

Bond Market Insight

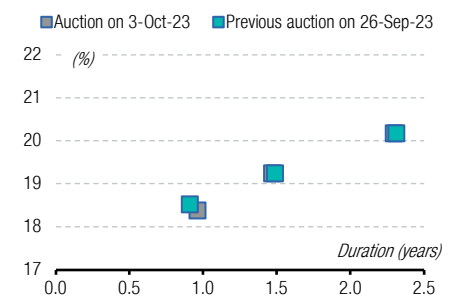
Higher borrowings at lower rates

Comment on government bond placement

WEDNESDAY, 4 OCTOBER 2023

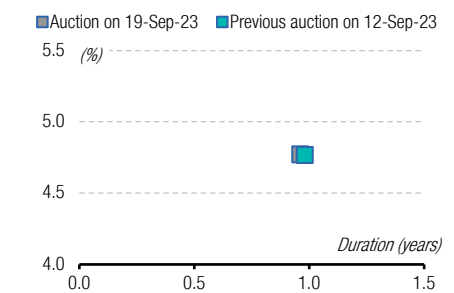
Demand for UAH bonds at yesterday's auction increased significantly compared with last week, activating caps and lowering interest rates for 12-month bills.

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



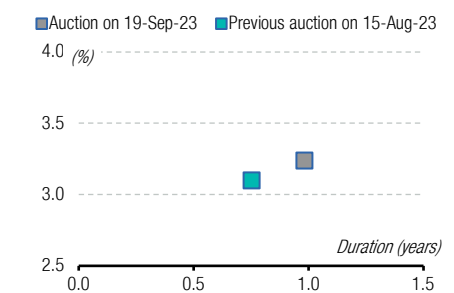
Source: Ministry of Finance of Ukraine, ICU.

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	4,000,000	981.91	3,927.64	4,000.00	18.38	11,197.94
UA4000228449	18.31	SA	18-Jun-25	2,468,746	1,051.37	2,595.57	2,468.75	19.24	13,220.52
UA4000228381	19.18	SA	4-Nov-26	5,000,000	1,076.50	5,382.49	5,000.00	20.17	19,522.68
Total UAH				11,468,746		11,905.71	11,468.75		43,941.14

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

For the first time in more than three months during which the Ministry of Finance has been placing bills maturing in October of next year, demand exceeded the cap set by the MoF. The total bid amount exceeded UAH5.2bn, which was UAH1.2bn more than the cap. So, the MoF accepted all non-competitive bids and part of competitive demand within the cap at 17.55%. Since this interest rate was the minimum yesterday, all competitive bids with such a rate were satisfied partially, within the limit and in proportion to their size. Accordingly, the cut-off rate decreased by 20bp, and the weighted average by 13bp, while the MoF rejected bids with interest rates above 17.55%.

Demand exceeded supply for reserve notes, too. The total amount of bids was UAH5.3bn, while the cap was at UAH5bn. Therefore, non-competitive bids were fully satisfied since their volume was less than UAH1bn, and the MoF used the rest of the cap to satisfy competitive demand. The cut-off and weighted average rates were unchanged from last week at 19.2% and 19.19%, respectively. The MoF rejected the demand of UAH298.5m due to the partial satisfaction of bids with the maximum rate.

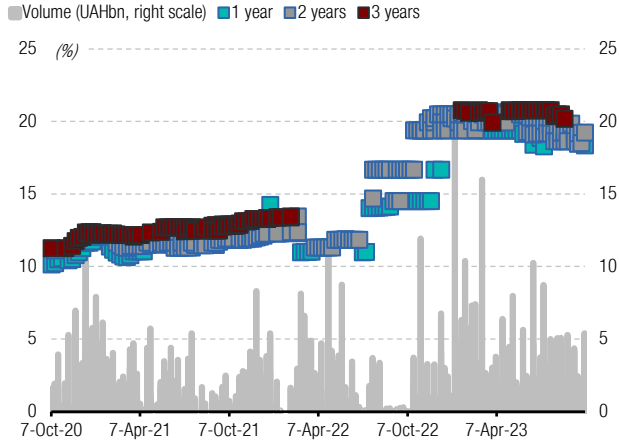
Only demand for 1.5-year military bills was less than the supply: UAH2.5bn vs UAH4bn cap. But compared with last week, demand was unanimous. Rates did not exceed the cut-off rate of the previous auction, 18.35%, and the minimum rate increased by 65bp to 18.15%. As a result, the cut-off rate remained at 18.35%, and the weighted average at 18.34%.

Demand at the auction more than quadrupled, and in part, this may be a delayed reinvestment of the last week's redemption. Also, banks could increase the purchase of reserve securities, anticipating that next week, the Ministry of Finance may offer new, even longer paper, which the NBU will allow banks to use for covering reserves later.

Appendix: Yields-to-maturity, repayments

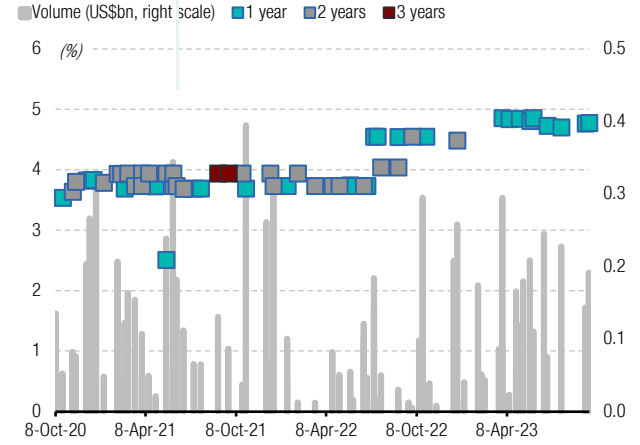
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

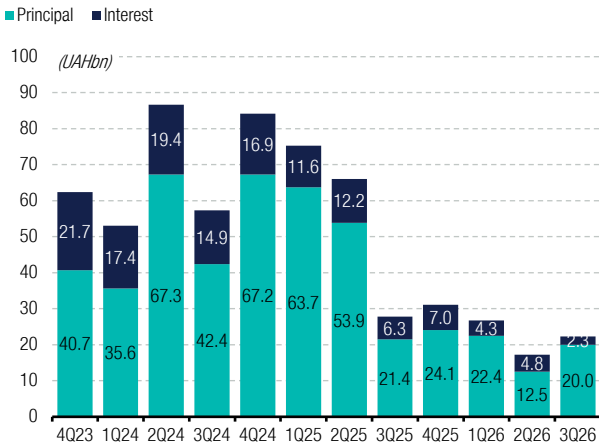
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

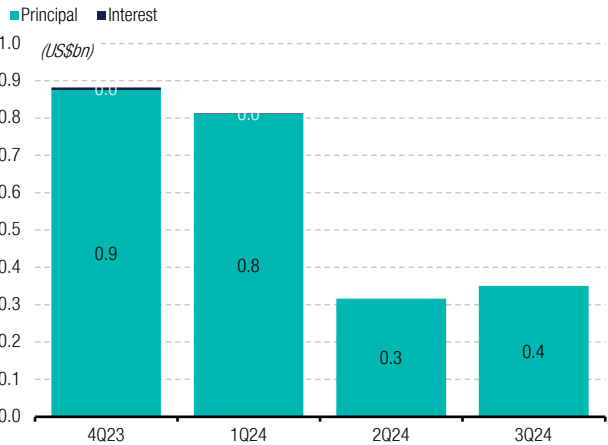
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

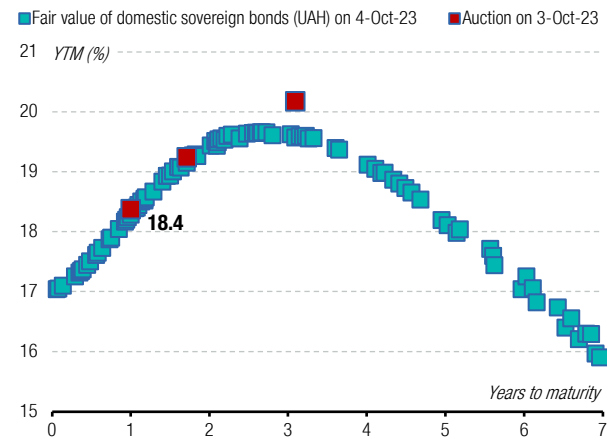
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

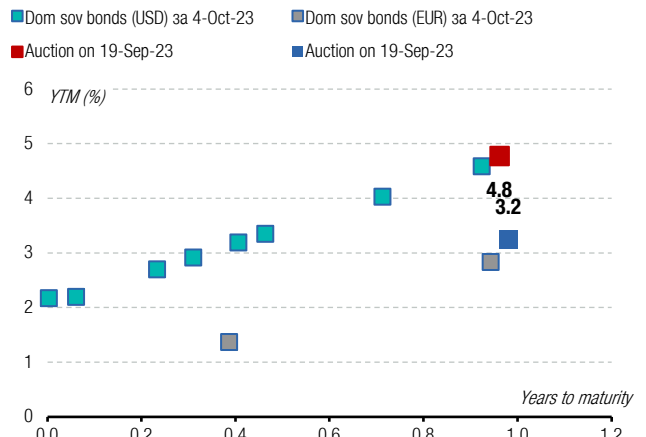
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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