

Bond Market Insight

MoF refinances current redemptions

Comment on government bond placement

WEDNESDAY, 14 DECEMBER 2022

Yesterday's auction provided the state budget with the largest amount of funds YTD from UAH bonds, which almost completely covers local currency redemptions scheduled for today.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000226658	0.00	@Mty	10-May-23	3,150,032	946.63	2,981.91	3,150.03	14.00	7,155.03
UA4000206460	11.67	SA	22-Nov-23	4,265,789	969.97	4,137.69	4,265.79	16.69	15,278.78
UA4000226450	16.00	SA	13-Mar-24	160,489	1,012.30	162.46	160.49	19.41	1,975.69
UA4000219208	12.30	SA	3-Jul-24	406	967.27	0.39	0.41	19.96	4,956.66
UA4000222152	12.70	SA	30-Oct-24	7,426,097	910.99	6,765.10	7,426.10	20.51	14,733.98
Total UAH				15,002,813		14,047.56	15,002.81		44,100.14

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 36.8/USD, 38.81/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The MoF raised most funds through two-year bills, which saw a new interest rate of 19.5% last week, and, yesterday, not one bidder tried to get a higher rate. This paper made it possible to borrow almost UAH6.8bn.

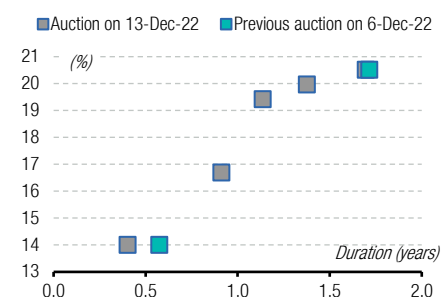
Another UAH4.1bn was raised by the MoF using 12-month bills, with the interest rate kept unchanged at 16%. Demand was mostly unanimous, and compared with last week, it increased dramatically from UAH0.2m to UAH4.4bn. One bid that amounted to only UAH100m was rejected as it required a rate increase to 25%.

The replacement of seven-month bills with five-month paper also worked because after UAH168m in demand last Tuesday, yesterday's demand amounted to almost UAH3.3bn. Here, too, one bid required a rate increase to 24.5% for less than UAH100m of funds, so the MoF rejected it.

On the other hand, bonds with maturities between one and two years received little demand: UAH169m for 15-month and UAH0.4m for 19-month bills. Interest rates for the 15-month paper slid by 50bp to 18.5% (the level seen at the end of October), after the MoF agreed to raise the rate to 19% two weeks ago. Most of the demand for this paper was non-competitive, so all bidders received a lower yield than in November.

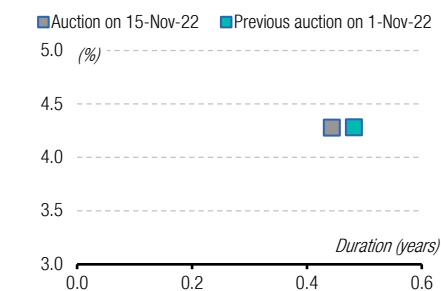
As for 19-month securities, after rejecting last week's demand for UAH3bn with a rate of 19.25%, the Ministry of Finance received one competitive bid with a rate of 19% and one non-competitive bid, but in total, only for UAH0.4m. Perhaps all of last week's

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



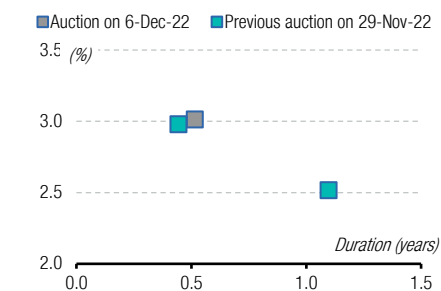
Source: Ministry of Finance of Ukraine, ICU.

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.

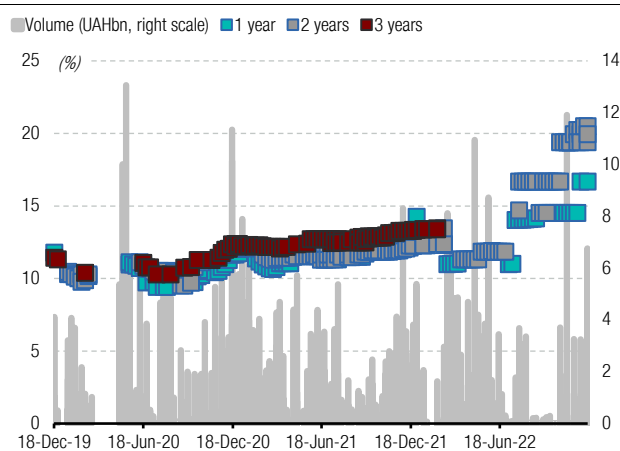
demand has shifted to two-year paper.

Yesterday, more than UAH14bn was raised, allowing the Ministry of Finance to cover almost all of today's UAH14.4bn of redemptions. This is very important for the Ministry of Finance now to be able to refinance domestic repayments. At the end of November, UAH108bn of redemptions were not refinanced in the primary market. Now this amount did not increase, but slid by UAH0.6bn.

Appendix: Yields-to-maturity, repayments

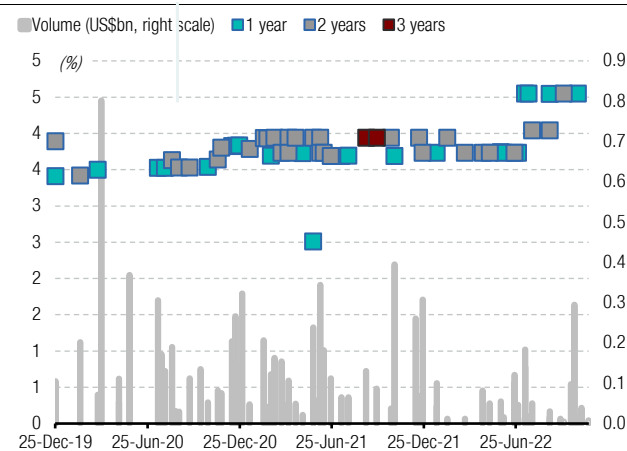
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

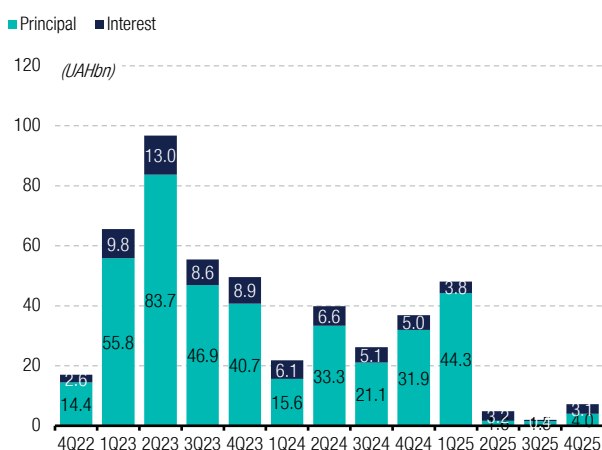
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

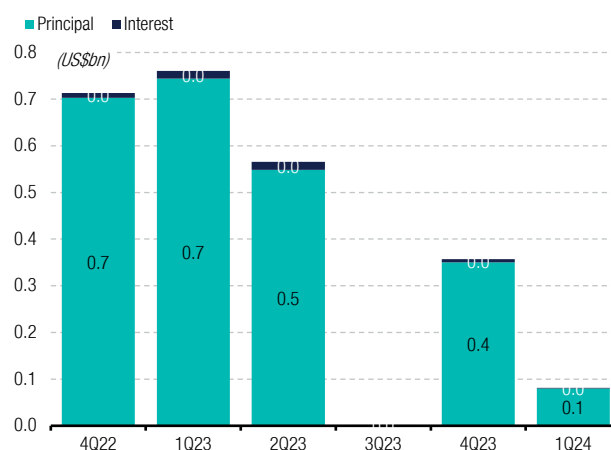
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

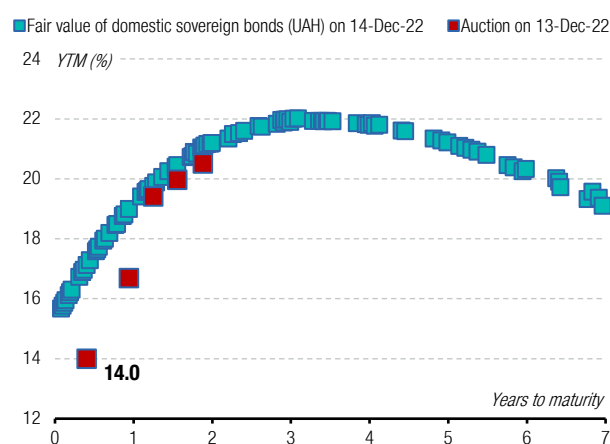
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

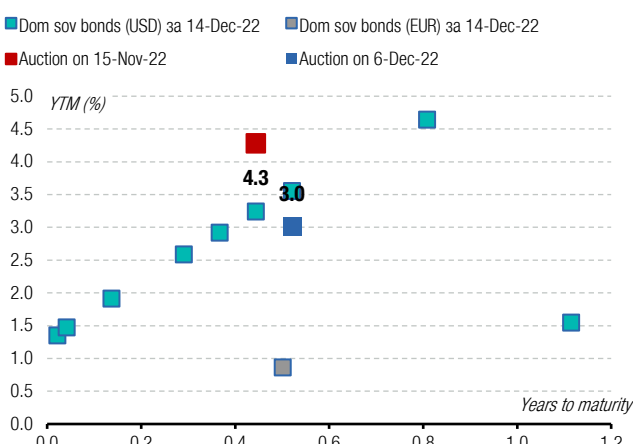
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

