

# Bond Market Insight

## Banks continue to buy bonds for reserves

### Comment on government bond placement

Banks' need for "reserve" bonds remains, and they continue to buy new bills, but in much smaller volumes than at the beginning of the year.

WEDNESDAY, 5 APRIL 2023

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

ISIN	Coupon rate (%)	Payment frequency <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>
UA4000226450	16.00	SA	13-Mar-24	480,837	988.12	475.12	480.84	19.41	3,899.84
UA4000226286	14.00	SA	26-Jun-24	307,994	984.22	303.13	307.99	19.96	3,072.40
UA4000227185	19.60	SA	2-Apr-25	3,776,375	1,000.00	3,776.38	3,776.38	20.62	9,596.88
<b>Total UAH</b>				<b>4,565,206</b>	<b>4,554.63</b>	<b>4,565.21</b>			<b>16,569.13</b>

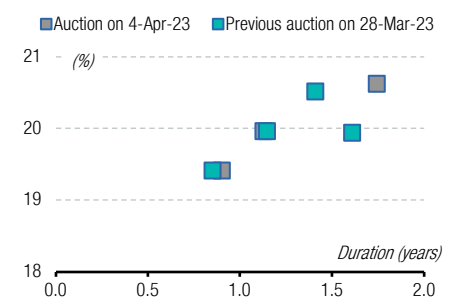
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 36.95/USD, 39.48/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

At yesterday's auction, the MoF offered only three UAH bills, two of which were military securities, and the third was a "reserve" bond maturing in April 2025. Military bills were offered with a maturity of 11 and 15 months, and the demand for them was almost unanimous. MoF rejected only one bid with a 19% interest rate for a shorter tenor, which was 50bp higher than the rates in the remaining competitive bids.

The demand for "reserve" bonds was also unanimous. Last week for this paper, there was large portion of demand with a rate of 18.7%, which caused the weighted average rate to drop to 18.98%. Yesterday, all the demand was submitted with a rate of 19.6%. But the placement volume increased slightly compared with previous weeks, up to UAH3.8bn, which increased the total volume of "reserve" bonds to UAH96bn.

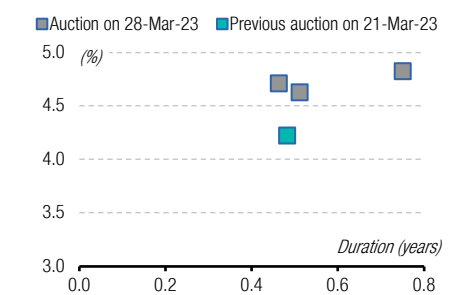
On the eve of large debt redemption, the Ministry of Finance attracted only UAH4.6bn, which is slightly more than a quarter of the UAH redemption planned for today. Taking into account that in 1Q23 net borrowings are UAH44bn, this should be fine for the budget and to meet the IMF program goals for the full refinancing of domestic debt payments.

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



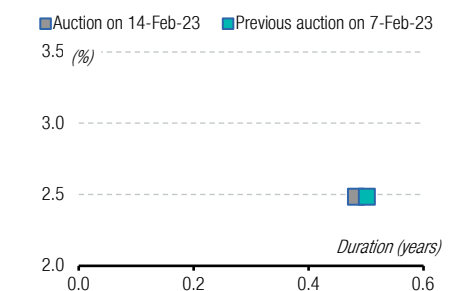
Source: Ministry of Finance of Ukraine, ICU.

### 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

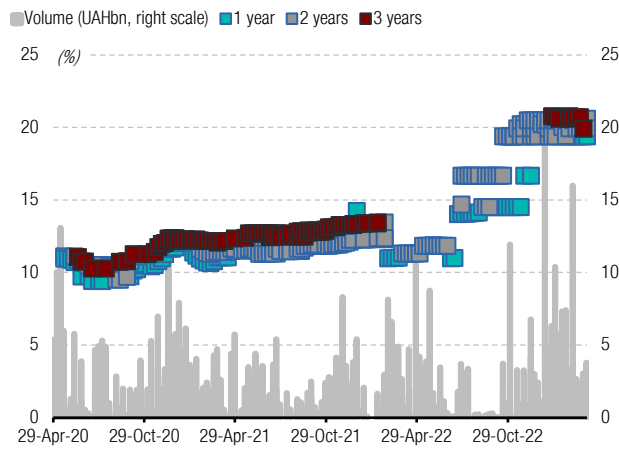


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

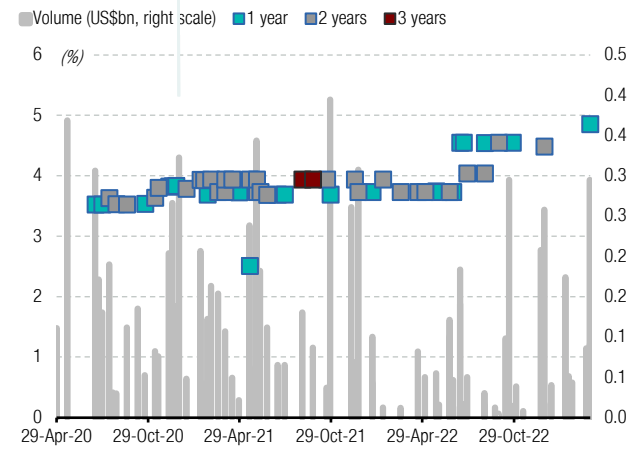
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

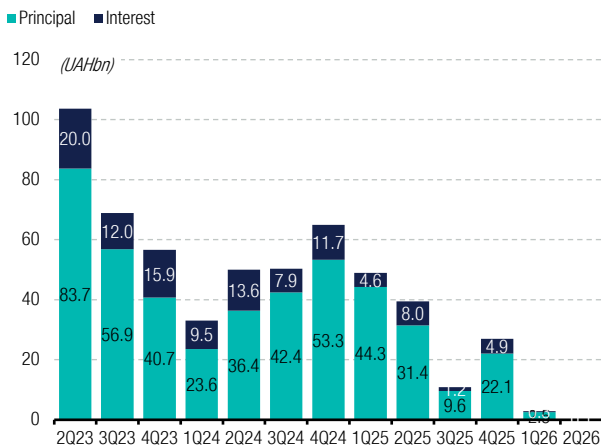
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

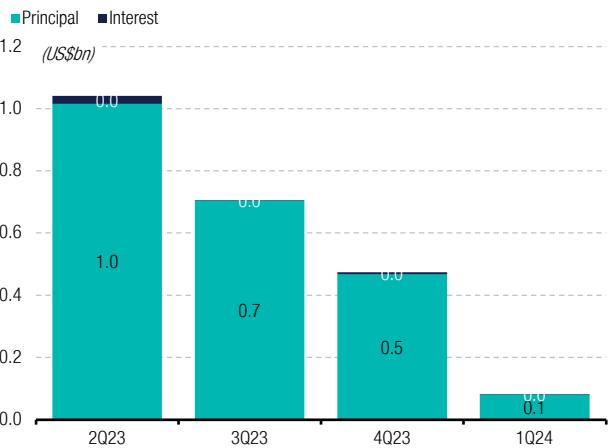
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

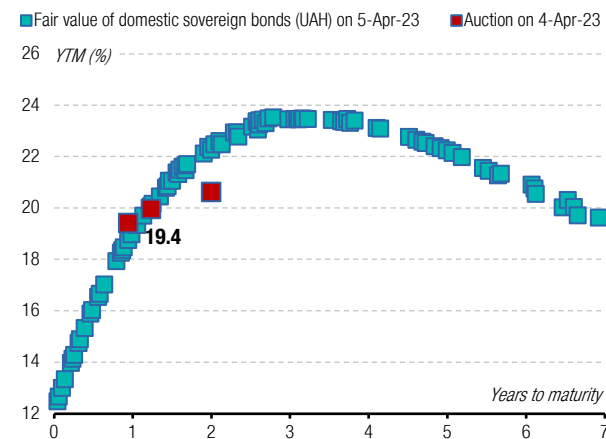
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

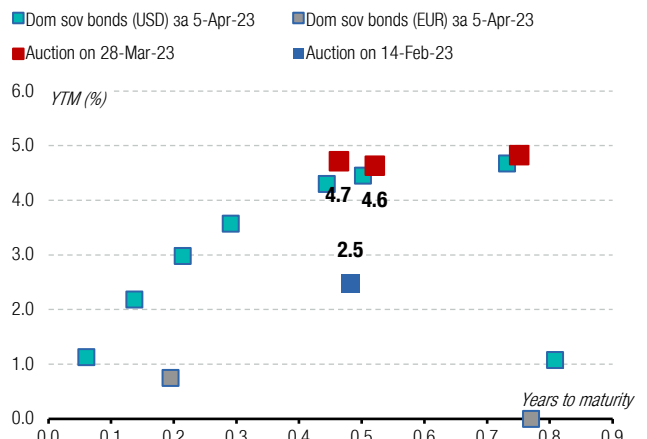
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kyiv, 01030 Ukraine  
Phone/Fax +38 044 3777040

**WEB** [www.icu.ua](http://www.icu.ua)



## RESEARCH

### Vitaliy Vavryshchuk

Head of macro research  
[vitaliy.vavryshchuk@icu.ua](mailto:vitaliy.vavryshchuk@icu.ua)

### Taras Kotovych

Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

### Dmitriy Dyachenko, CFA

Financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

### Alexander Martynenko

Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

### Mykhaylo Demkiv

Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

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