

# Bond Market Insight

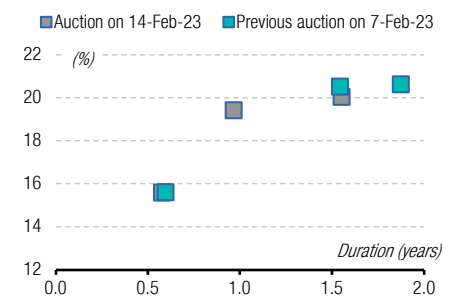
## Competition lowers interest rates

### Comment on government bond placement

THURSDAY, 16 FEBRUARY 2023

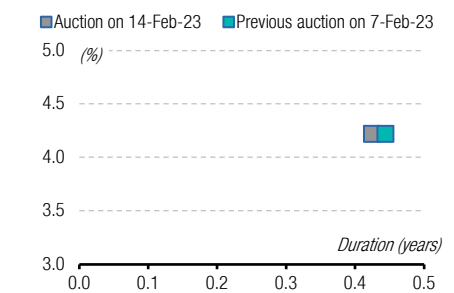
A limited placement of "reserve" bonds led to an almost sevenfold oversubscription and a reduction in interest rates. In contrast, the terms of the remaining bonds were mainly unchanged yesterday.

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



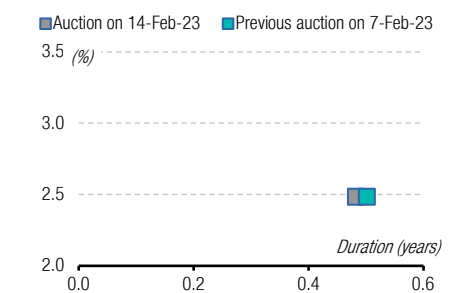
Source: Ministry of Finance of Ukraine, ICU.

### 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 freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000226260	16.00	SA	27-Sep-23	179,947	1,066.76	191.96	179.95	15.60	7,822.91
UA4000224380	12.94	SA	14-Feb-24	21,379	951.26	20.34	21.38	19.41	8,955.23
UA4000227094	19.59	SA	4-Dec-24	7,000,000	1,044.26	7,309.79	7,000.00	20.04	13,167.41
<b>Total UAH</b>				<b>7,201,326</b>	<b>7,522.09</b>	<b>7,201.33</b>			<b>29,945.55</b>
UA4000227052	0.00	@Mty	20-Jul-23	52,131	982.38	1,891.36	1,925.29	4.22	9,986.11
<b>Total USD</b>				<b>52,131</b>	<b>1,891.36</b>	<b>1,925.29</b>			<b>9,986.11</b>
UA4000227136	0.00	@Mty	10-Aug-23	51,188	988.16	1,996.79	2,020.71	2.48	2,297.52
<b>Total EUR</b>				<b>51,188</b>	<b>1,996.79</b>	<b>2,020.71</b>			<b>2,297.52</b>

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 36.93/USD, 39.48/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

For the shortest, seven-month UAH bills, part of the competitive demand was at an even lower rate than last week. However, it caused a decline in the weighted average rate by only 1bp to 14.99%, which was used to satisfy most of the demand, as it consisted mainly of non-competitive bids. But the cut-off rate remained unchanged at 15%, and demand for this paper was fully satisfied.

There were more bidders willing to buy 12-month securities using non-competitive bids. But competitive demand was unanimous with rates of 18.5%, so all demand was satisfied also.

The demand for FX-denominated instruments was also unanimous and most of it was competitive. Therefore, all bids for these two bills offered yesterday were fully satisfied.

The offering of "reserve" bonds received a new wave of competition. In total, demand consisted of 59 bids for UAH46bn. But the UAH7bn cap for this offer prompted some participants to compete via bidding. Rates in competitive bids ranged from 19.0% to 19.6%, but the proposed volume was exhausted at the level of 19.25%. So, as a result, UAH4.9bn of bonds were sold via competitive bids at rates from 19 to 19.25%,

and another UAH2.1bn was sold for non-competitive bids at a weighted average rate of 19.07%. Thus, the cut-off rate decreased by 35bp, and the weighted average fell by 52bp. It is possible that the demand for these bonds was slightly inflated, as banks could bid at different rates since they needed fewer bonds than they bid for.

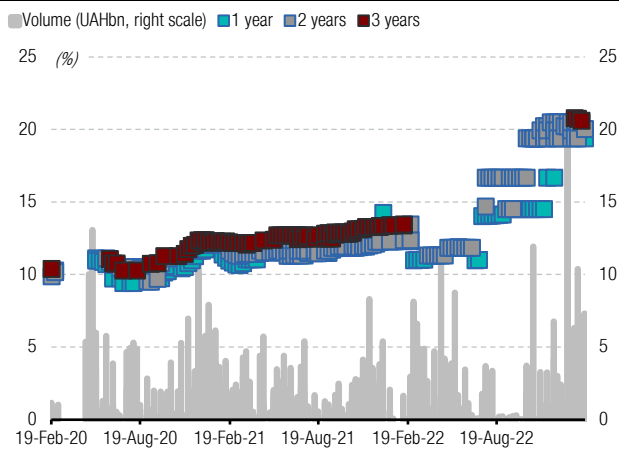
The Ministry of Finance placed this issue of "reserve" bonds for UAH13.6bn. Next week, it can offer another UAH6.5–7bn of such bonds, similar with the other two "reserve" securities where the total volume of each issue is UAH20bn or a little more. Therefore, the rate for them may further decline as a result of increased competition. This, especially taking into account that at the end of the month, there is no scheduled offer of "reserve" OVDP bonds.

Since the beginning of the month, the MoF borrowed UAH13.3bn in local currency for the budget, and another UAH10.6bn was received at the beginning of the month from the results of the last January auction. This volume is already more than enough to cover all UAH repayments in February, and the rest of this month's borrowings will be applied to budget-deficit financing and preparing for repayments in March, which will be almost double.

# Appendix: Yields-to-maturity, repayments

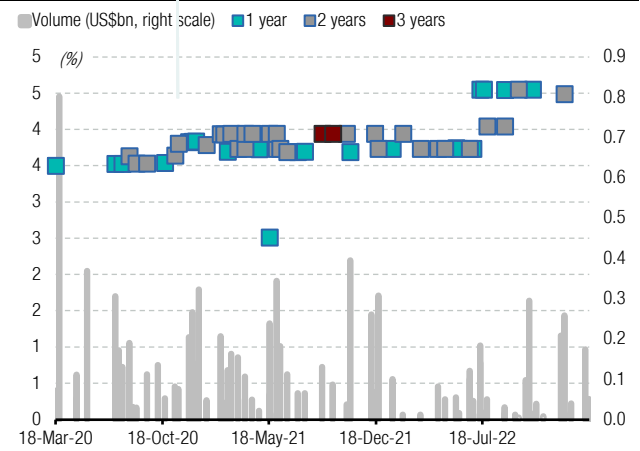
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

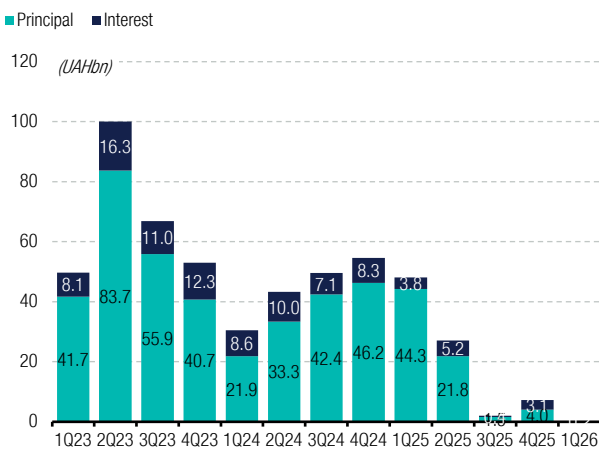
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

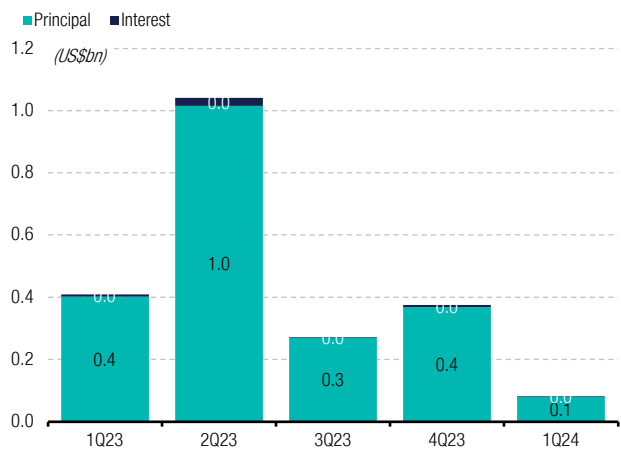
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

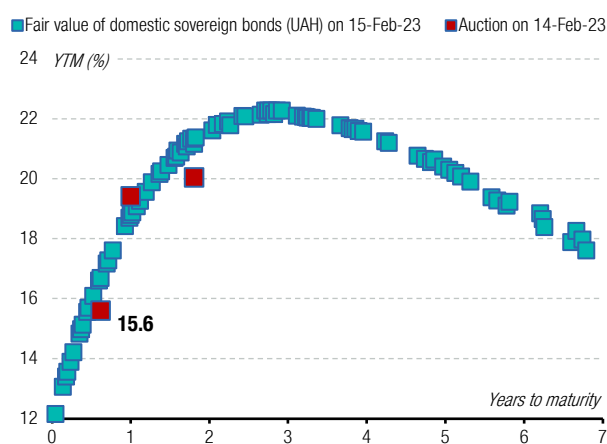
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

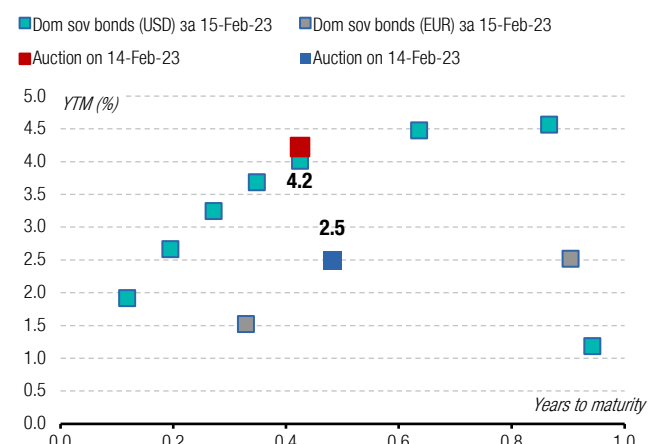
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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