

Bond Market Insight

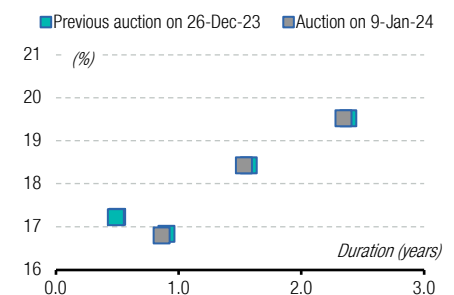
Large borrowings without interest rate changes

Comment on government bond placement

WEDNESDAY, 10 JANUARY 2024

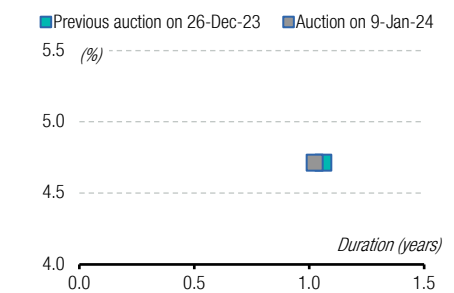
The Ministry of Finance raised almost UAH16.8bn (US\$439m) at the debut primary auction this year, but mostly in hard currency. Cut-off rates did not change for all instruments.

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



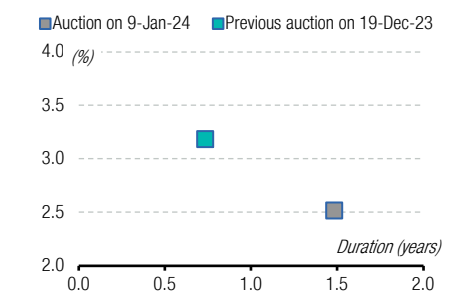
Source: Ministry of Finance of Ukraine, ICU.

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.

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
UA4000229470	0.00	@Mty	20-Nov-24	254,730	873.37	222.47	254.73	16.80	14,107.75
UA4000229264	17.80	SA	15-Oct-25	1,202,262	1,043.10	1,254.08	1,202.26	18.43	11,624.44
UA4000229116	18.87	SA	24-Feb-27	1,400,495	1,074.33	1,504.59	1,400.50	19.52	17,436.67
Total UAH				2,857,487		2,981.15	2,857.49		43,168.86
UA4000229736	4.66	SA	30-Jan-25	150,000	1,020.59	5,834.78	5,717.04	4.71	13,465.38
Total USD				150,000		5,834.78	5,717.04		13,465.38
UA4000229942	2.50	SA	10-Jul-25	190,035	1,000.00	7,917.23	7,917.23	2.52	7,917.23
Total EUR				190,035		7,917.23	7,917.23		7,917.23

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 38.11/USD, 41.66/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand for the shortest bills, those maturing in November 2024, caused a decline in the weighted average rate, while the cut-off rate remained unchanged. There were 24 small bids with rates in the range of 16.78–16.84%, so having satisfied all demand, the weighted average rate slid by 4bp to 16.8%.

Bonds maturing in October 2025 received 14 bids with 17.5–17.6% rates for UAH1.2bn (US\$32.8m) at par value. The Ministry of Finance satisfied all demand without changes in the cut-off or weighted-average rates.

For the second consecutive month, interest rates on three-year notes maturing in February 2027 remained unchanged. Yesterday, there were bids with rates 10bp below the usual level of 18.6%, which did not affect the weighted average rate.

The rates for FX-denominated bills have not changed either. For USD-denominated paper, the MoF kept rates at 4.66%, selling bonds within the cap. For bills in euros, placement was at a fixed rate and with exclusively non-competitive bids (satisfied at a weighted average or fixed rate), so the Ministry set the usual rate for puttable bills at 2.5%.

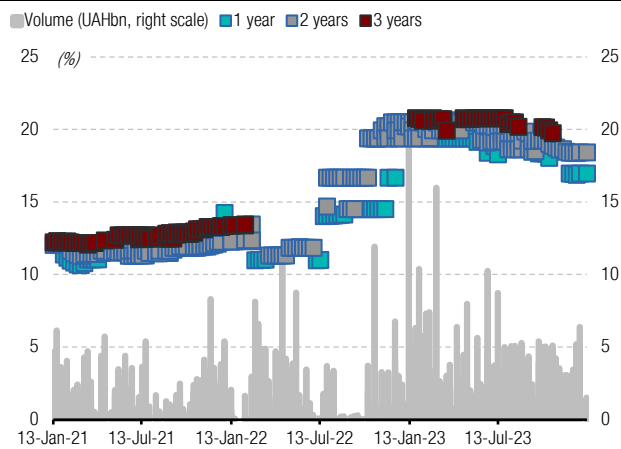
The Ministry of Finance attracted a large amount of funds yesterday, primarily

in preparation for January redemptions. The funds raised will be sufficient for redemptions in UAH and USD in January. However, for tomorrow's redemption of EUR-denominated bonds, the Ministry had already raised most of the funds and will be able to ensure 100% refinancing later. At the same time, investors focused on FX-denominated instruments, and UAH funds are less than 1/5 of all budget proceeds.

Appendix: Yields-to-maturity, repayments

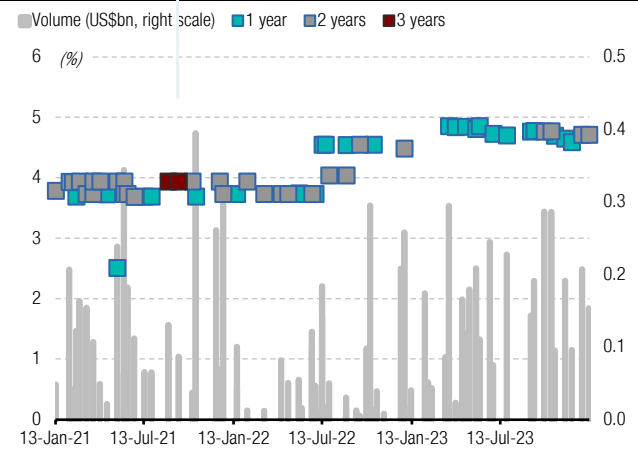
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

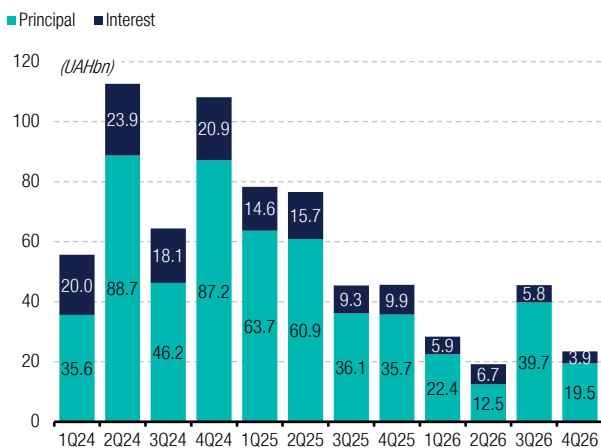
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

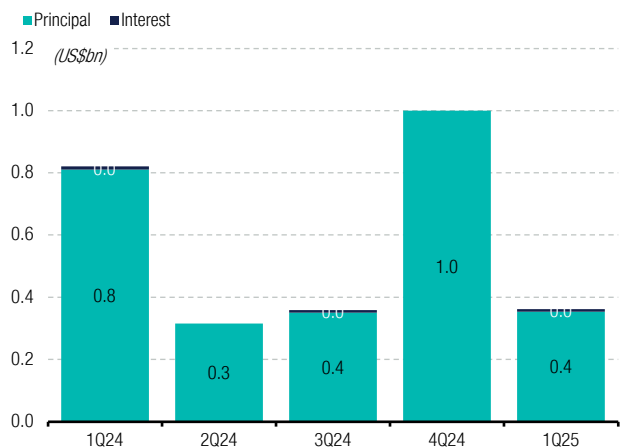
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

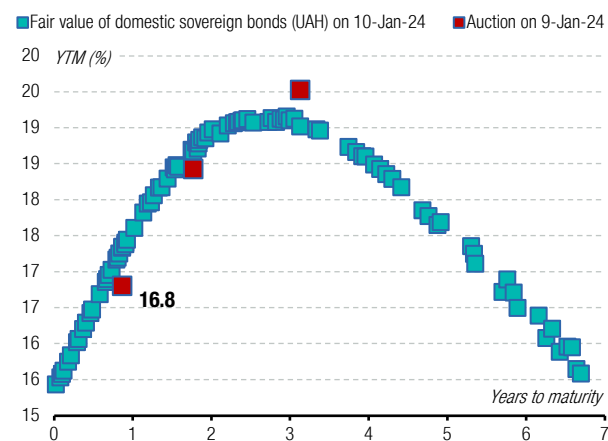
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

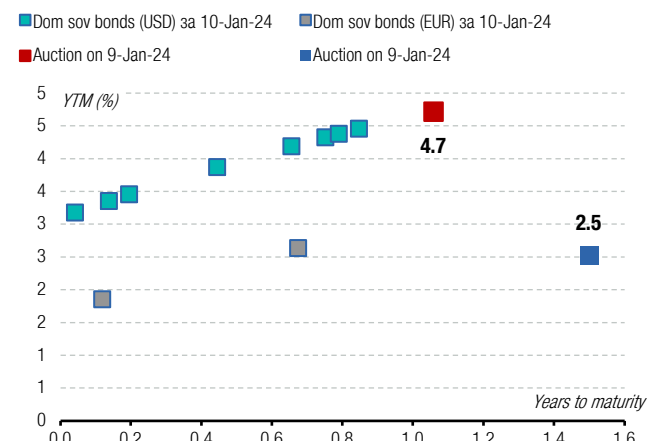
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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

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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