

Bond Market Insight

MoF takes cautious steps toward market

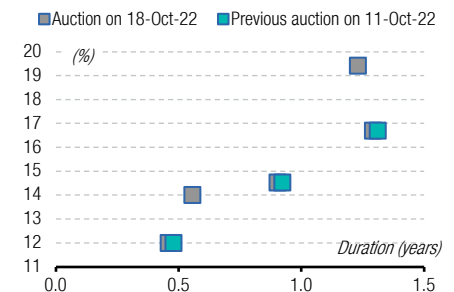
Comment on government bond placement

WEDNESDAY, 19 OCTOBER 2022

The primary auction had an expanded bond offering yesterday, as the Ministry of Finance added two non-military bills.

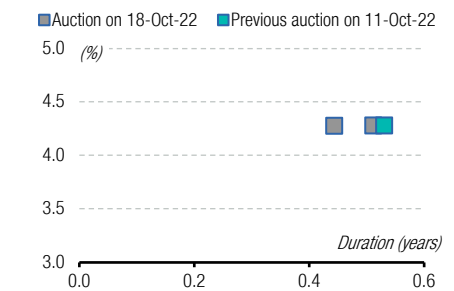
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

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



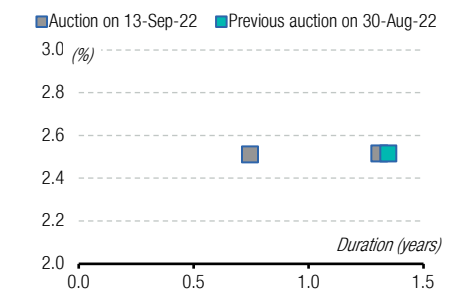
Source: Ministry of Finance of Ukraine, ICU.

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.

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	22,701	947.66	21.51	22.70	12.00	467.73
UA4000226658	0.00	@Mty	10-May-23	4,005,000	927.76	3,715.68	4,005.00	14.00	4,005.00
UA4000226260	16.00	SA	27-Sep-23	135,147	1,026.06	138.67	135.15	14.53	6,773.98
UA4000224380	12.94	SA	14-Feb-24	2,000,000	958.86	1,917.72	2,000.00	19.41	4,124.59
UA4000226450	16.00	SA	13-Mar-24	10,021	1,014.91	10.17	10.02	16.69	501.54
Total UAH				6,172,869		5,803.75	6,172.87		15,872.83
UA4000216923	3.90	SA	30-Mar-23	294,698	1,000.71	10,868.72	10,861.01	4.28	14,795.87
UA4000225775	3.70	SA	27-Apr-23	17,084	1,014.99	639.06	629.63	4.28	8,252.32
Total USD				311,782		11,507.78	11,490.63		23,048.19

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

Perhaps the most important thing was that the two bonds offered at the auction were not military. They were five-month USD-denominated paper and 16-month local-currency bills. Together, they provided the state budget with almost 3/4 of all funds raised yesterday.

The MoF offered these securities in line with military bills with similar maturities, so they likely were added to the auction for investors who can buy non-military bonds. While the interest rates set for USD-denominated bills were the same as for the military one, non-military UAH-denominated paper received a rate of 18.5%, which is 250bp higher than the same issue of military bills sold yesterday.

Also, the Ministry has sold a considerable amount of new local-currency military securities due in May next year. This issue became an alternative to semi-annual paper maturing in April 2023. It got a rate of 14%, which is 200bp higher than the military bill sold yesterday at the usual rate of 12%.

Only two bidders purchased the new seven-month military bills and the additional 1.5-year non-military securities, including a bid for the military bill for UAH4bn (US\$102m).

The rest of the bonds were placed in small volumes and at regular rates.

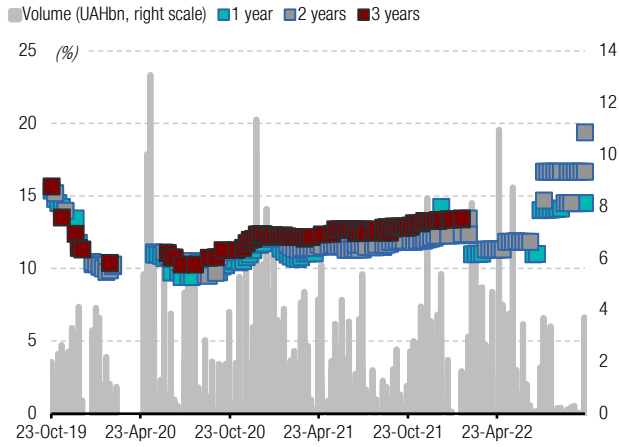
It looks like the Ministry of Finance has taken careful steps toward investors. The first

step was a renewed offer of non-military bills, which may interest foreign investors. The second step was higher rates for some UAH-denominated instruments, despite only a few participants buying them yesterday. So now it will be important to see if these steps were not a one-time act of generosity, and whether they will continue: all military government bonds will gradually move toward rates similar to seven-month paper, and the supply will expand with non-military government bonds.

Appendix: Yields-to-maturity, repayments

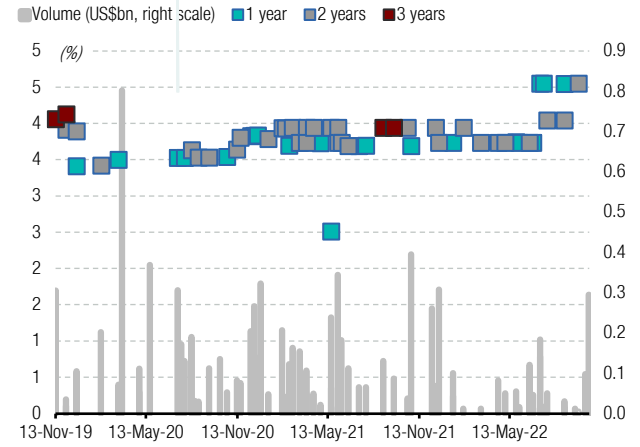
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

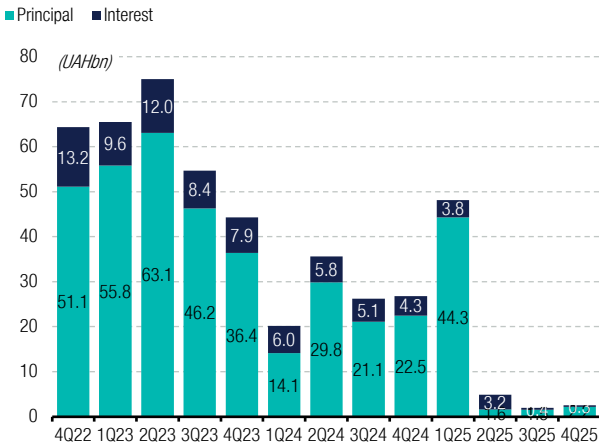
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

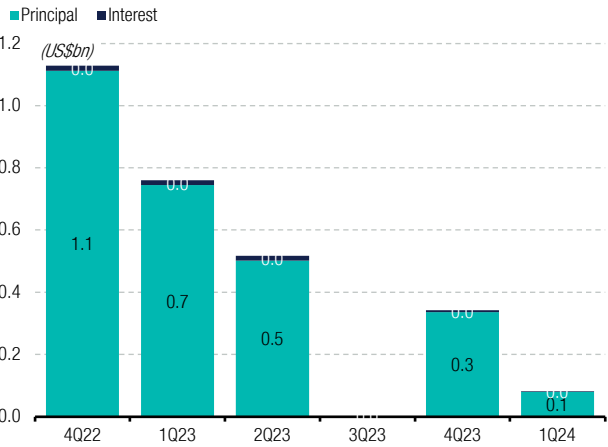
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

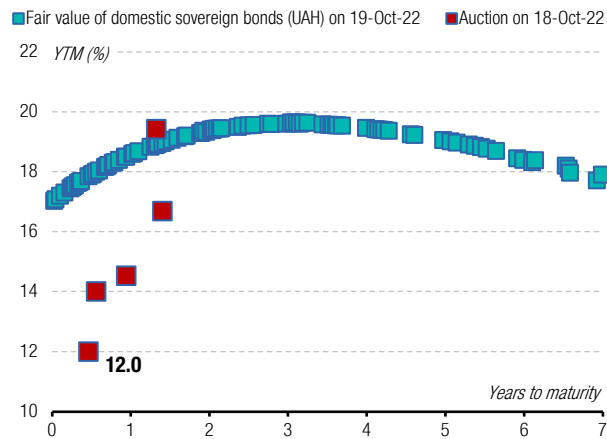
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

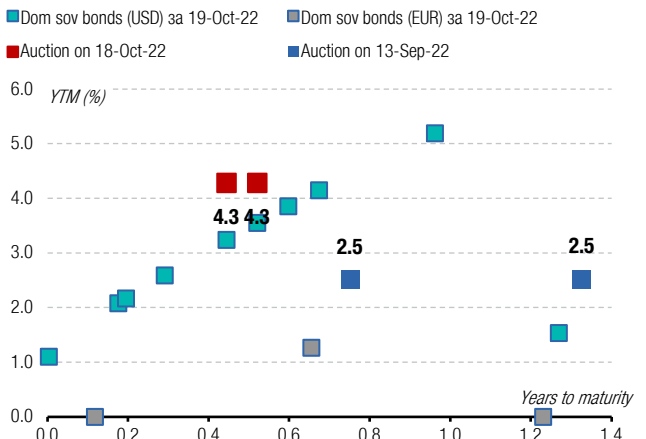
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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