

Bond Market Insight

Expanding the selection of UAH bonds

Comment on government bond placement

WEDNESDAY, 1 MARCH 2023

Yesterday, the Ministry of Finance borrowed almost UAH14bn (US\$376m) mainly through selling three new instruments maturing in 2025.

The MoF offered six local-currency bills, three of which were previously offered securities with maturity this year and next, and three new instruments due in 2025, which most likely will be allowed to be used to cover required reserves.

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
UA4000226260	16.00	SA	27-Sep-23	500,000	1,072.65	536.33	500.00	15.61	8,822.91
UA4000224380	12.94	SA	14-Feb-24	1,026,986	957.76	983.61	1,026.99	19.41	10,033.43
UA4000226286	14.00	SA	26-Jun-24	2,578,333	967.19	2,493.74	2,578.33	19.96	2,582.02
UA4000227185	19.60	SA	2-Apr-25	3,076,000	1,078.45	3,317.30	3,076.00	20.62	3,076.00
UA4000227193	19.70	SA	6-Aug-25	3,160,000	1,010.91	3,194.46	3,160.00	20.73	3,160.00
UA4000227201	19.75	SA	5-Nov-25	3,060,146	1,059.66	3,242.71	3,060.15	20.79	3,060.15
Total UAH				13,401,465		13,768.14	13,401.47		30,734.51

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 36.83/USD, 39.48/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

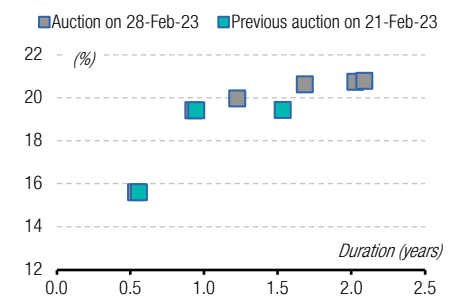
The MoF offered the shortest paper, due in September of this year, with a cap of UAH500m (US\$14m), so part of the demand, which amounted to UAH773m (US\$21m), was rejected. Because of demand unanimity, all 25 bids were accepted partially in proportion to their size within the cap.

Bonds maturing next year have already received greater demand. Bidders were interested in 12-month paper for UAH1.2bn (US\$31m) and bills due in June 2024 for UAH2.6bn (US\$71m). The Ministry of Finance was not interested in two bids that required increased rates. They rejected one of each of these bills without significantly affecting the amount of the borrowings.

The three new bonds received moderate demand, five bids for each for approximately identical amounts. There were not any caps, and the difference in rates was insignificant. Therefore, the Ministry of Finance sold UAH3bn (US\$85m) of bonds at 19.6%, 19.7%, and 19.75%, which will be repaid in April, August, and November 2025, respectively.

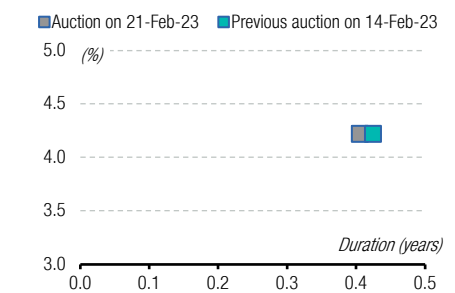
Such issues of new bonds are similar to placements in January when the Ministry placed a certain amount of bonds and later included them in the benchmarks. Later,

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



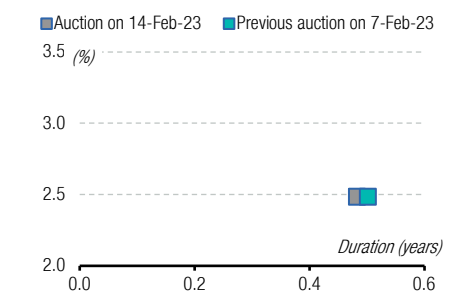
Source: Ministry of Finance of Ukraine, ICU.

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



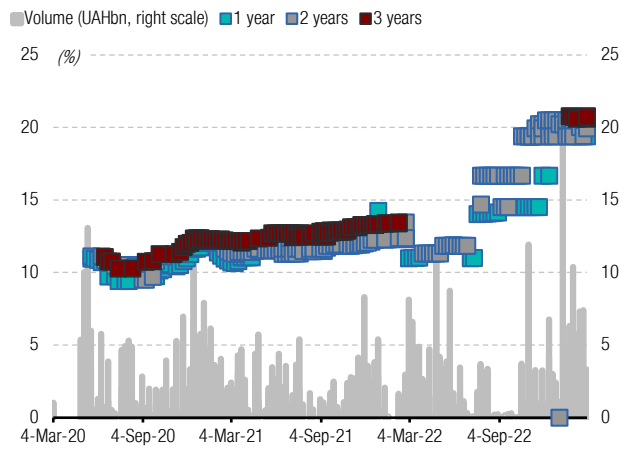
Source: Ministry of Finance of Ukraine, ICU.

the NBU allowed banks to use these bonds to cover part of required reserves. Therefore, as MoF included new bills in benchmarks, we expect that NBU will make its decision within a week, and the demand for these new bonds will be more active.

Appendix: Yields-to-maturity, repayments

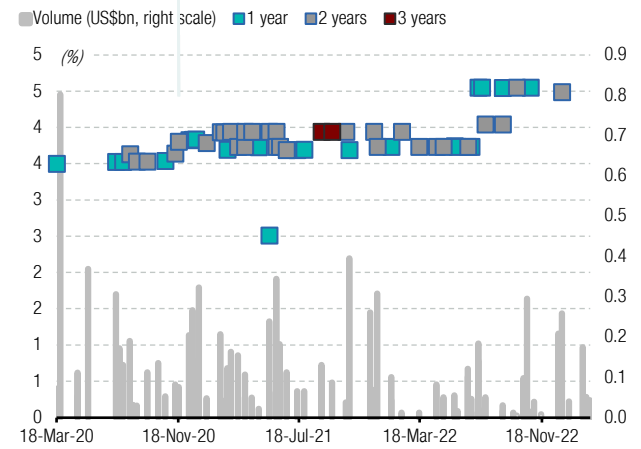
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

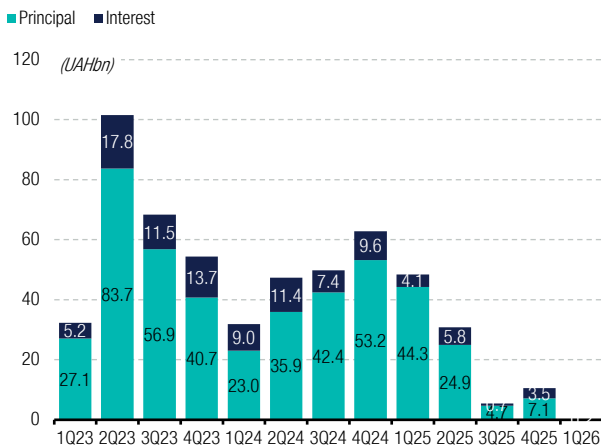
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

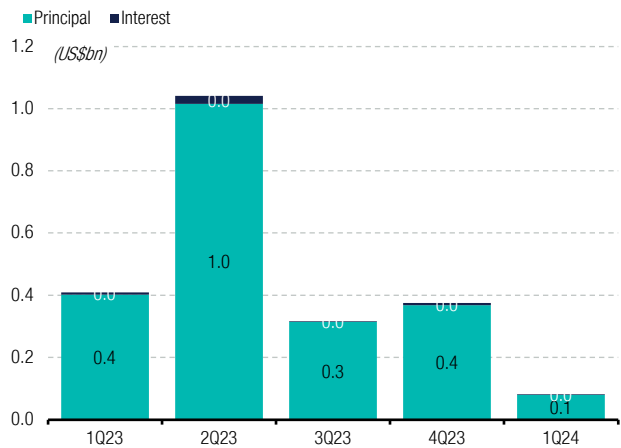
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

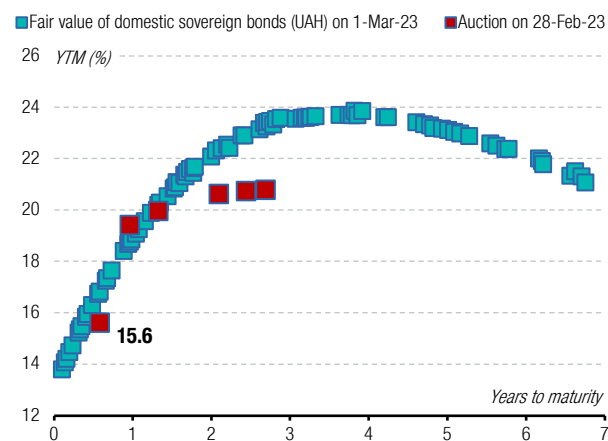
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

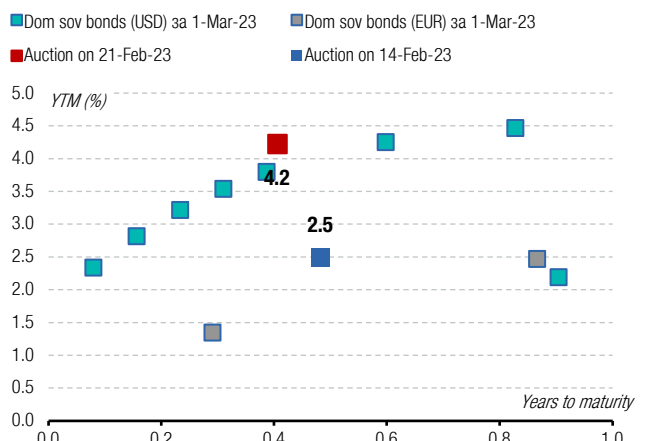
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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