

Bond Market Insight

MoF expands bond offering

Comment on government bond placement

WEDNESDAY, 1 NOVEMBER 2023

Yesterday's auction received record demand since February for UAH bonds due to the offering of seven-month bills, the first time the MoF offered this tenor after 28 February.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000229025	0.00	@Mty	5-Jun-24	3,000,000	907.83	2,723.48	3,000.00	17.08	3,000.00
UA4000228910	18.15	SA	23-Jul-25	4,000,000	1,049.60	4,198.39	4,000.00	18.90	8,000.00
UA4000228811	19.19	SA	30-Sep-26	5,000,000	1,022.30	5,111.48	5,000.00	19.76	19,715.74
Total UAH				12,000,000		12,033.35	12,000.00		30,715.74
UA4000228928	0.00	@Mty	24-Oct-24	100,000	955.95	3,490.17	3,651.00	4.70	14,604.00
Total USD				100,000		3,490.17	3,651.00		14,604.00

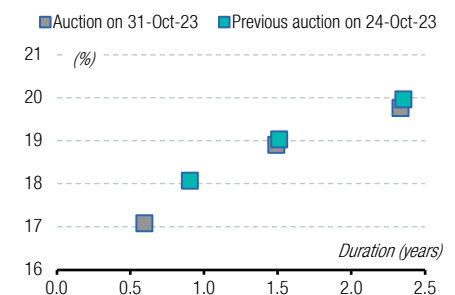
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 36.51/USD, 39.37/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The new seven-month military paper was more than three times oversubscribed receiving more than UAH10bn (US\$276m) of demand within the cap the MoF set of UAH3bn (US\$82m). The rates in bids were very tight, ranging from 17% to 17.1%. The Ministry decided to satisfy all bids, but most only partially. The offered amount was placed, including UAH900m (US\$25m) via non-competitive bids (satisfied at the weighted average rate 17.08%). Therefore, only bids with interest rates below the cut-off rate of 17.1% were satisfied fully, and the MoF accepted the rest of the bids in proportion to the size of the bid.

Military bonds maturing in July 2025 saw very little oversubscription, but with rates mostly from 18% to 18.05%, down from last week. The MoF sold the offered UAH4bn (US\$110m) of bonds, rejecting the two most expensive bids, probably with some bids satisfied partially.

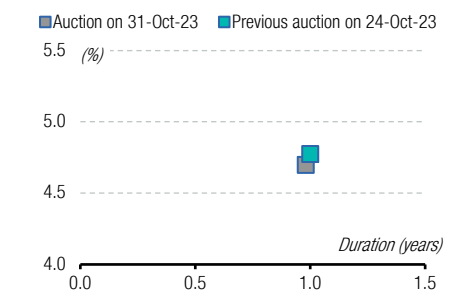
Interest rates for "reserve" notes also decreased. The Ministry of Finance offered this issue for the last time because, according to the results of the auction, the volume of the issue is almost UAH20bn (US\$550m), the usual volume for such bonds. So, banks rushed to buy more bonds to cover some of their reserve requirements from November 11. Accordingly, competition intensified, and bids came in with rates of 18.75–19% for UAH9.1bn (US\$251m), almost double the offer. Therefore, the Ministry of Finance rejected nine bids with rates higher than 18.89% and placed

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



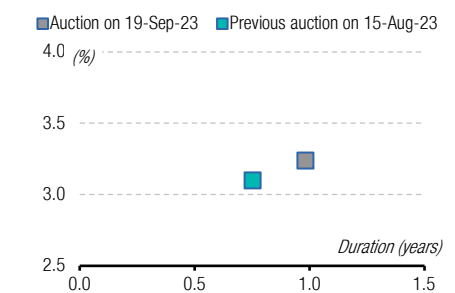
Source: Ministry of Finance of Ukraine, ICU.

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.

the planned UAH5bn (US\$137m) of bonds.

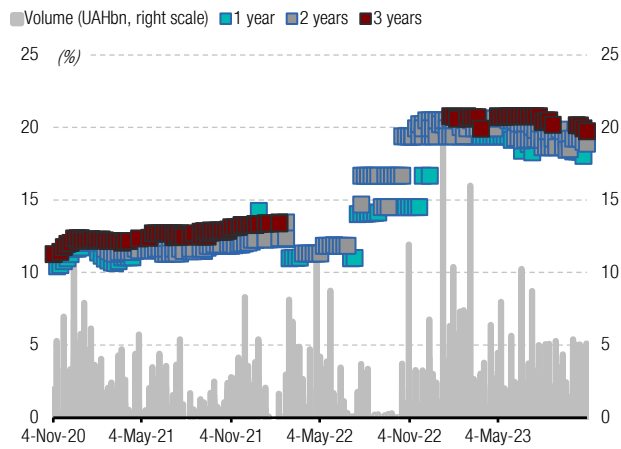
USD-denominated bills were almost three times oversubscribed. Of the 66 bids, the MoF rejected 12, selling US\$100m of bills with rates from 4.5% to 4.74%, and the weighted average rate was set at 4.71%.

In total, the Ministry of Finance raised UAH15.5bn (US\$426m), but could have attracted even more funds. The offer of new seven-month paper filled part of the demand for short-term instruments that are usually unavailable in the secondary market.

Appendix: Yields-to-maturity, repayments

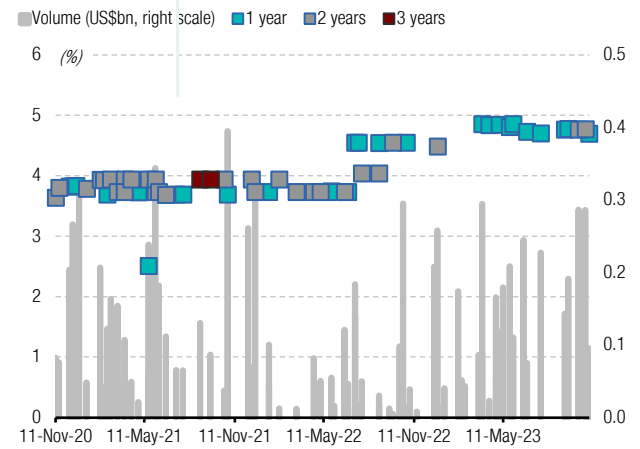
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

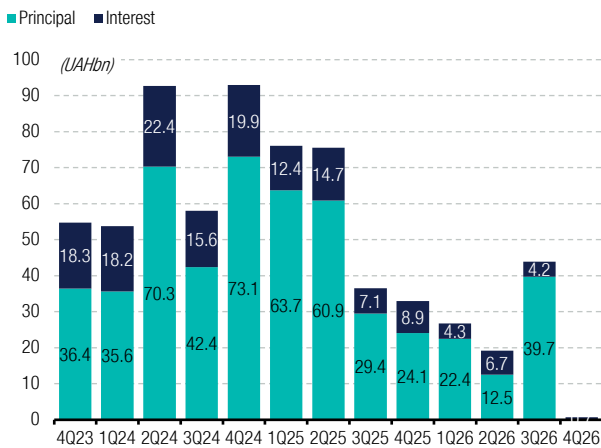
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

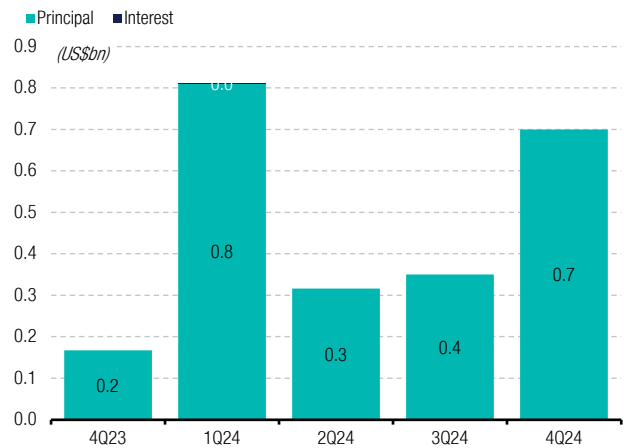
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

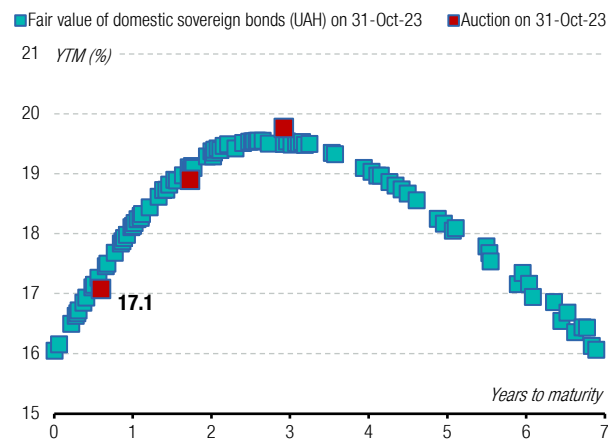
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

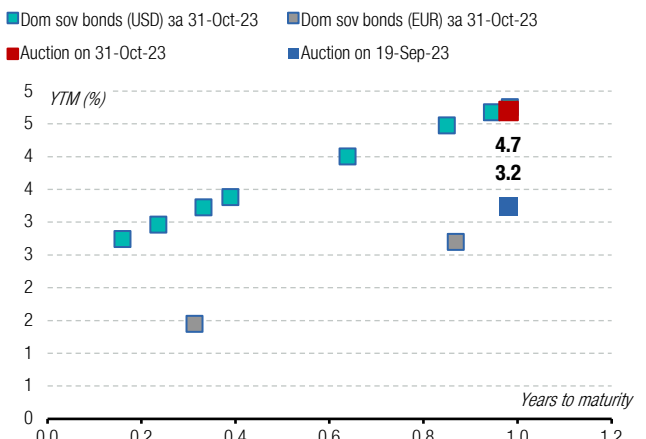
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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