

Bond Market Insight

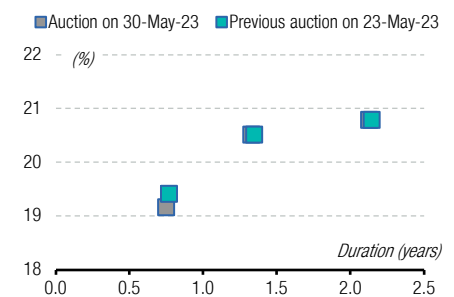
Hryvnia investments regain popularity

Comment on government bond placement

WEDNESDAY, 31 MAY 2023

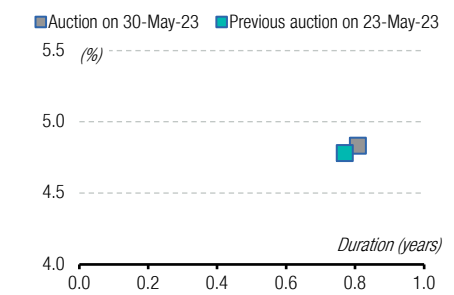
Yesterday, the Ministry of Finance increased borrowings in local currency, and, after the last few weeks, they were again larger than borrowings in hard currency. The MoF offered most of the same bond issues as last week, replacing only FX-denominated paper.

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



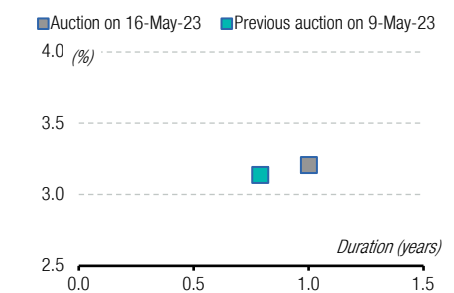
Source: Ministry of Finance of Ukraine, ICU.

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 freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000226450	16.00	SA	13-Mar-24	5,547,997	1,017.00	5,642.29	5,548.00	19.16	15,933.42
UA4000222152	12.70	SA	30-Oct-24	1,000,000	928.27	928.27	1,000.00	20.51	20,676.36
UA4000227490	19.75	SA	18-Feb-26	644,968	1,052.02	678.52	644.97	20.79	4,686.77
Total UAH				7,192,965		7,249.08	7,192.97		41,296.55
UA4000227409	0.00	@Mty	21-Mar-24	114,887	962.40	4,083.44	4,242.96	4.83	9,689.15
Total USD				114,887		4,083.44	4,242.96		9,689.15

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 36.93/USD, 40.03/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The 10-month UAH military bills received the most demand, bringing half of yesterday's proceeds to the budget. There were 36 bids for UAH6bn, but the Ministry of Finance, as to be expected, rejected one bid that required a rate increase of 50bp to 19% and satisfied the remaining for UAH5.5bn (par value). While last week the majority of demand was unanimous, yesterday, a considerable amount was at the rate of 18%. Therefore, the weighted average rate slid by 23bp to 18.27%, with the maximum interest rate remaining unchanged at 18.5%.

The Ministry of Finance offered 1.5-year UAH bills in the amount of UAH1bn. But it did not cause excessive competition. Total demand exceeded supply by only 18% and came in 25 bids, with a small amount of non-competitive demand and unanimous competitive demand at a 19.5% interest rate. So, the non-competitive bids were fully satisfied, and the competitive demand was satisfied within the rest of the offering in proportion to bids' volume. The budget received only UAH928m from this issue.

Demand for "reserve" paper was expectedly small since banks already have used most of their limit to cover part of the required reserves with bonds, and the new issue that the MoF sold yesterday can only be used by banks from June 11. Therefore, demand was insignificant, less than 10% of the offering, and amounted to UAH645m. All 20 bids were satisfied at a rate of 19.75%.

In this auction, the Ministry of Finance replaced the FX-denominated paper sold last

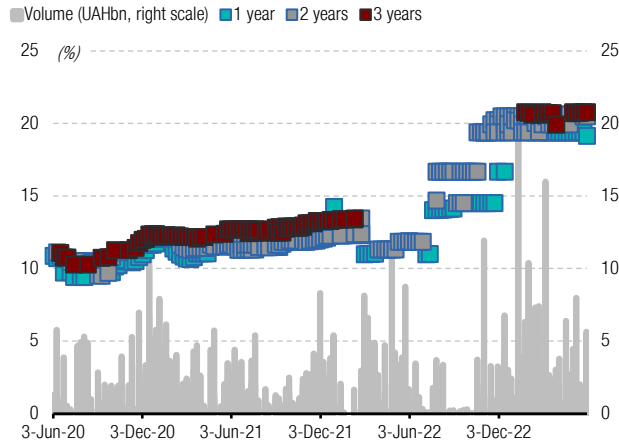
week with paper sold at the beginning of May with a longer maturity. The paper that was offered yesterday was sold by the MoF at the beginning of May with a rate of 4.85%, so most of the bids were with rates at this level. All 72 bids were fully satisfied, and the budget received US\$110m.

The Ministry of Finance attracted almost UAH70bn in May, the largest monthly amount YTD. With such large proceeds, the Ministry refinanced all domestic debt redemptions in May and accumulated some funds for repayments in June.

Appendix: Yields-to-maturity, repayments

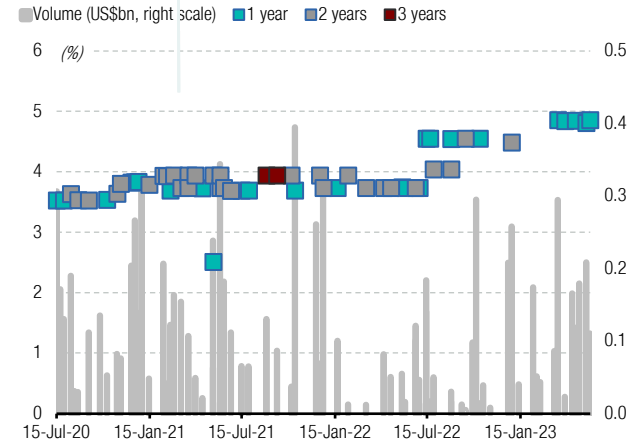
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

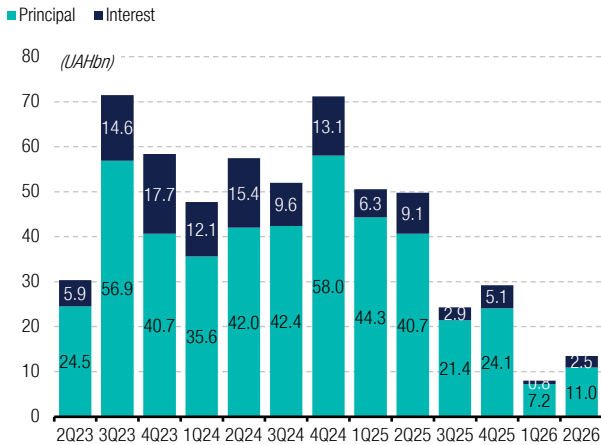
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

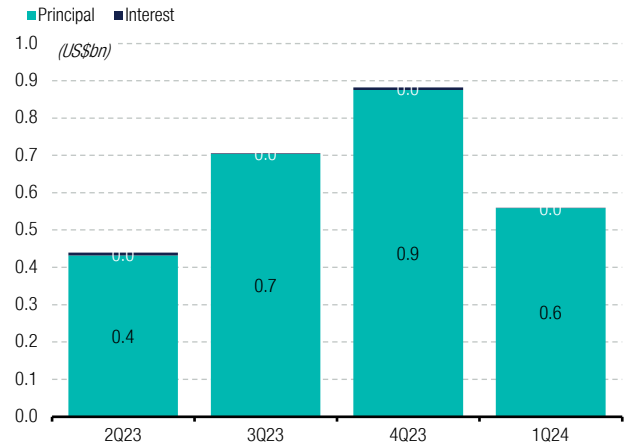
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

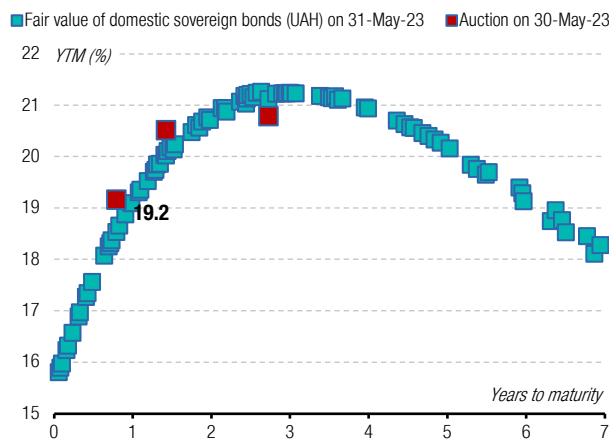
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

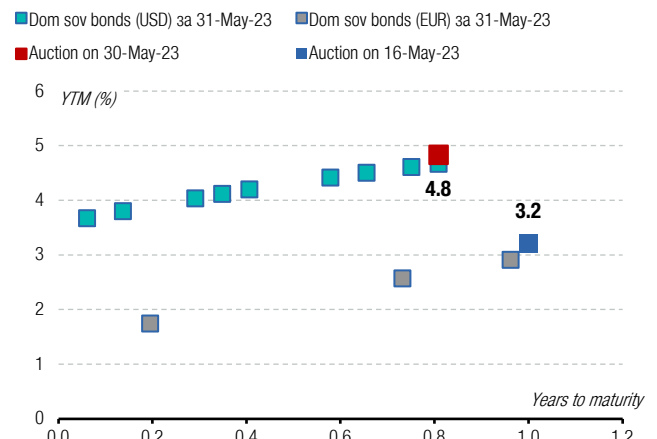
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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