

Bond Market Insight

Demand for domestic bonds Increases

Comment on government bond placement

WEDNESDAY, 23 OCTOBER 2024

Yesterday, the MoF received UAH25.8bn of budget proceeds due to increased demand for all UAH bonds and a larger offering of USD-denominated bills.

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
UA4000232599	14.65	@Mty	1-Oct-25	5,000,000	1,008.19	5,040.96	5,000.00	15.23	15,122.54
UA4000232888	15.10	SA	20-May-26	5,000,000	1,061.49	5,307.47	5,000.00	15.88	15,130.85
UA4000232904	16.10	SA	12-May-27	5,000,000	1,068.02	5,340.12	5,000.00	16.95	15,144.31
UA4000231625	16.80	SA	9-Feb-28	1,651,858	1,031.51	1,703.91	1,651.86	17.56	13,903.11
Total UAH				16,651,858	17,392.46	16,651.86			59,300.81
UA4000233134	4.61	SA	20-Nov-25	200,000	1,019.50	8,411.75	8,250.84	4.66	8,250.84
Total USD				200,000	8,411.75	8,250.84			8,250.84

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 41.25/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 military bills received more significant demand than last week with almost the same interest rates in bids, 14.65%, so did not require a cut-off rate increase. Therefore, the MoF sold the planned UAH5bn of bonds without any changes in interest rates.

Interest rates remained unchanged for a 1.5-year military issue, too. Bids were mostly with a 15.25% interest rate, as a few weeks before. Total demand was UAH22bn vs. a UAH5bn cap.

Only the 2.5-year military securities saw a large part of demand below last week's cut-off rate, causing the weighted average rate to edge up by 1bp to 16.24%. While the MoF accepted only one-quarter of the demand for this instrument, the cut-off rate remained unchanged at 16.25%.

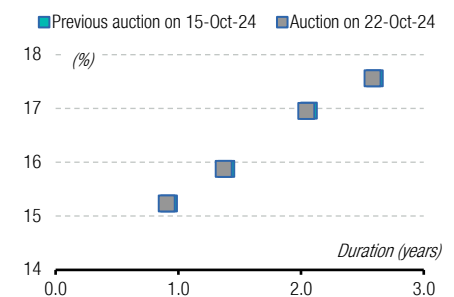
All three military bills were oversubscribed, but the MoF reported that it accepted all bids, so most of the bids were accepted partially within the cap and in proportion to the bid size.

For the first time this month, some bids for 3.5-year notes were with interest rates below the cut-off level of 16.75%. However, this demand was low without impacting the weighted average interest rate.

In addition, the MoF sold US\$200m of new 12-month FX-denominated bills. The Ministry rejected two bids that required an increase in the cut-off rate and kept it

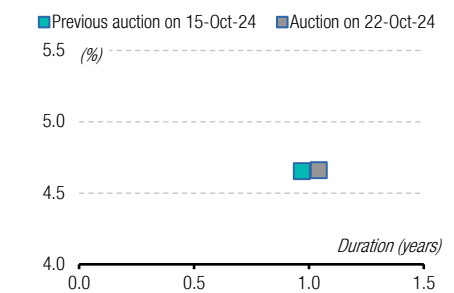
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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



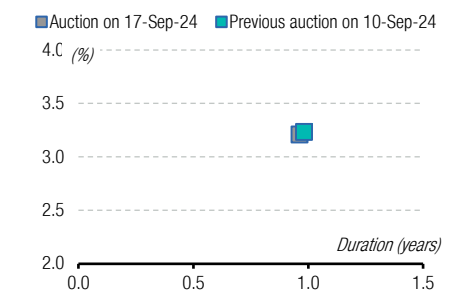
Source: Ministry of Finance of Ukraine, ICU.

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.

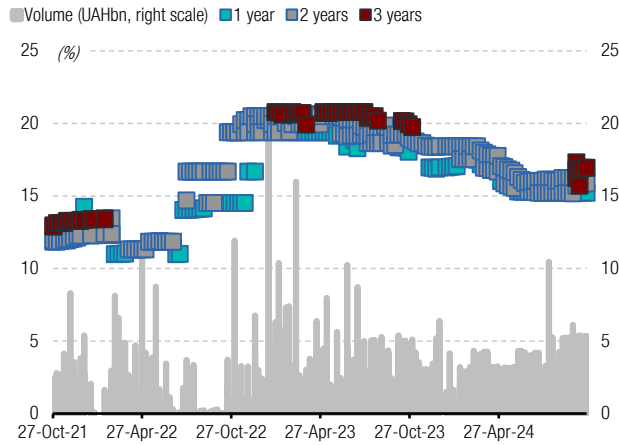
unchanged at 4.62%.

Finally, the MoF must be satisfied with this auction, which received enormous demand and budget proceeds without offering reserve bonds. Significant oversubscription for military bonds allows us to expect reserve bonds not to return this month. However, most bids have interest rates at or slightly below the cut-off level, so bond rates should stay almost unchanged soon.

Appendix: Yields-to-maturity, repayments

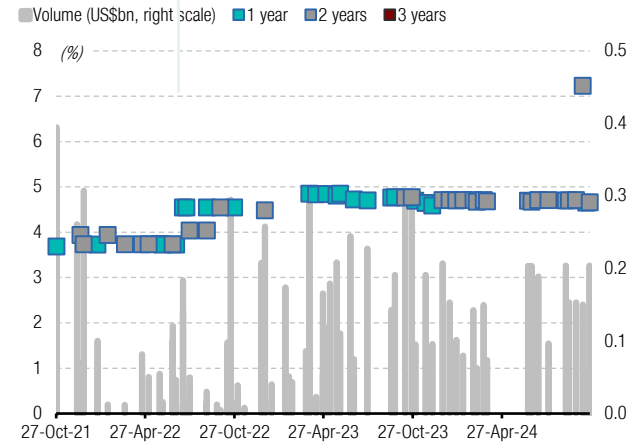
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

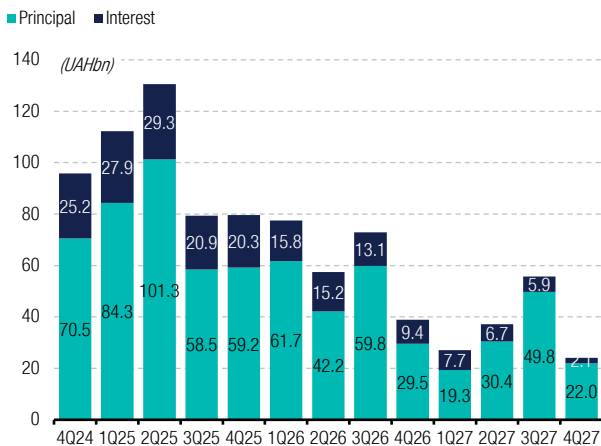
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

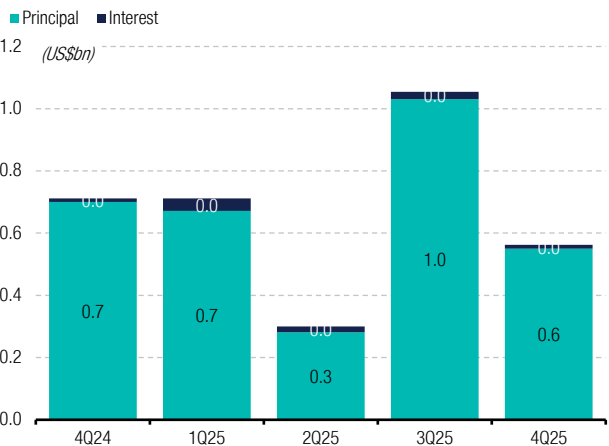
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

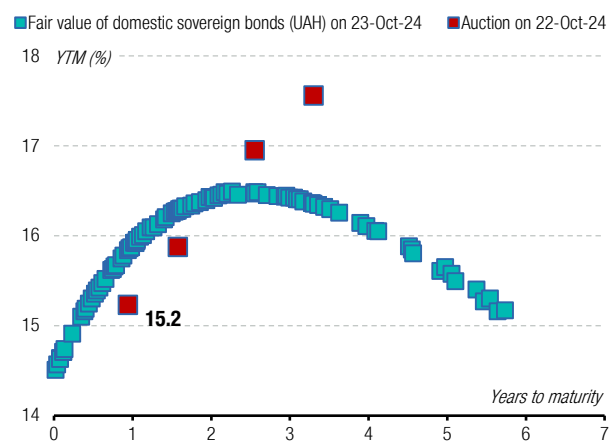
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

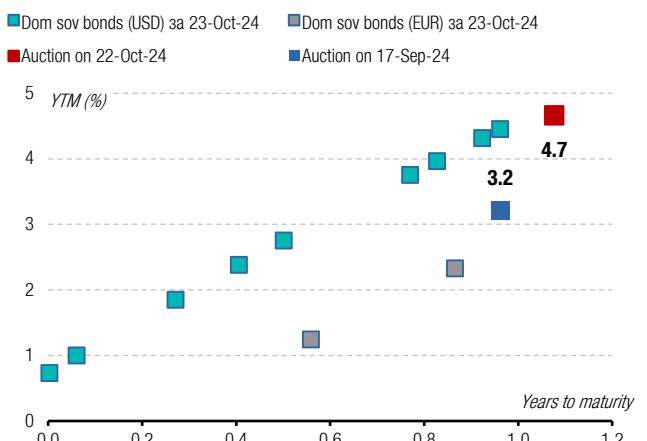
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

