

Bond Market Insight

Borrowing shifts to hard currency

Comment on government bond placement

WEDNESDAY, 22 MARCH 2023

The Ministry of Finance is gradually preparing for large hard-currency repayments by resuming the offering of FX-denominated government bills. The USD-denominated paper due in September of this year brought the budget most of the funds raised.

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 |
|------------------|-----------------|--------------------------------|-----------|-------------------|-----------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000224380 | 12.94 | SA | 14-Feb-24 | 40,778 | 967.58 | 39.46 | 40.78 | 19.41 | 10,145.23 |
| UA4000226286 | 14.00 | SA | 26-Jun-24 | 66,028 | 977.37 | 64.53 | 66.03 | 19.96 | 2,714.17 |
| UA4000227193 | 19.70 | SA | 6-Aug-25 | 2,304,398 | 1,021.92 | 2,354.91 | 2,304.40 | 20.73 | 8,071.29 |
| Total UAH | | | | 2,411,204 | 2,458.90 | 2,411.20 | | 20,930.69 | |
| UA4000227300 | 0.00 | @Mty | 14-Sep-23 | 87,765 | 980.03 | 3,176.40 | 3,241.13 | 4.23 | 3,241.13 |
| Total USD | | | | 87,765 | 3,176.40 | 3,241.13 | | 3,241.13 | |

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

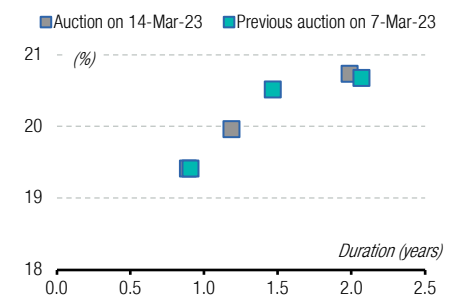
Ordinary and military UAH bills again received little demand and brought the budget only UAH104m (US\$2.8m) without changes in interest rates.

Proceeds from "reserve" bonds decreased to UAH2.4bn (US\$64m), and the total volume of government bonds, which banks can use to cover part of required reserves, increased to UAH89.6bn (US\$2.5bn).

FX-denominated securities received reasonable demand after a break of a month. Forty-three bids for almost US\$88m were fully satisfied, and US\$86m or the equivalent of UAH3.2bn, was attracted to the budget (56% of yesterday's borrowings).

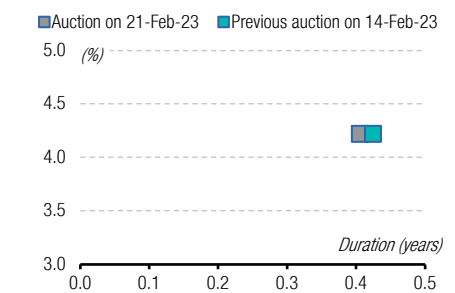
The Ministry of Finance more than doubled borrowings compared with last week, thanks to USD-denominated bills. The amount of hard currency borrowed covers about a fifth of the redemption scheduled for the next week. Banks again bought "reserve" bonds in a small amounts within the limits of urgent need and current possibilities.

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



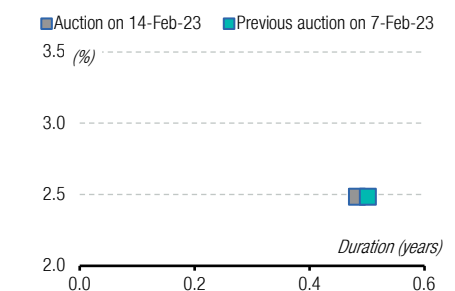
Source: Ministry of Finance of Ukraine, ICU.

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

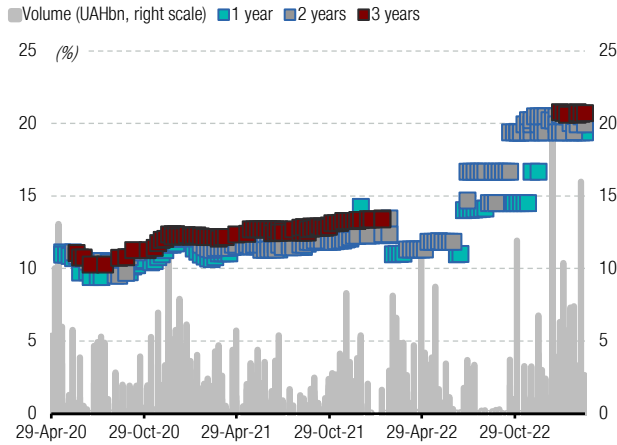


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

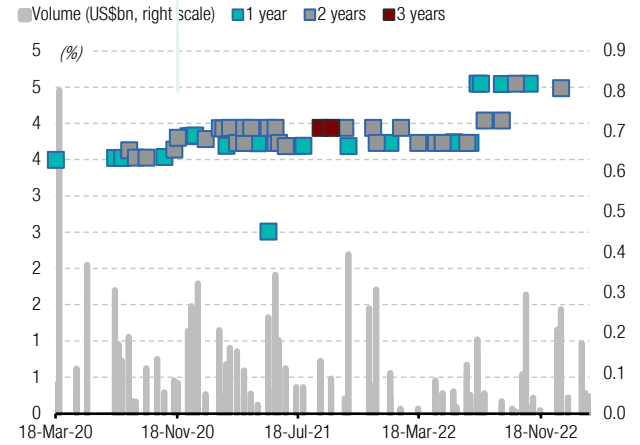
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

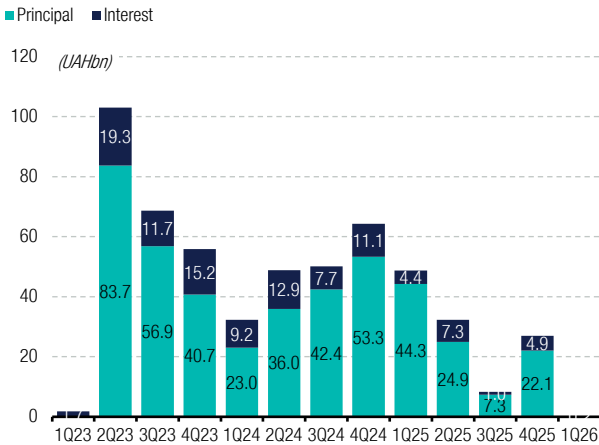
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

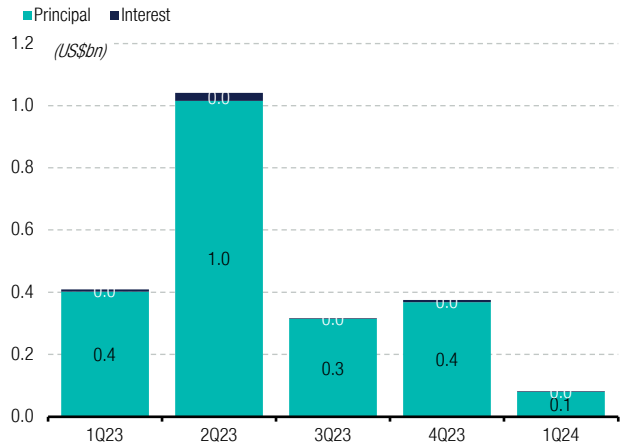
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

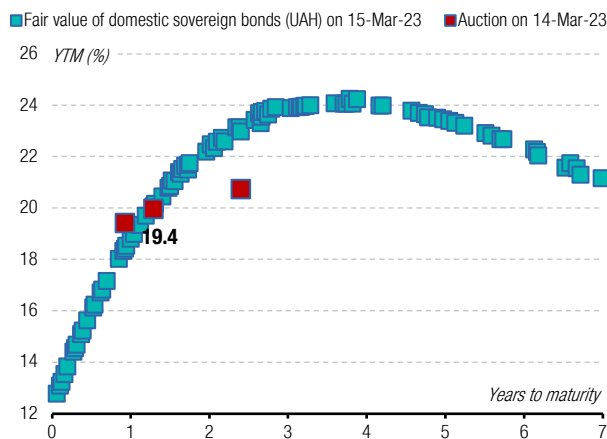
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

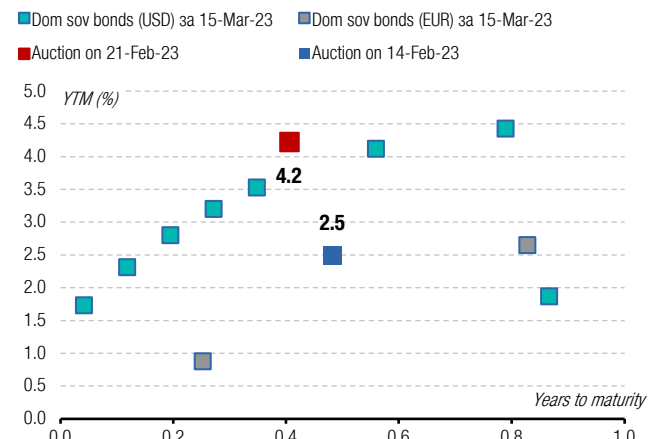
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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