

Bond Market Insight

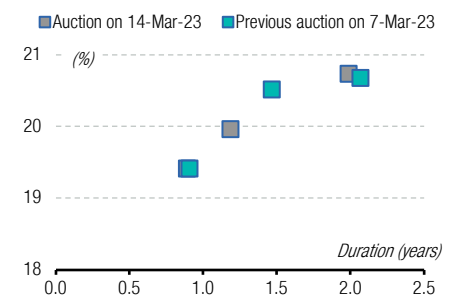
Enthusiasm for reserve bonds waning

Comment on government bond placement

Yesterday, the Ministry of Finance was able to sell only a quarter of the proposed offerings of "reserve" bonds. At the same time, neither ordinary nor military bills received much demand.

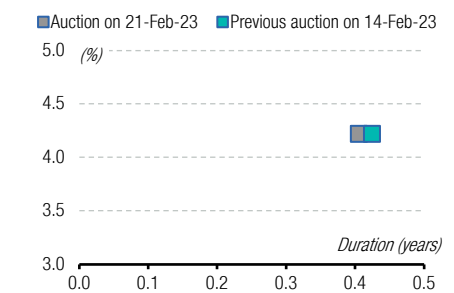
WEDNESDAY, 15 MARCH 2023

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



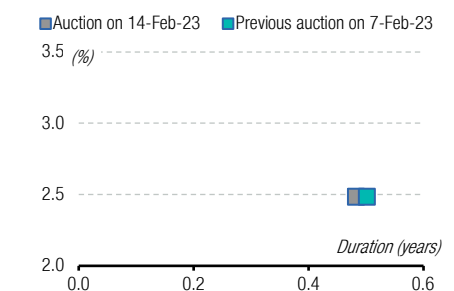
Source: Ministry of Finance of Ukraine, ICU.

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.

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
UA4000224380	12.94	SA	14-Feb-24	6,769	964.30	6.53	6.77	19.41	10,104.45
UA4000226286	14.00	SA	26-Jun-24	66,127	973.96	64.41	66.13	19.96	2,648.14
UA4000227193	19.70	SA	6-Aug-25	2,606,894	1,018.25	2,654.46	2,606.89	20.73	5,766.89
Total UAH				2,679,790		2,725.40	2,679.79		18,519.49

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 36.83/USD, 39.48/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Ordinary (non-military) 11-month paper received only UAH107m (US\$2.9m) of demand in four bids, including the usual bid for UAH100m (US\$2.7m) with a 25% interest rate. Three were accepted and almost the entire volume was in non-competitive bids.

Demand for 1.5-year securities was unanimous in 23 bids, but also small—only UAH66m (US\$1.8m). All bids were fully satisfied, and a third of the volume was sold under non-competitive demand.

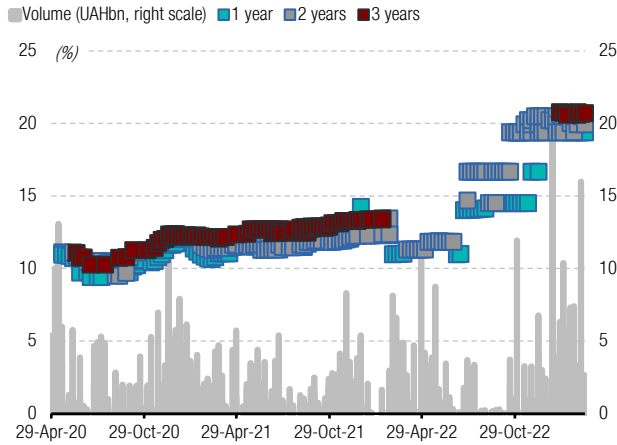
At the same time, the "reserve" note did not live up to the expectations of the MoF. The Ministry planned to sell UAH10bn (US\$273m), expecting another sensational level of demand. But yesterday, banks were in no hurry to buy bonds to cover part of the required reserves. Demand amounted to only UAH2.6bn (US\$71.3m) without considerable competition in rates: the minimum rate in the bids was only 5bp below the maximum and did not affect the weighted average interest rate.

So far, the Ministry of Finance has already placed UAH87.3bn (US\$2.4bn) of bonds that banks can use to cover reserve requirements. Banks still can purchase more than UAH20bn (US\$0.5bn) of bonds before they fill their limit. But they are in no hurry to do this, freezing funds in "reserve" securities for more than two years, since, likely, they reduce the reserves soon.

Appendix: Yields-to-maturity, repayments

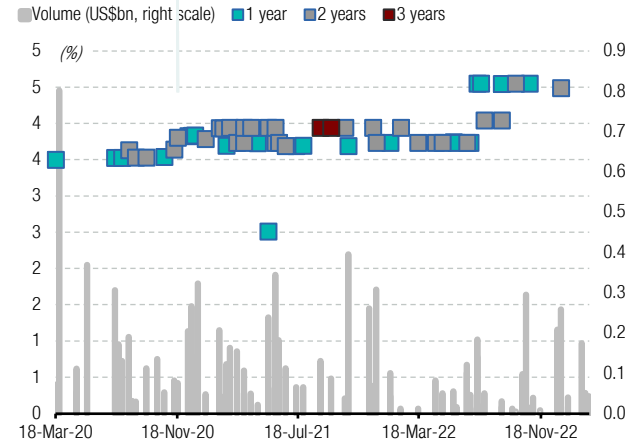
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

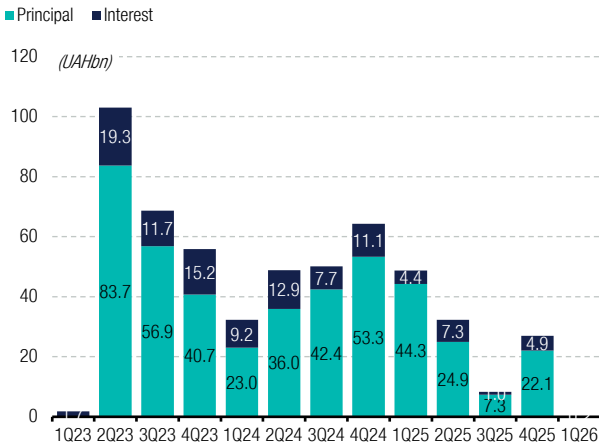
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

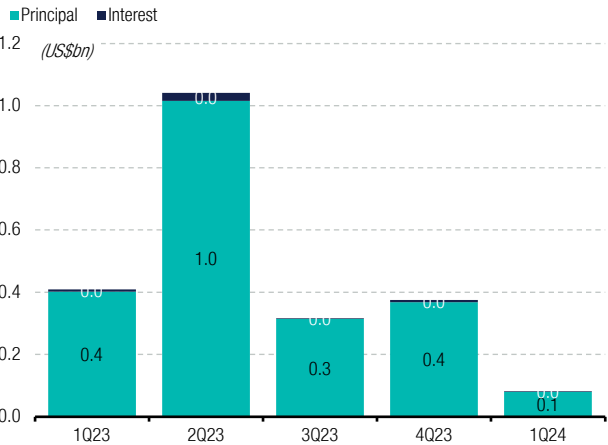
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

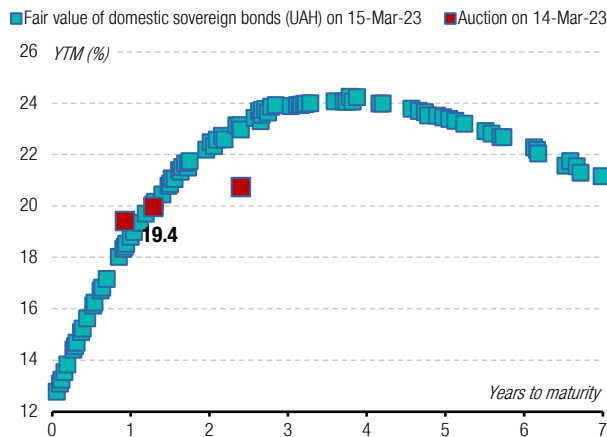
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

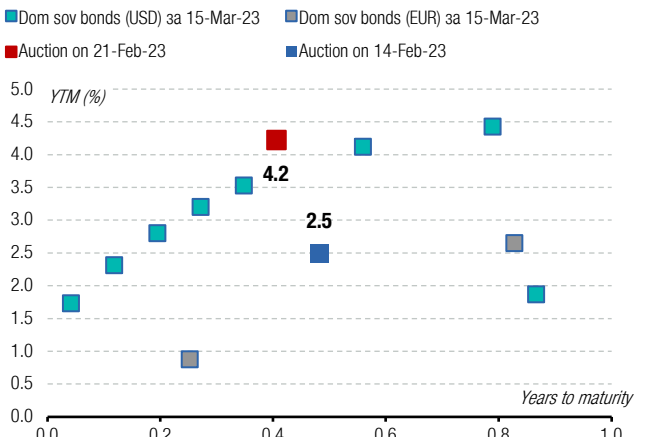
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

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