

Bond Market Insight

Investors in no hurry to compete

Comment on government bond placement

WEDNESDAY, 9 AUGUST 2023

The MoF more than doubled its borrowings yesterday, keeping the cut-off rates unchanged.

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

ISIN	Coupon rate (%)	Payment frequency 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	21,391	1,029.87	22.03	21.39	18.65	3,959.16
UA4000227656	19.50	SA	15-Jan-25	2,081,492	1,024.84	2,133.20	2,081.49	19.25	16,635.91
UA4000228043	19.75	SA	22-Jul-26	5,000,000	1,012.71	5,063.57	5,000.00	20.51	12,887.26
Total UAH				7,102,883		7,218.80	7,102.88		33,482.34

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

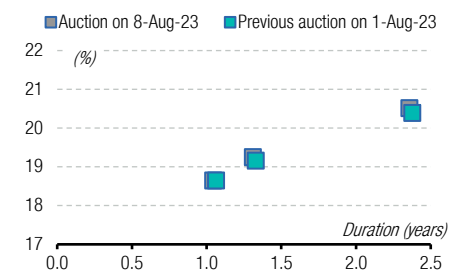
Demand for 14-month bills remained low. The Ministry of Finance received only five bids for UAH21m and satisfied demand in full at 17.8%, unchanged from last week.

Investors' interest in 1.5-year military bills increased. The total amount of demand increased 17 times compared with last week to UAH2.1bn, and the MoF rejected only one bid for UAH0.1m at 18.5%. Although the minimum rate in demand was at 18%, the cut-off rate remained at 18.35%, and the weighted-average rate increased by 8bp to 18.35%.

The Ministry again received considerable demand for "reserve" notes, which exceeded supply. Therefore, the MoF satisfied all bids, but most partially. The minimum rate in bids was 18.25%, but most of demand was at 18.5% and in non-competitive bids. So, bids lower than the cut-off rate didn't affect the weighted-average rate. The MoF satisfied all non-competitive demand in full and bids with rates below the cut-off rate. The rest of the participants received a part of the desired volume within the cap.

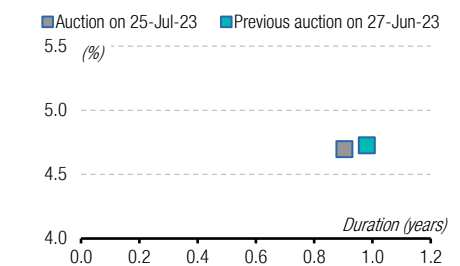
In general, investors have increased interest in primary auctions, but they are in no hurry to compete. Shorter instruments have much less demand than supply, so there is little need to compete for the desired volume. And for "reserve" notes, the competition is insignificant, and placement participants received almost the entire desired volume because demand exceeded the supply by only 11%.

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



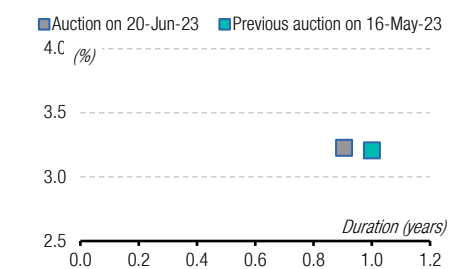
Source: Ministry of Finance of Ukraine, ICU.

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

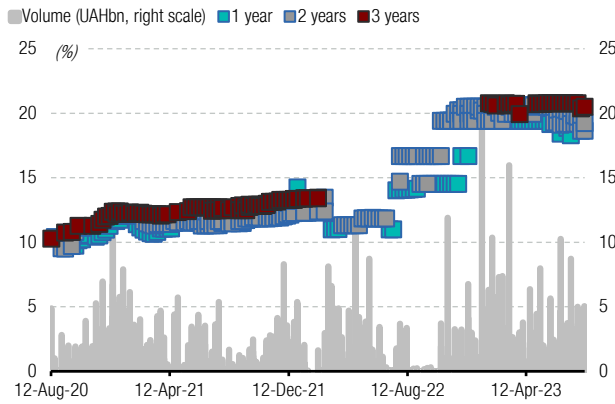


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

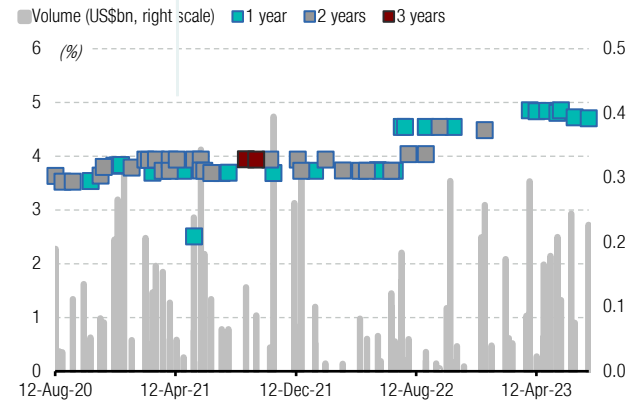
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

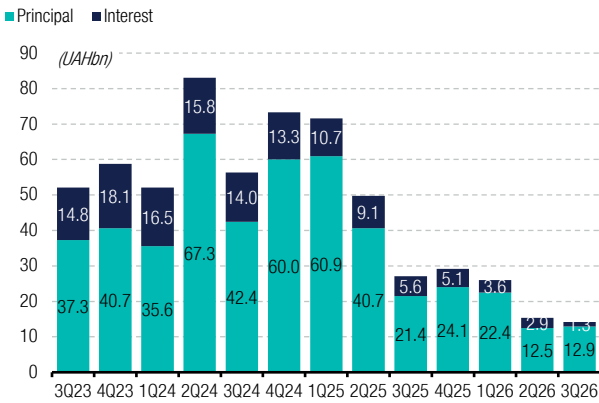
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

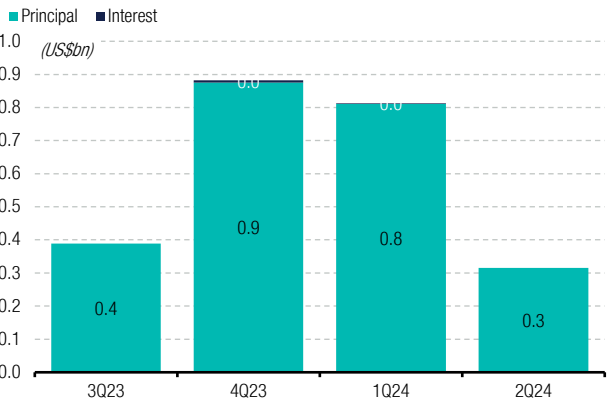
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

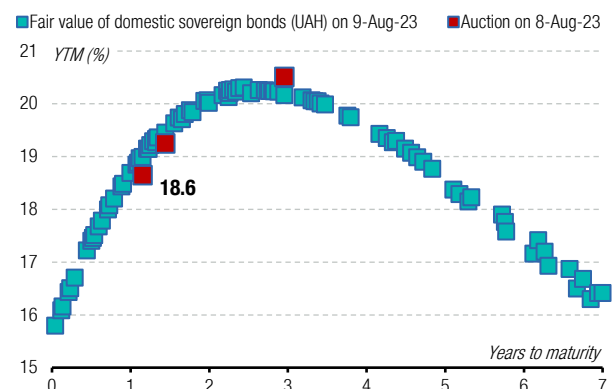
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

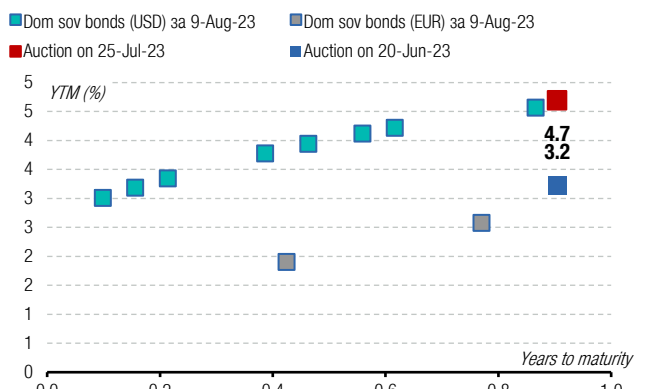
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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