

Bond Market Insight

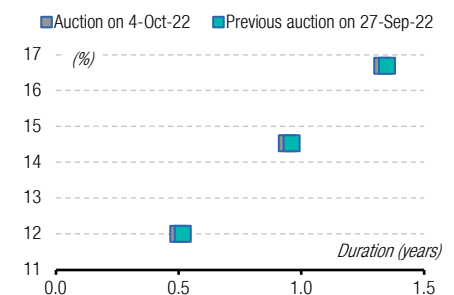
Interest rates rise on FX bills

Comment on government bond placement

WEDNESDAY, 12 OCTOBER 2022

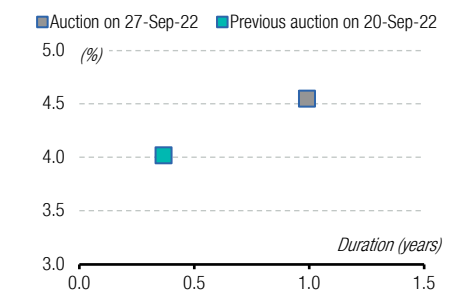
The Ministry of Finance attracted to the budget UAH3.6bn (US\$98.5m) yesterday, almost all thanks to FX-denominated bills with interest rate hikes.

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



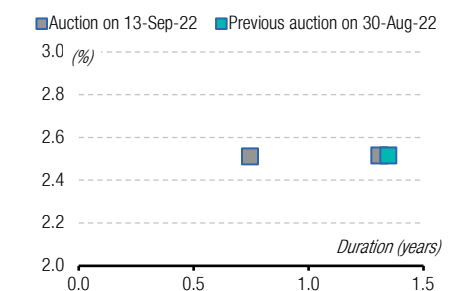
Source: Ministry of Finance of Ukraine, ICU.

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
UA4000226427	0.00	@Mty	5-Apr-23	6,828	945.60	6.46	6.83	12.00	445.02
UA4000226260	16.00	SA	27-Sep-23	360	1,023.39	0.37	0.36	14.53	6,638.84
UA4000226450	16.00	SA	13-Mar-24	4,916	1,011.91	4.97	4.92	16.69	491.52
Total UAH				12,104		11.80	12.10		7,575.38
UA4000225775	3.70	SA	27-Apr-23	96,805	1,014.17	3,625.81	3,575.15	4.28	7,638.58
Total USD				96,805		3,625.81	3,575.15		7,638.58

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 36.93/USD, 36.88/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The Ministry of Finance attracted to the budget UAH3.6bn (US\$98.5m) yesterday, almost all thanks to FX-denominated bills with interest rate hikes.

UAH bills have traditionally received small and mostly unanimous demand. There was only one bid for the 1.5-year bills with a 19% rate that amounted to UAH4m (US\$0.1m), which was almost 45% of the demand for this paper. But the Ministry of Finance rejected it and kept the rates for military government securities unchanged at 12-16% with a maturity of six to 18 months.

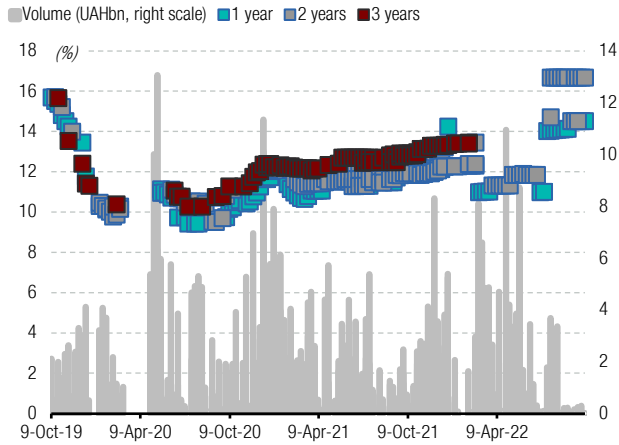
There was another increase in interest rates on USD-denominated bills. Seven-month paper, which recently saw an increase in rate by 50bp to 4%, received another increase of 25bp to 4.25% yesterday. Thanks to the readiness of the Ministry of Finance to raise rates, it was possible to attract US\$98.2m, or almost 100% of yesterday's funds.

So, on the eve of the large redemption of USD-denominated securities, the Ministry of Finance agreed to a higher rate and refinanced more than half of tomorrow's repayment in hard currency. At the same time, the refinancing of UAH redemptions continues to deteriorate as with today's redemption of UAH16bn (US\$0.4bn) only UAH11.8m US\$0.3m is borrowed.

Appendix: Yields-to-maturity, repayments

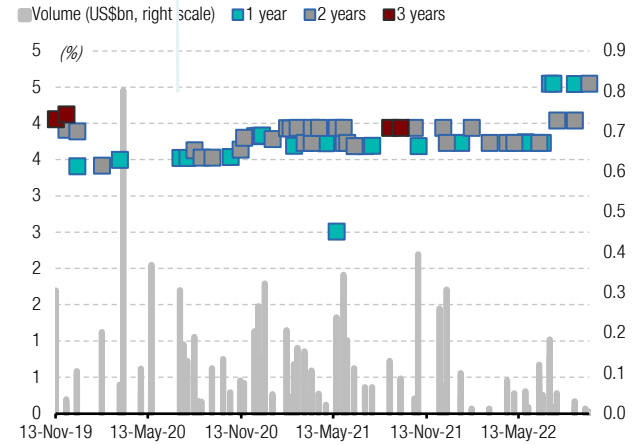
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

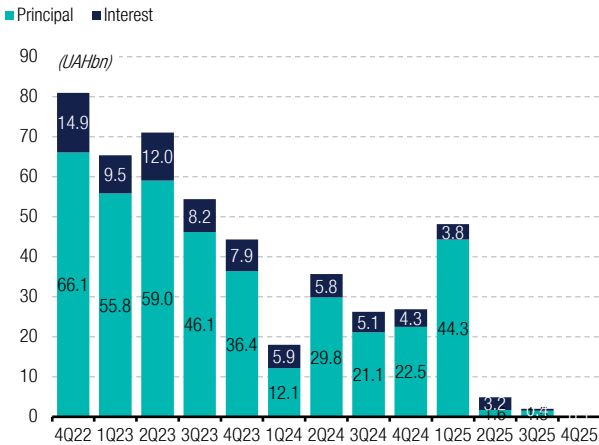
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

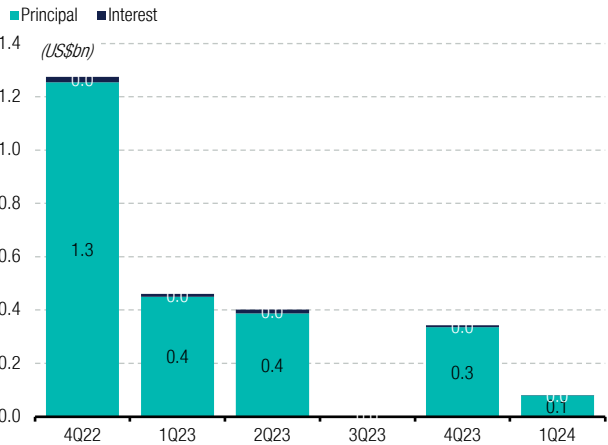
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

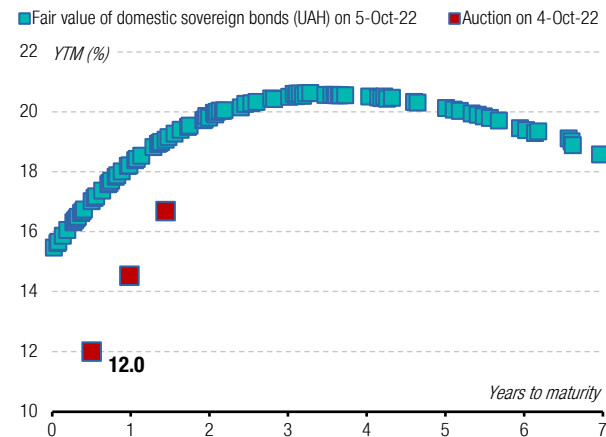
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

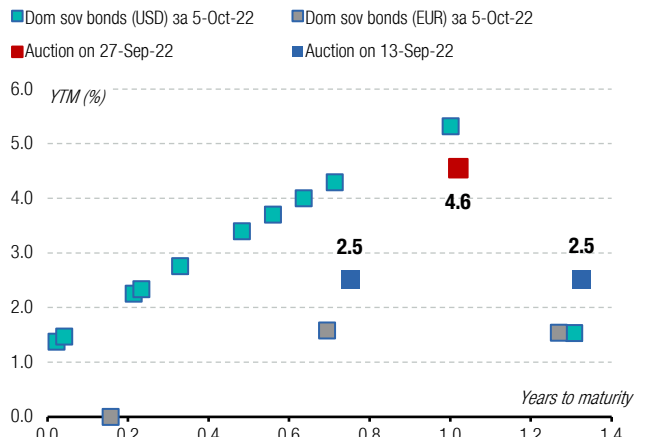
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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