

Bond Market Insight

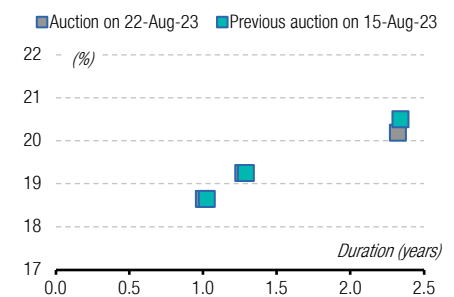
Lower rates for reserve notes

Comment on government bond placement

WEDNESDAY, 30 AUGUST 2023

The Ministry of Finance raised UAH7.3bn yesterday, the most significant amount raised in one auction this month. Strong demand continues to put pressure on bids for the longest instrument, which will potentially become new "reserve" paper.

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



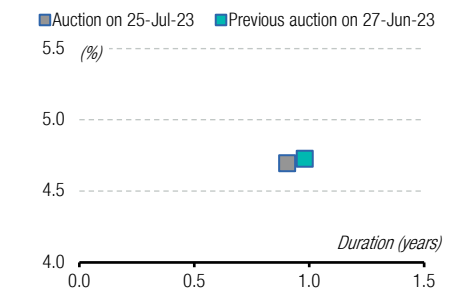
Source: Ministry of Finance of Ukraine, ICU.

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	215,234	1,036.64	223.12	215.23	18.65	4,556.41
UA4000227656	19.50	SA	15-Jan-25	914,074	1,031.78	943.12	914.07	19.25	17,671.28
UA4000228043	19.75	SA	22-Jul-26	2,100,000	1,026.34	2,155.32	2,100.00	20.19	19,987.26
Total UAH				3,229,308		3,321.56	3,229.31		42,214.95

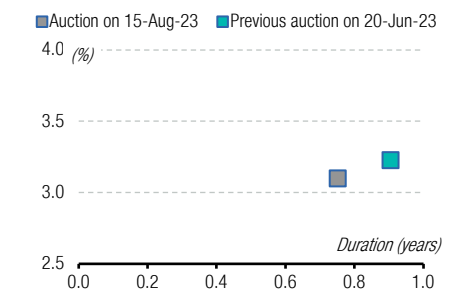
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 36.93/USD, 40.11/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, 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.

Demand for one-year bills was the lowest—UAH170m (face value) in six bids. All demand was fully satisfied at an unchanged rate of 17.8%.

Demand for 17-month military paper almost doubled from the previous week. The total volume of bids was more than UAH1.7bn, and it was fully satisfied at an 18.35% rate, also unchanged during August.

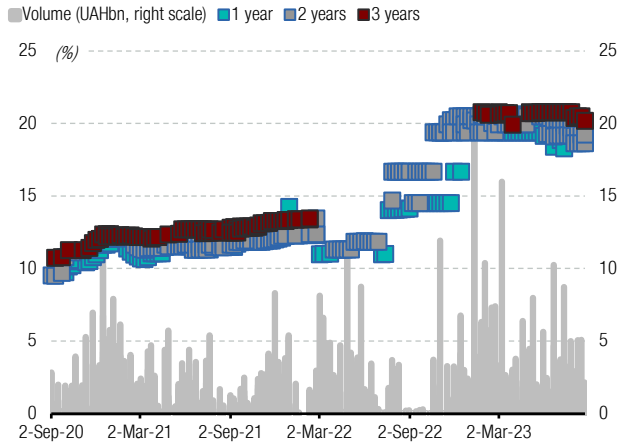
New bonds maturing in November 2026 attracted the greatest number of investors. The total volume of demand reached UAH8.7bn in 35 bids, with interest rates from 19% to 19.25%. However, the MoF set the cap at UAH5bn, and this volume was exhausted at 19.2%. The MoF set the weighted average rate at 19.18%. At the auction's end, the MoF rejected almost UAH3.7bn of demand.

Investors seek to fix high interest rates for the longest possible time, so they continue to actively compete for the opportunity to purchase three-year notes and submit bids at low interest rates. Such demand helps the Ministry of Finance attract the desired amount of funds and reduce the interest rates on three-year notes, bringing them closer to shorter bonds.

Appendix: Yields-to-maturity, repayments

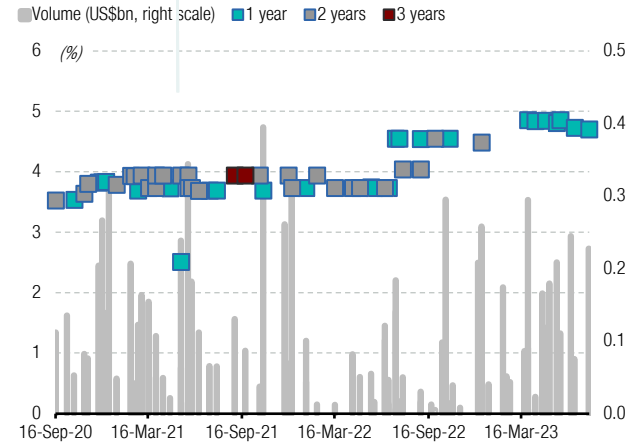
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

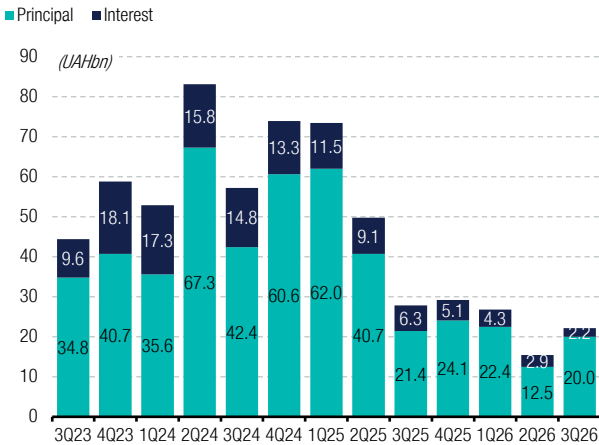
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

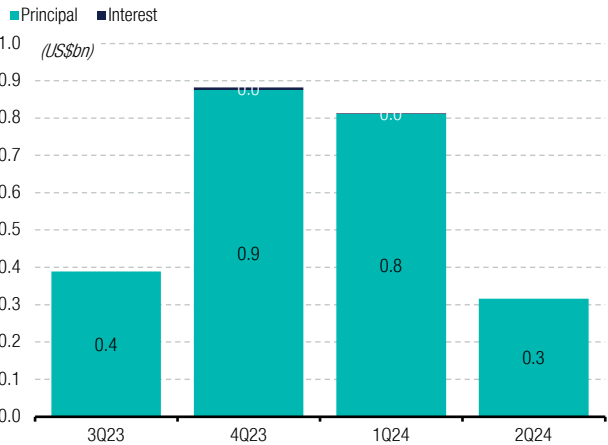
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

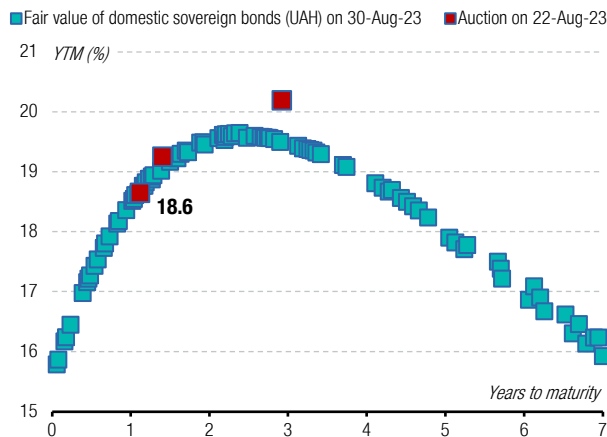
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

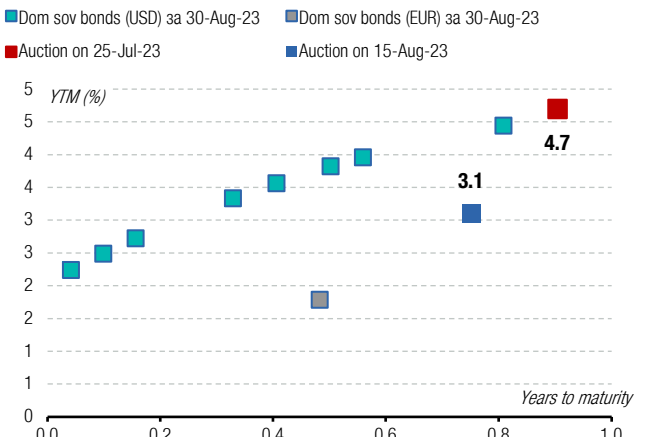
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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