

Bond Market Insight

Reducing supply of military bonds

Comment on government bond placement

WEDNESDAY, 24 MAY 2023

Yesterday's primary auction included only one issue of military bills and three ordinary bond offerings.

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

| ISIN | Coupon rate (%) | Payment frequency | 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 | 446,819 | 1,011.94 | 452.15 | 446.82 | 19.41 | 10,385.42 |
| UA4000222152 | 12.70 | SA | 30-Oct-24 | 1,766,311 | 924.95 | 1,633.75 | 1,766.31 | 20.51 | 19,676.36 |
| UA4000227490 | 19.75 | SA | 18-Feb-26 | 1,035,799 | 1,048.21 | 1,085.73 | 1,035.80 | 20.79 | 4,041.80 |
| Total UAH | | | | 3,248,929 | | 3,171.64 | 3,248.93 | | 34,103.58 |
| UA4000227581 | 4.80 | @Mty | 29-Feb-24 | 215,973 | 964.49 | 7,693.13 | 7,976.36 | 4.78 | 7,976.36 |
| Total USD | | | | 215,973 | | 7,693.13 | 7,976.36 | | 7,976.36 |

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

The MoF reduced its military bond offerings yesterday to a single issue of 10-month paper, which has been placed since September last year. At almost all auctions this year, these bills are placed at an unchanged rate of 18.5%. Yesterday, they brought UAH452m (US\$12m) to the budget.

After a break of almost a month, the MoF again offered notes due in October of next year, reopening the issue first offered in 2021. The rate for this issue did not change YTD, and the entire demand was satisfied at a rate of 19.5%, and UAH1.6bn (US\$45m) was raised.

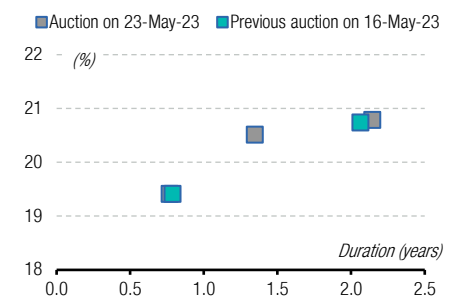
Yesterday, for the second time, an issue of bonds maturing in 2026 was offered. The NBU added this paper on Monday to the list of bonds that banks can use to cover part of required reserves. These bonds brought another UAH1bn (US\$30m) to the budget. Demand was low, as banks could use these bonds to cover reserves only as of June 11. The rate for them also did not change and remained at 19.75%.

The budget received the most funds from USD-denominated bills. It was a new issue of ordinary FX-denominated bills maturing in almost 10 months, which was placed at a rate of 4.8%, similar to the eight-month paper placed at the end of April, although a small part of demand was at the rate of 4.75%. The budget received US\$208m (UAH7.6bn), one of the largest borrowings in US dollars this year.

The budget received almost UAH11bn (US\$295m), increasing borrowings from the beginning of the month to UAH58bn (US\$1.6bn), which fully covered domestic debt redemptions in May.

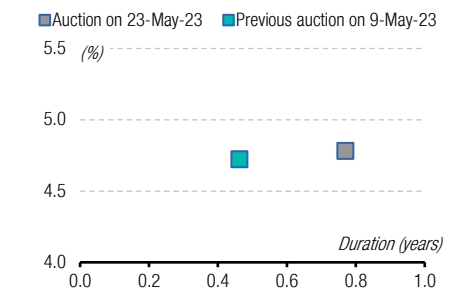
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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



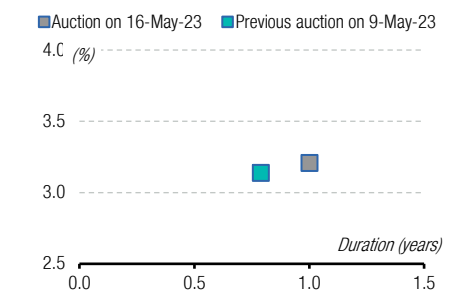
Source: Ministry of Finance of Ukraine, ICU.

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

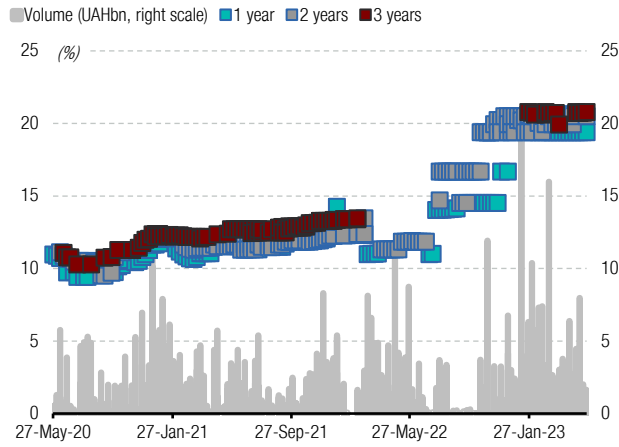


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

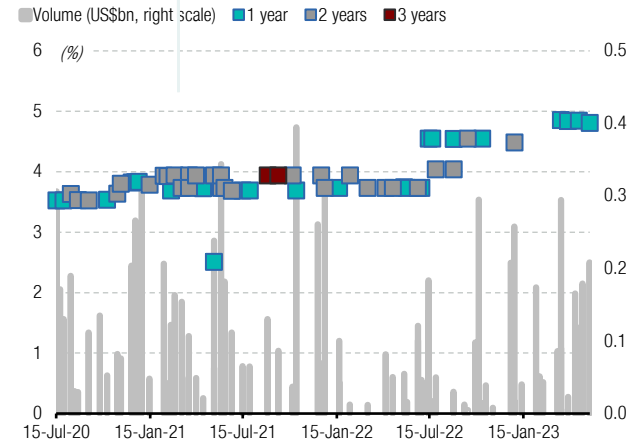
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

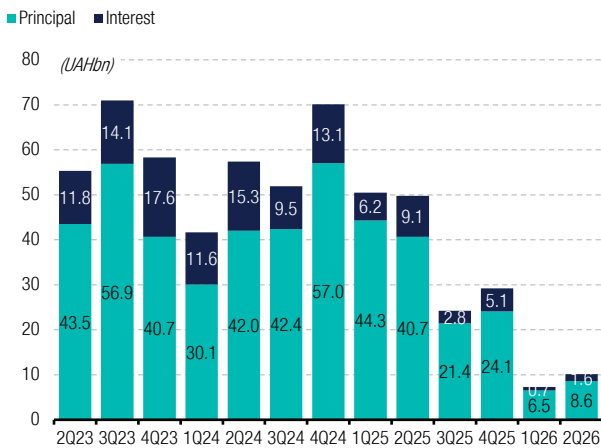
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

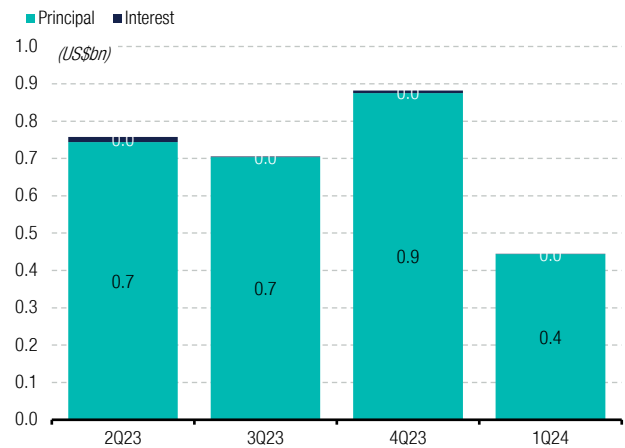
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

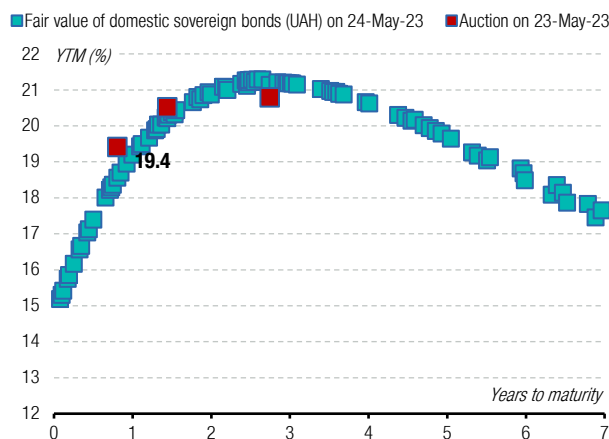
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

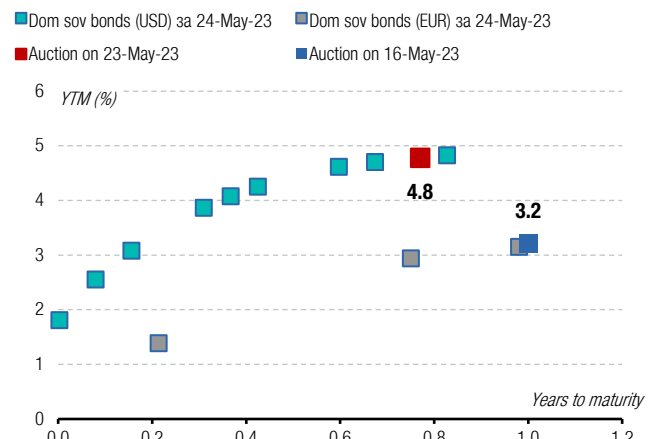
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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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

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