

# Bond Market Insight

## Controlled reduction of borrowings

### Comment on government bond placement

WEDNESDAY, 17 MAY 2023

Since the MoF has already refinanced most debt redemptions scheduled for May, it likely has decided to reduce UAH borrowings and complete the placement of the "reserve" paper with the longest maturity.

**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>
UA4000226450	16.00	SA	13-Mar-24	189,127	1,008.50	190.73	189.13	19.41	9,938.60
UA4000227201	19.75	SA	5-Nov-25	2,000,000	1,004.44	2,008.89	2,000.00	20.74	20,060.15
<b>Total UAH</b>				<b>2,189,127</b>		<b>2,199.62</b>	<b>2,189.13</b>		<b>29,998.75</b>
UA4000227557	0.00	@Mty	16-May-24	125,245	968.91	4,870.51	5,026.80	3.21	5,026.80
<b>Total EUR</b>				<b>125,245</b>		<b>4,870.51</b>	<b>5,026.80</b>		<b>5,026.80</b>

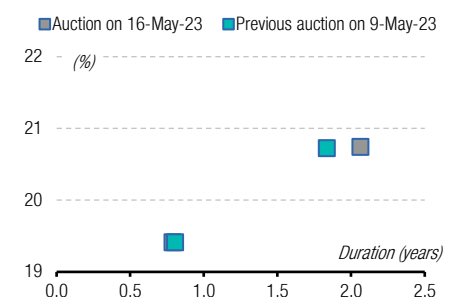
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 36.97/USD, 40.14/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Three issues were offered yesterday: UAH-denominated 10-month military bonds, a "reserve" note with a maturity of 2.5 years, and new 12-month, military EUR-denominated paper.

The demand for military hryvnia bonds was almost UAH0.7bn (US\$19m) at face value. Still, one of the competitive bids for UAH0.5bn (US\$14m), as usual, required a rate increase of 50bp to 19%. Traditionally, the MoF rejects such demand, and it accepted the remaining 30 bids. Proceeds amounted to UAH191m (US\$5m) at the standard interest rate for this paper of 18.5%, including two-thirds of funds raised through non-competitive bids.

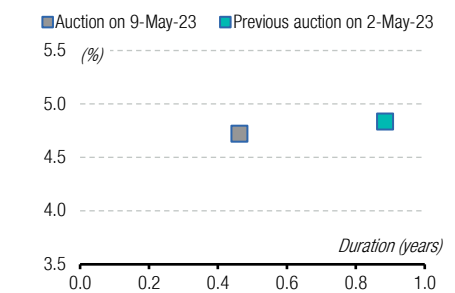
The MoF offered "reserve" bonds in a small amount—only UAH2bn (US\$55m) (par value)—to increase the total volume of the issue to UAH20bn (US\$547m), which the Ministry likely would like to have for each "reserve" issue. Therefore, demand was close to the supply, UAH2.7bn (US\$72m). Rates in competitive bids were almost unanimous, and did not exceed the maximum accepted interest rate of the previous placement in February of 19.75%. However, some participants with large demand submitted bids at 19.6%, and non-competitive demand exceeded 30%. Therefore, the Ministry had to partially satisfy some bids: non-competitive demand was met for UAH0.6bn (US\$16m) (30% of the offer) at a weighted average rate of 19.71% (6bp higher than in February), competitive bids with rates lower than the maximum were fully satisfied, and the rest of the offer was distributed among bidders with the

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



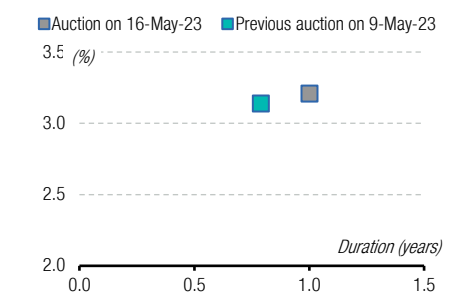
Source: Ministry of Finance of Ukraine, ICU.

### 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.

maximum rate of 19.75%.

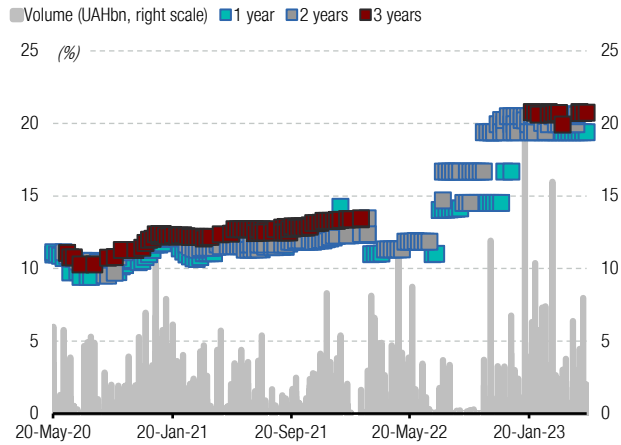
The new EUR-denominated bills received, in fact, the most significant demand yesterday, which amounted to EUR125m (UAH4.8bn) in 35 bids. Bids were mainly competitive, with rates ranging from 3.15% (similar to last week's placement of nine-month EUR-denominated bills) up to 3.25%. Given the longer maturity, the MoF agreed to satisfy all demand and raised EUR121.3m. Accordingly, the maximum rate was set at 3.25% (+10bp compared with last week). For non-competitive demand, the weighted average rate was 3.22% (+7bp more than last week).

The Ministry of Finance attracted UAH7bn (US\$192m) to the budget, mainly in hard currency. This was the smallest amount of funds raised so far in May, but with a very pragmatic goal: to complete the placement of the longest "reserve" bond and to attract hard currency to all-but fully refinance the EUR-denominated bond redemptions in June.

# Appendix: Yields-to-maturity, repayments

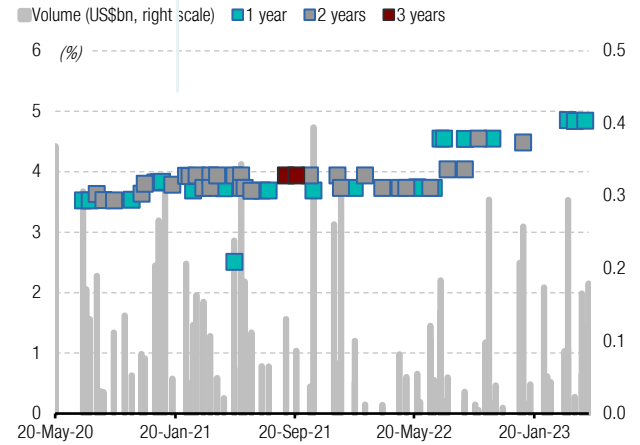
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

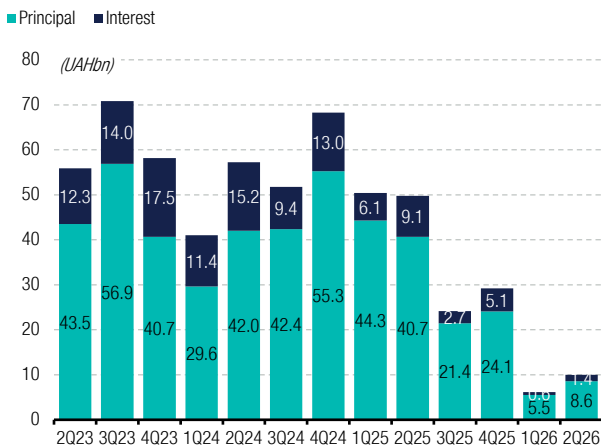
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

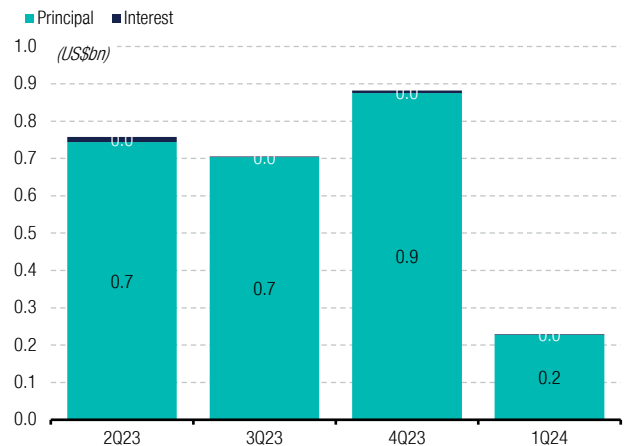
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

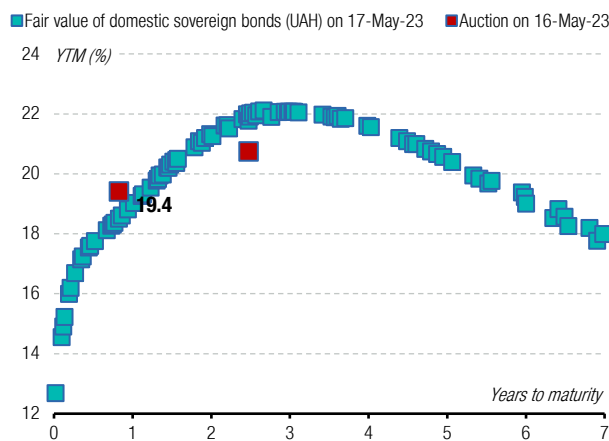
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

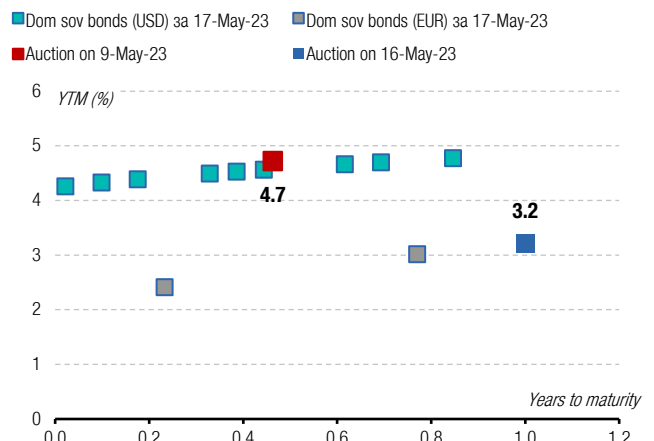
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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