

Bond Market Insight

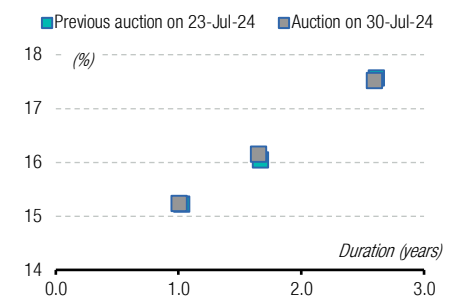
Borrowing increases, but caps not met

Comment on government bond placement

Yesterday, the Ministry of Finance raised UAH9.5bn, largely thanks to FX-denominated bills. However, demand remains significantly lower than supply.

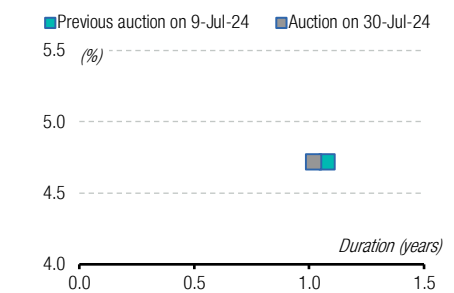
WEDNESDAY, 31 JULY 2024

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



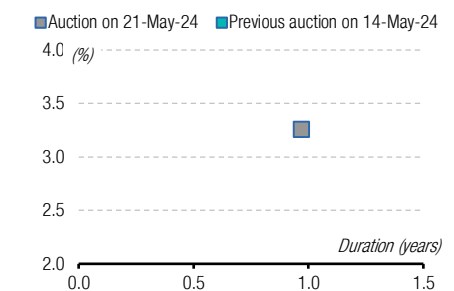
Source: Ministry of Finance of Ukraine, ICU.

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
UA40002312K7	14.72	SA	10-Sep-25	3,107,639	1,056.85	3,284.31	3,107.64	15.23	15,719.57
UA4000231559	15.47	SA	10-Jun-26	2,216,955	1,019.80	2,260.86	2,216.96	16.15	11,902.25
UA4000231625	16.80	SA	9-Feb-28	29,915	1,078.31	32.26	29.92	17.51	8,778.49
Total UAH				5,354,509		5,577.43	5,354.51		36,400.31
UA4000231864	4.66	SA	21-Aug-25	94,706	1,020.61	3,960.63	3,880.64	4.71	11,489.11
Total USD				94,706		3,960.63	3,880.64		11,489.11

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 40.98/USD, 43.14/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 doubled to UAH3.1bn (par value), 3/4 of the cap. Interest rates were mostly at the cut-off level of the last auction, 14.65%.

The increase in demand for two-year paper was significant. Yesterday's demand was UAH2.2bn vs UAH63m a week before. However, bidders wanted higher rates, mostly 15.5% or 10bp above last week. So, the cut-off and weighted average rates are now 15.5%.

Only the demand for 3.6-year notes has mostly stayed the same. The total volume of bids amounted to UAH29.9m against UAH29.1m last week. In contrast to the two-year instrument, demand for a 3.6-year paper was more diverse, and rates in the bids resulted in a 4bp drop in the weighted average rate to 16.76%, while the cut-off rate did not change, remaining at 16.8%.

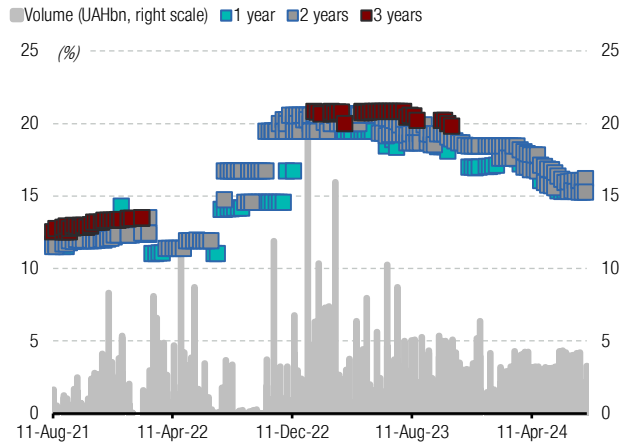
In addition, the Ministry offered USD-denominated bills. The Ministry offered US\$200m USD-denominated bills, but received only US\$95m of demand, mostly at 4.66%.

The Ministry of Finance raised almost US5.6bn and US\$96.6m, and after two relatively weak placements, at least replenished UAH and FX accounts. Despite the absence of repayments, the budget needs large funds to finance defence and other needs that international aid cannot cover.

Appendix: Yields-to-maturity, repayments

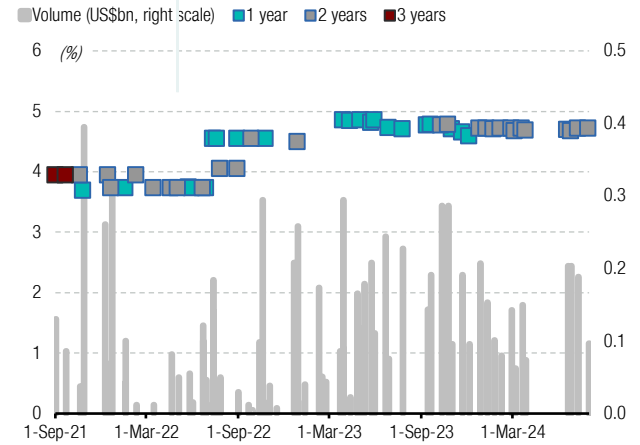
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

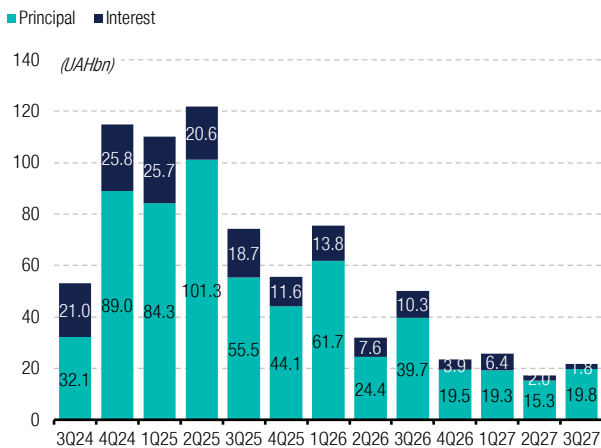
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

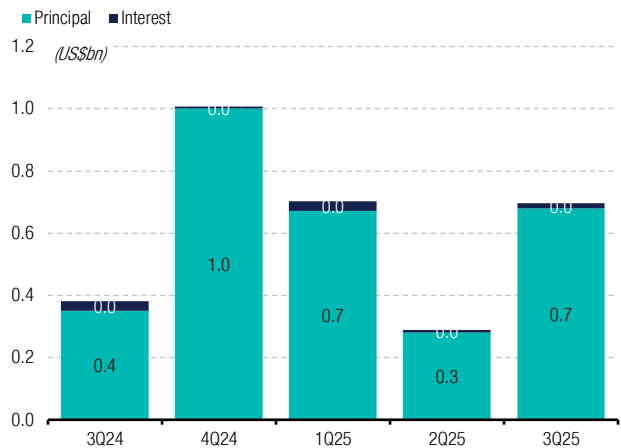
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

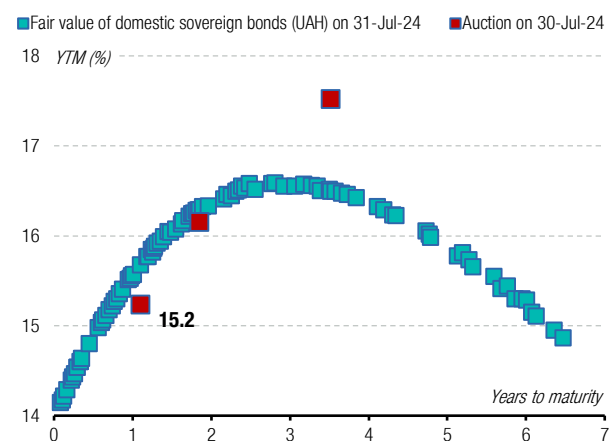
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

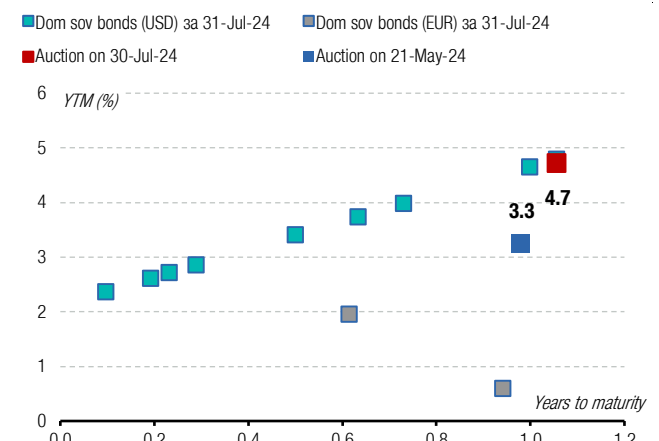
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

This page is intentionally left blank.



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

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

