

Bond Market Insight

Borrowing volumes decrease again

Comment on government bond placement

Despite the unscheduled offer of FX-denominated bills, yesterday's auction brought only UAH2.4bn to the budget.

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
UA4000226450	16.00	SA	13-Mar-24	95,701	991.49	94.89	95.70	19.41	3,995.54
UA4000226286	14.00	SA	26-Jun-24	706,056	987.66	697.34	706.06	19.96	3,778.46
UA4000227185	19.60	SA	2-Apr-25	735,420	1,003.60	738.07	735.42	20.62	10,332.30
Total UAH				1,537,177		1,530.30	1,537.18		18,106.30
UA4000227409	0.00	@Mty	21-Mar-24	24,099	956.41	851.18	889.98	4.84	889.98
Total USD				24,099		851.18	889.98		889.98

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.

The Ministry of Finance initially planned to offer USD-denominated bills at the end of the month, but changed the schedule and offered the 12-month paper yesterday. However, they did not receive huge demand. The total volume of bids was US\$30.1m, but the MoF rejected two of them for US\$6m. Reasonably, some investors wanted to receive a higher rate than 4.85%, which they got for the nine-month securities sold two weeks ago.

The demand for "reserve" bonds decreased fivefold to UAH0.7bn, although the Ministry of Finance was ready to place UAH10bn. Only six participants wanted to purchase these bonds at the usual rate of 19.6%.

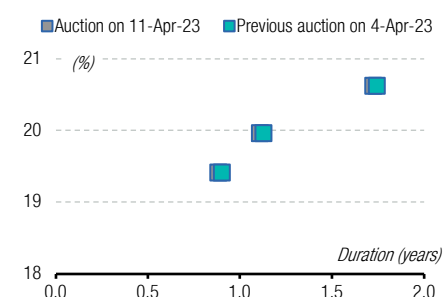
Interest in 11-month UAH military bills also decreased fivefold. A total of UAH95m were sold at par value.

Compared with last week, demand increased only for military paper maturing in June next year. This paper is offered on the Diya app under the name "Yalta," so brokers working with individuals can increase the availability of this instrument for their clients. Compared with last week, demand for and volume of the placement more than doubled to UAH0.7bn.

Banks' interest in "reserve" bonds is gradually exhausted or is being stretched over time, considering the next change in reserve requirements will be in May. Therefore, the volume of purchases of these bonds decreased again, and the total volume of

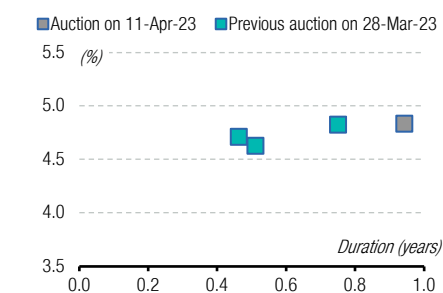
WEDNESDAY, 12 APRIL 2023

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



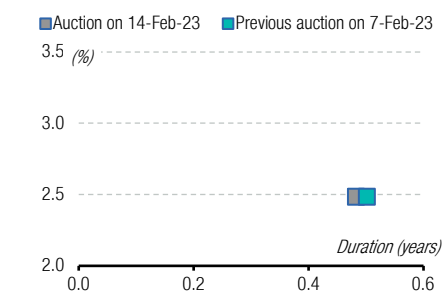
Source: Ministry of Finance of Ukraine, ICU.

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



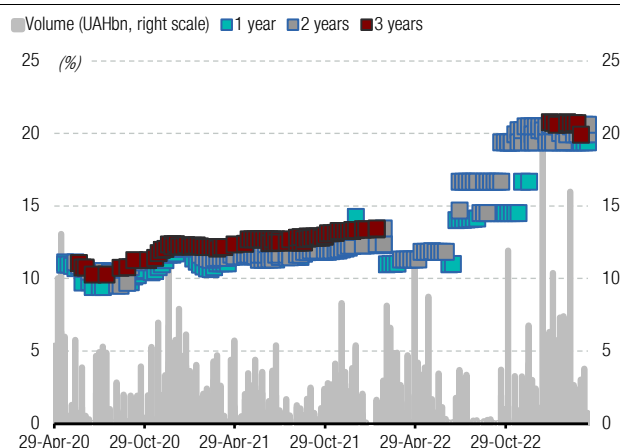
Source: Ministry of Finance of Ukraine, ICU.

budget proceeds became the smallest after the low-active first auction of this year in January. Such low borrowings are not critical to the budget, but the need for new budget proceeds may accumulate and eventually require that the MoF take steps towards the market.

Appendix: Yields-to-maturity, repayments

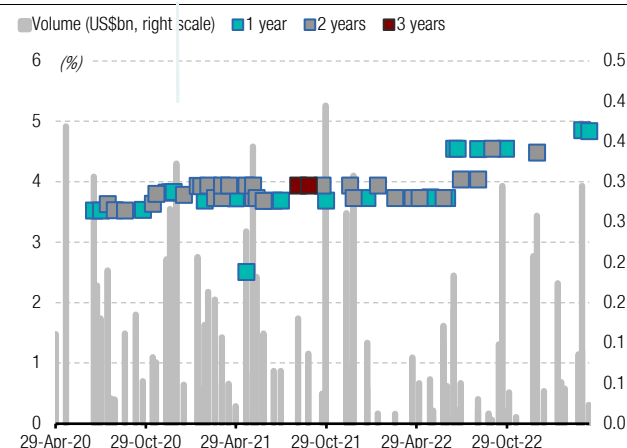
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

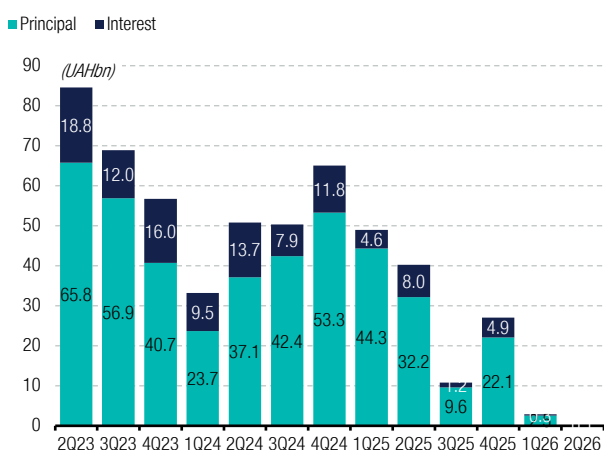
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

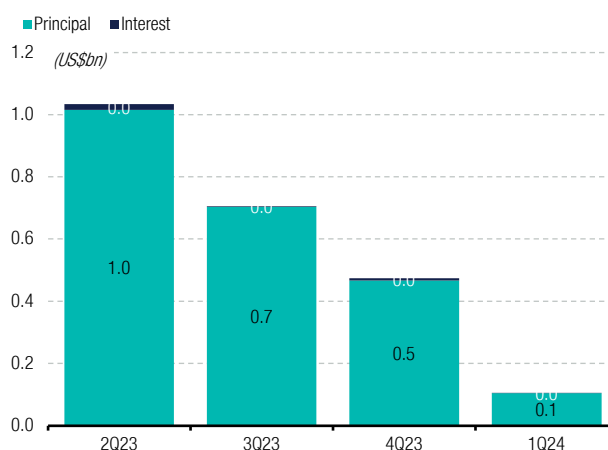
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

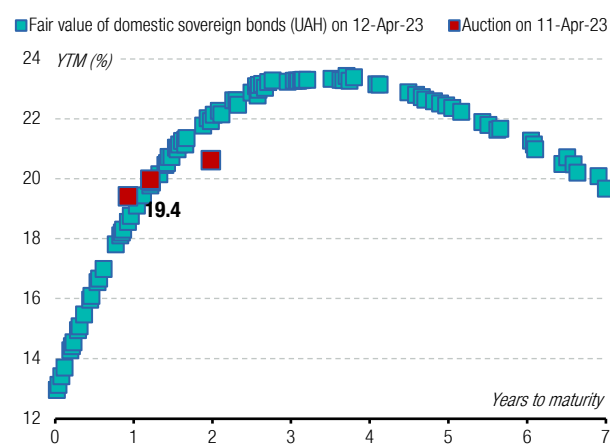
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

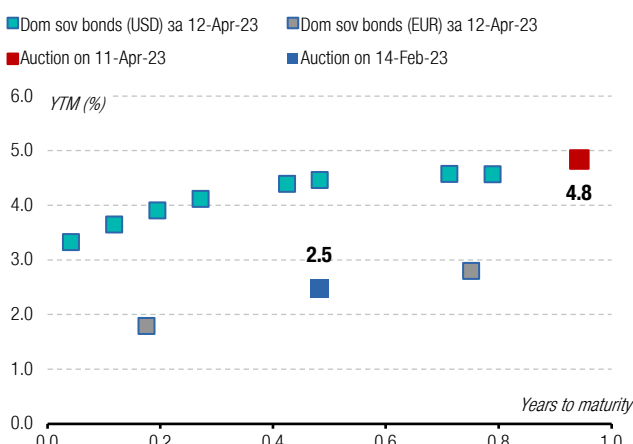
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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