

Bond Market Insight

High demand for military bills

Comment on government bond placement

Yesterday, the MoF attracted the vast majority of funds through military bonds, which again attracted considerable demand.

WEDNESDAY, 12 JULY 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
UA4000227763	0.00	@Mty	1-May-24	10,000,000	873.37	8,733.70	10,000.00	18.00	21,863.97
UA4000187207	15.50	SA	2-Oct-24	134,716	1,011.32	136.24	134.72	19.18	2,997.34
UA4000227656	19.50	SA	15-Jan-25	995,033	1,098.72	1,093.26	995.03	20.07	11,492.22
UA4000227490	19.75	SA	18-Feb-26	3,438,813	1,075.13	3,697.17	3,438.81	20.79	16,949.31
Total UAH				14,568,562	13,660.37	14,568.56			53,302.84

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

At yesterday's auction, almost 70% of demand was for 10-month military bills. Auction participants submitted 23 bids for this paper, which, in total, amounted to UAH11.6bn (US\$316m). As the MoF set a cap for this paper at UAH10bn (US\$273m), the Ministry satisfied all bids in proportion to their volume within the cap. Compared with the auction three weeks ago, interest rates for this paper slid by 20bp to 18%, similar to the one-year bills sold last week.

Smaller but still good demand was submitted for 1.5-year military paper, UAH1.4bn (US\$39m) in 33 bids. Some bids were small with the same rates as last week. So, the Ministry rejected 20 bids for only UAH0.4bn (US\$12m), reducing the cut-off rate by 10bp to 19.1% and the weighted average by 11bp to 19.09%.

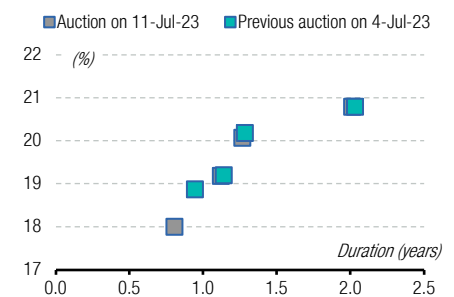
The terms of the placement of ordinary bonds barely changed, but interest in them was also minimal—a total of seven bids for UAH135m (US\$3.7m), which were fully satisfied. However, bids at 18.2% caused the weighted average rate to slide by 1bp to 18.29%, while the cut-off rate remained at 18.3%.

Demand for the "reserve" note was unanimous at 19.75%. The MoF accepted all bids, as the demand was smaller than the cap.

The total volume of yesterday's budget proceeds amounted to almost UAH13.7bn (US\$373m), almost 72% of which was raised from military bonds. Some of the demand was likely from investors who received redemptions last week and were waiting for short-term bills. Similar interest in military securities last time was three weeks ago when there was a large redemption and a large part of which was immediately reinvested in a new paper.

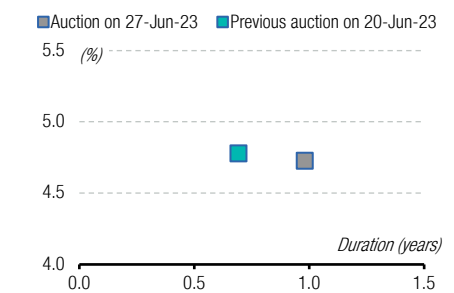
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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



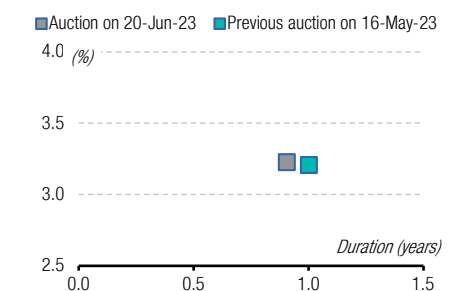
Source: Ministry of Finance of Ukraine, ICU.

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

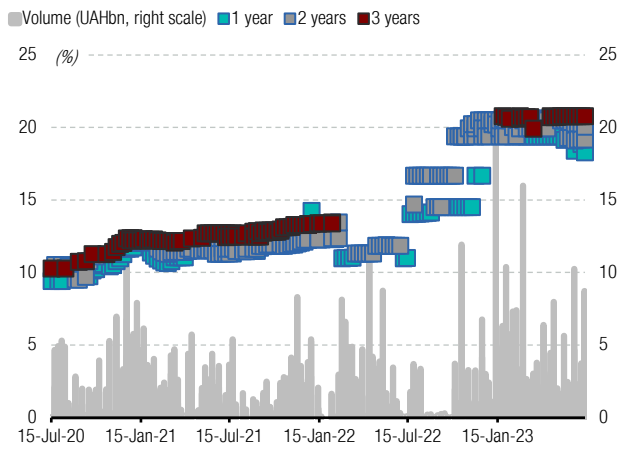


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

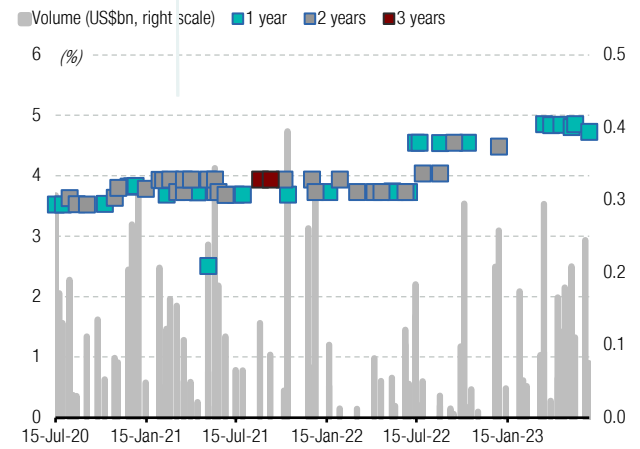
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

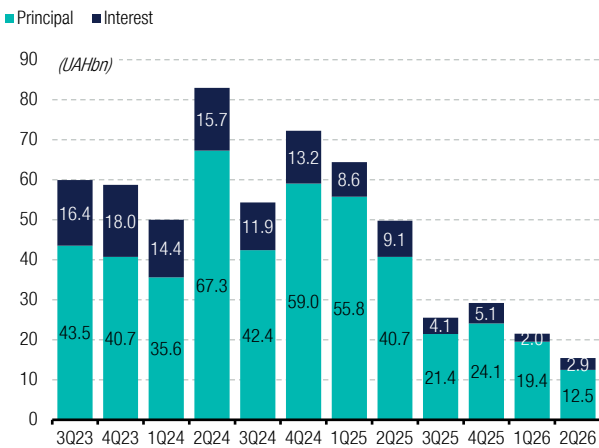
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

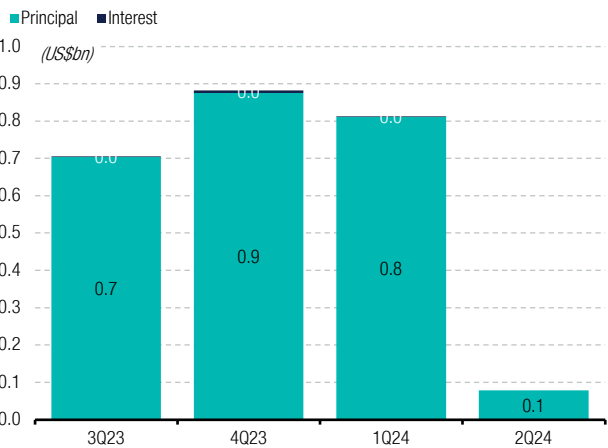
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

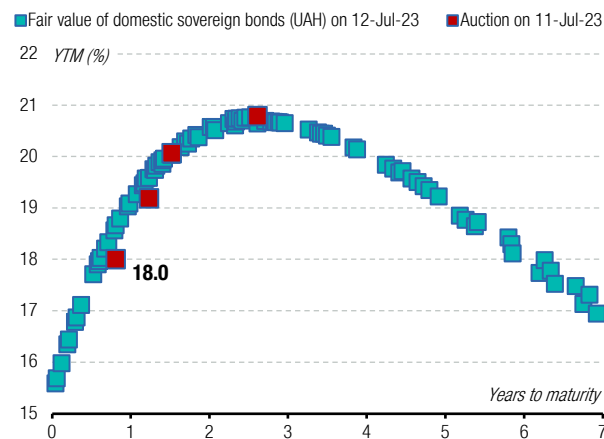
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

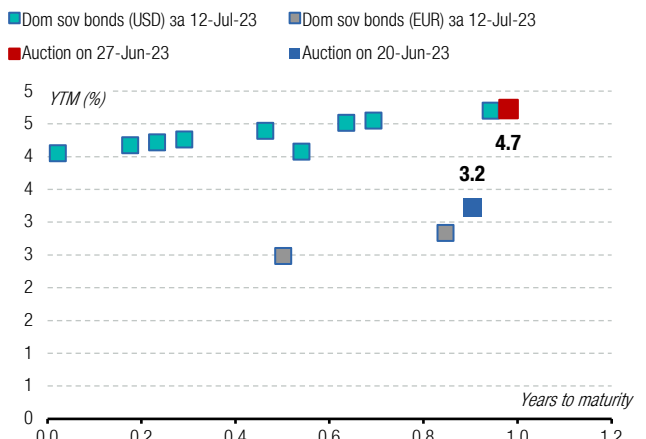
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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