

Bond Market Insight

New bills provide large borrowings

Comment on government bond placement

WEDNESDAY, 25 JANUARY 2023

Yesterday, the Ministry of Finance successfully placed two new bond issues that brought the budget 85% of all the proceeds from this auction.

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	500,000	945.77	472.89	500.00	13.00	10,886.74
UA4000226260	16.00	SA	27-Sep-23	22,131	1,051.61	23.27	22.13	16.69	7,379.75
UA4000224380	12.94	SA	14-Feb-24	1,504,303	1,005.64	1,512.79	1,504.30	19.41	8,931.77
UA4000227094	19.59	SA	4-Dec-24	6,167,405	1,025.52	6,324.78	6,167.41	20.61	6,167.41
UA4000227102	19.75	SA	21-May-25	4,734,172	1,033.14	4,891.06	4,734.17	20.79	4,734.17
Total UAH				12,928,011	13,224.79	12,928.01			38,099.84

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 36.75/USD, 39.53/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The shortest paper, which was the most popular last week, received UAH751m (US\$20.5m) in demand. One bid was rejected, and the rest were satisfied proportionally within the UAH500m (US\$13.7m) cap. Due to the limited offering, the competition helped reduce the cut-off rate to 13%.

Demand for eight-month bills was mostly non-competitive, so it was satisfied at the lowest competitive rate, 16%. One bid with a rate of 18% was rejected.

The Ministry of Finance, again, did not agree to raise the interest rate on 12-month securities to 25% for the sake of UAH100m (US\$2.7m), so it accepted five out of six bids, keeping the interest rate at 18.5%.

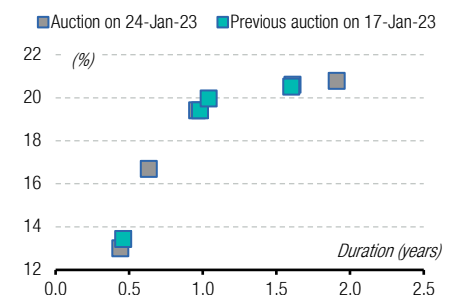
The most interesting were the two new issues of bills maturing in two years, in December 2024 and May 2025. These were issues of ordinary (non-military) bonds, which the NBU can allow to cover mandatory reserves.

The 23-month paper brought in the largest demand — UAH6.2bn (US\$169m) — and all bids were satisfied. The cut-off rate was set at 19.6% and the weighted average at 19.59%, 10bp and 9bp higher than last week's bills maturing in October 2024. But the demand for longer paper was less unanimous. Most of the demand was at the rate of 19.75%, and it was satisfied. But there was also one small bid with a desired interest rate of 24%, which, predictably, did not find understanding on the Ministry of Finance side.

Banks' need for bonds to cover mandatory reserves contributes to increased

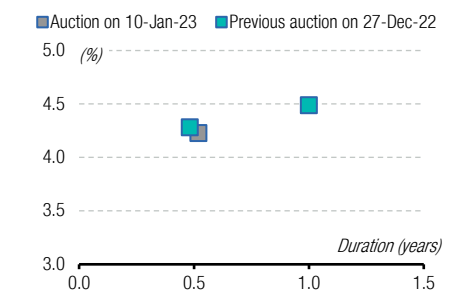
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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



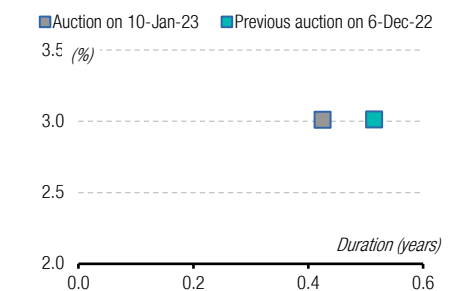
Source: Ministry of Finance of Ukraine, ICU.

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



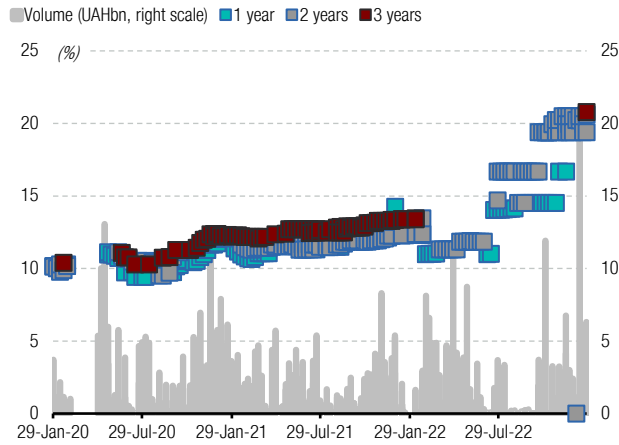
Source: Ministry of Finance of Ukraine, ICU.

borrowing. According to the results of the previous auctions, they can purchase about UAH50bn (US\$1.4bn) of such bonds. It looks like more than half of these funds have already been withdrawn to the state budget.

Appendix: Yields-to-maturity, repayments

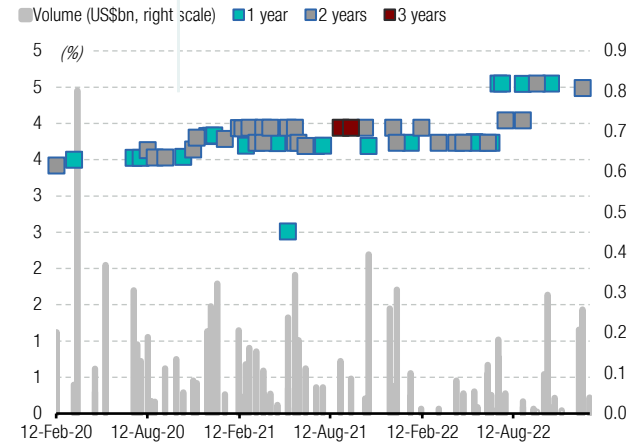
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

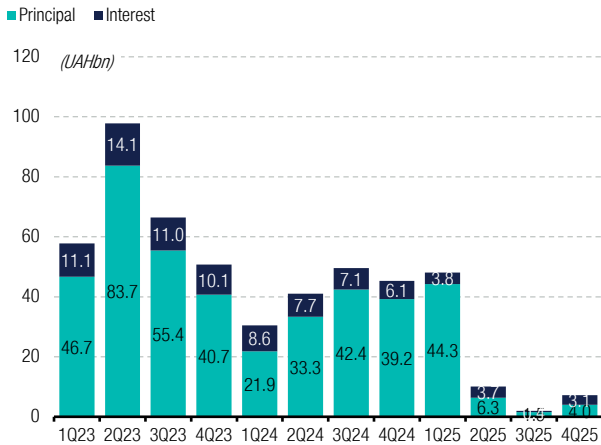
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

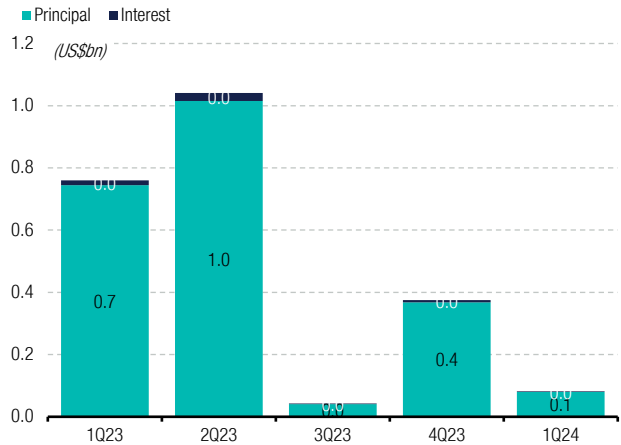
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

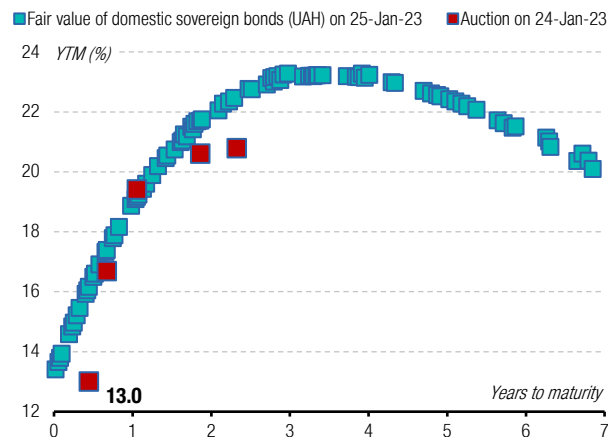
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

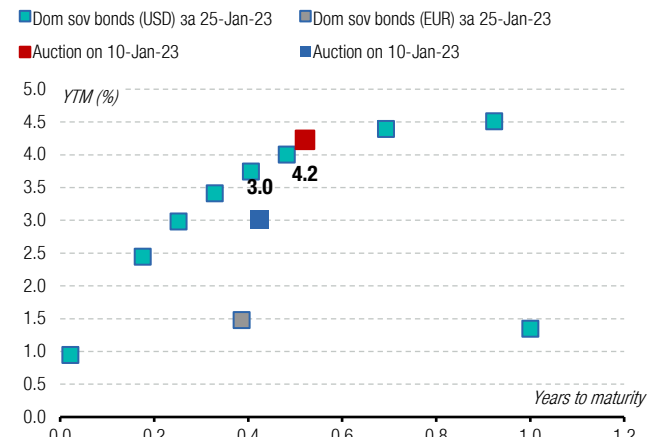
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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