

Bond Market Insight

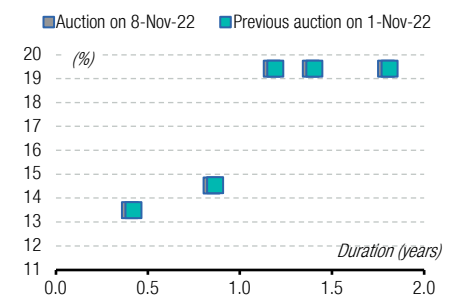
Low volume of borrowings again

Comment on government bond placement

WEDNESDAY, 9 NOVEMBER 2022

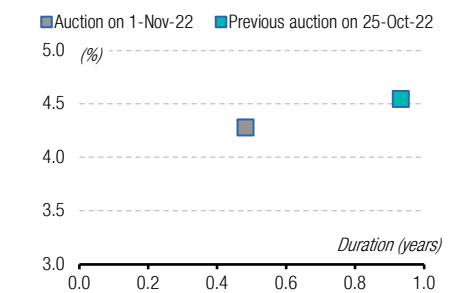
Yesterday, investor interest continued to shift toward ordinary (non-military) bills. Unfortunately, the total volume of demand and borrowing decreased again and is very close to the minimum.

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



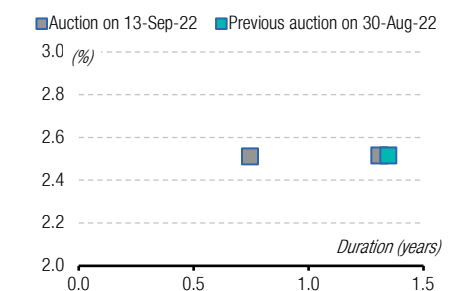
Source: Ministry of Finance of Ukraine, ICU.

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	22,694	948.43	21.52	22.69	13.50	13,099.60
UA4000226260	16.00	SA	27-Sep-23	7,490	1,034.10	7.75	7.49	14.53	6,801.36
UA4000224380	12.94	SA	14-Feb-24	10,095	968.70	9.78	10.10	19.41	4,137.80
UA4000207880	9.99	SA	22-May-24	2,886	936.33	2.70	2.89	19.41	19,039.05
UA4000222152	12.70	SA	30-Oct-24	2,200	909.65	2.00	2.20	19.41	5,268.21
Total UAH				45,365		43.75	45.37		48,346.01

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

After attracting a considerable amount of funds for five-month paper last week, yesterday, the total demand for this instrument fell to UAH22.7m (par value). Demand for 11-month military bills hardly changed. But demand for ordinary (non-military) securities more than tripled.

Interest rates for all five offered bills remained unchanged: 13.5% for the 5-month and 14% for the 11-month military bills, and 18.5% for all three ordinary bills with maturities ranging from 15 months to two years.

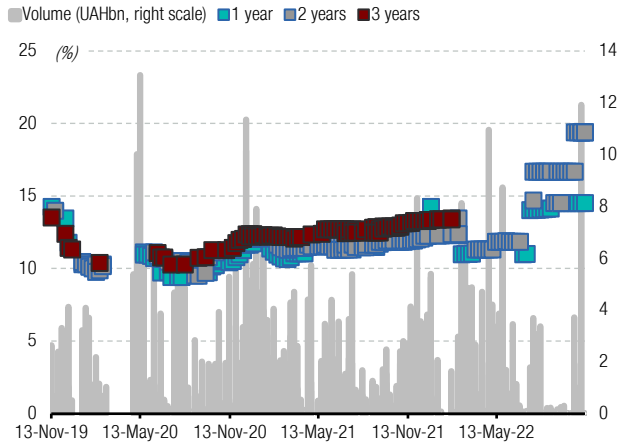
Demand is gradually shifting to ordinary bonds, which the Ministry has been offering every week. But interest rates on them give YTM lower than similar instruments traded on the secondary market, so primary placements attract only a small number of investors.

Also, this auction demonstrated that last week's repayments have already been reinvested on the secondary market in other bonds or spent on purchases of hard currency or for other purposes. But not for purchasing bills on the primary market under current conditions.

Appendix: Yields-to-maturity, repayments

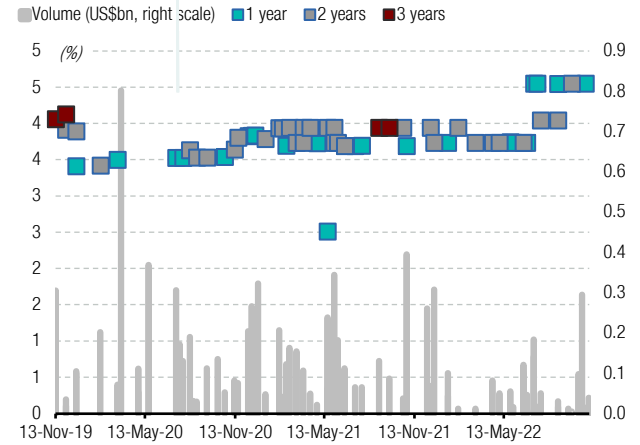
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

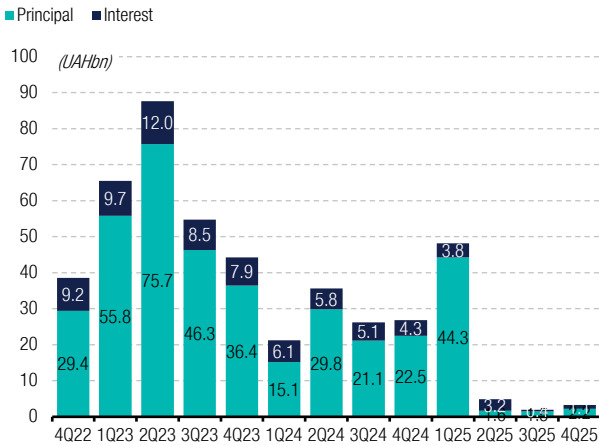
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

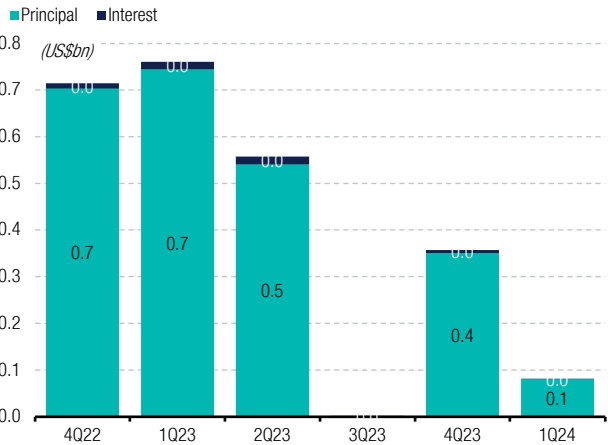
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

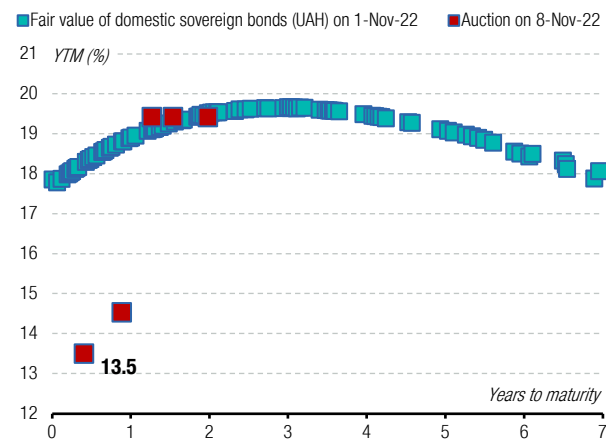
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

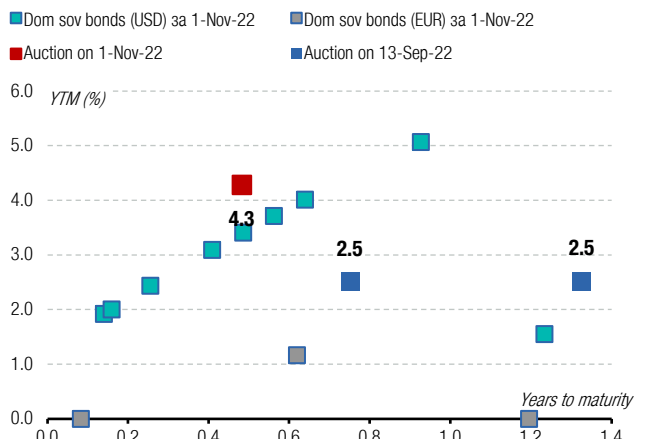
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko, CFA

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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