

Bond Market Insight

Demand for Military Bills Robust

Comment on government bond placement

WEDNESDAY, 23 MARCH 2022

Demand for military bills in the fourth auction improved and provided the budget with more than UAH6bn.

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

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000221436	0.00	@Mty	27-Apr-22	1,170,316	990.50	1,159.20	1,170.32	10.00	16,407.79
UA4000225668	0.00	@Mty	1-Mar-23	5,381,959	906.31	4,877.72	5,381.96	11.00	27,072.83
Total UAH				6,552,275	6,036.92	6,552.28			43,480.62

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 29.4/USD, 33.81/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

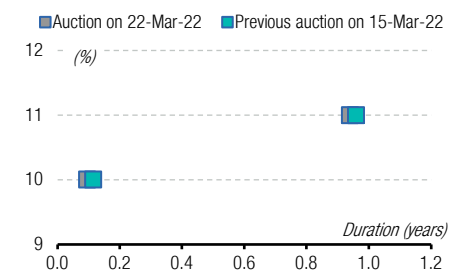
There was a slight decline in demand in the second and third auctions, but this seems to have been situational due to the active participation of banks in the debut auction, backed by a desire to help defend the country from Russian aggression. Yesterday, demand for bills increased slightly compared with last week, and the number of bids slid by only seven to 47.

In the structure of demand, investors' interest in paper maturing on 27 April this year increased, which may be because banks are using this instrument instead of two-week certificates of deposit, which the NBU has not issued since early March.

Therefore, due to an increase in demand for the shortest paper, total demand at the auction increased by more than UAH600m to UAH6.6bn (par value). Demand for 11-month bills was stable, and again amounted to almost UAH5.4bn.

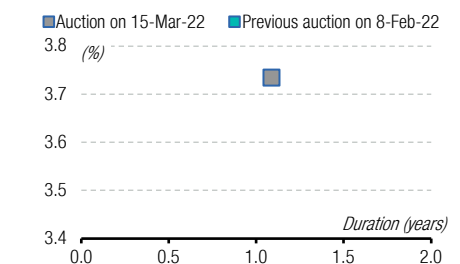
Demand from domestic investors is steady, and even shows an increase. Therefore, we expect that going forward, the government will be able to borrow a similar amount of money every week.

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



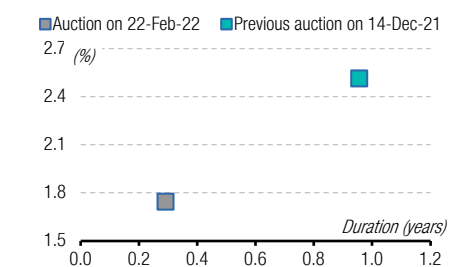
Source: Ministry of Finance of Ukraine, ICU.

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

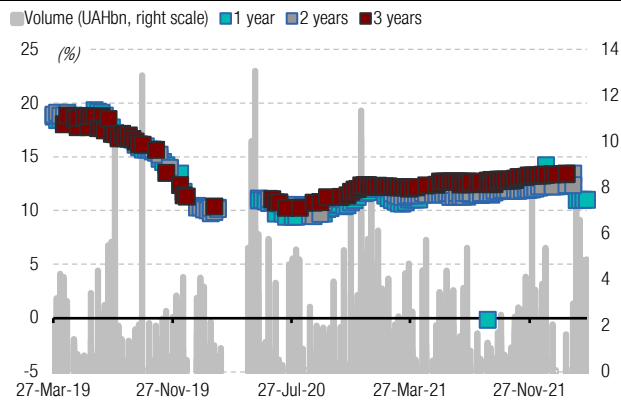


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

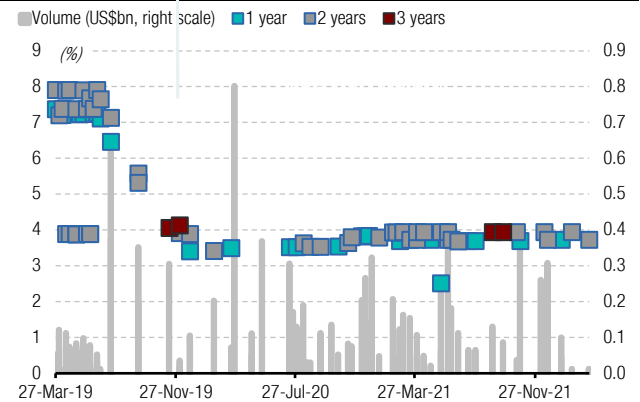
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

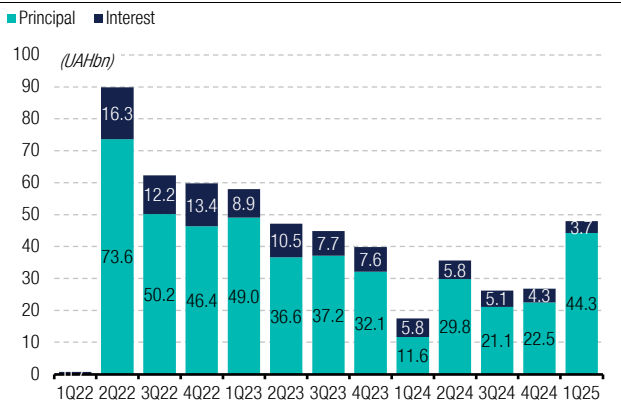
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

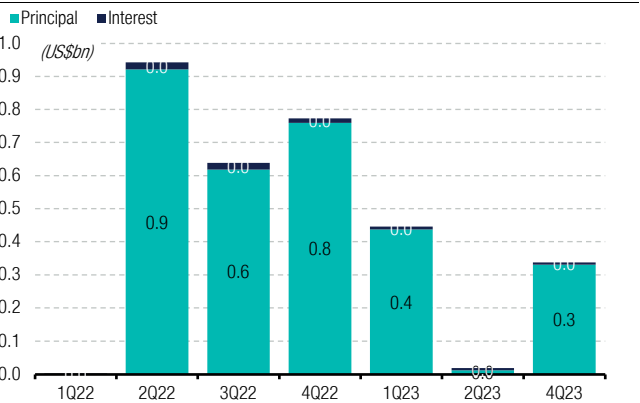
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

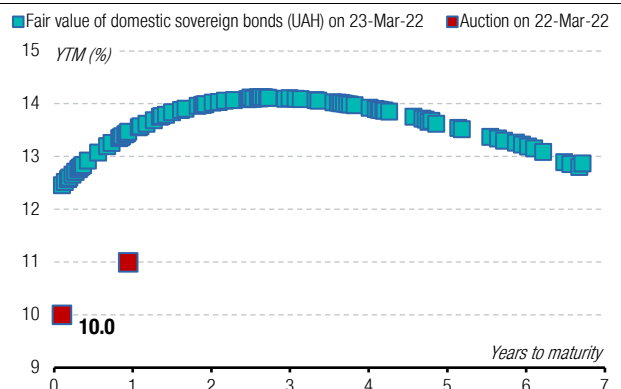
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

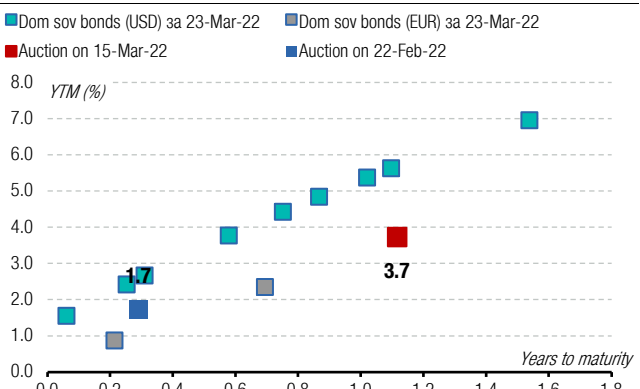
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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