

Bond Market Insight

MoF accumulating funds for redemptions

Comment on government bond placement

WEDNESDAY, 3 MAY 2023

Yesterday, the Ministry of Finance borrowed UAH12bn (US\$328m) for the budget, mainly in local currency, gradually accumulating more funds before upcoming debt redemptions.

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	111,003	1,001.66	111.19	111.00	19.41	7,794.32
UA4000227193	19.70	SA	6-Aug-25	4,267,722	1,044.52	4,457.72	4,267.72	20.72	12,339.01
UA4000227490	19.75	SA	18-Feb-26	3,006,000	1,036.88	3,116.86	3,006.00	20.79	3,006.00
Total UAH				7,384,725	7,685.76	7,384.73		23,139.33	
UA4000227409	0.00	@Mty	21-Mar-24	123,368	958.97	4,370.56	4,557.56	4.83	5,447.84
Total USD				123,368	4,370.56	4,557.56		5,447.84	

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

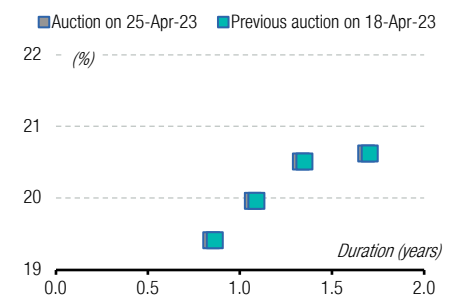
Although next week's debt redemption will be in euros, yesterday, the Ministry sold USD-denominated bills, accumulating funds for payments due in three weeks. The 11-month paper was sold mainly in competitive bids, but they were all at a rate of 4.85%, unchanged from the auction in early April. US\$118m was received for the budget, slightly less than half of the USD-denominated redemption scheduled for the end of May.

The offerings of UAH bonds has undergone considerable changes. Of the UAH bonds placed in April, yesterday, the MoF offered only the shortest issue due in March 2024. Twenty-nine bidders wanted to buy these bonds, one for UAH500m (US\$14m), but with an interest rate of 19%. Therefore, the MoF rejected this bid and satisfied the 28 bids for UAH111m (US\$3m) at an 18.5% interest rate. The MoF sold most of the bills through non-competitive bids.

The Ministry of Finance replaced the "reserve" bonds. Bonds due in August 2025 were sold instead of bonds maturing in April 2025, usually sold last month. Demand was at UAH4.3bn (US\$117m), even with slight competition. Part of the demand was submitted at a rate of 19.65%, 5bp lower than most of the demand (19.7%), and then they were sold in March. All demand was satisfied with a decrease in the weighted average rate by 1bp to 19.69%.

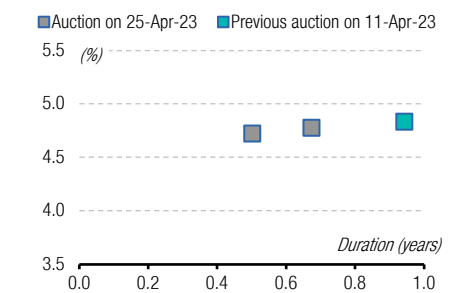
Another difference in the auction was the offer of ordinary (non-military) bonds

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



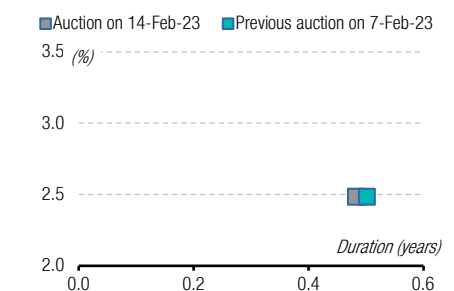
Source: Ministry of Finance of Ukraine, ICU.

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.

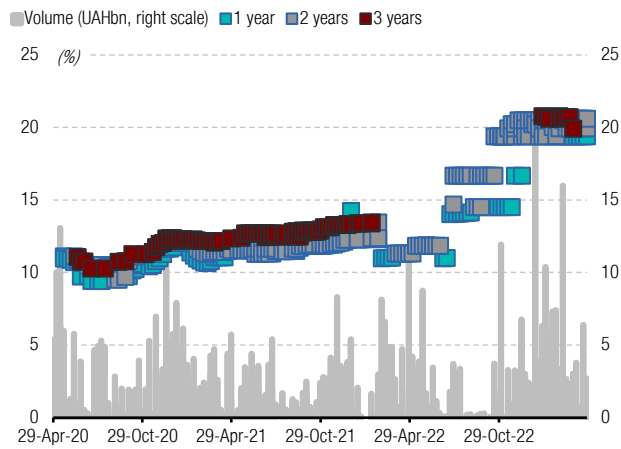
maturing in February 2026. This is currently the longest maturity for bonds placed after the start of the Great War. The demand for them was only from a three participants. Only three bids including competitive demand for UAH3bn (US\$82m), and non-competitive demand for an insignificant UAH6m (US\$0.2m) (nominal value). Their interest rate is set at 19.75%, a level similar to "reserve" bonds maturing in November 2025. So, this could be another issue of "reserve" bonds if the Ministry of Finance and the NBU make appropriate decisions.

In general, the auction brought quite a good amount of funds to the budget with almost no rate changes. UAH debt redemptions will not be huge next week, so the level of UAH debt refinancing should even increase. The Ministry will seek hard currency repayments to be refinanced in multiple placements, separately in Euros in two weeks and in USD at the end of the month, according to the current auction schedule. Therefore, there is a good likelihood that the level of refinancing repayments will remain above 100% at the end of May.

Appendix: Yields-to-maturity, repayments

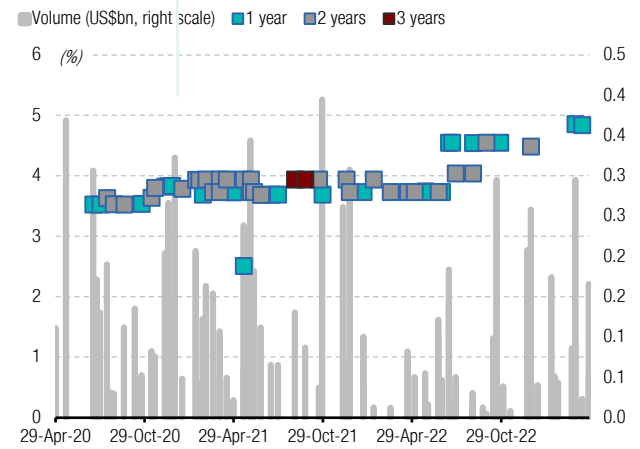
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

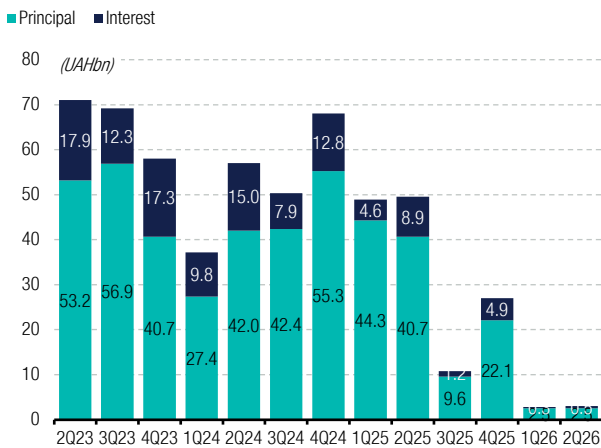
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

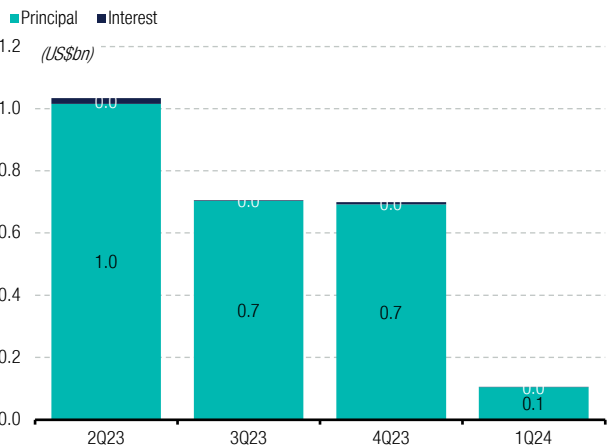
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

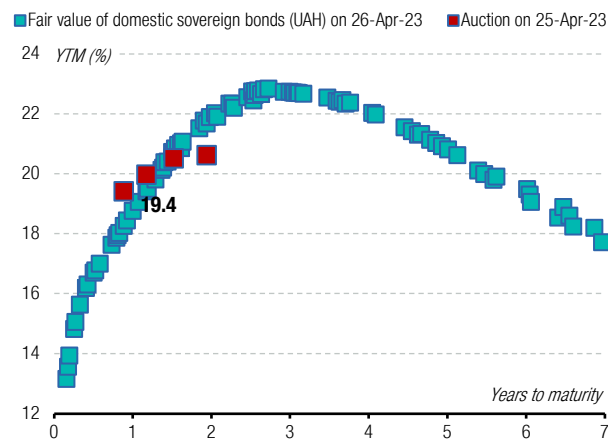
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

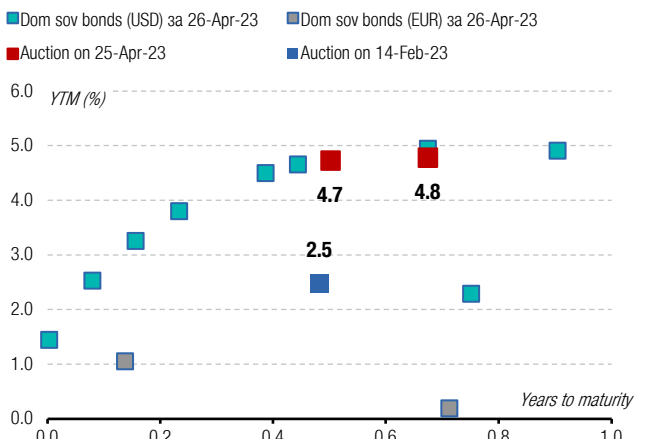
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

