

Bond Market Insight

Funding for Army going well

Comment on government bond placement

WEDNESDAY, 9 MARCH 2022

The Ministry of Finance continues to hold primary auctions to finance the Ukrainian army. Yesterday another UAH6.7bn was raised for the budget.

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

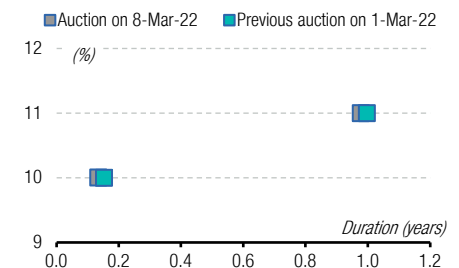
ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000221436	0.00	@Mty	27-Apr-22	127,501	986.75	125.81	127.50	10.00	15,029.37
UA4000225668	0.00	@Mty	1-Mar-23	7,316,008	902.86	6,605.33	7,316.01	11.00	16,329.44
Total UAH				7,443,509	6,731.14	7,443.51			31,358.80

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

The same as last week, the MoF offered two issues of bills maturing on 27 April this year and 1 March 2023. While demand for two-month securities was small, only UAH127.5m at face value, demand for the 12-month bills exceeded UAH7.3bn. This is a little less than last week, but there are positive changes as well. If at the previous auction there were only 10 bids, yesterday, the number increased to 31. This means that market participants who are not primary dealers have also joined the purchase of these securities.

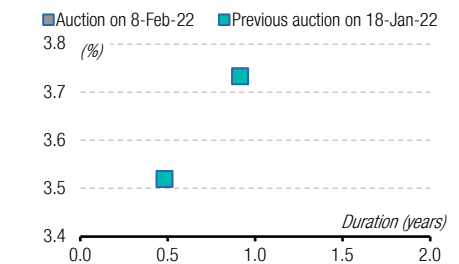
Given that a secondary market for this issue of military bills has been opened and there is demand among both non-banks and individuals, we expect that interest in the primary market will remain high and the government will receive additional resources to finance the army and defence needs.

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



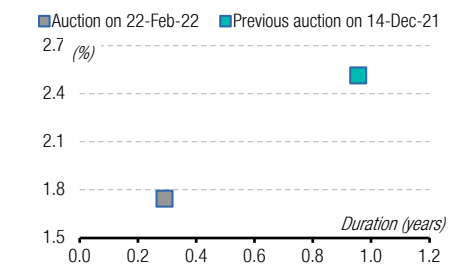
Source: Ministry of Finance of Ukraine, ICU.

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

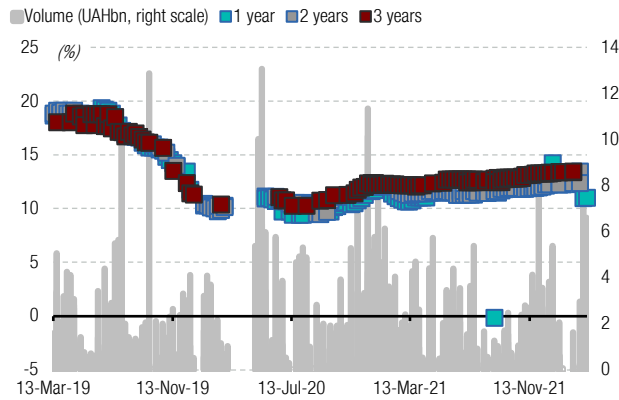


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

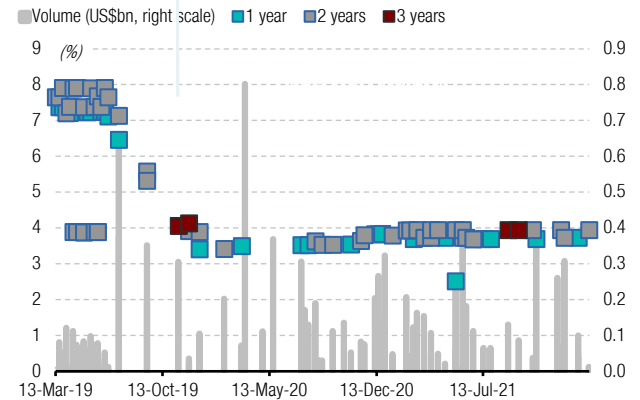
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

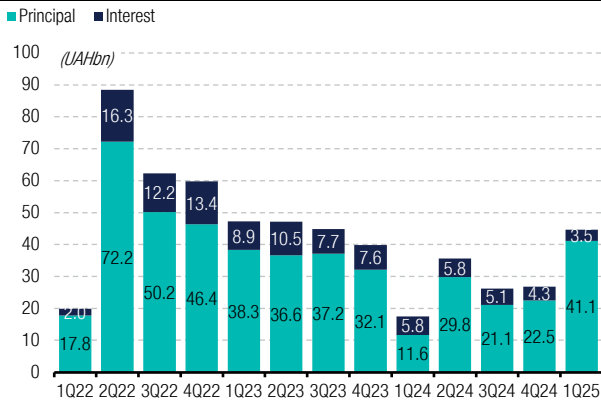
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

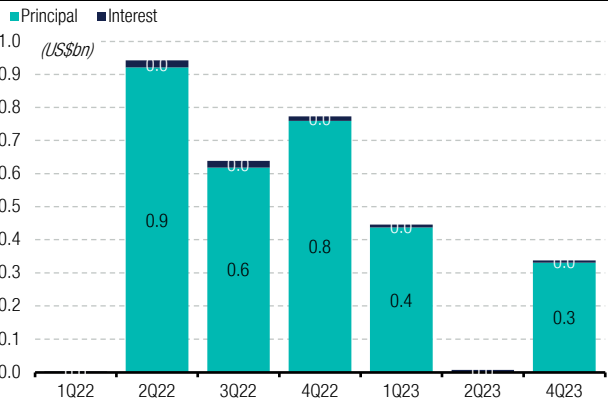
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

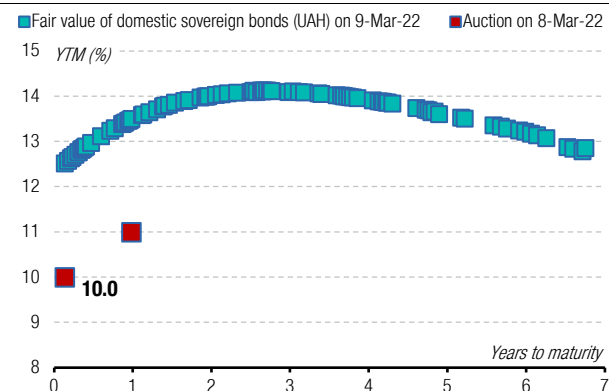
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

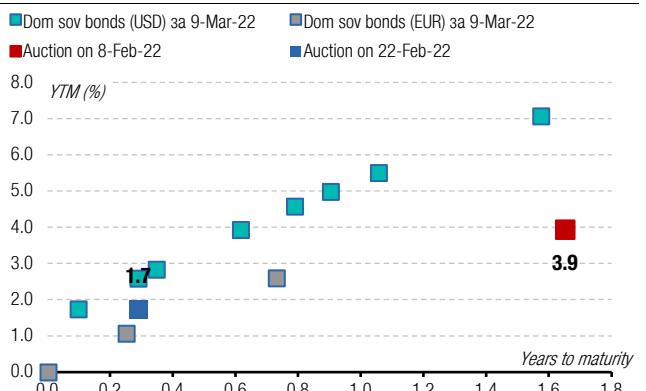
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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