

Bond Market Insight

Emphasis again on FX

Comment on government bond placement

THURSDAY, 22 DECEMBER 2022

On Tuesday, the Ministry of Finance was able to raise UAH13.6bn for the budget, and more than half of it was in hard currency.

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
UA4000226195	0.00	@Mty	5-Jul-23	912,119	930.08	848.34	912.12	14.00	3,291.98
UA4000224380	12.94	SA	14-Feb-24	3,039,338	988.68	3,004.93	3,039.34	19.41	7,194.95
UA4000219208	12.30	SA	3-Jul-24	1,301,886	970.65	1,263.68	1,301.89	19.96	6,258.54
UA4000222152	12.70	SA	30-Oct-24	1,004,533	914.25	918.39	1,004.53	20.51	15,738.51
Total UAH				6,257,876		6,035.35	6,257.88		32,483.98
UA4000225874	3.70	SA	25-May-23	207,876	1,000.54	7,679.65	7,675.51	4.28	11,530.14
Total USD				207,876		7,679.65	7,675.51		11,530.14

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

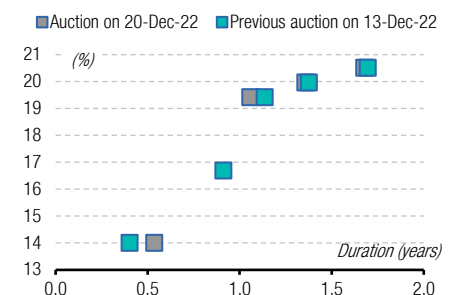
UAH bonds received good demand for UAH6.5bn (par value) and USD-denominated bills—almost US\$210m. But not all demand was satisfied in full.

Short-term bills with a maturity of up to one year again saw bids at significantly higher rates than the rest of demand, but with relatively small volume. So, the MoF rejected one small bid for six-month paper, and the entire demand for 11-month securities was rejected. But longer UAH bonds with maturities of one to two years were sold to all bidders.

It was FX-denominated bills that brought the most funds. It seems that the Ministry of Finance decided to replenish FX accounts before the repayment of US\$360m today and refinanced more than half of this payment. Another auction that will offer USD-denominated bills will take place next week, so there is a high probability that this repayment will be refinanced in full or nearly.

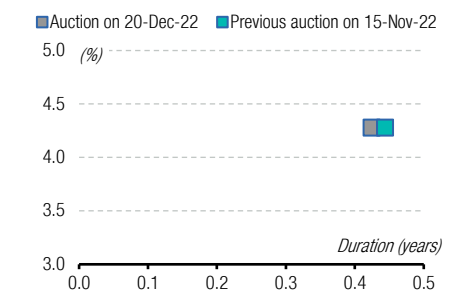
At the same time, there was no increase in interest rates for any of the securities, and requests for higher rates were rejected. We do not expect new rate increases for the rest of 2022.

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



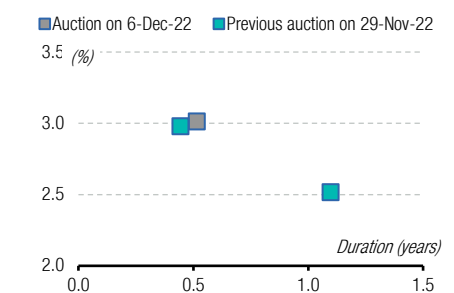
Source: Ministry of Finance of Ukraine, ICU.

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

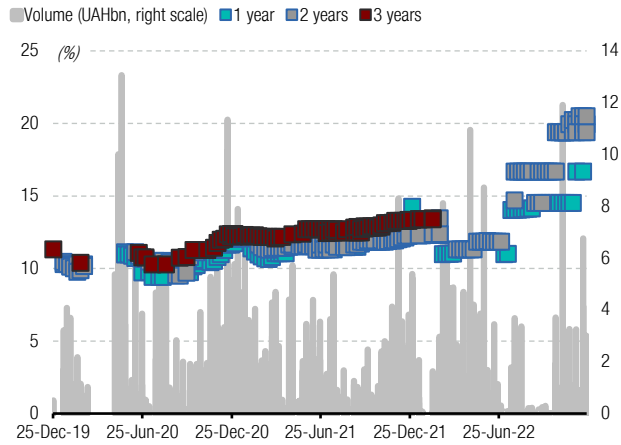


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

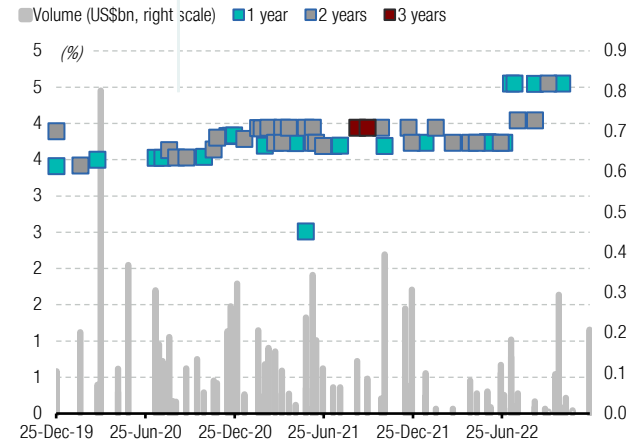
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

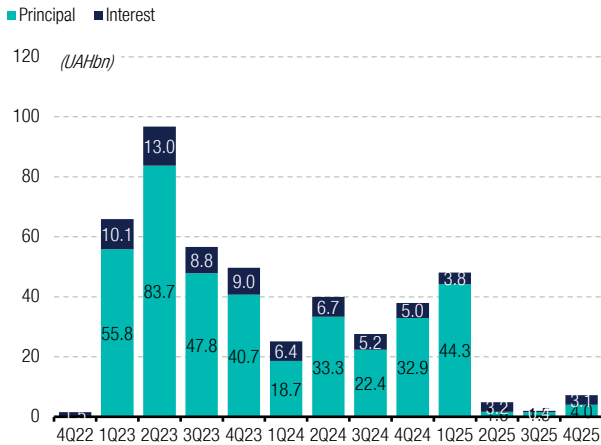
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

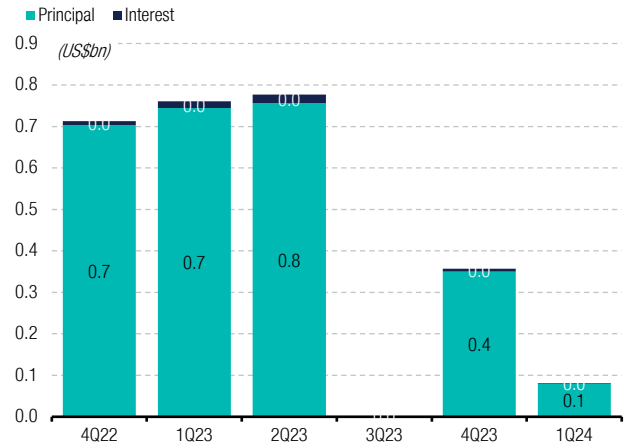
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

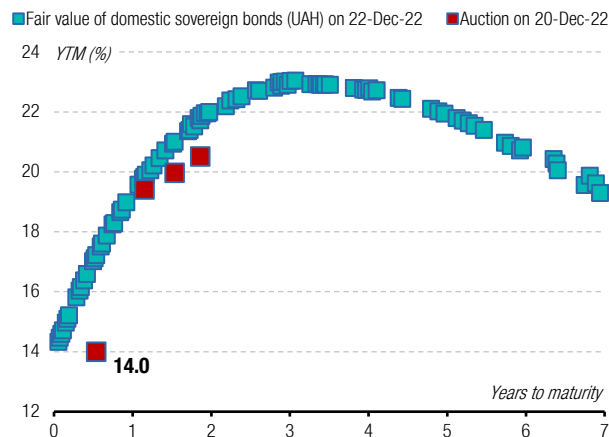
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

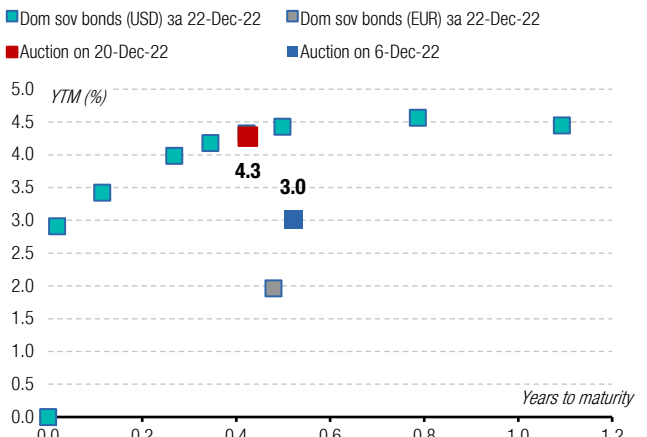
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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