

Bond Market Insight

Borrowings at two-year low

Comment on government bond placement

WEDNESDAY, 2 FEBRUARY 2022

Yesterday, the primary auction set a two-year record to the downside for the amount of funds raised. Even during the first wave of the COVID-19 pandemic, the MoF was able to borrow more. Previously, the lowest amounts raised in a primary auction were in January and October 2019.

Demand for all offered securities, both in local and hard currency, was insignificant, amounting to only UAH238m. Bids for all UAH-denominated bills started from higher rates than where those instruments were sold earlier in January.

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

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000224570	0.00	@Mty	13-Jul-22	70,616	951.72	67.21	70.62	11.50	81.89
UA4000224380	12.94	SA	14-Feb-24	15,213	1,058.53	16.10	15.21	13.46	2,047.21
Total UAH				85,829		83.31	85.83		2,129.10
UA4000215909	3.89	SA	2-Feb-23	4,577	1,001.85	130.34	130.10	3.74	9,520.51
Total USD				4,577		130.34	130.10		9,520.51

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

Demand for five-month paper was the largest and unanimous — UAH71m at face value and with rates at 11.5%. This is 50bp more than a week before the NBU resent review of the key policy rate. So this demand was fully accepted.

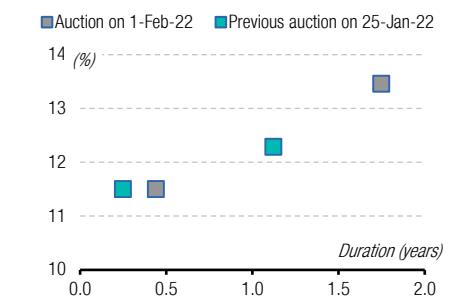
The minimum level of rates in bids for two-year bonds was 13% yesterday, which was only 5bp higher than two weeks ago. Only one bid had a higher rate, at a level which was the lowest last week, of 13.45%, but it was rejected.

The MoF also rejected bids with 12.4% rates for both 12 and 15-month securities. Ministry decided this rate was too high, especially since the amount of demand was even lower than for two-year paper.

However, this week, bills denominated in hard currency did not solve the problem and did not provide the budget with much in the way of funds, unlike the auction two weeks ago. Only US\$4.6m was collected yesterday.

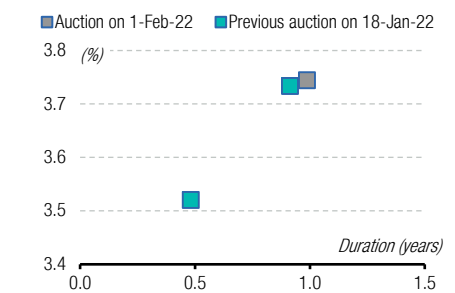
Therefore, despite the repayment of UAH11bn today and US\$367m tomorrow, the budget was not able to borrow more. Actually, hard currency repaid tomorrow could

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



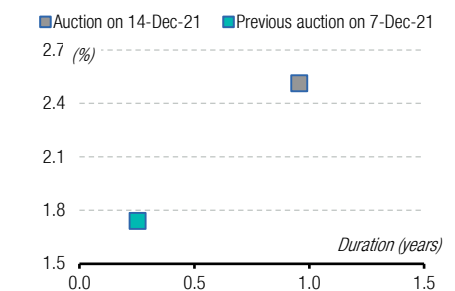
Source: Ministry of Finance of Ukraine, ICU.

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



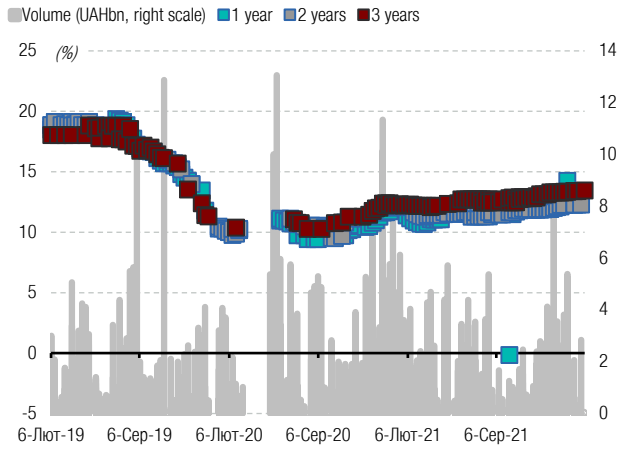
Source: Ministry of Finance of Ukraine, ICU.

not be used yesterday, but could be the source for demand next week. However, repayments in local currency will go to investors' accounts, most likely including foreigners, too. But given the unstable and unpredictable situation in relations with Russia and the possibility of escalation, along with market expectations of a further rise in interest rates, it is to be expected that investors are in no hurry to give new loans to the government.

Appendix: Yields-to-maturity, repayments

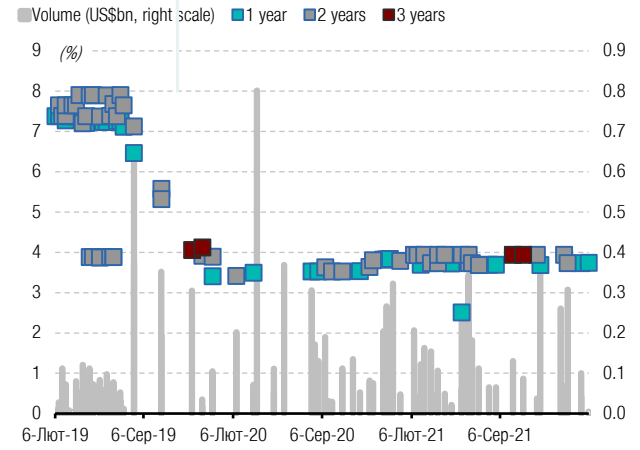
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

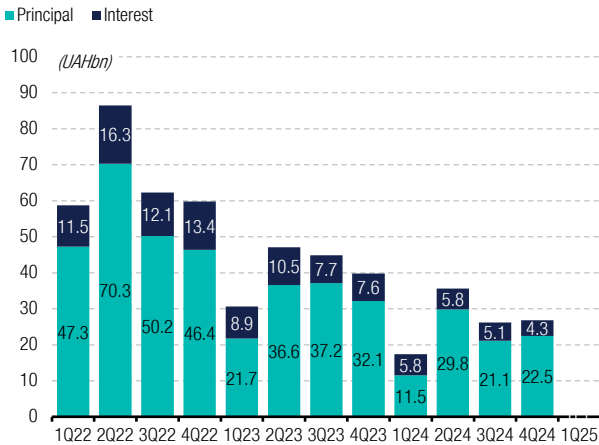
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

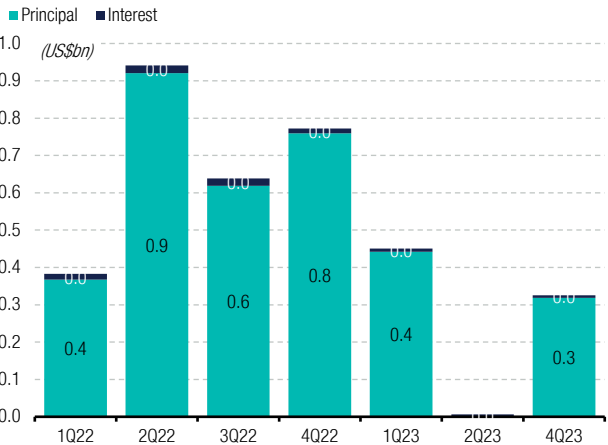
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

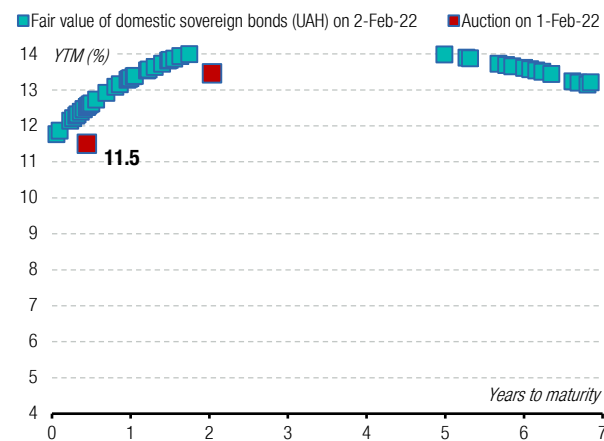
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

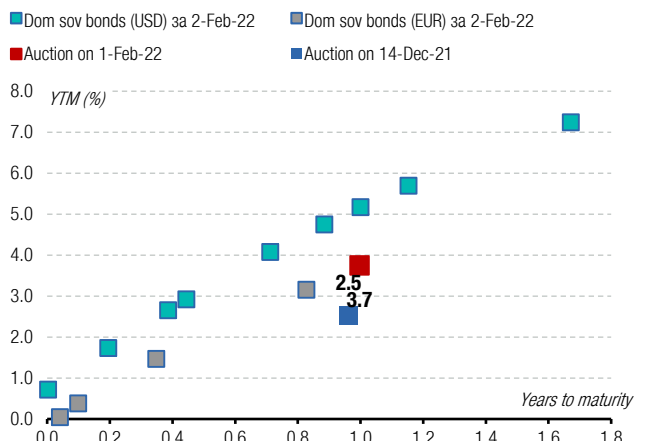
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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