

Bond Market Insight

Emphasis on reserve bonds

Comment on government bond placement

WEDNESDAY, 1 FEBRUARY 2023

The MoF sold a new set of bonds that banks can use to cover part of required reserves. These instruments provided the state budget with almost the entire volume of proceeds.

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

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000226260	16.00	SA	27-Sep-23	215,833	1,060.78	228.95	215.83	15.61	7,595.59
UA4000224380	12.94	SA	14-Feb-24	2,081	1,009.07	2.10	2.08	19.41	8,933.85
UA4000222152	12.70	SA	30-Oct-24	162	934.10	0.15	0.16	20.51	15,858.89
UA4000227102	19.75	SA	21-May-25	10,000,000	1,037.58	10,375.81	10,000.00	20.74	14,734.17
Total UAH				10,218,076	10,607.01	10,218.08		47,122.50	

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 issue yesterday was paper with a maturity of almost eight months, which the Ministry of Finance offered with a cap of UAH500m (US\$13.7m). But the demand for them was much smaller, only UAH216m (US\$5.9m). The MoF accepted most of demand at a rate of 15%, mainly for non-competitive bids.

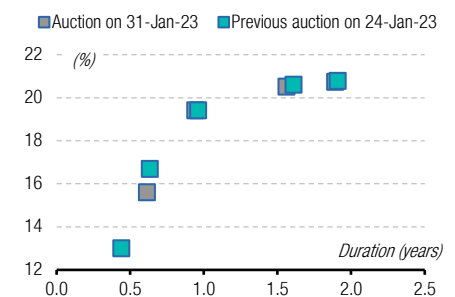
Two instruments maturing next year were in low demand, which is generally typical of these tenors. The Ministry of Finance refused to sell euro-denominated paper at the usual rate of 3%, as it did three weeks ago, apparently wanting to pay a lower price for such short-term borrowings.

The most significant demand and proceeds were from bills maturing in May 2025. Yesterday morning, the NBU published a decision that these bonds would be allowed to cover part of required reserves. However, the Ministry of Finance limited the offering to UAH10bn (US\$273m).

As a result, demand amounted to UAH25bn (US\$692m) with competitive bids from 19.5% to 19.75%. The Ministry accepted all 42 bids, but only some of the participants received the requested amount, as their bids were with lower rates than the maximum, while the rest of the bidders received part of their bids in proportion to the size of the bid within the rest of unused cap of UAH10bn.

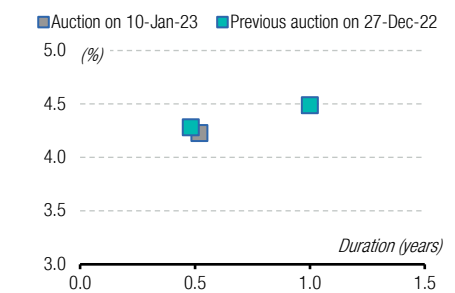
In general, in January, the Ministry of Finance sold UAH49bn (US\$1.3bn) of local-currency bonds, of which almost UAH41bn (US\$1.1bn) (par value) can be used

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



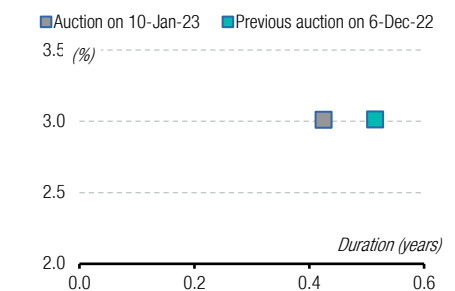
Source: Ministry of Finance of Ukraine, ICU.

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



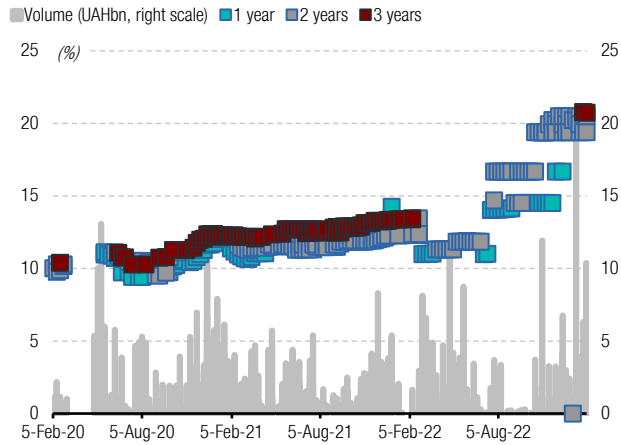
Source: Ministry of Finance of Ukraine, ICU.

by banks to cover obligatory reserves. Given the NBU's estimates, the volume of obligatory reserves may increase by UAH141bn (US\$3.8bn), half of which can be covered by special bonds. So far, banks have invested only about UAH43bn (US\$1.2bn), so in the coming weeks, the Ministry of Finance should be able to count on attracting another UAH30bn (US\$0.8bn) from banks using "reserve" bonds. Such an amount will be more than enough to refinance the UAH redemptions scheduled for February.

Appendix: Yields-to-maturity, repayments

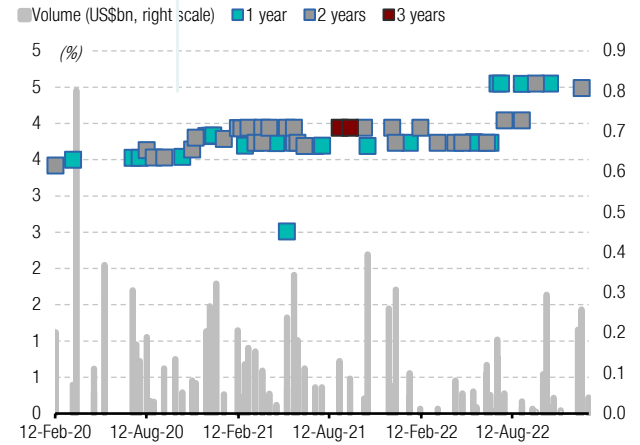
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

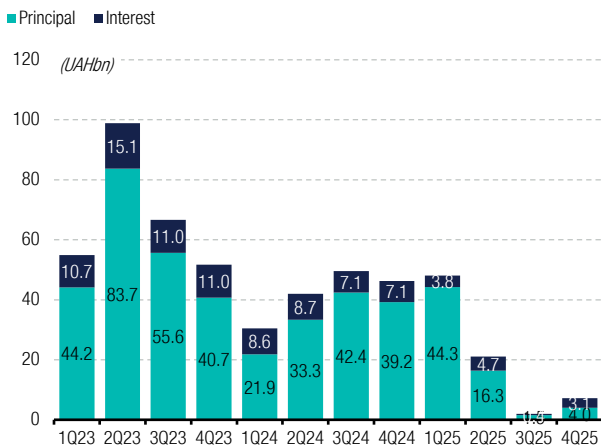
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

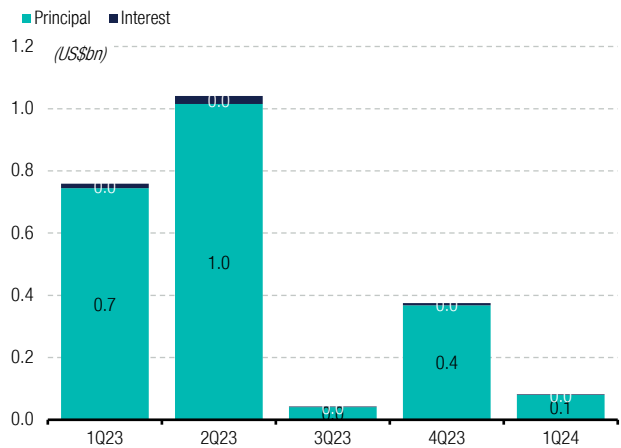
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

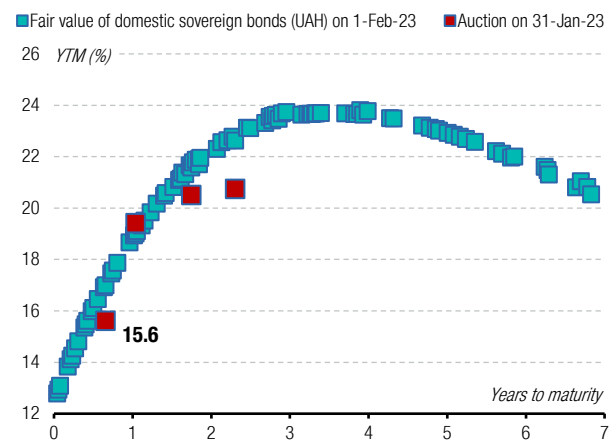
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

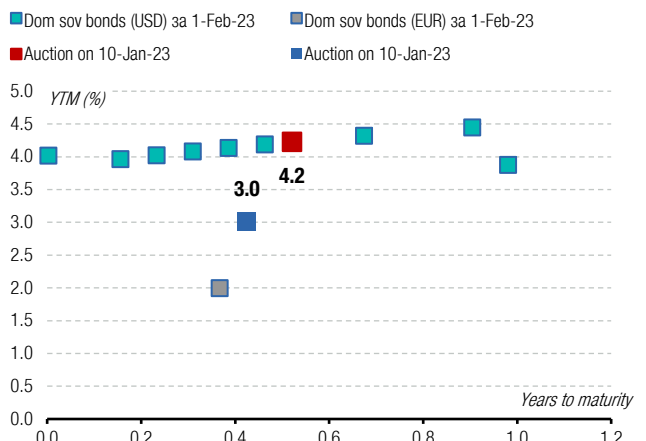
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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