

# Bond Market Insight

## Lowest proceeds in last three months

### Comment on government bond placement

The upset in the debt markets caused by the high risk of a Russian invasion of Ukraine led to minimal borrowing at yesterday's primary auction. In total, only UAH4.2bn was attracted for the budget, including just UAH119m in local currency.

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

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000224570	0.00	@Mty	13-Jul-22	11,273	949.95	10.71	11.27	10.99	11.27
UA4000221568	11.57	SA	18-Jan-23	23,123	996.97	23.05	23.12	12.29	2,098.78
UA4000224380	12.94	SA	14-Feb-24	72,125	1,054.30	76.04	72.13	13.41	2,032.00
UA4000207518	9.79	SA	26-May-27	10,293	882.93	9.09	10.29	13.73	15,279.03
<b>Total UAH</b>				<b>116,814</b>		<b>118.89</b>	<b>116.81</b>		<b>19,421.08</b>
UA4000218333	3.70	SA	14-Jul-22	100,000	1,001.65	2,834.76	2,830.09	3.52	17,505.83
UA4000223853	3.70	SA	22-Dec-22	43,149	1,002.82	1,224.60	1,221.16	3.73	9,922.64
<b>Total USD</b>				<b>143,149</b>		<b>4,059.36</b>	<b>4,051.25</b>		<b>27,428.47</b>

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 28.3/USD, 30.69/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The Ministry of Finance rejected only one bid out of all received. It was a rather large bid compared with the others in yesterday's auction — for almost UAH6m — but it came in with a rate of 12% for six-month bills. This was too aggressive, despite rates for this paper having risen to the level of 11% was up the cut-off rate (by 20bp) and to 10.99% the weighted average rate (by 19bp).

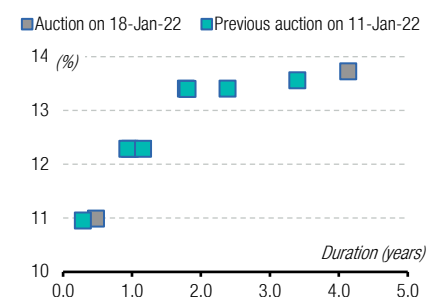
But the rest of the bids were generally unanimous in terms of interest rates, however, for small amounts. Of the hryvnia securities, two-year paper brought the most to the budget, although it was only UAH76mn. Through USD-denominated bills, the MoF managed to raise US\$143mn or more than UAH4bn equivalent.

The exit of foreigners from local-currency debt on the back of too high yields on Ukrainian Eurobonds does not bode well for demand for UAH-denominated securities. Revision of the NBU key policy rate scheduled for this Thursday did not support demand either. This auction raised the smallest amount of funds since October last year.

Currently, the Ministry of Finance does not need to raise large amounts of money. They can postpone expenditures for the next few months and provide budget resources only for urgent needs, including debt payments.

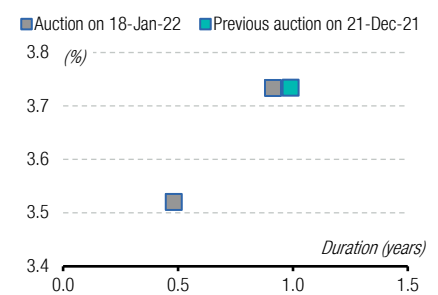
### WEDNESDAY, 19 JANUARY 2022

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



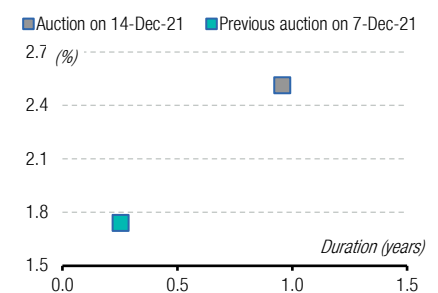
Source: Ministry of Finance of Ukraine, ICU.

#### 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

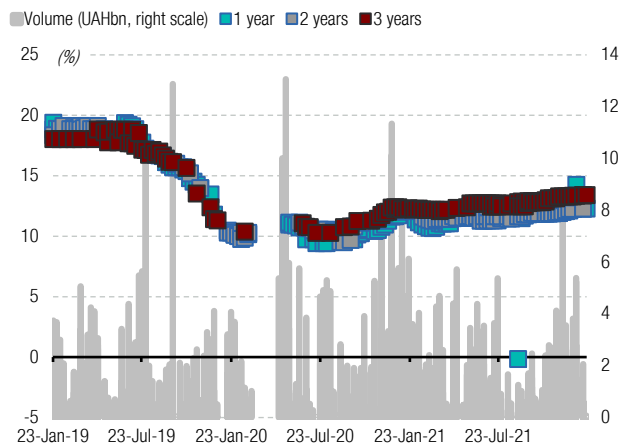


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

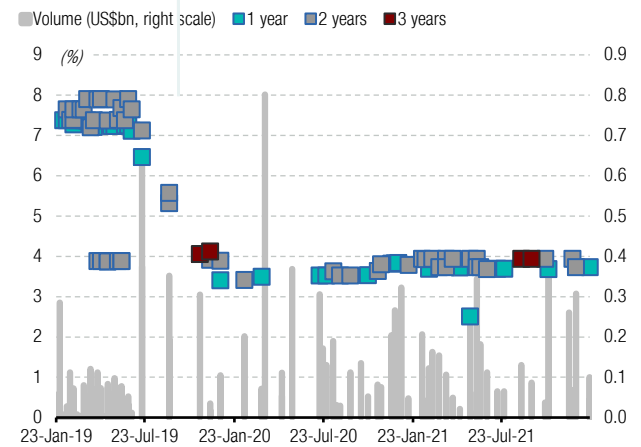
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

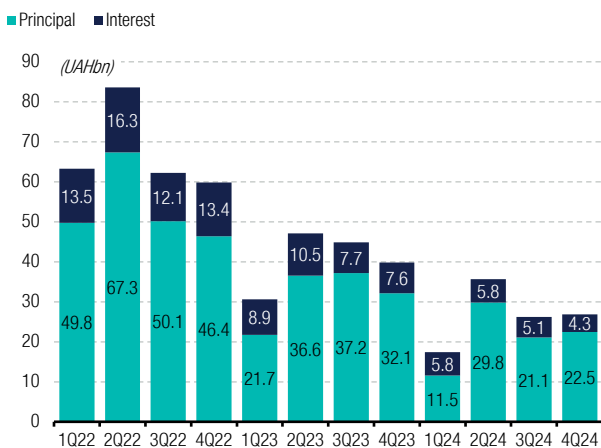
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

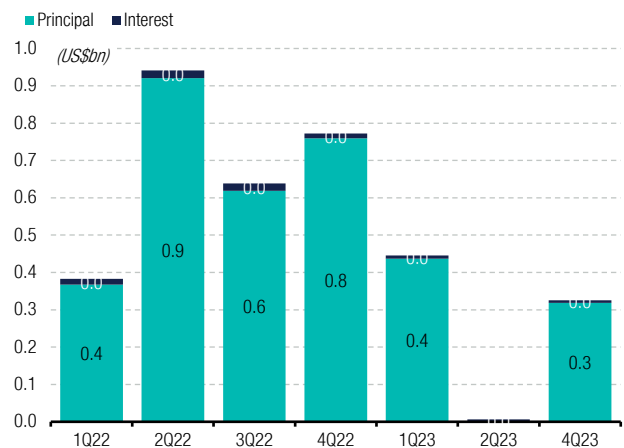
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

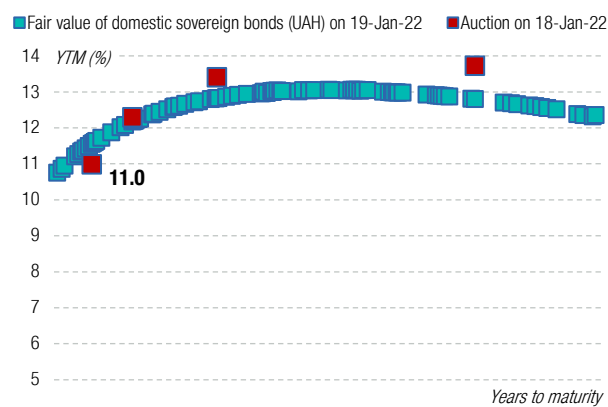
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

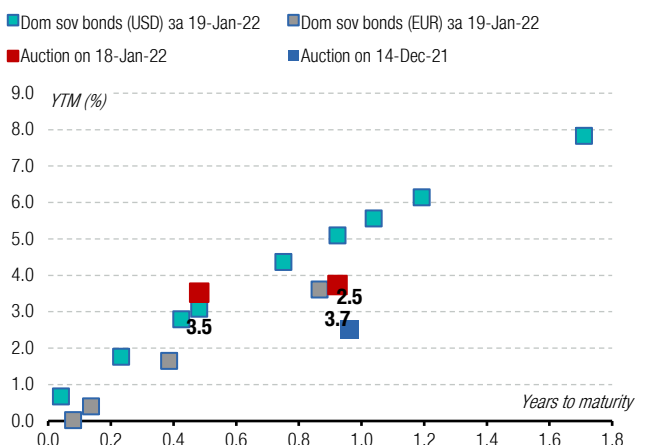
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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