

Bond Market Insight

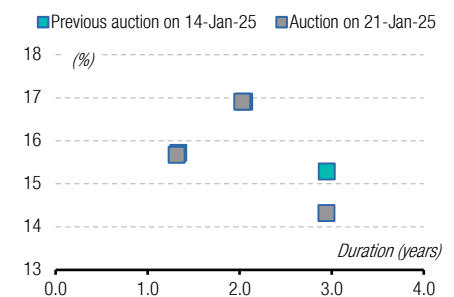
Significant segmentation in bond market

Comment on government bond placement

WEDNESDAY, 22 JANUARY 2025

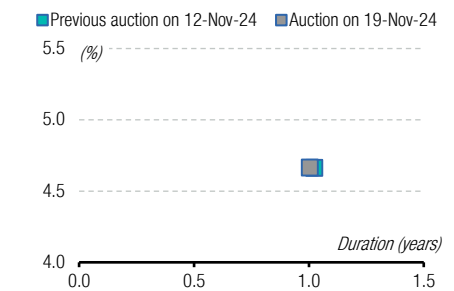
The Ministry of Finance continues attracting the bulk of funds from bonds that will potentially become reserve bonds (the NBU has not yet decided on them), receiving significant demand and reducing interest rates. At the same time, military bonds are only a minor support for budgetary needs.

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



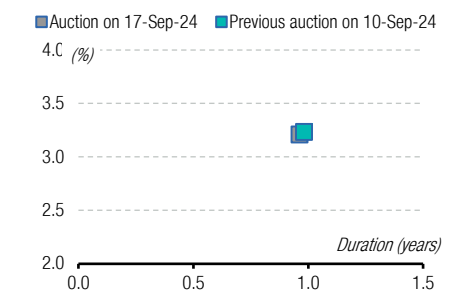
Source: Ministry of Finance of Ukraine, ICU.

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	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000234215	15.10	SA	24-Jun-26	105,651	1,011.77	106.89	105.65	15.67	1,414.08
UA4000234223	16.20	SA	9-Jun-27	2,652,914	1,018.17	2,701.11	2,652.91	16.90	4,519.87
UA4000234140	15.99	SA	31-Jan-29	5,000,000	1,139.65	5,698.24	5,000.00	14.32	15,000.00
Total UAH				7,758,565		8,506.24	7,758.57		20,933.95

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.

Bids for 1.5-year bills were again in the 15-16% range, closer to the maximum level as a week ago. The Ministry continued last week's policy and did not revise the cut-off rate, satisfying only 16% of demand and selling only UAH0.1bn of bonds.

At the same time, interest in 2.5-year securities, on the contrary, has revived. The range of bid rates expanded from 30bp to 100bp, from 16% to 17%. However, only one small bid exceeded last week's maximum satisfied level, 16.2%, so the MoF satisfied demand almost fully.

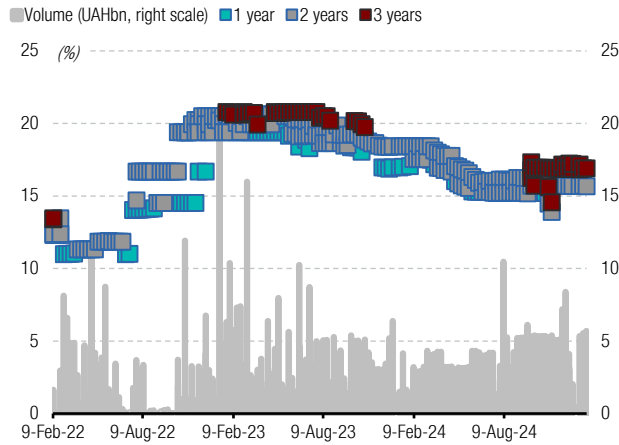
Almost 87% of yesterday's demand was received for four-year notes, practically half compared with last week. Of course, banks are gradually filling their portfolios and are submitting fewer and fewer inflated bids or a smaller number of bids for the auction. However, it is unknown when the NBU will add this paper to the reserve list and what the NBU will do with reserve requirements. However, due to such competition, the Ministry of Finance has already sold UAH15bn of these bonds YTD (UAH5bn yesterday) and reduced their rates below 14%.

The budget has already raised UAH21.5bn YTD in three weeks, which is UAH2.1bn above the redemptions of UAH debt last week. So next week, the MoF will continue accumulating funds to repay the most significant bond issue, worth UAH41bn. The Ministry will refinance next week's USD-denominated redemption in February, as planned to place one-year USD-denominated bills.

Appendix: Yields-to-maturity, repayments

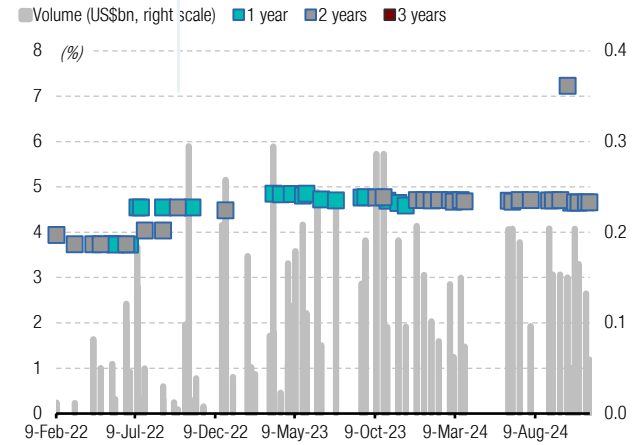
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

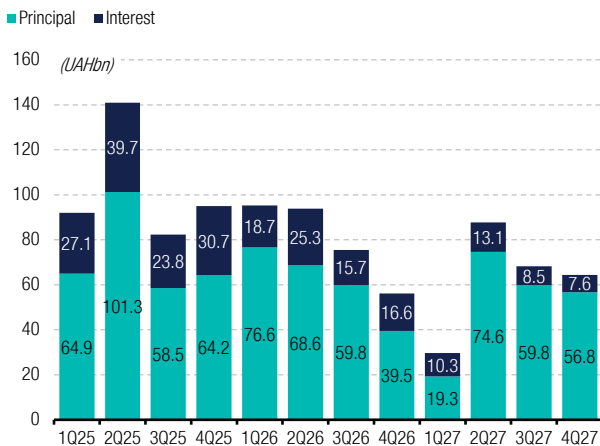
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

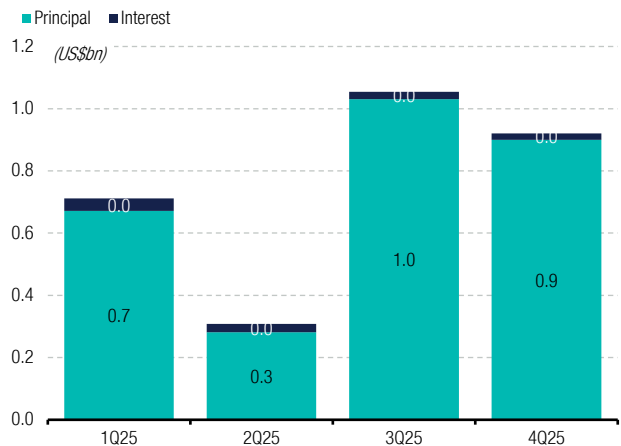
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

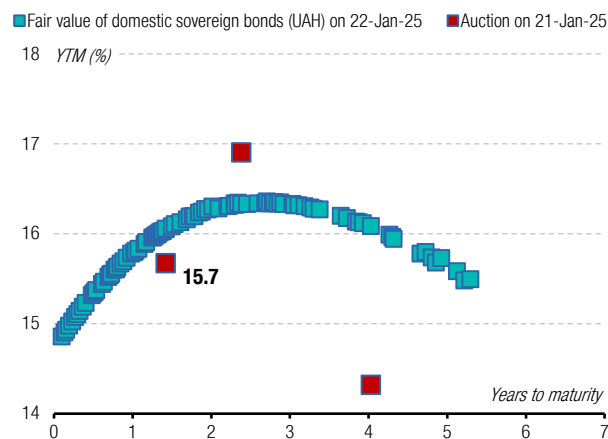
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

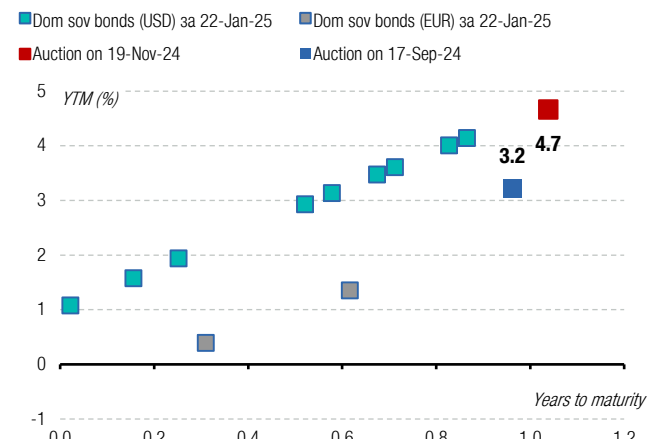
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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