

Bond Market Insight

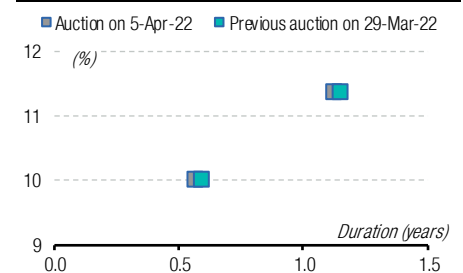
Deferred demand for FX-denominated bills

Comment on government bond placement

WEDNESDAY, 6 APRIL 2022

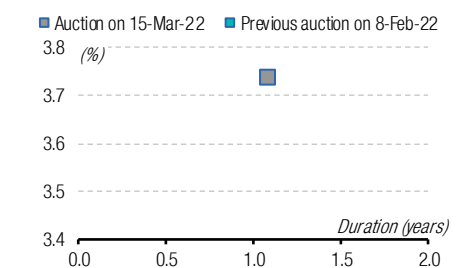
For the first time since military bills were issued in March, yesterday, the Ministry of Finance offered EUR-denominated bills, and raised more than EUR143m for the budget in addition to borrowings in local currency in the amount of UAH1bn (US\$33m).

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



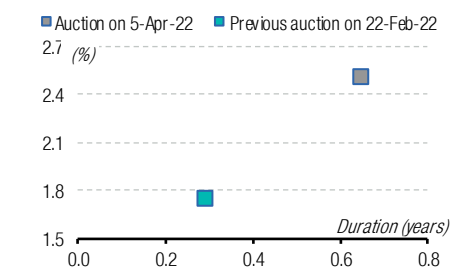
Source: Ministry of Finance of Ukraine, ICU.

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 ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000225791	0.00	@Mty	2-Nov-22	782,704	945.60	740.12	782.70	10.00	1,498.16
UA4000225809	11.00	SA	21-Jun-23	216,615	1,031.37	223.41	216.62	11.34	2,797.60
Total UAH				999,319		963.54	999.32		4,295.76
UA4000222509	2.50	SA	1-Dec-22	142,156	1,008.64	4,597.03	4,557.65	2.51	13,149.14
Total EUR				142,156		4,597.03	4,557.65		13,149.14

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 29.4USD/32.06EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

This week, interest in UAH-denominated instruments decreased further and amounted to approximately UAH1bn (US\$33m) at face value. This is quite understandable, because since there haven't been redemptions for more than a month, the resources available to primary dealers and large private investors have been gradually depleted. Further, only military bills can be sold in the secondary bond market now. Therefore, through local-currency instruments, the government attracted to the budget only UAH963m (US\$33m), including UAH740m (US\$25m) for seven months and another UAH223m (US\$8m) for 15 months.

However, there was great demand for FX-denominated bills. Eight-month paper denominated in euros received only seven bids, but the total was EUR142m face value and brought the budget EUR143.4m or about UAH4.6bn at the current exchange rate. Bills were sold at a rate of 2.5%, similar to when this instrument was sold at the end of last year.

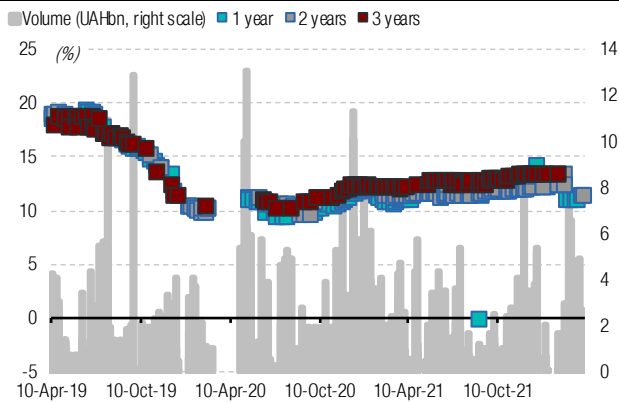
Such large demand can be explained by a rather large gap in offering of EUR-denominated instruments, as after a redemption of almost EUR350m in mid-February, the Ministry of Finance offered bills denominated in euros only on 22 February, when investors were very worried about news of Russia's possible invasion and did not dare to buy new bonds. Nonetheless, even now, when the funds will be used for government spending during martial law, the position of investors could change, which has led to a fairly large amount of demand.

READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Appendix: Yields-to-maturity, repayments

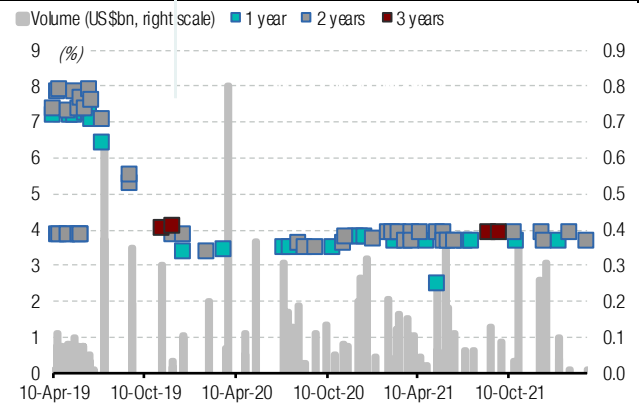
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

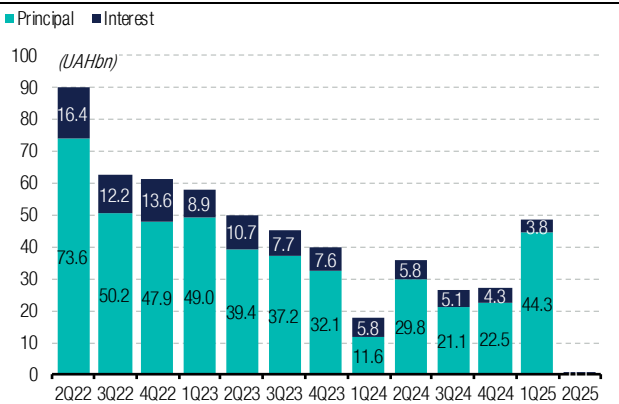
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

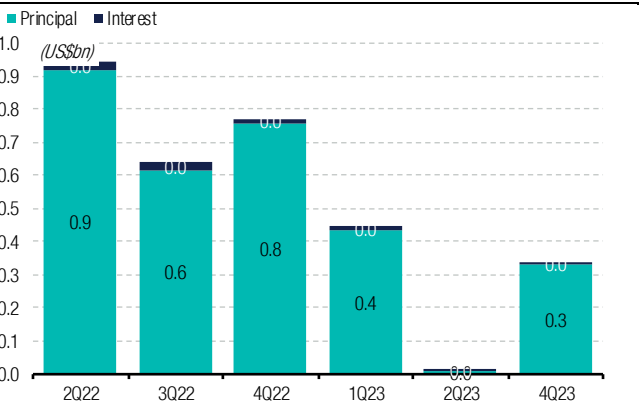
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

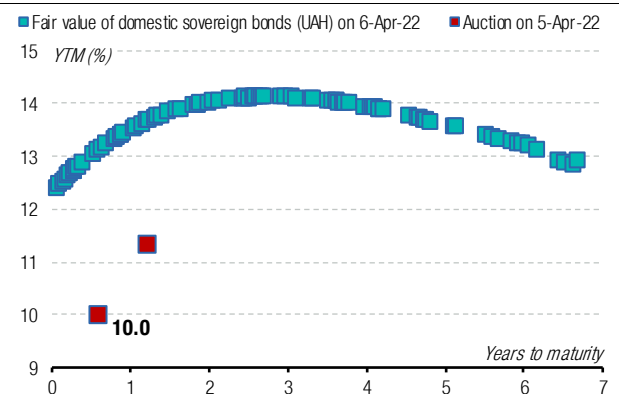
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

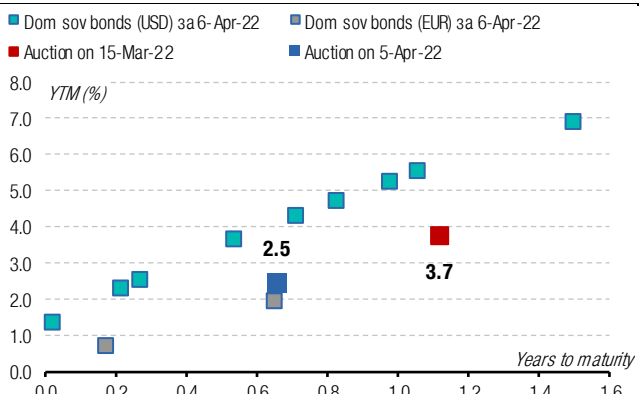
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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