

Bond Market Insight

Oversubscription remains significant

Comment on government bond placement

WEDNESDAY, 13 NOVEMBER 2024

Yesterday, the Ministry of Finance again sold the planned volume of all military and reserve bonds, receiving significant oversubscription.

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
UA4000233332	15.20	SA	29-Apr-26	5,000,000	1,005.66	5,028.30	5,000.00	15.82	10,000.00
UA4000232896	15.60	SA	28-Oct-26	5,000,000	1,042.36	5,211.78	5,000.00	13.91	20,000.00
UA4000233340	16.20	SA	7-Apr-27	5,000,000	1,015.30	5,076.50	5,000.00	16.89	10,000.00
UA4000232912	16.59	SA	29-Sep-27	5,000,000	1,077.75	5,388.75	5,000.00	14.56	20,000.00
UA4000231625	16.80	SA	9-Feb-28	293,126	1,041.15	305.19	293.13	17.56	15,719.47
Total UAH				20,293,126		21,010.51	20,293.13		75,719.47
UA4000233407	4.61	SA	4-Dec-25	129,746	1,020.38	5,480.61	5,371.16	4.66	5,371.16
Total USD				129,746		5,480.61	5,371.16		5,371.16

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 41.4/USD, 46.13/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

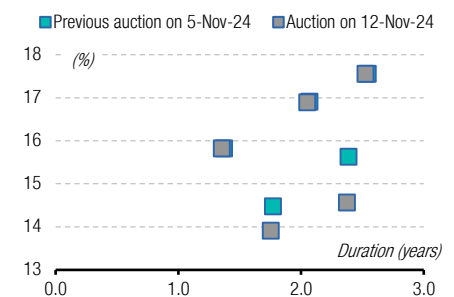
The 1.5 and 2.5-year military bills received almost UAH12bn and UAH18bn of demand vs. a UAH5bn cap for each. However, most bids were at the cut-off rates of the last auction or very close to them. So, interest rates did not change for a 1.5-year paper; for the 2.5-year securities, rates slid a mere 1bp to 16.19%.

At the same time, reserve bonds again received a surge in demand. It was almost seven times higher than the offer for two-year bonds, and for three-year bonds, it was eight times. Of course, this demand could have been "inflated" again due to multiple participation with different rates. So, competition developed further, and the minimum bid rates fell by more than 120bp, although the maximum bid rates did not change. However, the offer was exhausted much sooner and before it reached the bids with the maximum bid rates. Therefore, the cut-off rate for two-year bills decreased by 69bp to 13.5%, and for three-year securities by 71bp to 14.38%. The weighted average rates decreased by 53bp to 13.42% and by 99bp to 14.03%, respectively.

Regular UAH bonds and USD-denominated military bills saw restrained demand below the cap, with rates at the cut-off level, so all bids were accepted in full.

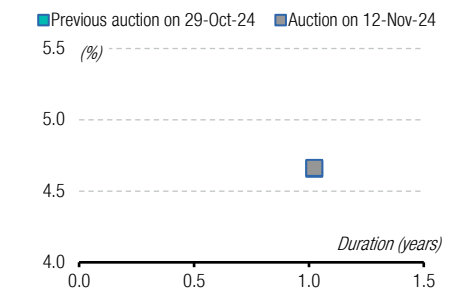
Segmentation into banking and retail securities developed even further, and now the difference in interest rates has reached two percentage points against reserve

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



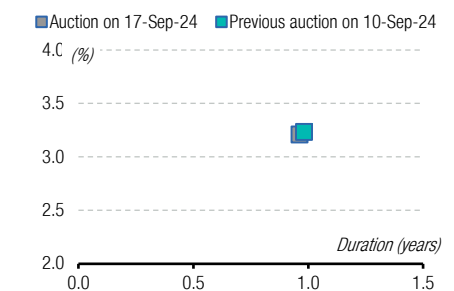
Source: Ministry of Finance of Ukraine, ICU.

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



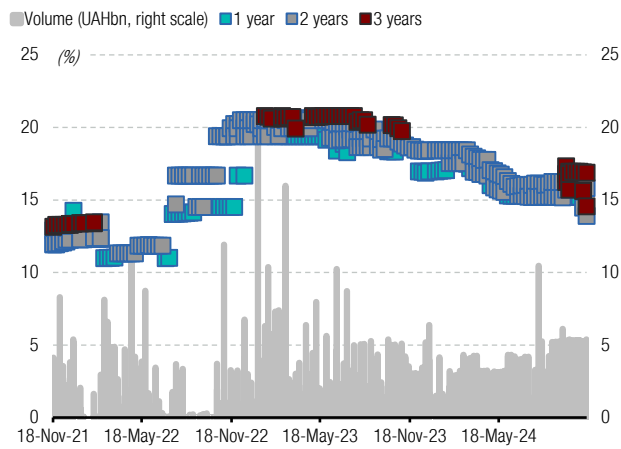
Source: Ministry of Finance of Ukraine, ICU.

bonds. However, these instruments allow banks to release liquidity and compensate for losses due to lower rates. Accordingly, next week, we may again see significantly greater demand than supply. However, this will already be a purchase for the future because the Ministry of Finance will most likely offer new bonds, which the NBU will add to the reserve list a bit later. Therefore, interest rates for new bonds may be slightly higher than yesterday.

Appendix: Yields-to-maturity, repayments

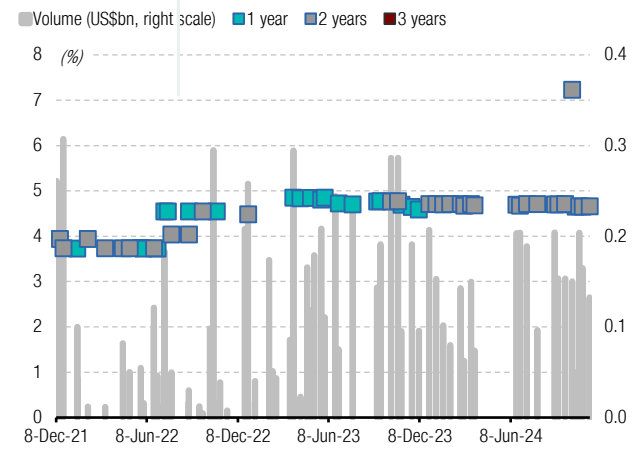
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

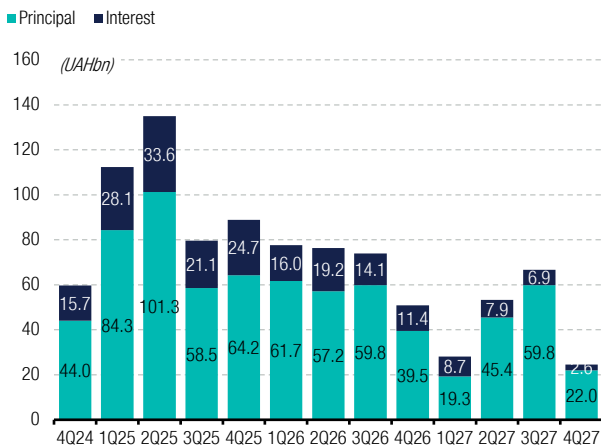
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

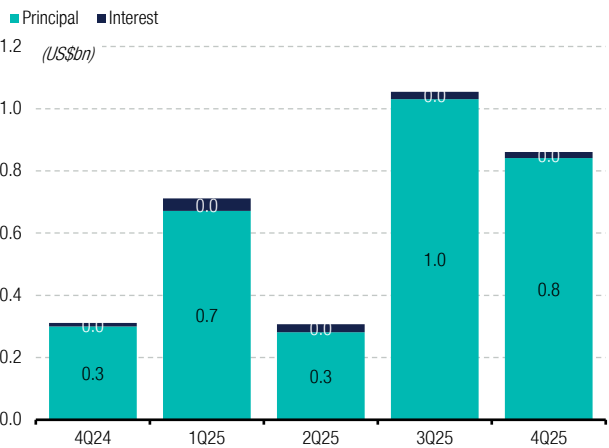
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

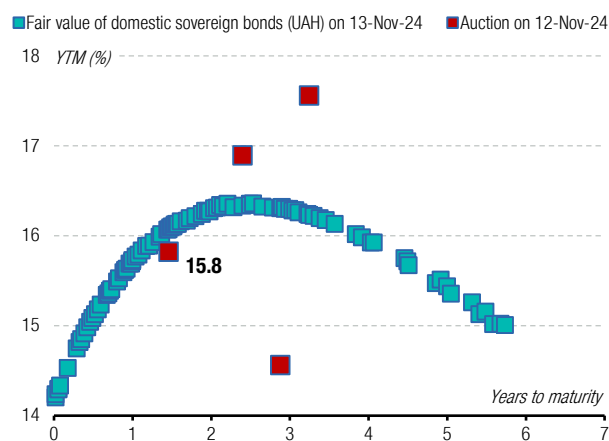
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

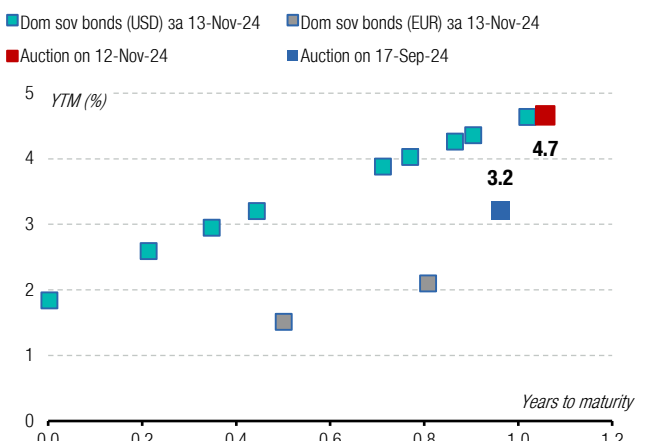
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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