

# Bond Market Insight

## Demand for government bonds remains high

### Comment on government bond placement

WEDNESDAY, 13 SEPTEMBER 2023

Yesterday, most of the demand received at the auction was for UAH bonds, similar to the previous placement. In total, borrowings more than doubled from last week.

**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 <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000187207	15.50	SA	2-Oct-24	472,812	1,046.89	494.98	472.81	18.65	5,199.05
UA4000228449	18.31	SA	18-Jun-25	4,000,000	1,040.87	4,163.46	4,000.00	19.23	7,350.94
UA4000228381	19.18	SA	4-Nov-26	4,089,250	1,065.17	4,355.75	4,089.25	20.17	11,868.09
<b>Total UAH</b>				<b>8,562,062</b>		<b>9,014.19</b>	<b>8,562.06</b>		<b>24,418.09</b>
UA4000228506	0.00	@Mty	5-Sep-24	150,000	955.33	5,292.28	5,539.77	4.77	5,539.77
<b>Total USD</b>				<b>150,000</b>		<b>5,292.28</b>	<b>5,539.77</b>		<b>5,539.77</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 36.93/USD, 40.11/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

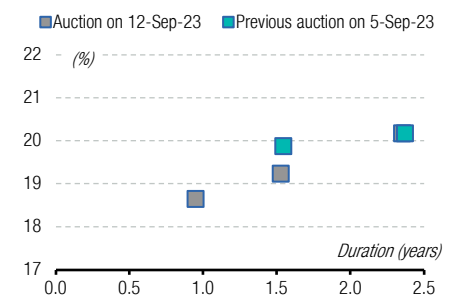
Investors' interest in one-year bills, which did not see any demand last week, revived. Yesterday's demand was moderate in six bids for UAH823m. However, one bid for UAH350m required an increase in the cut-off rate by 10bp, so the MoF rejected it. Therefore, the MoF sold UAH473m of bills (par value) at 17.8%, attracting UAH495m.

The Ministry again planned to issue military bills maturing in June 2025 for UAH4bn (par value). These securities received much higher demand than supply: 27 bids amounted to UAH5.9bn. Compared with last week, the minimum interest rate in demand remained at 18.15%, while the maximum interest rate was the same as the cut-off rate of the previous auction. So, in the end, the Ministry of Finance accepted all bids. However, non-competitive bids were partially filled within the limit (UAH1.2bn for non-competitive applications) at the rate of 18.34% (3bp higher), competitive bids with rates below the maximum were accepted in full, and competitive bids with the maximum rate were partially accepted within the rest of the cap.

The cap on reserve bonds failed again. Demand was almost 4/5 of supply, and only a small amount was with rates below the maximum. So, the Ministry of Finance satisfied all competitive bids at the rates in the bids and non-competitive demand at 19.19%, the same as last week.

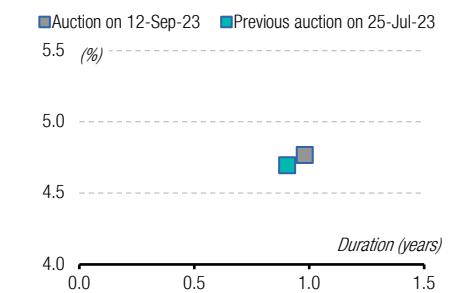
On the eve of the large redemption of USD-denominated bills, the MoF placed a small amount of new USD-denominated paper. The MoF set a cap for new bills at US\$150m

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



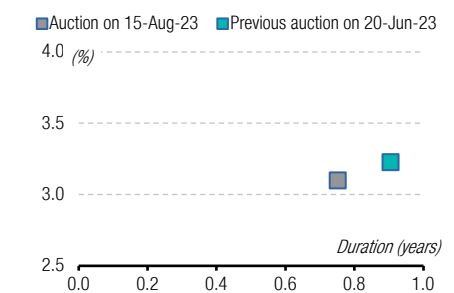
Source: Ministry of Finance of Ukraine, ICU.

### 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.

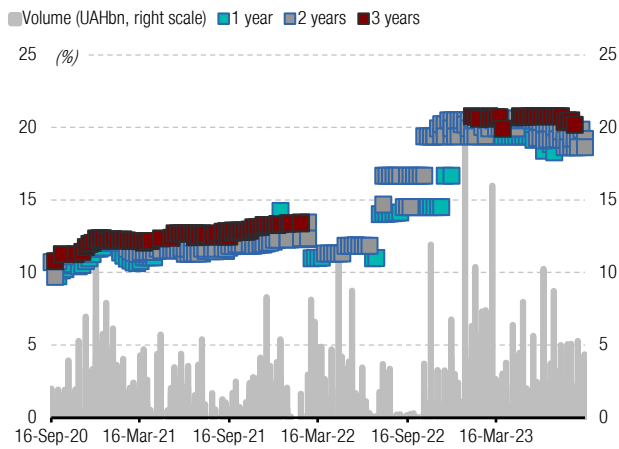
(par value). There was no significant hype for them: demand amounted to US\$202.7m, a third more than the supply. Rates in competitive bids were closer to those in the previous placement of USD-denominated bills at the end of July, which ranged from 4.64% to 4.8%. So the MoF accepted all bids, but not in full, similar to UAH military bills.

The Ministry of Finance received almost UAH14.3bn, including UAH9bn from local currency instruments, significantly more than last week, and the rest from USD-denominated paper, allowing the refinancing of part of tomorrow's repayments. At the same time, this demand could be significant for two reasons: the wave of interest of foreign investors in UAH military paper, which will allow coupon payment repatriation in December, and the influence of expectations of a further reduction of the NBU key policy rate at tomorrow's meeting of the NBU board.

# Appendix: Yields-to-maturity, repayments

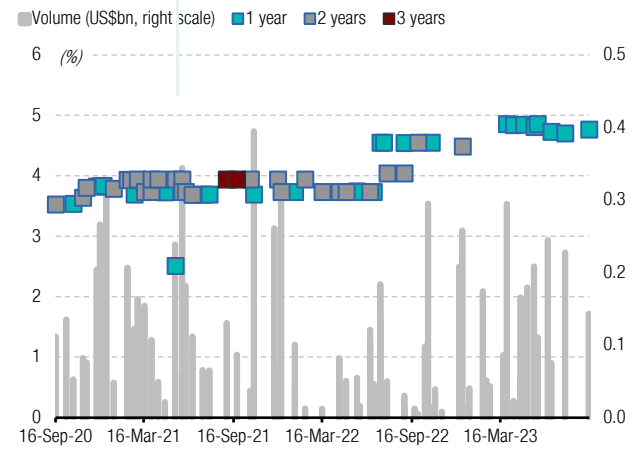
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

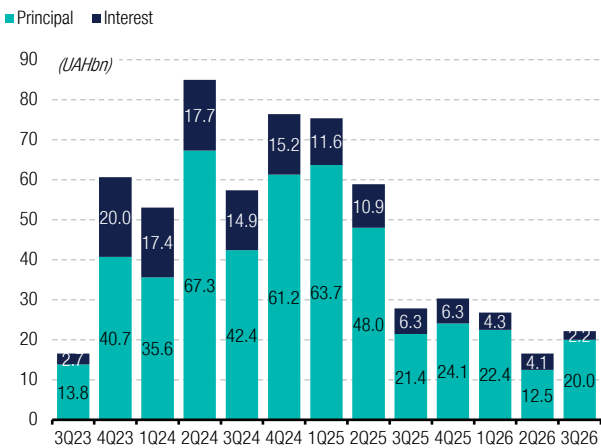
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

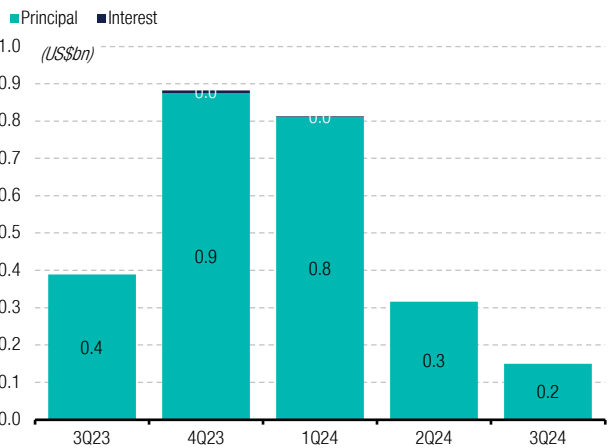
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

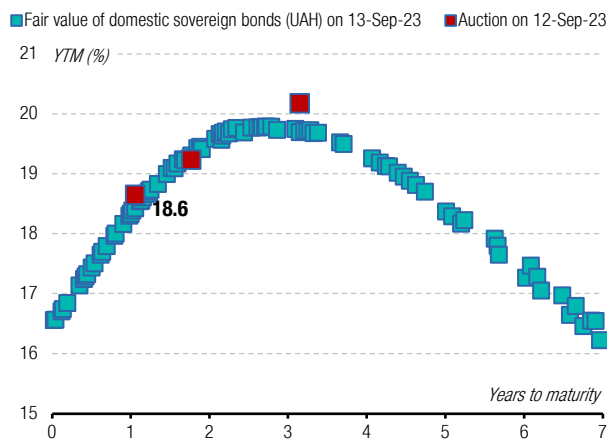
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

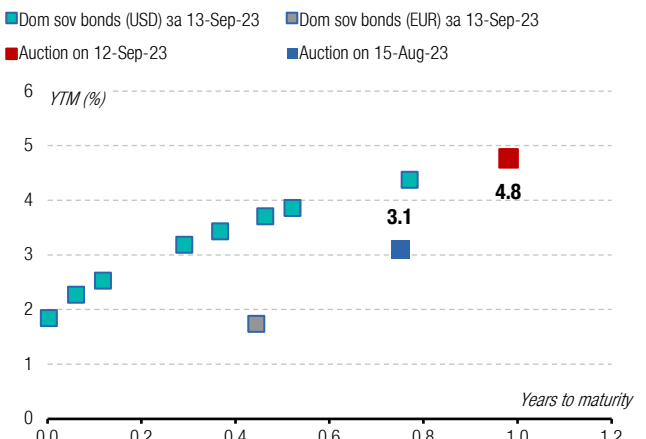
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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](http://www.icu.ua)



## RESEARCH

### Vitaliy Vavryshchuk

Head of macro research  
[vitaliy.vavryshchuk@icu.ua](mailto:vitaliy.vavryshchuk@icu.ua)

### Taras Kotovych

Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

### Dmitriy Dyachenko, CFA

Financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

### Alexander Martynenko

Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

### Mykhaylo Demkiv

Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

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