

Bond Market Insight

MoF's decision was ambiguous

Comment on government bond placement

WEDNESDAY, 7 DECEMBER 2022

The Ministry of Finance refused to raise interest rates on some offered bills and attracted UAH3.1bn (US\$84m) to the budget yesterday.

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
UA4000226195	0.00	@Mty	5-Jul-23	68,273	925.46	63.18	68.27	14.00	2,379.86
UA4000222152	12.70	SA	30-Oct-24	1,003,634	907.74	911.03	1,003.63	20.51	7,307.88
Total UAH				1,071,907		974.22	1,071.91		9,687.74
UA4000226039	2.50	SA	15-Jun-23	54,214	1,009.46	2,115.65	2,095.82	3.01	4,384.74
Total EUR				54,214		2,115.65	2,095.82		4,384.74

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 36.8/USD, 38.66/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

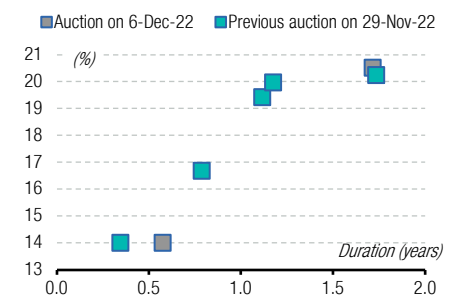
The budget attracted the most funds from EUR-denominated bills due June of next year, almost EUR55m (UAH2.1bn), two-thirds of the funds received at yesterday's auction.

Another UAH0.9bn (US\$25m) was raised through two-year bills for which the Ministry agreed to raise rates by another 25bp to 19.5%, and UAH63m (US\$1.7m) through seven-month paper, for which the MoF set the rate similar to the semi-annual bills.

However, the Ministry of Finance refused to sell two ordinary (non-military) securities. While demand for one-year paper was insignificant and could not affect the total volume of borrowing, the decision regarding 1.5-year bills strikes us as ambiguous. Only one bid with a rate of 19.25% in the amount of UAH3bn (US\$82m) was submitted for this instrument. Compared with the 16-month bills sold last week that had a rate of 19%, 25 bp looks like a reasonable increase for three months of additional maturity. The same is true for the two-year paper, which now has a 19.5% interest rate. The amount of funds the budget could receive would also exceed by three times yesterday's proceeds from the two-year paper.

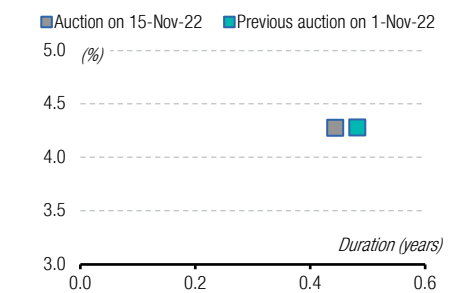
Nonetheless, the budget continues to attract funds on the primary market. Still, the decisions of the MoF regarding the accepted bids do not always look logical, especially when the refinancing of redemptions remains low. Next week another UAH14bn (US\$383m) must be repaid.

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



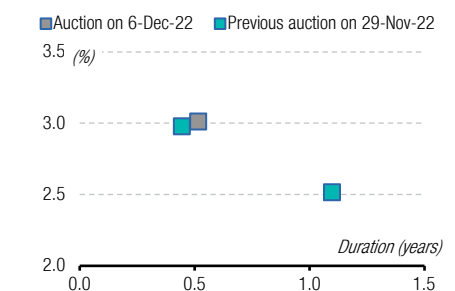
Source: Ministry of Finance of Ukraine, ICU.

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

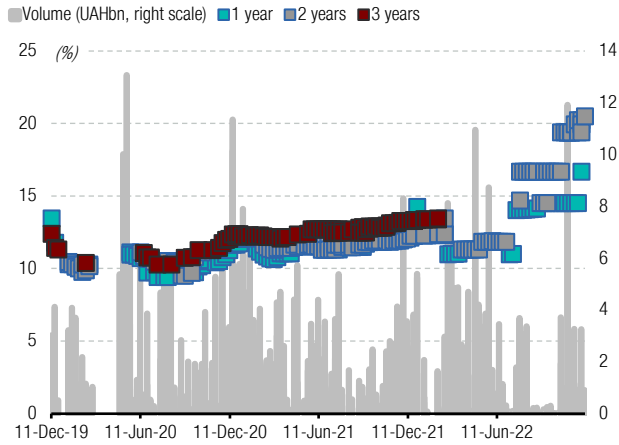


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

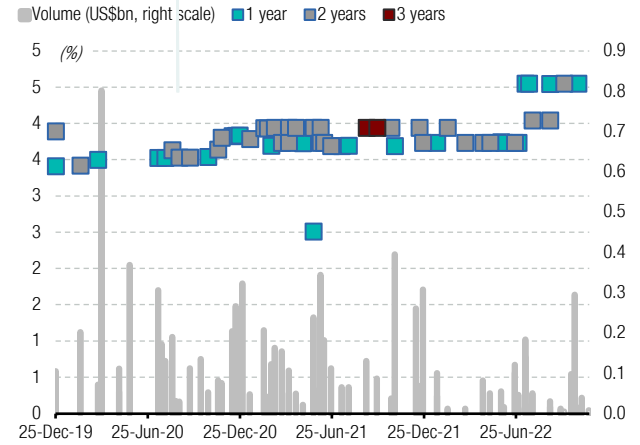
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

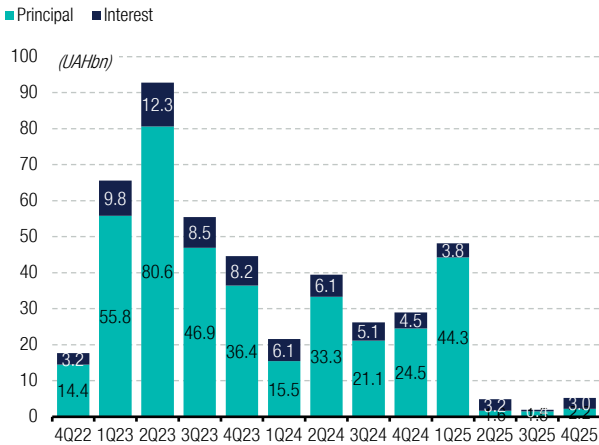
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

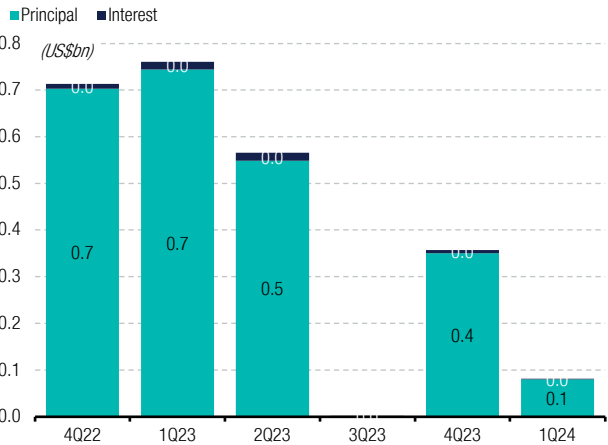
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

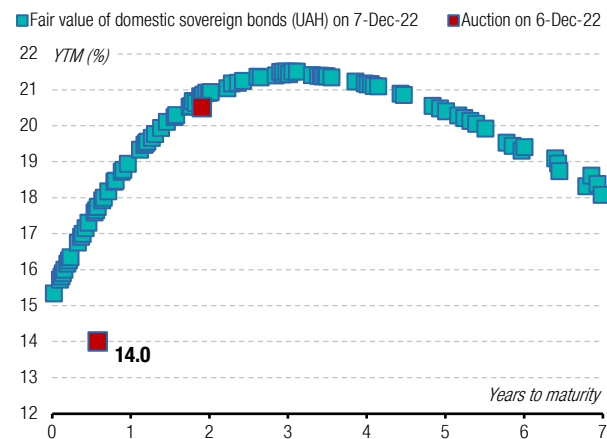
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

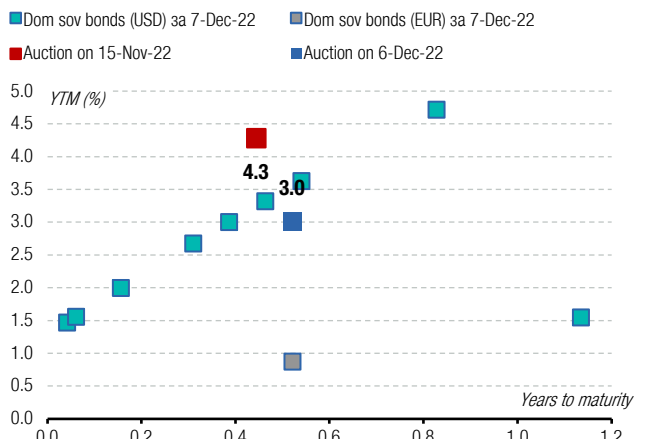
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

This page is intentionally left blank.



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

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

