

Bond Market Insight

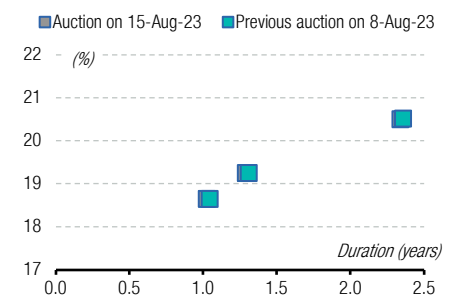
UAH bond rates stabilize

Comment on government bond placement

WEDNESDAY, 16 AUGUST 2023

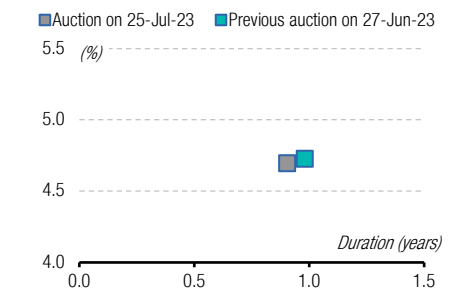
Yesterday's primary auction raised UAH6.4bn for the budget, mainly in local currency, while the MoF declined to borrow much in the form of FX-denominated bills.

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



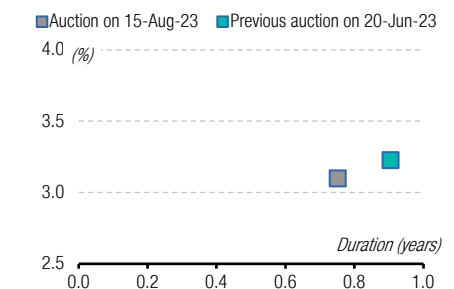
Source: Ministry of Finance of Ukraine, ICU.

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
UA4000187207	15.50	SA	2-Oct-24	382,015	1,033.25	394.72	382.02	18.65	4,341.18
UA4000227656	19.50	SA	15-Jan-25	121,296	1,028.30	124.73	121.30	19.25	16,757.21
UA4000228043	19.75	SA	22-Jul-26	5,000,000	1,016.56	5,082.79	5,000.00	20.50	17,887.26
Total UAH				5,503,311		5,602.24	5,503.31		38,985.65
UA4000227557	0.00	@Mty	16-May-24	20,464	977.26	805.82	824.57	3.10	11,512.29
Total EUR				20,464		805.82	824.57		11,512.29

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

Ordinary securities received good demand yesterday for UAH382m with total unanimity in competitive bids. They all were submitted at the cut-off rate of the previous auction. Therefore, the entire demand was satisfied at 17.8%, attracting almost UAH395m.

Yesterday, military bills provided the state budget with only UAH125m of proceeds. Competitive demand was also unanimous at 18.35%, the cut-off rate set two weeks ago.

At the same time, reserve bonds were most in demand yesterday at UAH7.7bn, but the Ministry of Finance placed only the offered amount of UAH5bn of these notes. Bid rates varied slightly, with a small portion of demand at 19.25% and the majority at 19.5%. Therefore, the cut-off rate did not change while the weighted average rate slid by 1bp to 19.49%.

The Ministry of Finance decreased interest rates only on EUR-denominated paper. Bids were submitted at rates in the range of 3.05–3.25%, similar to the auction almost two months ago. But due to the shorter tenor, the MoF rejected four out of 48 bids that amounted to EUR70m, reducing the cut-off rate by 10bp to 3.15% and the weighted average by 13bp to 3.11%. Therefore, only EUR20m was borrowed.

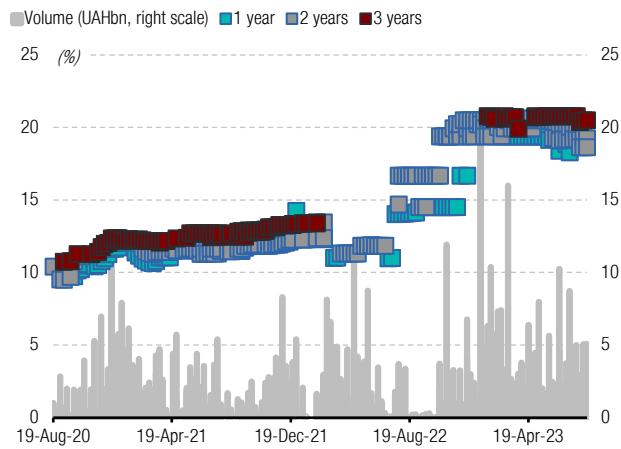
Yesterday, auction participants did not allow the Ministry of Finance to manoeuvre the rates for UAH bonds, submitting competitive bids mainly at the level of the cut-off rates of the previous auction. Under these conditions, interest rates may remain stable until

the following key policy rate review next month, with a potential downward move ahead. But for FX bonds, the MoF will probably have to announce another offering of EUR-denominated bills to refinance EUR-denominated debt redemption in August.

Appendix: Yields-to-maturity, repayments

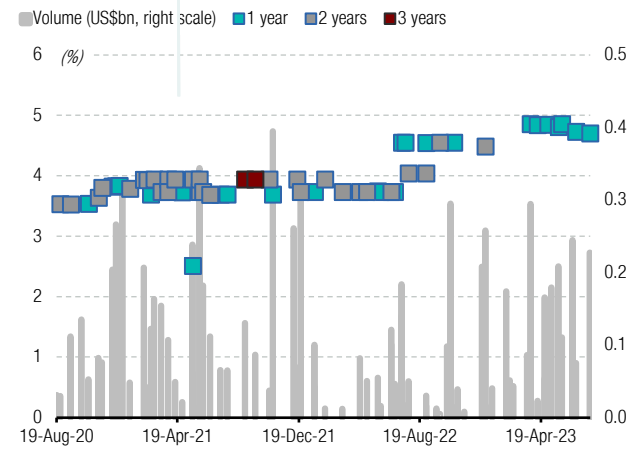
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

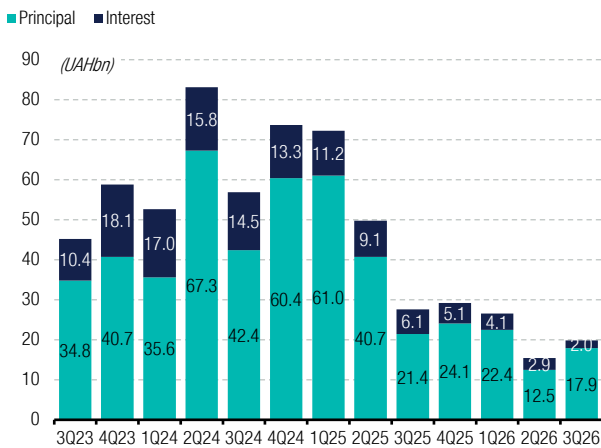
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

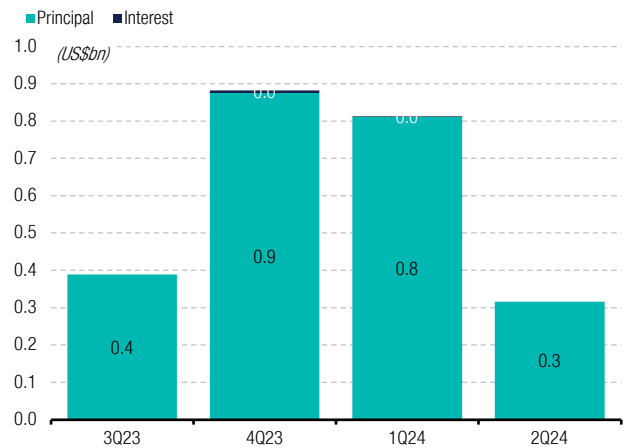
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

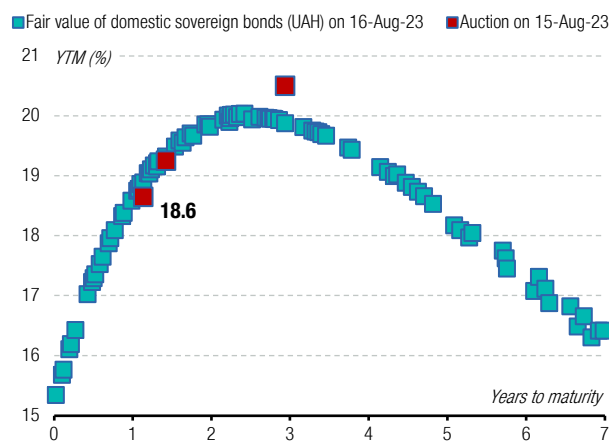
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

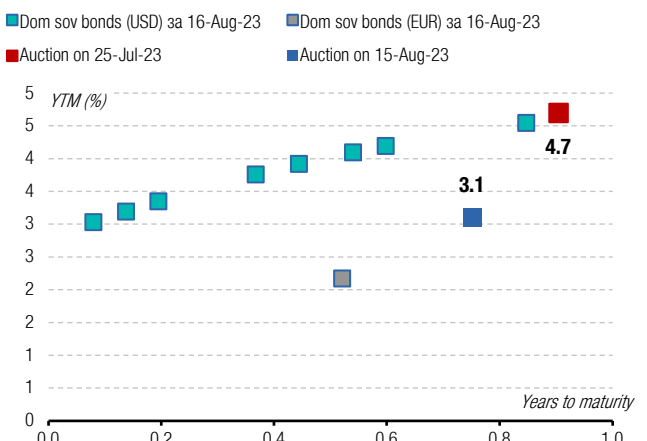
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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