

Bond Market Insight

MoF breaks borrowing record highs

Comment on government bond placement

WEDNESDAY, 9 OCTOBER 2024

Yesterday, the Ministry of Finance raised UAH30.3bn for the state budget, mainly from UAH bonds. This result is slightly below the June 2023 auction, when most proceeds came from FX-denominated bonds.

Four out of six UAH bonds were oversubscribed, and only 12-month and 3.5-year bonds saw demand below the UAH5bn cap.

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
UA4000232599	14.65	@Mty	1-Oct-25	2,396,547	1,002.72	2,403.07	2,396.55	15.23	7,644.96
UA4000232888	15.10	SA	20-May-26	5,000,000	1,055.52	5,277.59	5,000.00	15.88	5,130.85
UA4000232896	15.60	SA	28-Oct-26	5,000,000	1,077.28	5,386.40	5,000.00	15.72	10,000.00
UA4000232904	16.10	SA	12-May-27	5,000,000	1,061.45	5,307.25	5,000.00	16.96	5,144.31
UA4000232912	16.59	SA	29-Sep-27	5,000,000	1,014.32	5,071.60	5,000.00	16.80	10,000.00
UA4000231625	16.80	SA	9-Feb-28	618,773	1,025.13	634.32	618.77	17.56	11,859.56
Total UAH				23,015,320		24,080.24	23,015.32		49,779.68
UA4000232821	4.66	SA	9-Oct-25	150,000	1,000.07	6,182.69	6,182.27	7.23	12,364.53
Total USD				150,000	6,182.69	6,182.27	12,364.53		

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 41.22/USD, 46.13/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

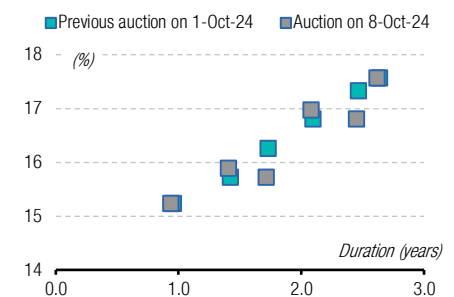
Twelve-month bills received 23 bids, amounting to UAH2.4bn, with interest rates similar to last week. The longest, 3.5-year notes, received 15 bids, amounting to UAH0.6bn at a 16.8% rate. So, the MoF fully accepted all these bids.

Huge demand was received for 1.5 and 2.5-year military bills. It was slightly above the cap, but most bids had rates 15bp above last week. Therefore, the MoF had to choose to reject most of the demand or increase cut-off interest rates. The Ministry decided to receive more funds at 15.25% and 16.25% cut-off rates.

The most interesting issues were two and three-year bonds, which NBU can allow banks to use to cover reserves. Two-year bills were 6x oversubscribed, and three-year notes were oversubscribed almost 7x.

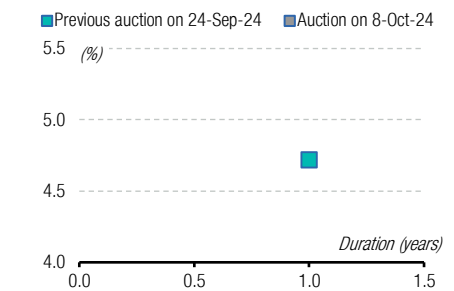
The MoF accepted only 12 out of 25 bids for the two-year paper and 15 out of 31 for three-year notes. 30% of the cap was set up for non-competitive bids (accepted at a weighted average rate). Due to significant oversubscription, the cut-off rate slid

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



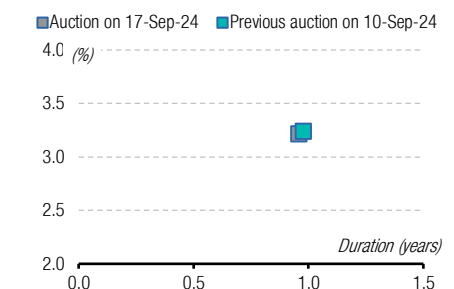
Source: Ministry of Finance of Ukraine, ICU.

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.

by 50bp to 15.1% for two-year bills and by 49bp to 16.1% for three-year notes.

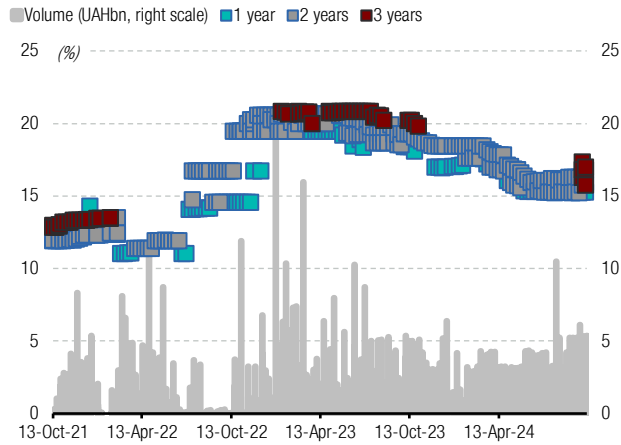
Yesterday, the MoF received 20% of US\$150m of funds from FX-denominated bills without material changes in interest rates.

The MoF set a new record high in borrowings. The main support came from new reserve requirements, which will impact demand in the coming weeks. Interest rates on new potential "reserve" bonds may decline, while an increase in rates for military bills may be a one-day event.

Appendix: Yields-to-maturity, repayments

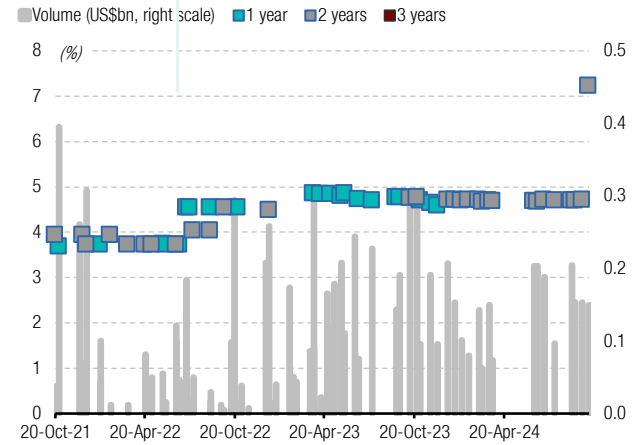
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

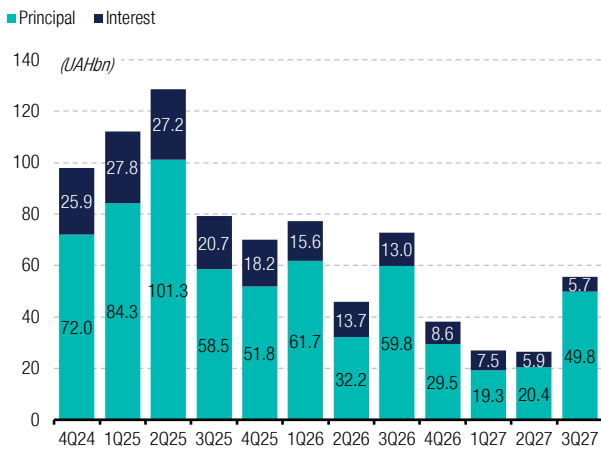
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

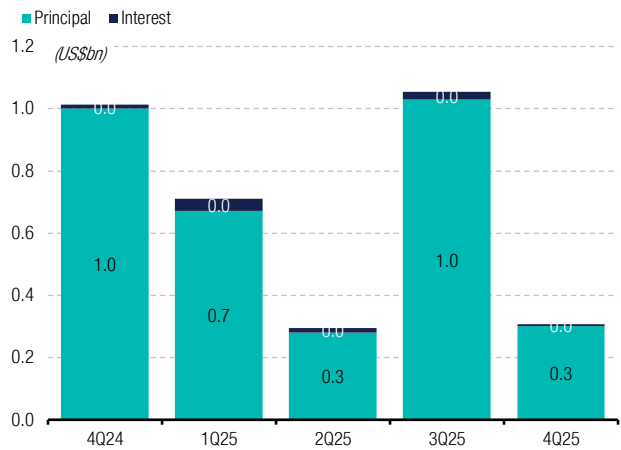
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

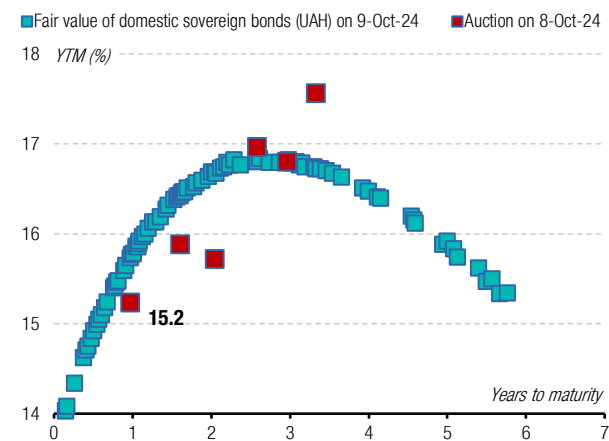
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

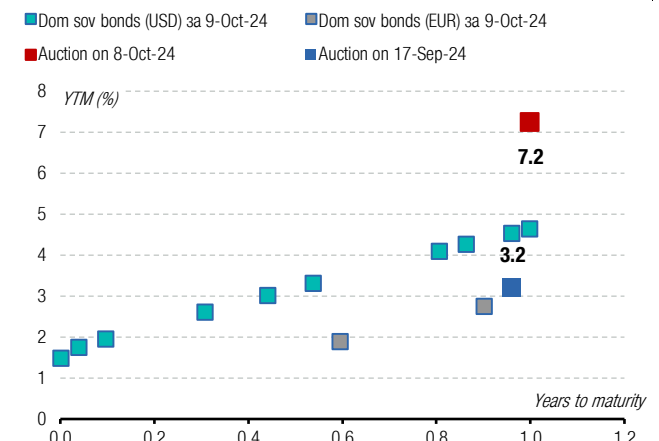
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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