

Bond Market Insight

Situational increase in demand

Comment on government bond placement

WEDNESDAY, 7 AUGUST 2024

There was a situational increase in the demand for UAH bonds yesterday, which allowed the Ministry of Finance to attract UAH12.8bn to the budget.

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	198,496	1,059.92	210.39	198.50	15.21	15,918.07
UA4000231559	15.47	SA	10-Jun-26	2,059,828	1,022.73	2,106.64	2,059.83	16.15	13,962.08
UA4000232177	16.47	SA	20-Oct-27	10,000,000	1,046.68	10,466.77	10,000.00	17.20	10,000.00
Total UAH				12,258,324	12,783.81	12,258.32			39,880.15

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 41.08/USD, 43.14/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Yesterday, 12-month bills received the smallest demand, less than UAH200m. However, since they came in at the usual interest rates, the MoF accepted all of them, which provided the state budget with UAH210m of proceeds.

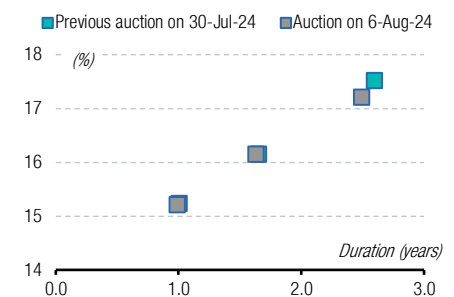
The volume of bids for two-year paper slightly decreased, but all had rates no higher than 15.5% (last week's cut-off rate), and the Ministry fully satisfied them.

The placement of new three-year notes due in October 2027 was unique. The Ministry offered them instead of notes maturing in February 2028, and set an unusual cap at UAH10bn. This paper was slightly oversubscribed. Therefore, the MoF rejected one bid, and some bids were partially satisfied within the cap.

The Ministry raised interest rates for this paper significantly compared with June, when such maturity was last offered. The cut-off rate increased by 30bp and the weighted average rate by 34bp, to 16.5% and 16.47%, respectively.

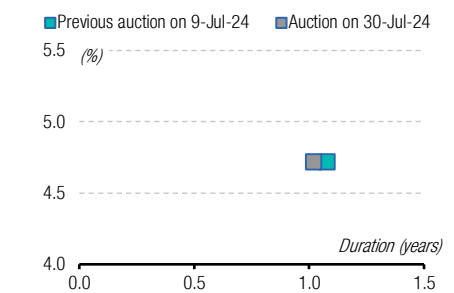
Yesterday's placement looks like a rollover of today's redemption of "reserve" paper. That is why the MoF set the cap at UAH10bn (usually, the cap is no larger than UAH5bn per week), and the NBU may soon add this paper to the list of "reserve" bonds. But the MoF refinanced more than half of today's redemption. Banks may buy extra three-year bonds in the coming weeks, but less actively, depending on when the NBU included them in the reserve bonds list.

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



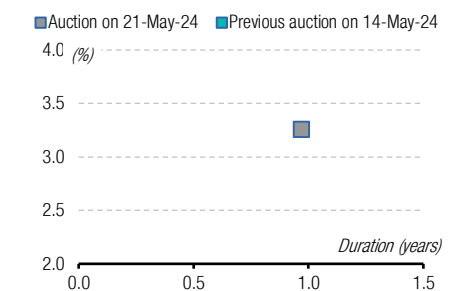
Source: Ministry of Finance of Ukraine, ICU.

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

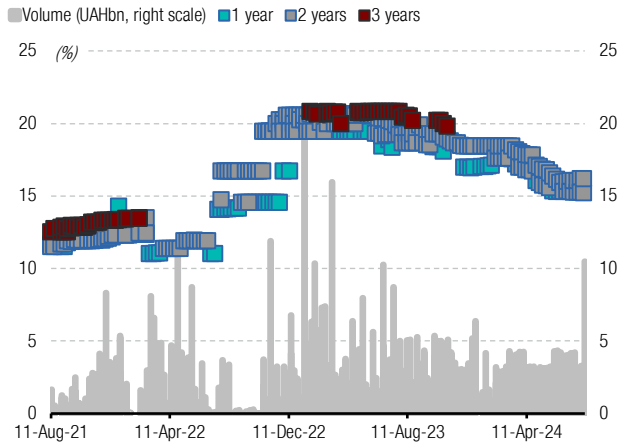


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

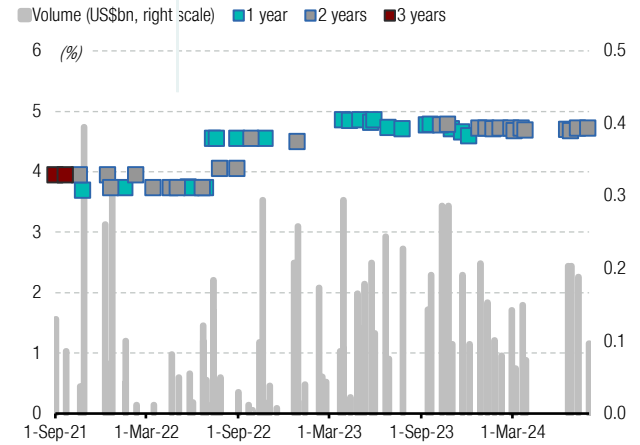
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

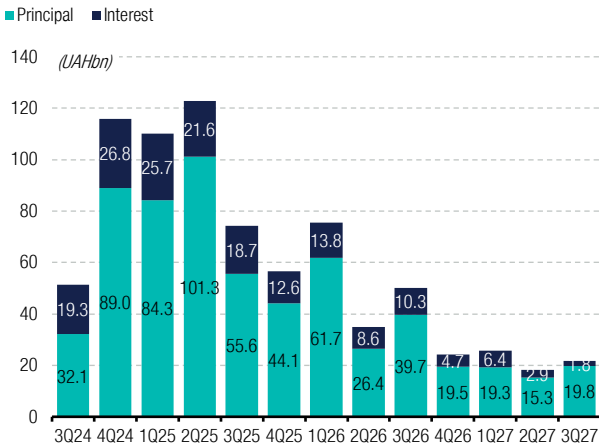
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

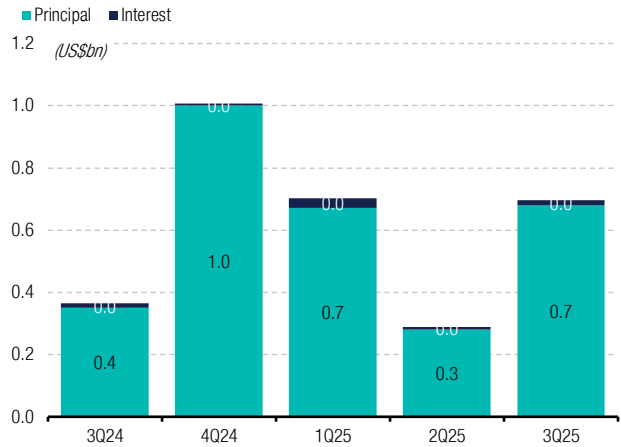
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

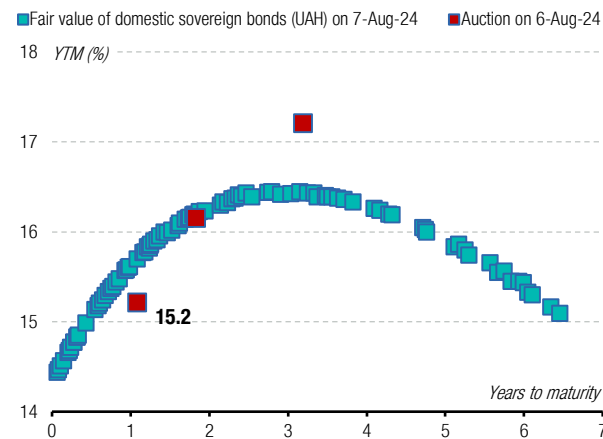
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

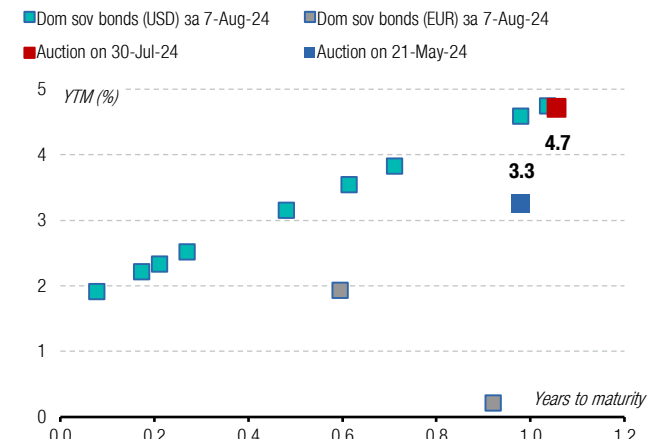
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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