

Bond Market Insight

Reinvestment of USD-denominated redemptions

Comment on government bond placement

Yesterday, the Ministry of Finance borrowed almost UAH15bn (US\$403m). More than half of the funds were in hard currency. Most likely, many investors reinvested funds from last week's redemption of USD-denominated bills.

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 |
|------------------|-----------------|---------------------------|-----------|-------------------|-----------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000187207 | 15.50 | SA | 2-Oct-24 | 880,717 | 1,018.06 | 896.62 | 880.72 | 19.19 | 3,899.74 |
| UA4000227656 | 19.50 | SA | 15-Jan-25 | 532,605 | 1,012.17 | 539.09 | 532.61 | 19.75 | 14,466.33 |
| UA4000228043 | 19.75 | SA | 22-Jul-26 | 5,000,000 | 1,000.05 | 5,000.26 | 5,000.00 | 20.78 | 5,000.00 |
| Total UAH | | | | 6,413,322 | 6,435.97 | 6,413.32 | | | 23,366.08 |
| UA4000227847 | 0.00 | @Mty | 20-Jun-24 | 237,000 | 959.27 | 8,393.41 | 8,749.83 | 4.70 | 11,656.80 |
| Total USD | | | | 237,000 | 8,393.41 | 8,749.83 | | | 11,656.80 |

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 36.92/USD, 40.57/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

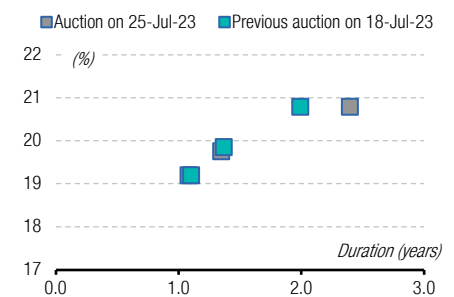
The FX-denominated paper brought 56% of all funds raised for the budget yesterday. However, the MoF sold fewer bonds than planned: the cap was set at US\$250m while the total amount of demand was US\$237m, including US\$150m in non-competitive bids. Investors submitted as many as 138 bids with interest rates ranging from 4.3% to 4.8%. As the Ministry accepted all demand, the cut-off rate remained unchanged, and the weighted average decreased by only 3bp to 4.71% compared with the bond placement at the end of June. A slight change in the weighted average rate indicates small competitive demand with low rates.

Three-year notes also provided the state budget with large funds, UAH5bn (US\$137m) or 34% of all proceeds. The MoF can include this new issue in the benchmark's list, and the NBU allowed banks to use it to cover part of the required reserves. The MoF sold this paper at the same interest rate as the previous one—19.75%. Demand was almost unanimous and even exceeded the supply by UAH263m (US\$7m).

The rest of the bonds offered at the auction received the usual low demand. Only eight bidders purchased 14-month bills for almost UAH900m (US\$25m) at an unchanged rate of 18.3%. At the same time, the Ministry placed even less—UAH540m (US\$15m) of 1.5-year military bills—rejected three bids for UAH150m (US\$4m), and once again reduced the cut-off rate by 5bp to 18.85% and the weighted

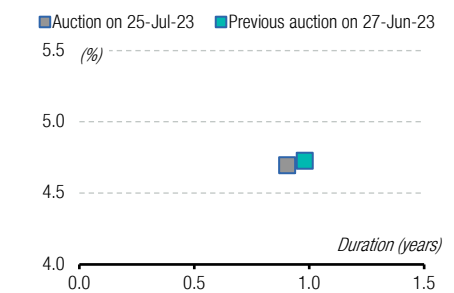
WEDNESDAY, 26 JULY 2023

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



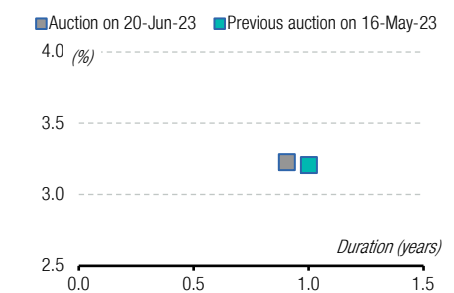
Source: Ministry of Finance of Ukraine, ICU.

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.

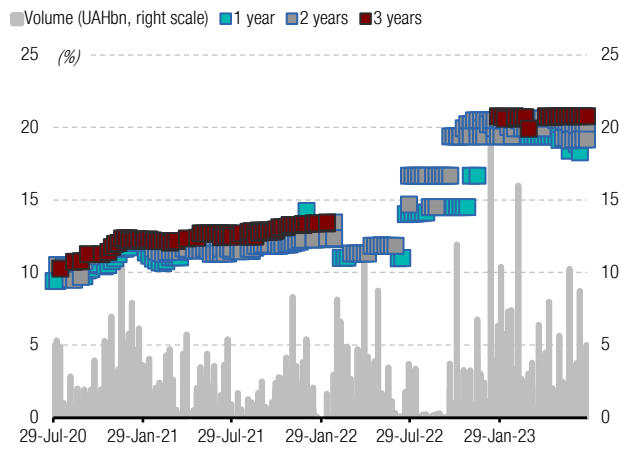
average by another 9bp to 18.81%.

The auction results are generally as expected. Investors reinvested in the primary market over half of the hard currency they received last week. The Ministry of Finance issued new paper that can be added to the "reserve" list, which banks could actively buy prior to a possible reduction in the key policy rate tomorrow. The MoF did not fail to lower the interest rate on 1.5-year instruments even more. Tomorrow's NBU's decisions may influence the next auction, so the new placements' terms may differ.

Appendix: Yields-to-maturity, repayments

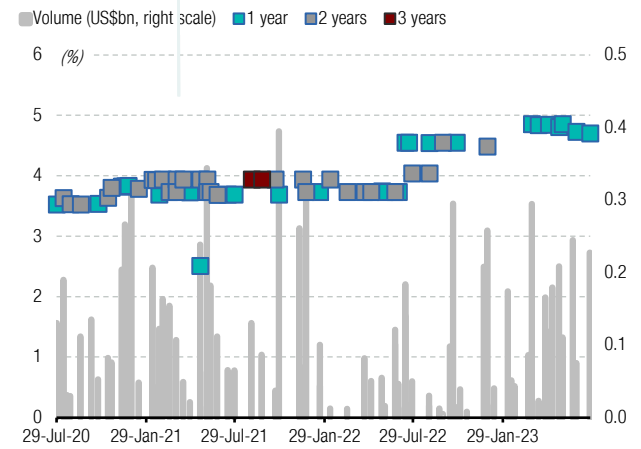
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

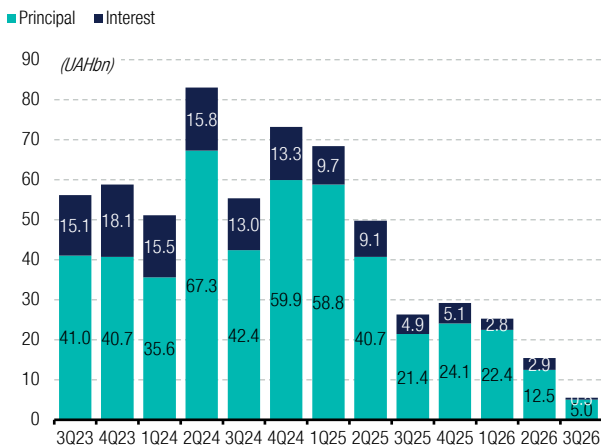
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

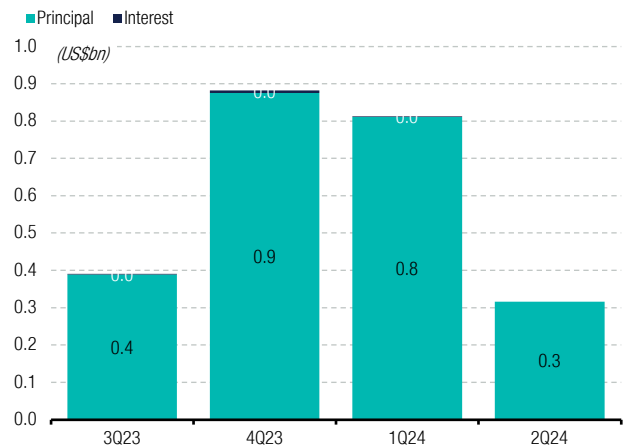
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

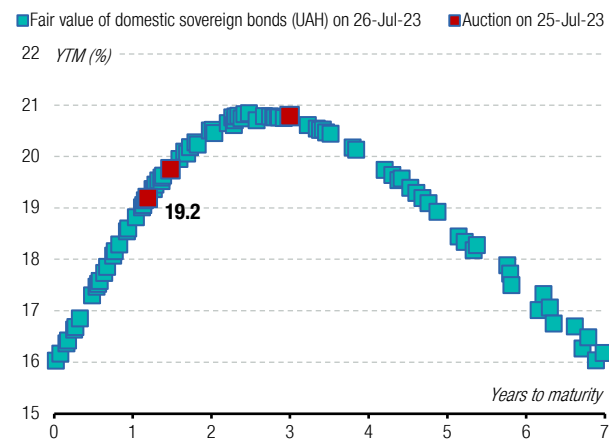
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

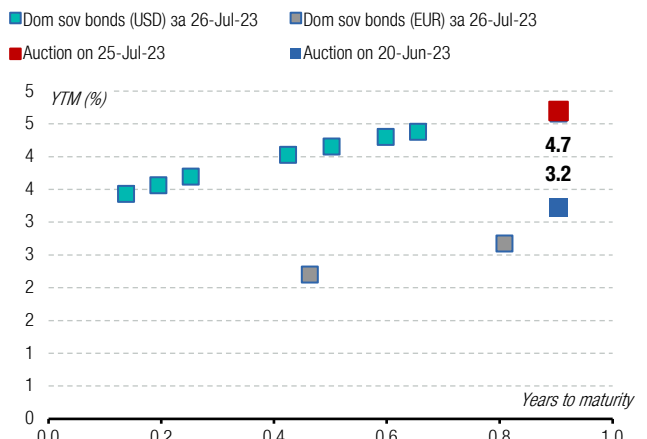
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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