

Bond Market Insight

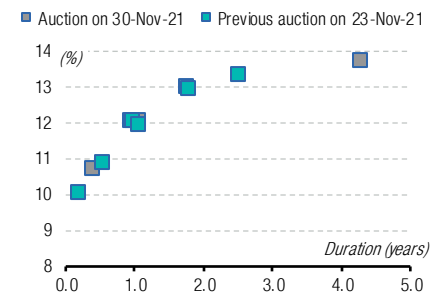
Short-term financing prevails

Comment on government bond placement

WEDNESDAY, 1 DECEMBER 2021

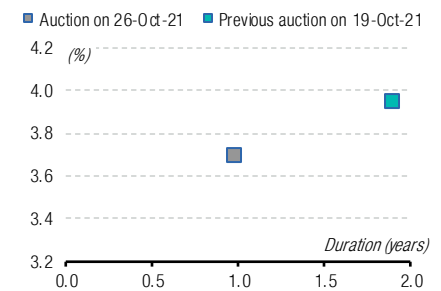
Yesterday, the Ministry of Finance raised UAH12.7bn (US\$470m) for the budget, mainly in local currency. Interest rates were raised minimally, and the MoF accepted all the demand, which was surprisingly unanimous. But almost 80% of the borrowings came through semi-annual bills.

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



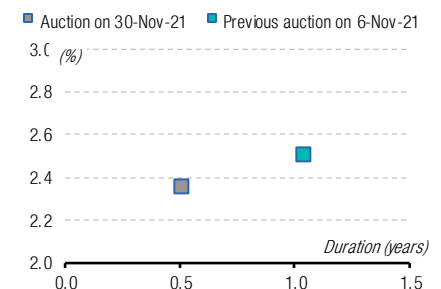
Source: Ministry of Finance of Ukraine, ICU.

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.

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	8,662,376	958.69	8,304.53	8,662.38	10.70	14,238.28
UA4000222145	11.50	SA	14-Dec-22	88,647	1,051.53	93.21	88.65	12.02	7,180.05
UA4000221568	11.57	SA	18-Jan-23	1,097,262	1,041.12	1,142.38	1,097.26	12.02	1,480.00
UA4000213227	10.95	SA	1-Nov-23	1,077,787	981.60	1,057.96	1,077.79	12.98	12,283.38
UA4000222152	12.70	SA	30-Oct-24	325,273	100.59	32.72	325.27	259.91	4,616.95
UA4000207518	9.79	SA	26-May-27	100,672	867.81	87.36	100.67	13.73	15,200.24
Total UAH				11,352,017	10,718.17	11,352.02			54,998.90
UA4000218747	2.50	SA	9-Jun-22	55,750	1,012.79	1,739.65	1,717.68	2.36	3,839.61
Total EUR				55,750	1,739.65	1,717.68			3,839.61

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 26.36/USD, 30.81/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Almost UAH8.7bn (US\$306m) was borrowed through semi-annual UAH-denominated securities, on which rates were increased by 15 bp. to 10.7%, and another UAH1.7bn (EUR 56.5mn) in euros. The bills in euros were sold at a 2.35% interest rate, which is 15bp lower than bills in euros were sold earlier this year, but with a reduction in the maturity by almost twice.

Bills maturing in 2023 also saw good demand. Both issues, those maturing in January and November, provided the budget with more than a UAH1bn (about US\$40m) each, and both saw an increase in rates by 8bp, up to 11.65% and 12.55% respectively. In fact, 14-month securities have now the same rate as 12-month bills, for which the cut-off rate rose last week. Two-year paper is a little closer to the three-year securities, and now give investors in the primary market an additional premium of 90bp for a longer maturity compared with 14-month bills.

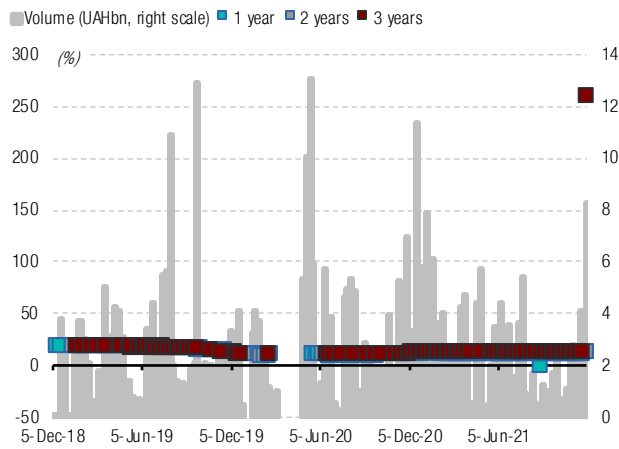
For longer maturities, three-year and six-year notes, rates have not changed. The longest paper offered yesterday gave the lowest amount of funds, which may indicate minimal interest in new investments in the primary market by foreigners.

However, the Ministry was able to almost completely refinance the debt redemptions in local currency planned for today, but they will have to add several hundred million hryvnias to pay off the principal amount of debt and another billion hryvnias to pay the interest. This is a very good result, but the fact that borrowings are mainly for the short term increases the need for borrowing next year, although it allows to improve budget financing in the absence of active inflows from foreigners and to raise interest rates only gradually.

Appendix: Yields-to-maturity, repayments

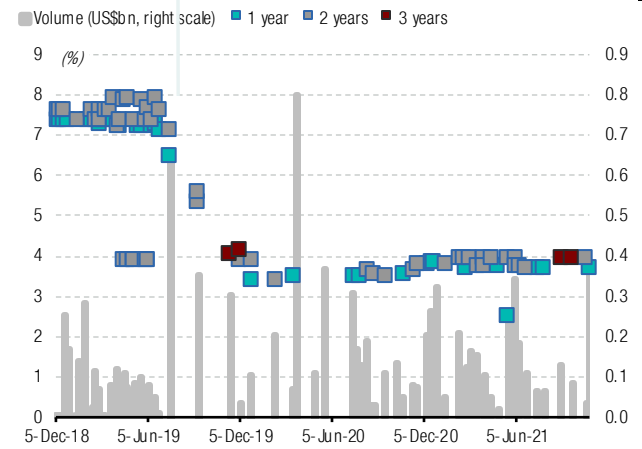
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

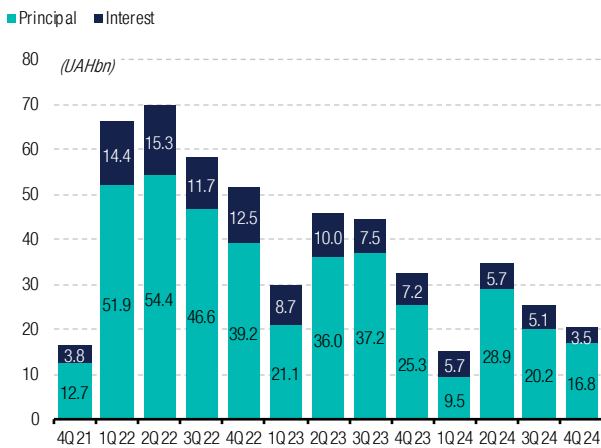
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

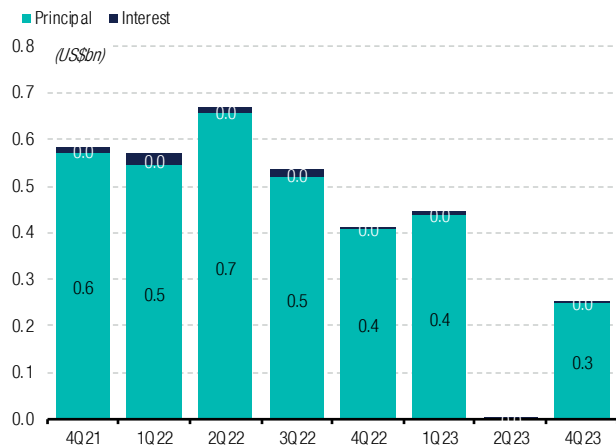
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

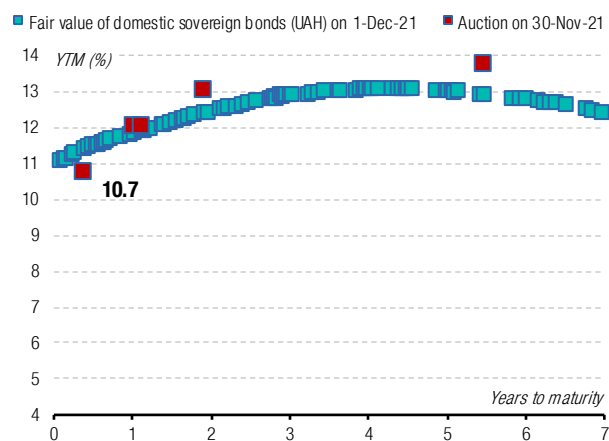
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

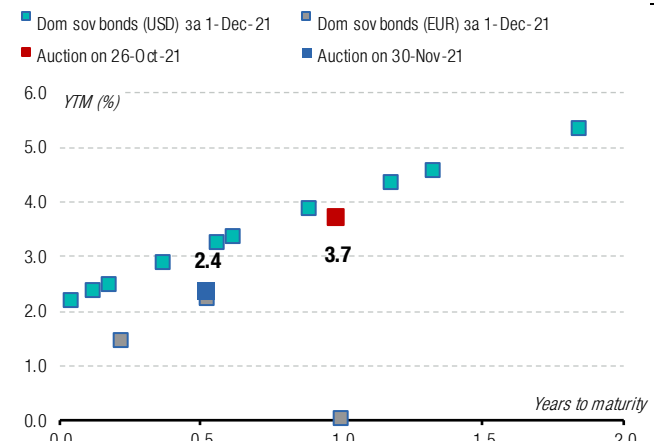
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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