

Bond Market Insight

Demand for UAH bonds remains high

Comment on government bond placement

WEDNESDAY, 11 DECEMBER 2024

Once more, the primary auction received huge demand with oversubscription for all offered bonds. Therefore, the MoF borrowed significant funds from each auction for the third month.

Military bonds saw huge demand for two months, but without significant movement in interest rates, except for refreshing offerings, as last week. Therefore, interest rates for all three offered military bonds did not see important movements, while for reserve notes, interest rates continued to fall.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000233696	15.09	SA	4-Feb-26	5,000,000	1,051.54	5,257.71	5,000.00	15.72	10,000.00
UA4000233704	16.17	SA	14-Apr-27	5,000,000	1,023.79	5,118.95	5,000.00	16.90	10,000.00
UA4000233712	16.46	SA	3-Nov-27	5,000,000	1,016.18	5,080.92	5,000.00	17.15	10,000.00
UA4000233613	16.01	SA	10-May-28	8,000,000	1,049.25	8,393.98	8,000.00	15.16	20,000.00
Total UAH				23,000,000		23,851.57	23,000.00		50,000.00

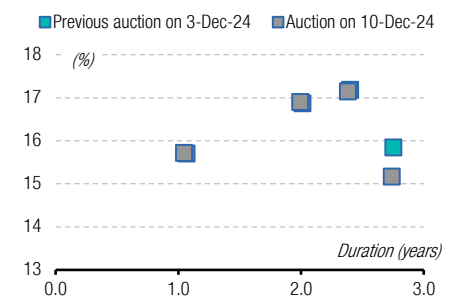
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 41.33/USD, 46.13/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Fourteen-month and 2.4-year military bills received more than UAH10bn of demand each, but without any chance to revise interest rates. Cut-off rates remain unchanged at 15.1% and 16.2%, while weighted average rates rose by 1bp and 2bp to 15.1% and 16.19%, respectively.

At the same time, demand for three-year paper was more diverse. The lowest bid rate was 15.25%, 115bp lower than last week and 125bp below the maximum bid rate. Probably, there were other bids with rates below the cut-off rate, as the weighted average rate slid by 4bp to 16.42%; the cut-off rate remained unchanged at 16.5%.

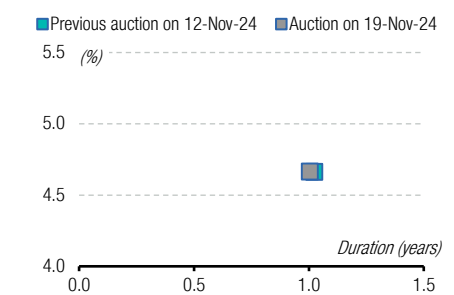
The highest competition remains for reserve notes, as the NBU added this paper to the list of reserve bonds last Friday. Therefore, banks submitted many bids, causing oversubscription by 5x. There were likely a few bids from each participant, but in a tighter range than last week. The lowest rate increased by 9bp to 14.18%, and the highest rate fell by 75bp to 15.5%. However, most bids came in toward the low end, as the MoF accepted 30 bids within the UAH8bn cap and decreased the cut-off rate by 48bp to 15% and the weighted average rate by 63bp to 14.59%, which

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



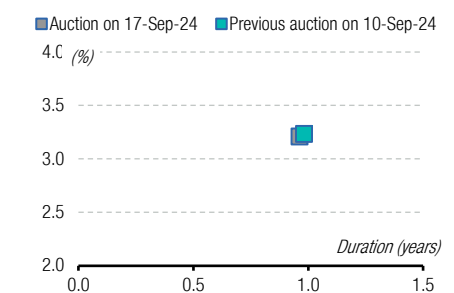
Source: Ministry of Finance of Ukraine, ICU.

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.

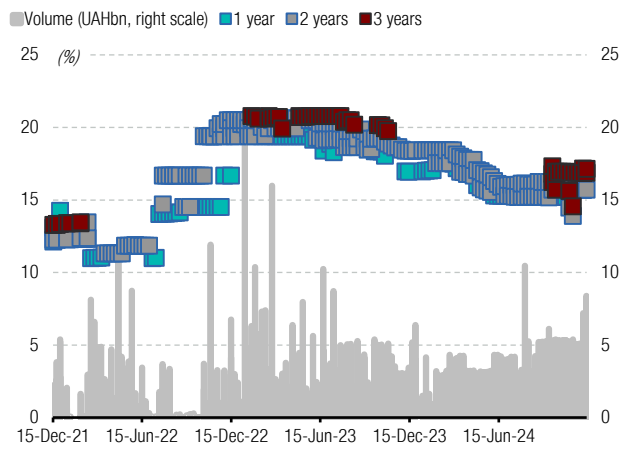
is 41bp below the cut-off rate.

If demand remains significant in the following two weeks, the MoF will complete the issuance of all three military bonds this year, reaching UAH20bn outstanding for each. So, next year, we will start with a new combination of military bonds. At the same time, the MoF may offer new securities next week, which may become reserve bonds next year.

Appendix: Yields-to-maturity, repayments

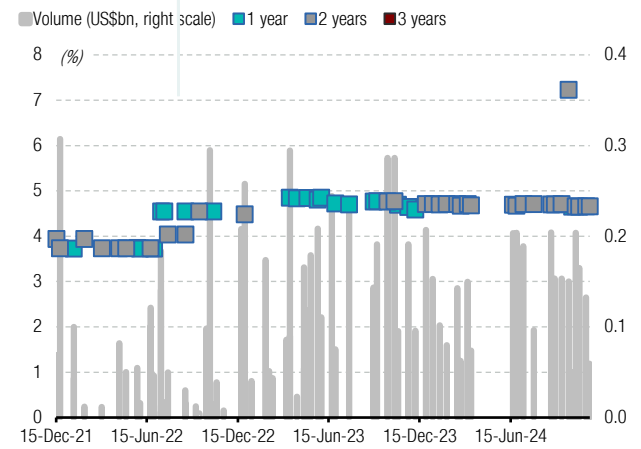
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

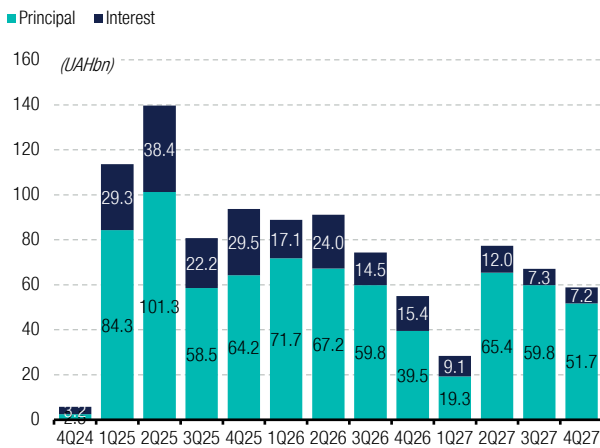
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

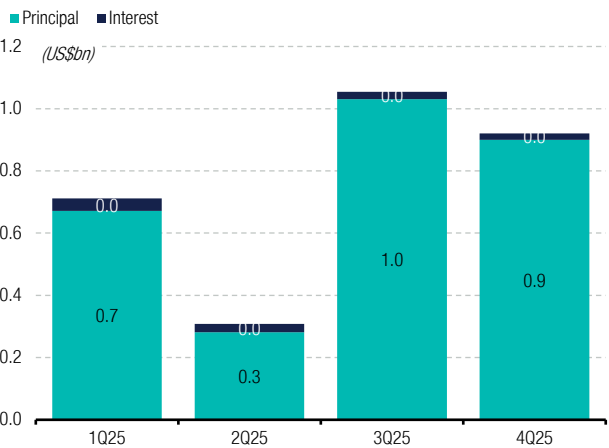
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

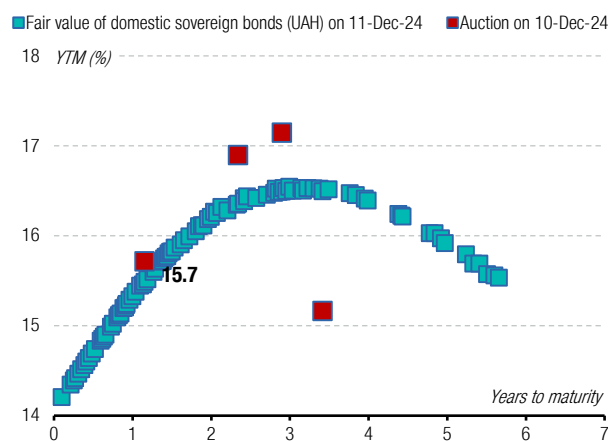
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

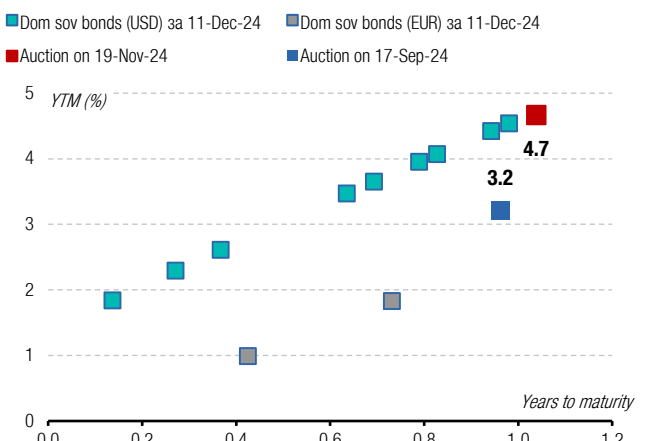
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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