

Bond Market Insight

Financing needs remain

Comment on government bond placement

WEDNESDAY, 20 DECEMBER 2023

Yesterday, the Ministry of Finance increased borrowings to UAH7.5bn, partially due to the offering of FX-denominated bills.

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
UA4000229470	0.00	@Mty	20-Nov-24	6,000,000	866.14	5,196.85	6,000.00	16.79	13,000.00
UA4000229264	17.80	SA	15-Oct-25	657,317	1,033.44	679.30	657.32	18.40	10,302.44
UA4000229116	18.87	SA	24-Feb-27	519,464	1,063.35	552.37	519.46	19.52	14,445.34
Total UAH				7,176,781		6,428.53	7,176.78		37,747.78
UA4000228605	0.00	@Mty	12-Sep-24	27,066	977.22	1,085.47	1,110.78	3.19	3,162.76
Total EUR				27,066		1,085.47	1,110.78		3,162.76

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 36.67/USD, 41.04/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

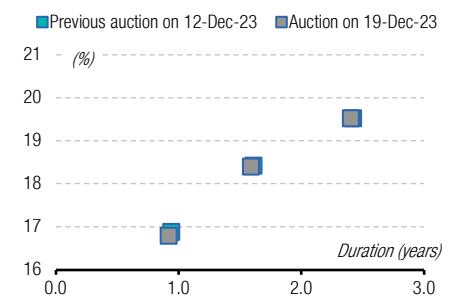
The increase in the supply of 11-month bills mainly contributed to the rise in borrowing. The Ministry of Finance regularly receives significant oversubscriptions for them, so yesterday, it increased the cap to UAH6bn (UAH4bn last week). Almost UAH7.4bn was in 23 bids, eight of which the MoF rejected. The Ministry sold the planned amount of UAH6bn, including UAH0.7bn, through non-competitive bids. The Ministry of Finance set the cut-off rate at 16.94% (down by 6bp from last week) and the weighted average at 16.79% (down by 9bp from the previous auction).

Longer UAH instruments again received modest demand, which the MoF fully satisfied. The MoF placed two-year paper for UAH0.7bn with an unchanged cut-off rate of 17.6% and a decrease in the weighted average rate by 2bp to 17.57%. At the same time, the MoF placed three-year notes for UAH0.5bn without a change in interest rates—18.6%—for the fourth week in a row.

Another tool that increased investor interest was EUR-denominated bills. This year, the Ministry of Finance refinanced all repayments in this currency, and was able to collect EUR27m of demand for them this week. Although the Ministry of Finance rejected one bid with a rate of 3.22%, it did not affect the borrowings since it was for the purchase of only EUR255'000. Therefore, the cut-off and the weighted average rates were set at 3.2%, 5bp lower than interest rates for the same instrument in September.

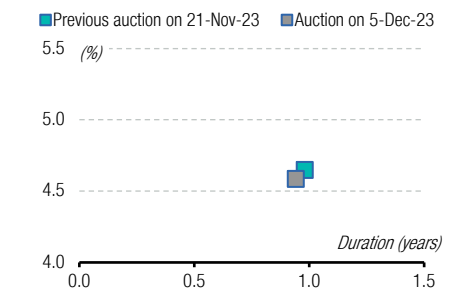
Urgent budgetary needs remain, and the MoF had to expand the offering

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



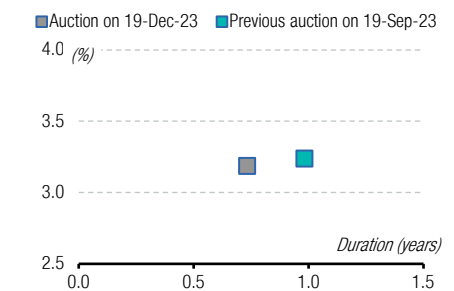
Source: Ministry of Finance of Ukraine, ICU.

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



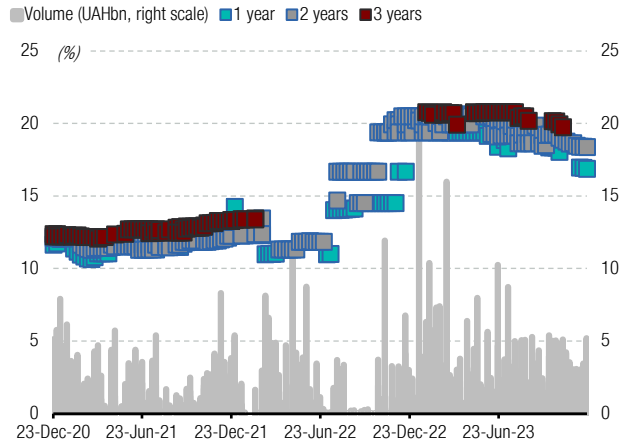
Source: Ministry of Finance of Ukraine, ICU.

yesterday. Therefore, the Ministry of Finance may resort to changes in the offer of bonds next week by increasing the placement volume and expanding the list of instruments at the last auction of this year.

Appendix: Yields-to-maturity, repayments

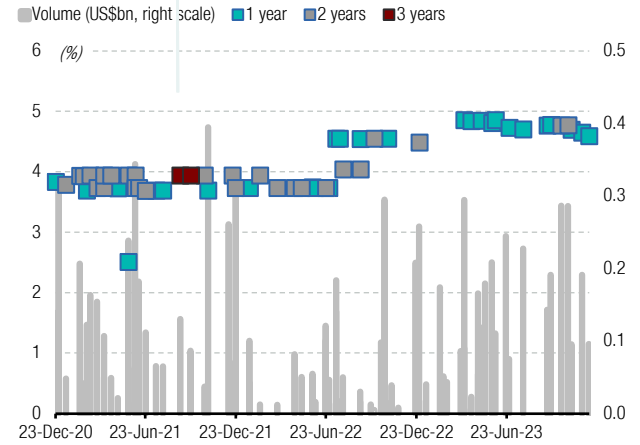
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

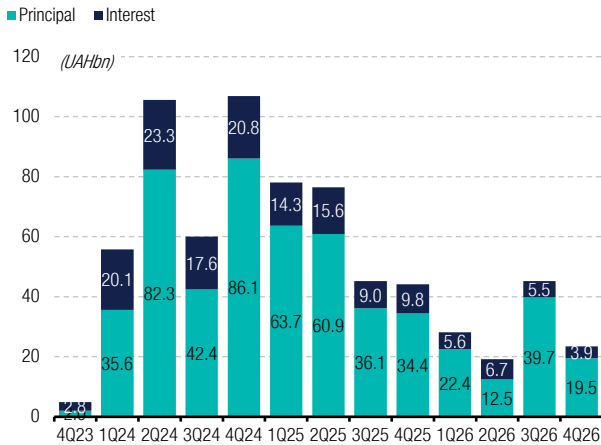
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

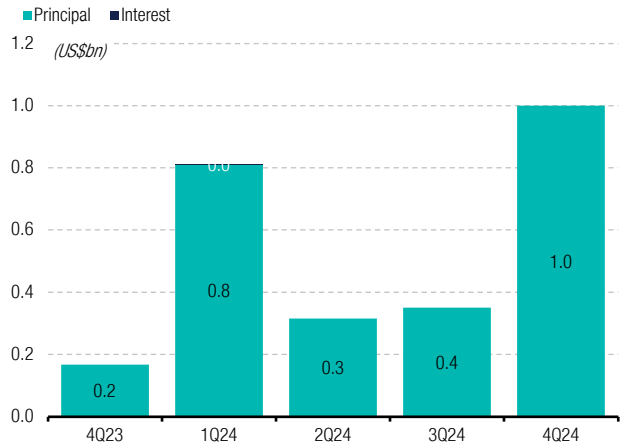
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

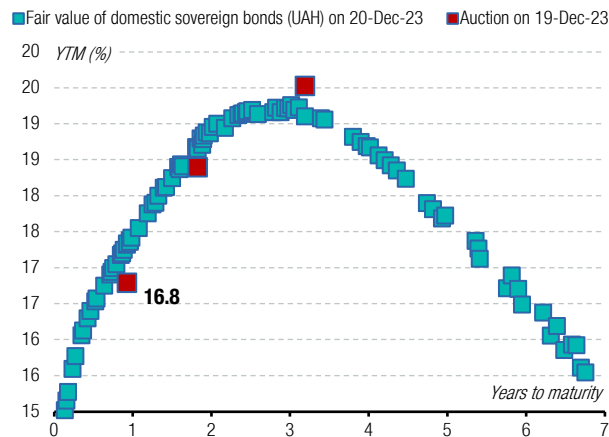
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

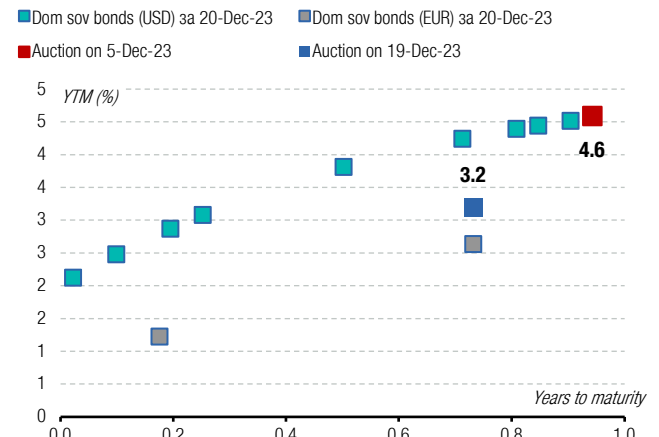
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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