placement

WEDNESDAY, 2 NOVEMBER 2022

Yesterday, the Ministry of Finance raised more than UAH13bn (US\$365m), including almost UAH12bn (US\$326m) through UAH-denominated instruments, mainly through bills with increased 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	12,592,139	946.11	11,913.55	12,592.14	13.50	13,076.90
UA4000226260	16.00	SA	27-Sep-23	7,514	1,031.41	7.75	7.51	14.53	6,793.87
UA4000224380	12.94	SA	14-Feb-24	3,124	965.41	3.02	3.12	19.41	4,127.71
UA4000207880	9.99	SA	22-May-24	1,370	933.15	1.28	1.37	19.41	19,036.16
UA4000222152	12.70	SA	30-Oct-24	275	906.56	0.25	0.28	19.41	5,266.01
Total UAH				12,604,422	11,925.84	12,604.42		48,300.65	

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

The MoF continued to gradually hike rates, and yesterday it was for five-month bills, which were up by 150bp to 13.5%. This paper received the greatest demand and was responsible for almost 90% of yesterday's budget proceeds. Demand amounted to UAH12.6bn (US\$344m) in 11 fully satisfied bids.

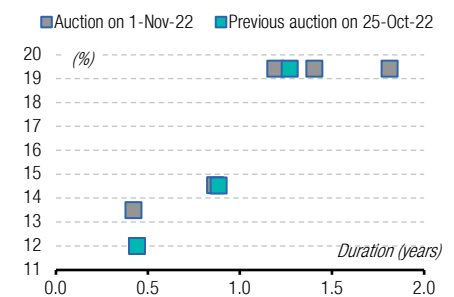
However, the 11-month paper was already less interesting, with an interest rate of 14% or only 50bp higher than the five-month bills. Demand was only UAH7.5m (US\$0.2m), and almost all bids were non-competitive. That is, the participants of this placement hoped that their bid with a higher rate level would be accepted, and they could get a better yield, but they did not want to take the risk of submitting competitive bids.

The three issues of ordinary (non-military) bills received very little demand yesterday, with only seven bids and just UAH4.8m (US\$0.13m) raised for all of them. They were sold at a rate of 18.5% despite the considerable discrepancy in maturities.

There was not much interest in FX-denominated bills, which were purchased in 13 bids for almost US\$39m, with the unchanged interest rate at 4.25%.

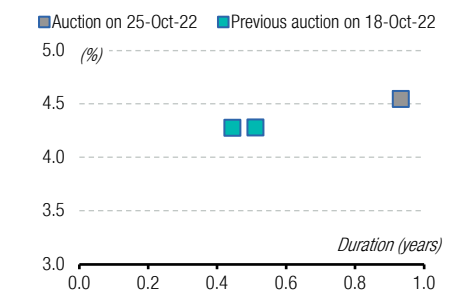
So, in general, borrowings have improved significantly, thanks to UAH-denominated bills, although interest rate increases are currently taking slow steps and selectively. However, such an amount remains insufficient to refinance current redemptions, which will be made today for UAH18bn (US\$494m).

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



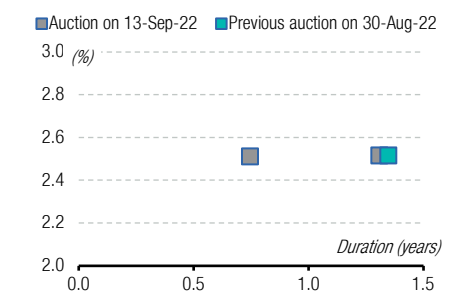
Source: Ministry of Finance of Ukraine, ICU.

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

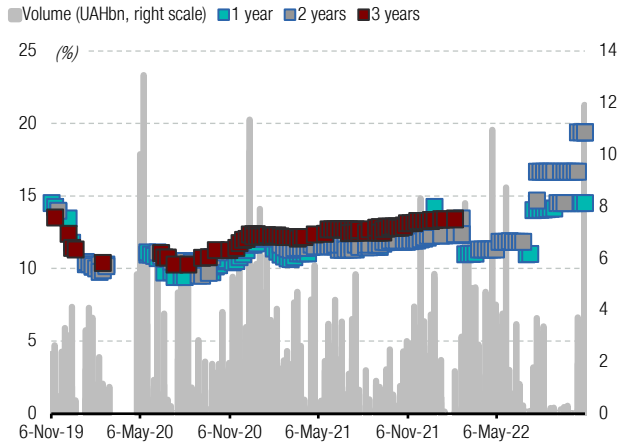


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

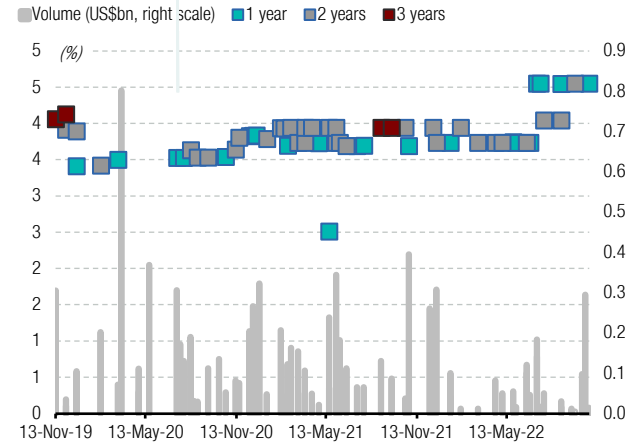
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

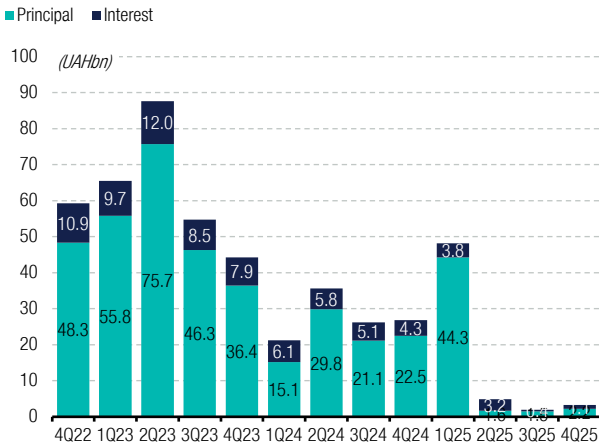
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

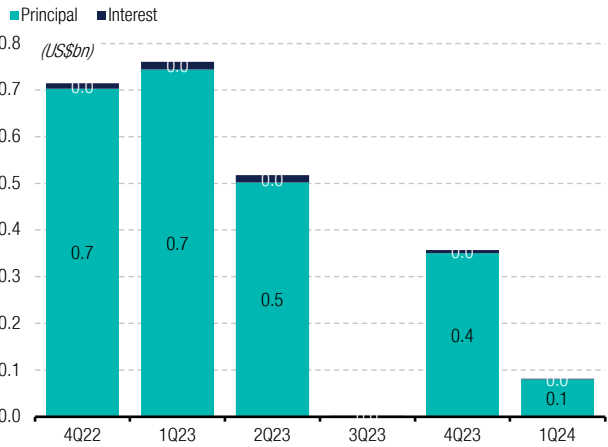
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

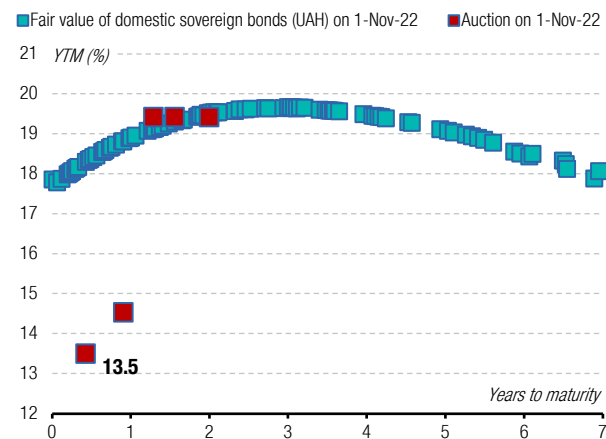
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

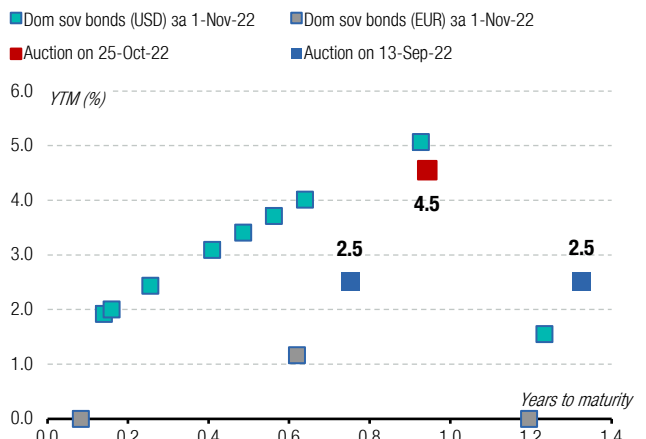
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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