

Bond Market Insight

FX-denominated bills support state budget

Comment on government bond placement

WEDNESDAY, 24 JANUARY 2024

Yesterday, the Ministry of Finance raised UAH6bn for the budget, mainly in 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
UA4000229470	0.00	@Mty	20-Nov-24	329,417	878.32	289.33	329.42	16.80	15,439.76
UA4000229264	17.80	SA	15-Oct-25	1,566,030	1,049.87	1,644.13	1,566.03	18.43	17,168.78
UA4000229116	18.87	SA	24-Feb-27	242,399	1,083.99	262.76	242.40	19.41	19,144.10
Total UAH				2,137,846		2,196.22	2,137.85		51,752.65
UA4000230106	4.65	SA	20-Mar-25	100,000	1,016.07	3,807.69	3,747.48	4.70	3,747.48
Total USD				100,000		3,807.69	3,747.48		3,747.48

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 37.47/USD, 41.22/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

UAH securities received modest demand yesterday. MoF received 25 bids for the 10-month instrument for UAH0.3bn, a third of what was bid for last week. Demand for 1.5-year paper more than halved to UAH1.6bn. At the same time, the MoF received 12 bids for three-year "reserve" notes for only UAH0.2bn – one-sixth of what was bid for last week. Almost all demand was in non-competitive bids (satisfied at the weighted average rate).

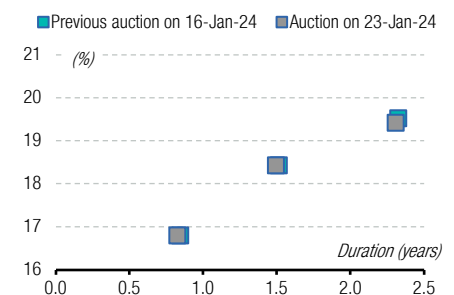
Demand was mainly unanimous. The Ministry fully satisfied all bids for 10-month and 1.5-year bills without changes in interest rates. For the three-year instrument, the MoF rejected only one bid for UAH0.4m, reducing the cut-off rate by 10bp to 18.5%.

Demand was significantly greater than supply for FX-denominated bills. However, it was similar to the auction two weeks ago. The highest bid rate was 5%, and the lowest was 4.59%. So, the Ministry of Finance had enough room to manoeuvre, but sold US\$100m worth of the bills. The MoF filled 30% of the volume under non-competitive bids and the remaining 70% under competitive bids. Some of competitive bids were partially satisfied within the cap after satisfying non-competitive demand and bids with rates lower than the cut-off rate.

Thus, the Ministry of Finance, in general, has reduced its fundraising by only by about a third compared with the previous week. Still, it is currently not raising much, even in the absence of international aid. At the same time, the reduction of rates on "reserve" notes signals that the Ministry seeks to reduce further the cost of servicing the domestic debt, so it will not refuse to lower rates under favourable conditions.

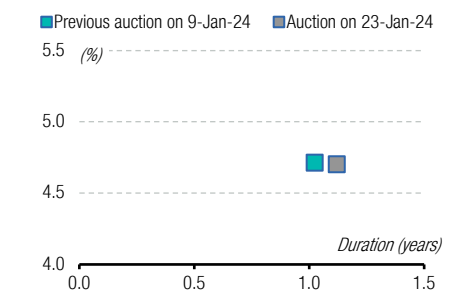
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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



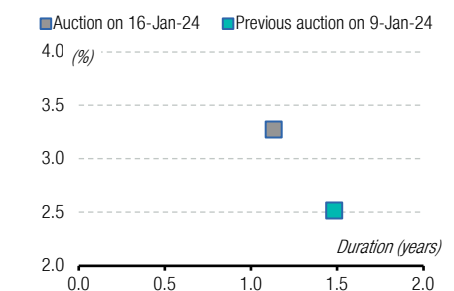
Source: Ministry of Finance of Ukraine, ICU.

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

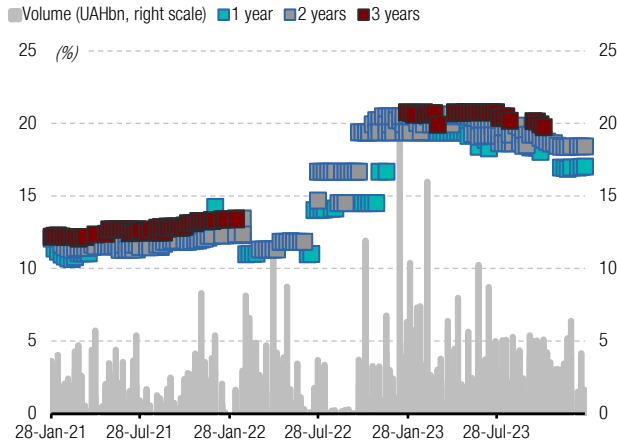


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

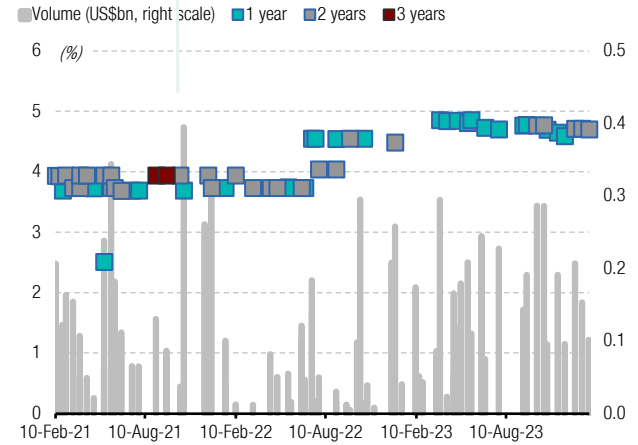
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

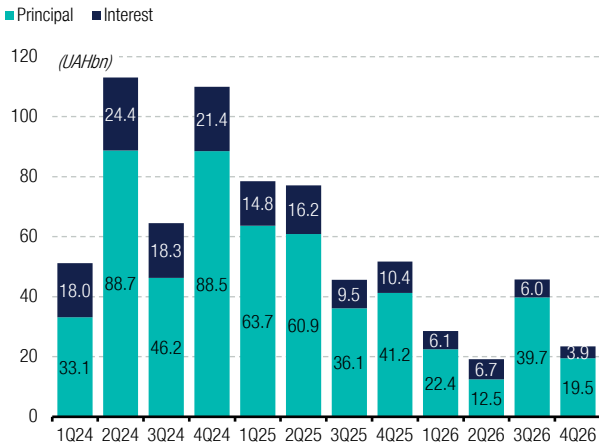
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

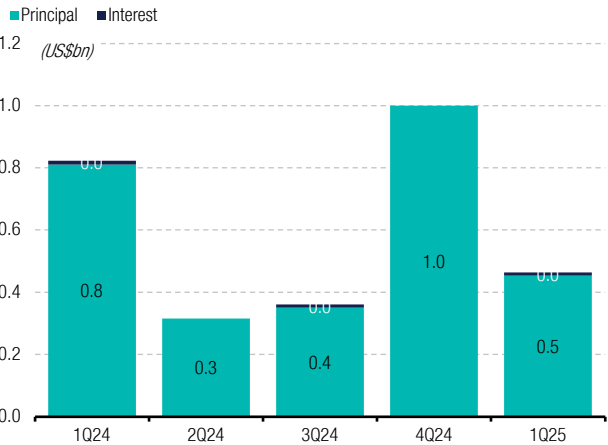
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

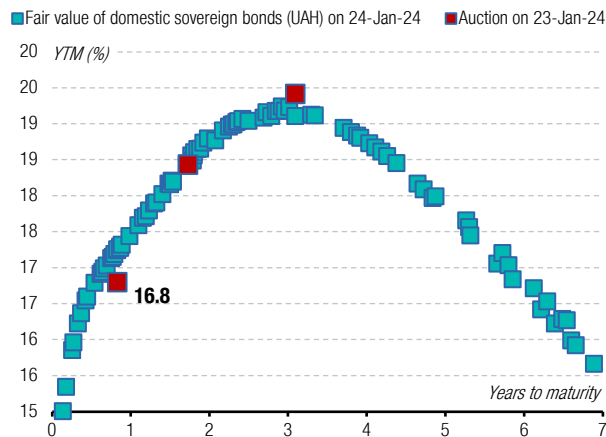
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

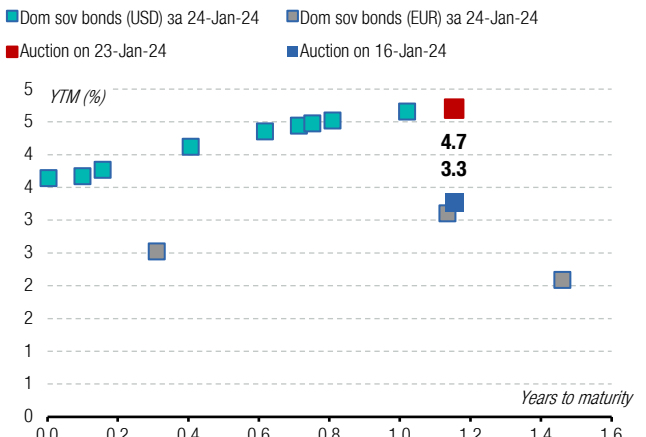
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

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

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.

