

Bond Market Insight

Lower borrowings at lower rates

Comment on government bond placement

Yesterday, the Ministry of Finance lowered rates again for UAH bills, attracting one of the lowest amounts of budget proceeds YTD.

WEDNESDAY, 14 JUNE 2023

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
UA4000226286	14.00	SA	26-Jun-24	977,702	1,024.46	1,001.61	977.70	19.30	11,320.26
UA4000227656	19.50	SA	15-Jan-25	1,383,390	1,080.69	1,495.02	1,383.39	20.29	3,661.61
UA4000227490	19.75	SA	18-Feb-26	40,488	1,059.66	42.90	40.49	20.79	5,374.98
Total UAH				2,401,580	2,539.53	2,401.58			20,356.85

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 36.93/USD, 40.03/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Total demand for the auction amounted to almost UAH2.9bn (US\$78m), but the MoF did not fully satisfy it. Nine bids for over UAH0.5bn (US\$12m) were rejected. MoF sold UAH2.4bn (US\$66m) of securities (par value) and borrowed UAH2.5bn (US\$69m) for the state budget.

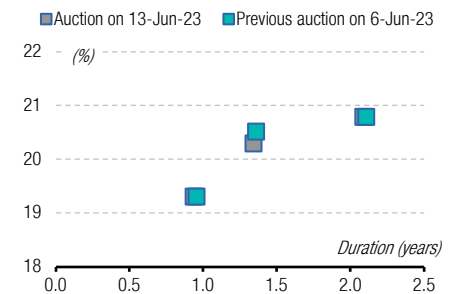
Demand for 12-month bills amounted to more than UAH1bn (US\$28m), including almost 40% in non-competitive bids. Most competitive bids were at 18.4%, similar to the previous auction. The MoF rejected only one competitive bid for UAH50m (US\$1.4m) at 18.5%. So, the MoF accepted all non-competitive and almost all competitive bids at 18.4%.

For 1.5-year paper, the Ministry of Finance received demand for almost UAH1.8bn (US\$49m), a small share of which was non-competitive. Nearly a quarter of demand was in competitive bids at 19.5%, similar to last week. However, most demand was at 19.3%, 20bp lower than last Tuesday. Therefore, more than UAH0.4bn (US\$11m) of demand in eight bids was rejected, and bonds for UAH1.4bn (US\$38m) were sold (par value) providing UAH1.5bn (US\$41m) of budget proceeds.

Again, the lowest demand was for "reserve" notes, down from UAH0.7bn (US\$18m) to UAH40m (US\$1.1m). It was in eight bids, including non-competitive, and was fully satisfied at the usual rate of 19.75%.

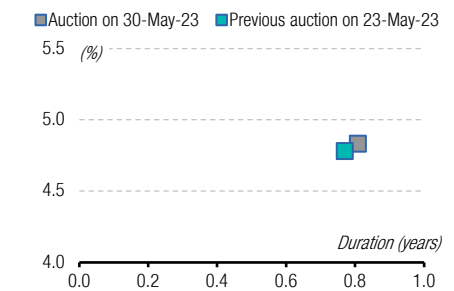
There have been no UAH bond redemptions in June so far, but there will be one next week. This reduces major players' interest in new placements that they use to reinvest the funds they receive. Coupon payment terms are not attractive for foreigners, as

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



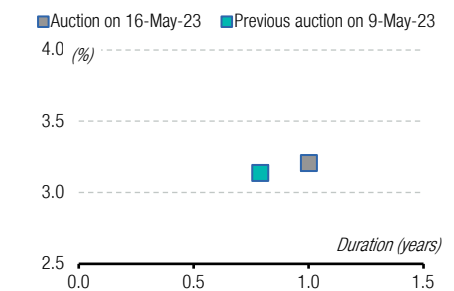
Source: Ministry of Finance of Ukraine, ICU.

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.

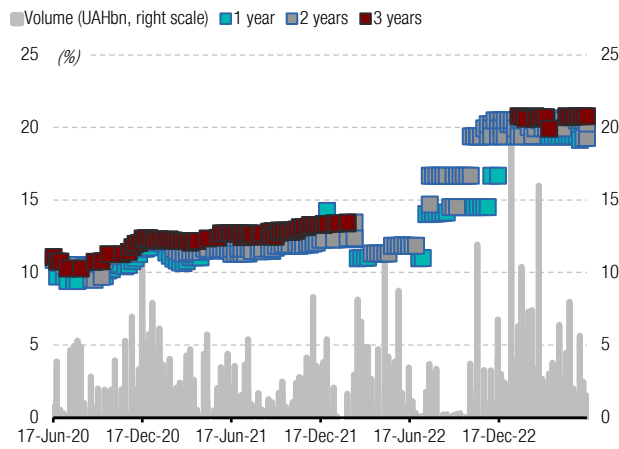
they will not provide an opportunity to repatriate funds in the next three or four months.

At the same time, some investors were ready to purchase 1.5-year bonds at a lower rate, which led to a decrease in rates for UAH securities for the second week in a row. Among them, foreigners could build a portfolio in advance to receive payments and repatriate them during the winter. After the NBU Board meeting on monetary policy tomorrow where a decision on the key policy rate will be made, it will be seen whether recent reduction in bond interest rates will become a trend or if it was a one-off event.

Appendix: Yields-to-maturity, repayments

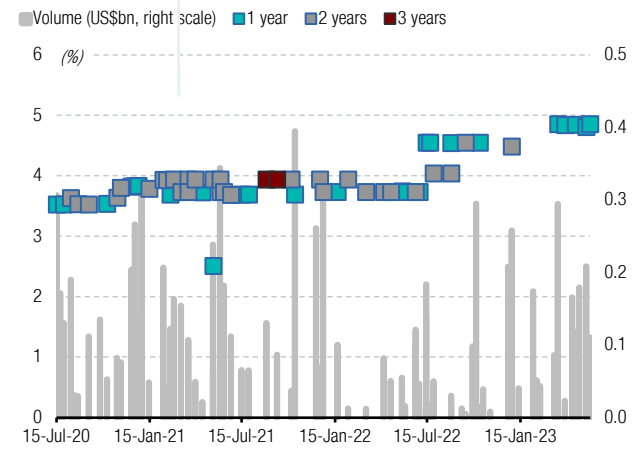
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

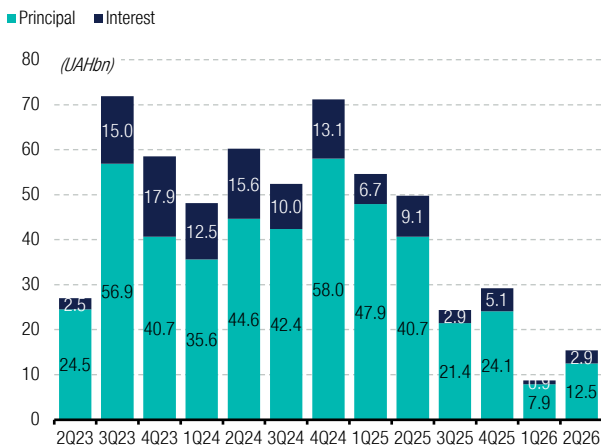
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

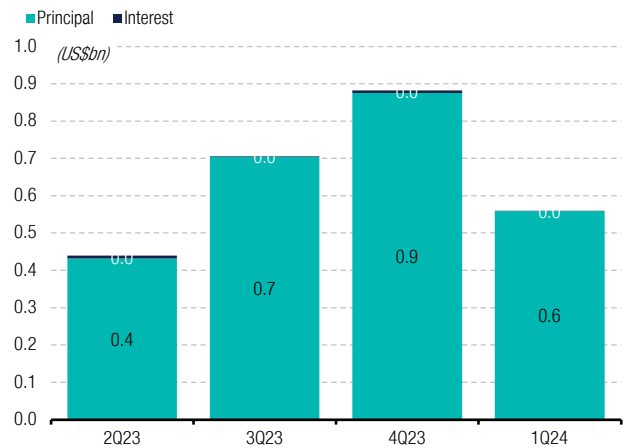
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

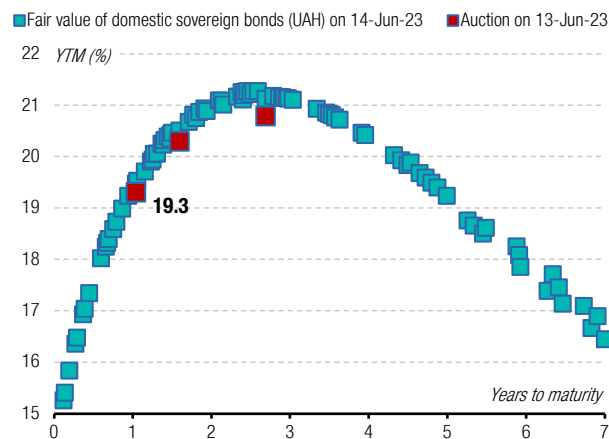
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

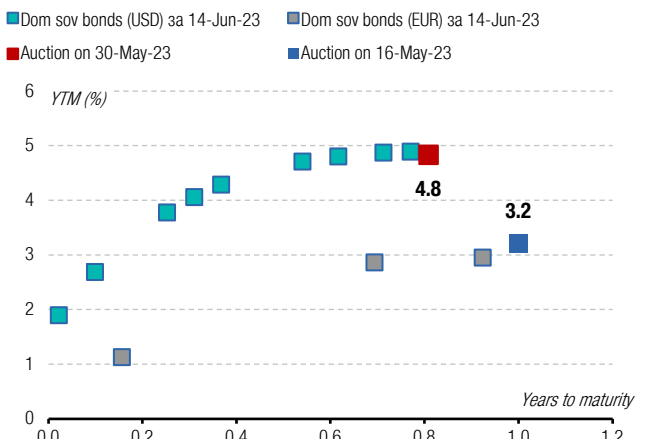
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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