

Bond Market Insight

Minor changes in interest rates

Comment on government bond placement

WEDNESDAY, 11 OCTOBER 2023

Yesterday's auction provided the state budget with almost UAH21bn, which was equally divided between borrowings in local and hard currency.

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
UA4000187207	15.50	SA	2-Oct-24	1,305,591	985.20	1,286.27	1,305.59	18.36	12,503.53
UA4000228449	18.31	SA	18-Jun-25	4,000,000	1,054.84	4,219.35	4,000.00	19.25	17,220.52
UA4000228811	19.19	SA	30-Sep-26	5,000,000	1,003.53	5,017.66	5,000.00	20.17	5,000.00
Total UAH				10,305,591	10,523.27	10,305.59			34,724.05
UA4000228829	0.00	@Mty	10-Oct-24	300,000	954.50	10,476.29	10,975.74	4.77	10,975.74
Total USD				300,000	10,476.29	10,975.74			10,975.74

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 36.59/USD, 39.37/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand for 12-month bills fell to UAH2bn. However, the Ministry of Finance rejected one bid for UAH710m with a rate of 17.6%, keeping the cut-off rate at 17.55%, and reduced the weighted average rate by 1bp to 17.54%.

For military bills maturing in June 2025, the Ministry accepted all bids, but not in full, as demand was greater than supply. Non-competitive bids and competitive bids with rates below the maximum are satisfied in full, while bids at the maximum rate were partially satisfied within the cap and in proportion to the size of the bid.

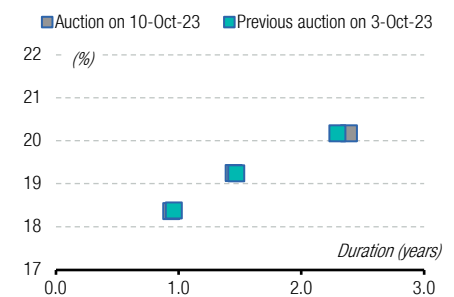
Demand for new three-year notes significantly exceeded supply, so both non-competitive and competitive demand were satisfied by the "residual" method. The MoF used UAH1.5bn of bonds (30% of the cap) to satisfy non-competitive bids in proportion to their size. Competitive bids with rates lower than 19.19% were accepted in full, and competitive bids at 19.19% in proportion to the size of the bid within the cap. The MoF rejected six bids at 19.2%.

Demand for USD-denominated bills was greater than supply. The Ministry accepted all 111 applications, although some of them partially. The cut-off rate did not change, 4.8%, and the weighted average decreased by 1bp to 4.78%.

The total amount of funds raised for the budget was the largest in almost four months, mainly due to a higher premium for the tenor compared with NBU CDs, as well as the desire of investors to reinvest FX funds from last week's redemption in new instruments. At the same time, auction participants are in no hurry to compete and mainly they submitted bids with maximum rates or close to them.

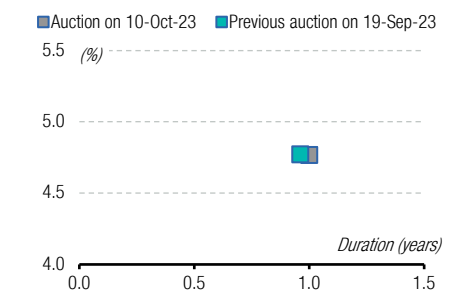
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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



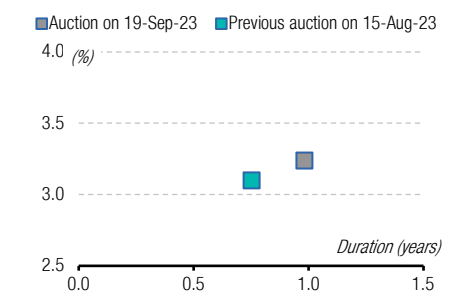
Source: Ministry of Finance of Ukraine, ICU.

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

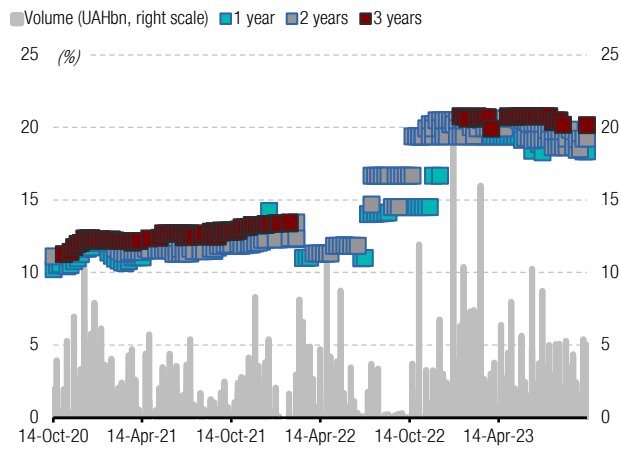


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

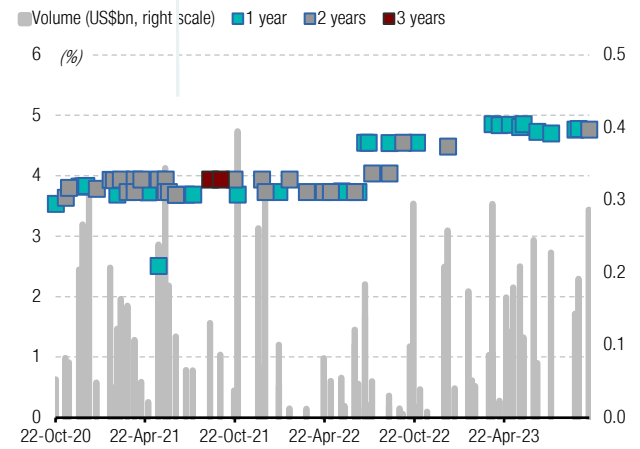
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

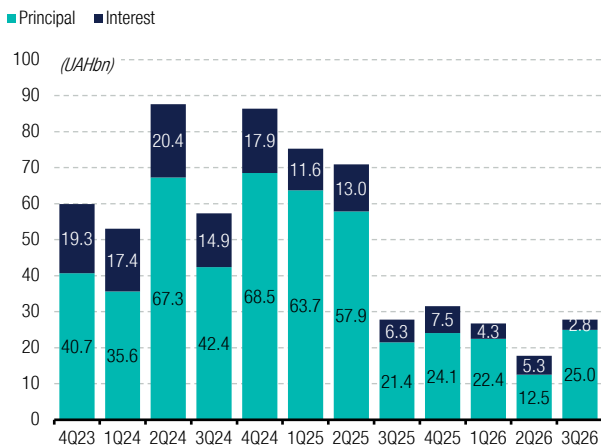
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

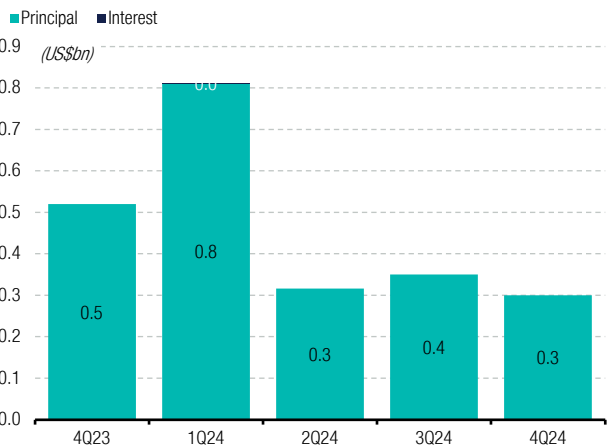
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

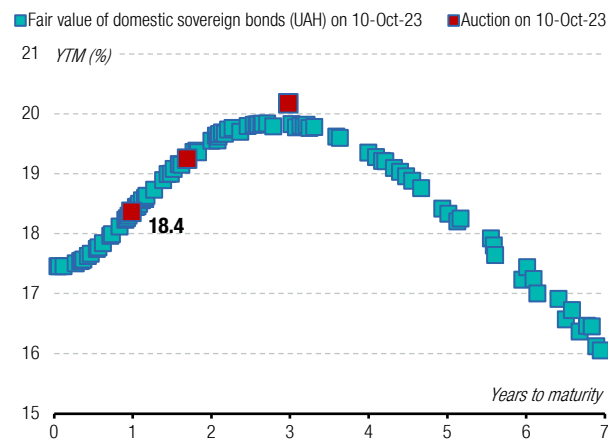
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

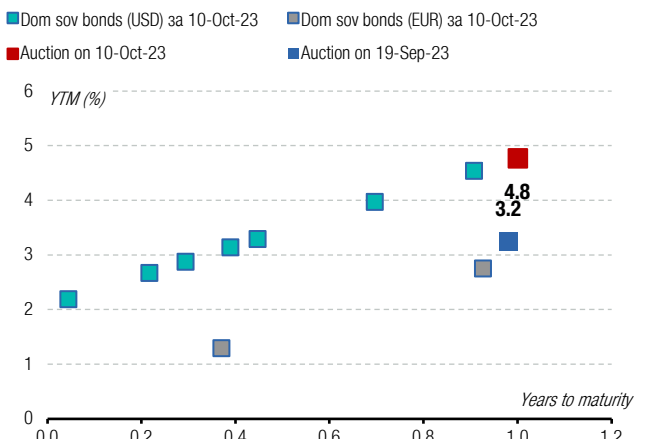
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

This page is intentionally left blank.



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, CFA

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

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

