

Bond Market Insight

Reinvestment of UAH redemptions

Comment on government bond placement

WEDNESDAY, 19 APRIL 2023

Yesterday, the Ministry of Finance refinanced most of this week's redemption, mainly using "reserve" bonds. In general, the demand at the auction was concentrated in military and "reserve" securities.

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
UA4000226450	16.00	SA	13-Mar-24	1,807,470	994.87	1,798.20	1,807.47	19.41	5,803.01
UA4000226286	14.00	SA	26-Jun-24	2,226,267	991.11	2,206.48	2,226.27	19.96	6,004.73
UA4000222152	12.70	SA	30-Oct-24	492,570	971.60	478.58	492.57	20.51	16,385.87
UA4000227185	19.60	SA	2-Apr-25	6,331,791	1,007.22	6,377.51	6,331.79	20.62	16,664.09
Total UAH				10,858,098	10,860.76	10,858.10		44,857.70	

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

The MoF sold mostly "reserve" bonds, which were purchased by 15 participants for more than UAH6.3bn (par value). Most likely, they were bought by banks, which still have the opportunity and need to cover part of the required reserves with government bonds.

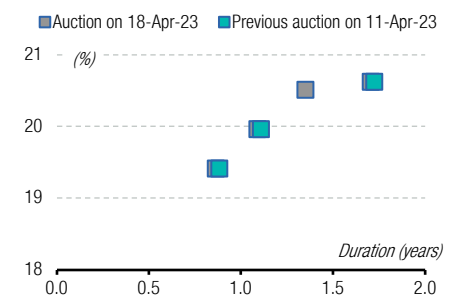
Interest in military bonds also increased. The number of bids was lower than last week, but this could have been banks and traders preparing for today's redemption to provide clients with enough bonds to reinvest this repayment.

Of the two military bills sold yesterday, the 15-month paper called "Yalta" brought more funds to the budget: UAH 2.2 billion against UAH 1.8 billion raised using paper due in March of next year. The ratio could have been different, but the MoF did not agree to raise the rate on 11-month paper by 50bp to 19%, rejecting the UAH0.5bn bid. So, the YTM's did not change this time either.

The Ministry of Finance also sold ordinary bills maturing in October 2024, but demand was insignificant, only UAH0.5bn.

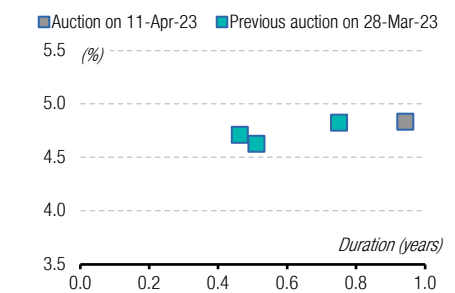
Almost UAH10.9bn was borrowed for the budget, making it possible to refinance 86% of today's repayments. Thanks to such activity, the level of refinancing has improved, and the next auctions in April will allow this indicator to improve even in the case of lower investor activity.

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



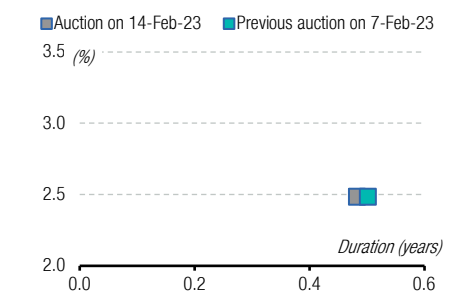
Source: Ministry of Finance of Ukraine, ICU.

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

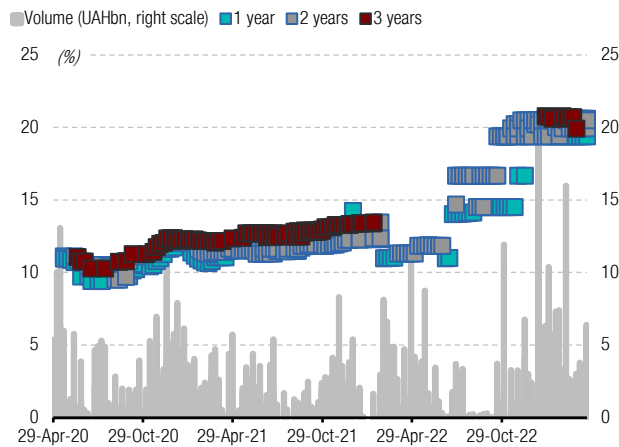


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

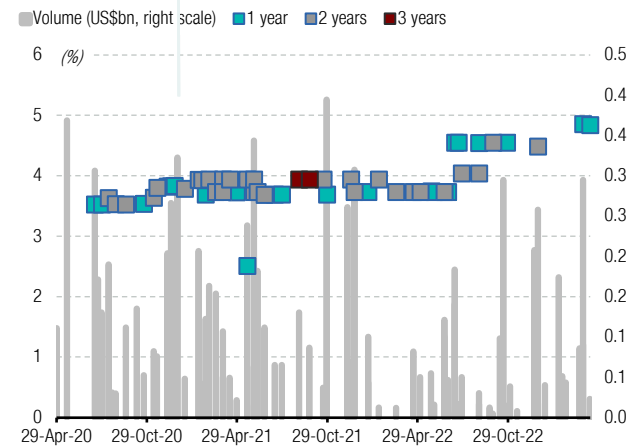
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

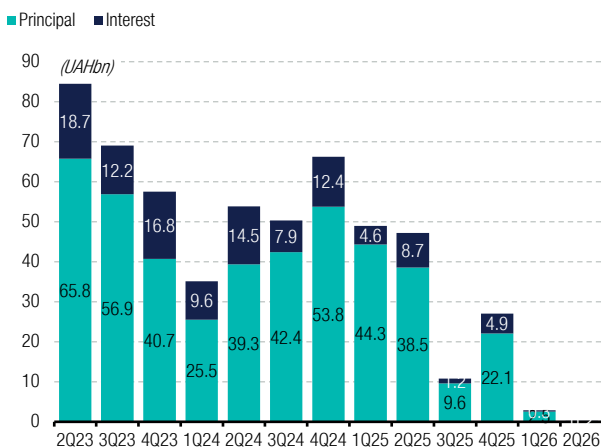
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

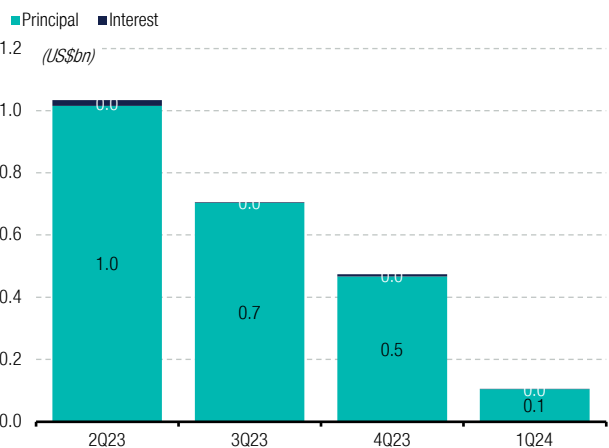
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

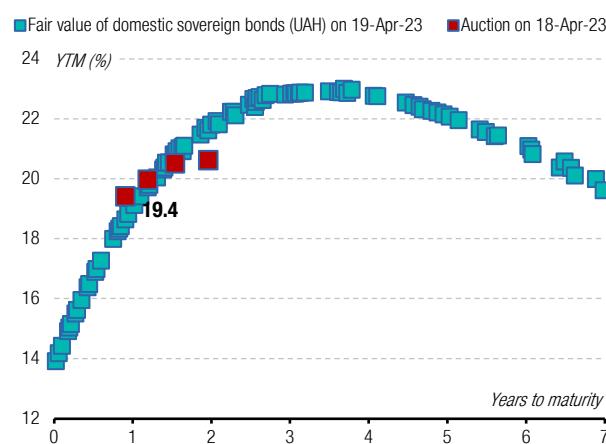
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

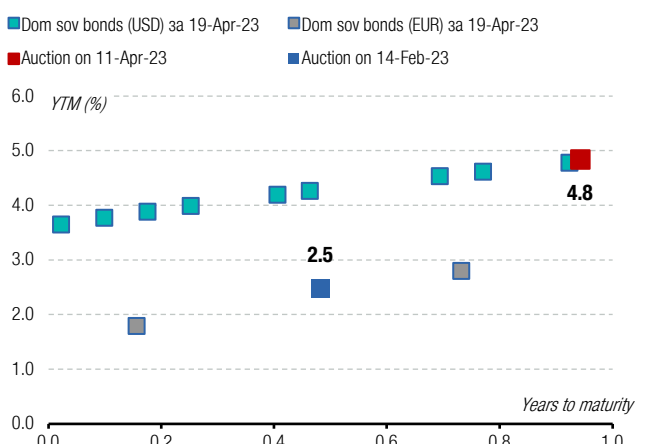
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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