

# Bond Market Insight

## Banks compete for reserve bonds

### Comment on government bond placement

WEDNESDAY, 6 NOVEMBER 2024

After a three-week break, yesterday, the MoF reintroduced reserve bonds at primary offerings and received extremely significant demand with various interest rates in bids, allowing the MoF to decrease interest rates by about 100bp.

**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000233332	15.20	SA	29-Apr-26	5,000,000	1,002.82	5,014.11	5,000.00	15.82	5,000.00
UA4000232896	15.60	SA	28-Oct-26	5,000,000	1,030.65	5,153.23	5,000.00	14.48	15,000.00
UA4000233340	16.20	SA	7-Apr-27	5,000,000	1,012.05	5,060.26	5,000.00	16.91	5,000.00
UA4000232912	16.59	SA	29-Sep-27	5,000,000	1,051.34	5,256.71	5,000.00	15.63	15,000.00
UA4000231625	16.80	SA	9-Feb-28	941,367	1,037.93	977.07	941.37	17.56	15,426.34
<b>Total UAH</b>				<b>20,941,367</b>	<b>21,461.39</b>	<b>20,941.37</b>		<b>55,426.34</b>	

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

A small surprise was that the MoF excluded 12-month bills and offered only 1.5 and 2.5-year military bills. Demand has halved from last week, but these bills remain oversubscribed. The MoF decreased cut-off and weighted-average rates for these maturities by 5bp to 15.2% and 16.2%, respectively.

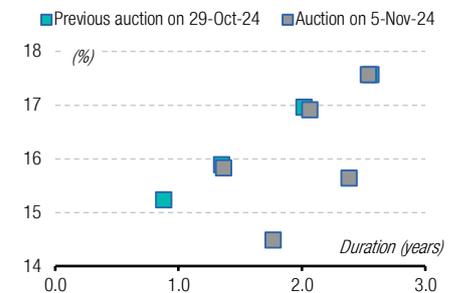
After a break and almost a month since the NBU increased bank reserve requirements, the banks scrambled for these securities, which were 9x oversubscribed.

Banks' competition to buy more bonds induced bidders to submit additional bids with lower rates, increasing demand. The lowest rate for the two-year paper fell by 161bp to 13.49% and for the three-year note by 115bp to 14.95%.

The MoF sold UAH1.5bn of each bond by non-competitive bids (satisfied at the weighted average rate), and the offered amount was exhausted at 14.19% for two-year bills (the cut-off rate fell by 91bp) and 15.09% for the three-year note (down 101bp). Weighted average rates declined to 13.95% and 15.02% by 115bp and 108bp, respectively.

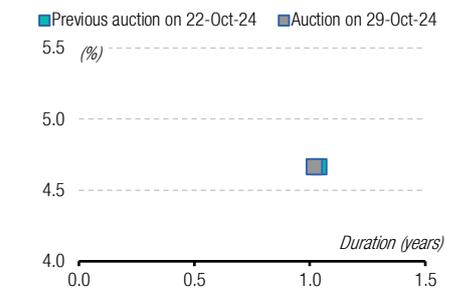
Banks' interest in reserve paper is unlikely to decrease significantly, even at such low rates. So, we will see further segmentation of the bond market into retail for small investors and the banking segment, as banks will primarily buy reserve bonds in both the primary and secondary markets. Also, given yesterday's demand for reserve bonds, the reduction of rates may continue next week.

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



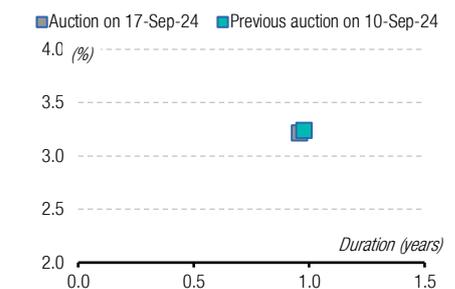
Source: Ministry of Finance of Ukraine, ICU.

### 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



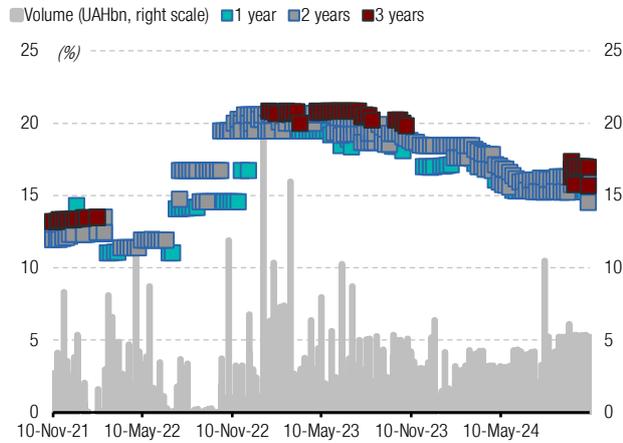
Source: Ministry of Finance of Ukraine, ICU.

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

# Appendix: Yields-to-maturity, repayments

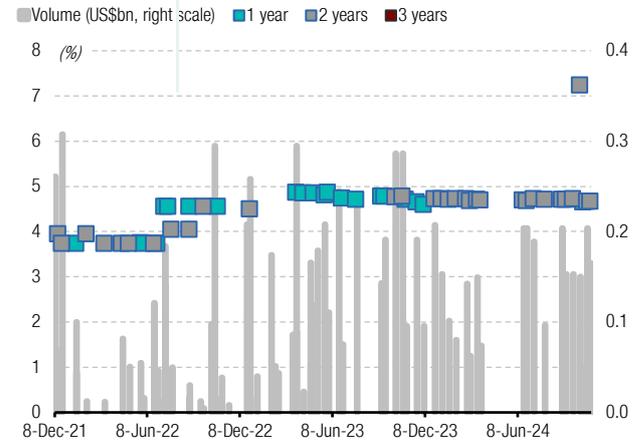
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

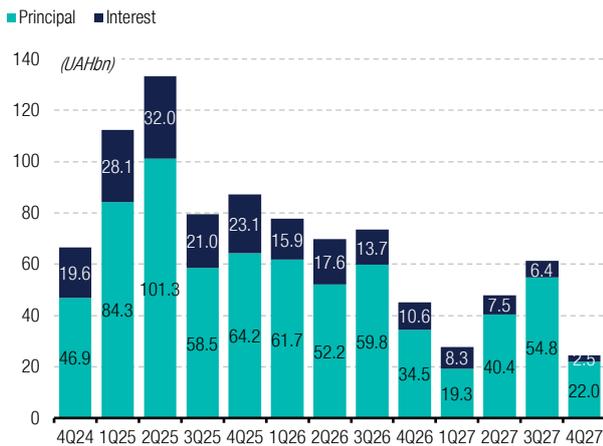
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

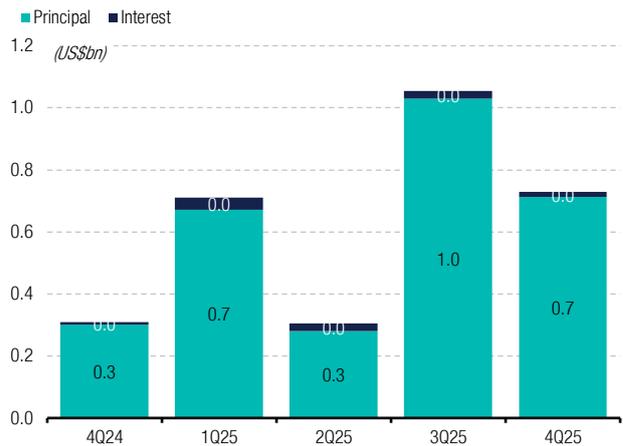
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

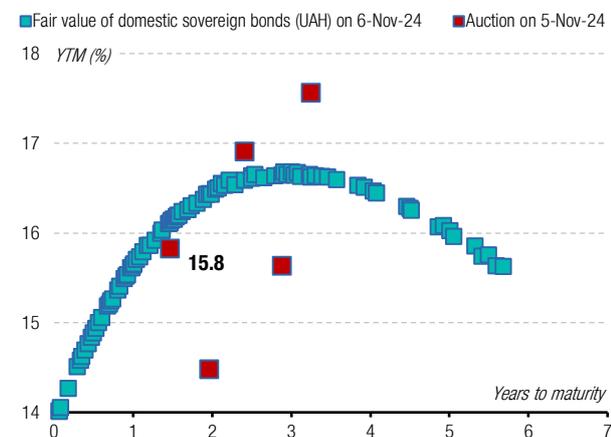
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

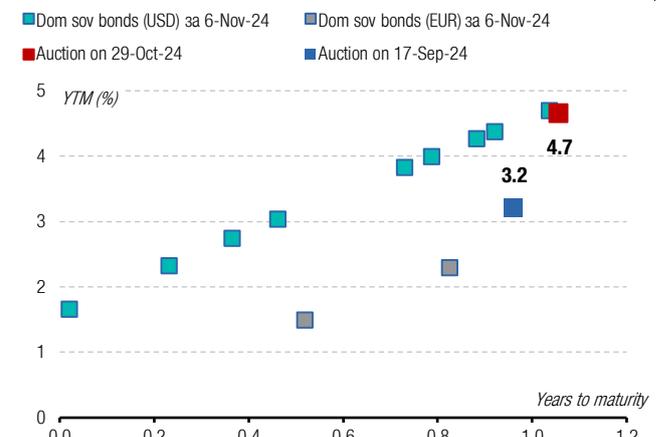
**Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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