

Bond Market Insight

Increase in borrowings

Comment on government bond placement

WEDNESDAY, 7 FEBRUARY 2024

The Ministry of Finance extended its offerings yesterday, adding USD-denominated bills. Budget proceeds amounted to UAH8.4bn (US\$223m), more than in the previous two weeks.

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
UA4000230213	16.80	SA	12-Mar-25	3,000,000	1,067.32	3,201.96	3,000.00	17.56	3,000.00
UA4000229264	17.80	SA	15-Oct-25	2,000,000	1,056.70	2,113.40	2,000.00	18.43	20,047.30
UA4000229116	18.87	SA	24-Feb-27	51,924	1,091.39	56.67	51.92	19.41	19,349.31
Total UAH				5,051,924		5,372.03	5,051.92		42,396.61
UA4000230106	4.65	SA	20-Mar-25	78,620	1,017.75	3,009.39	2,956.90	4.71	6,717.90
Total USD				78,620		3,009.39	2,956.90		6,717.90

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 37.61/USD, 41.22/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

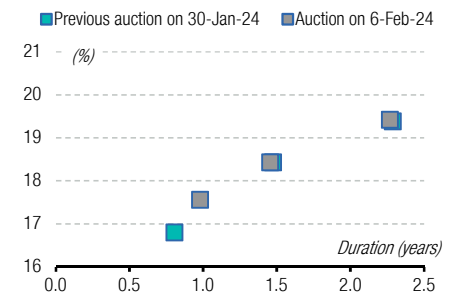
The MoF replaced the 10-month paper that had almost UAH16bn (US\$423m) outstanding, with new 13-month bills. New bills will have semi-annual coupon payments, and the closest will be next month, providing the budget with a huge premium of UAH0.2bn. Demand for new bills was 20% larger than the cap, so the MoF rejected one bid with a 17% rate and satisfied the rest within the cap at a 16.8% interest rate, the same as last week for 10-month securities.

Demand for 20-month bills doubled compared with the last week to UAH2bn (US\$55m), slightly exceeding the cap, providing the state budget with UAH2.1bn (US\$56m) of proceeds. Demand has remained mostly unanimous at 17.6% since December 2023, and was satisfied within the cap of UAH2bn (US\$55m).

However, three-year "reserve" notes saw little demand, just UAH52m (US\$1.4m) at 18.5%, which was fully accepted.

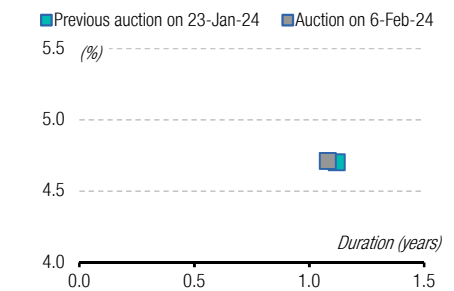
FX-denominated bills significantly increased budget proceeds, providing the state budget with US\$80m or 36% of yesterday's proceeds. The MoF offered the same paper as it did two weeks ago and sold them at 4.66%, the same interest rate as cut-off rate two weeks ago.

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



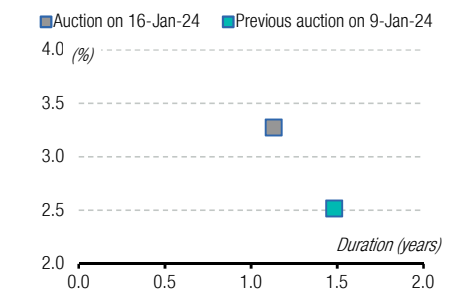
Source: Ministry of Finance of Ukraine, ICU.

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

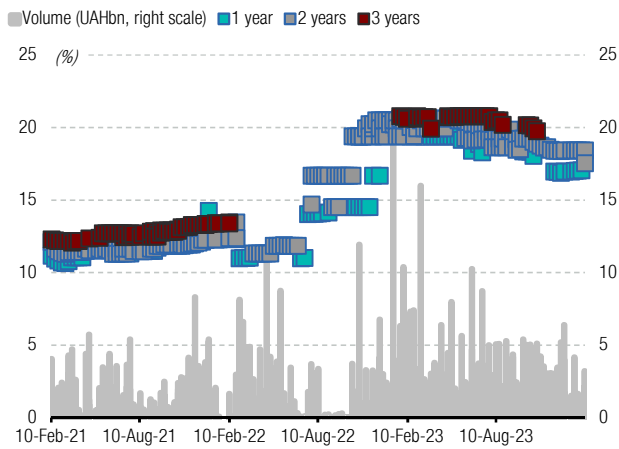


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

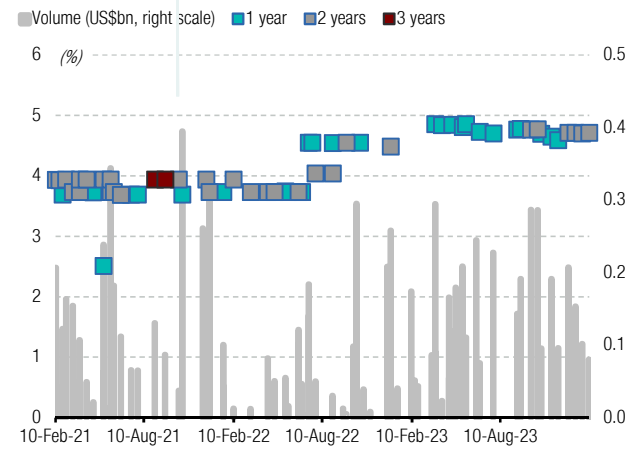
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

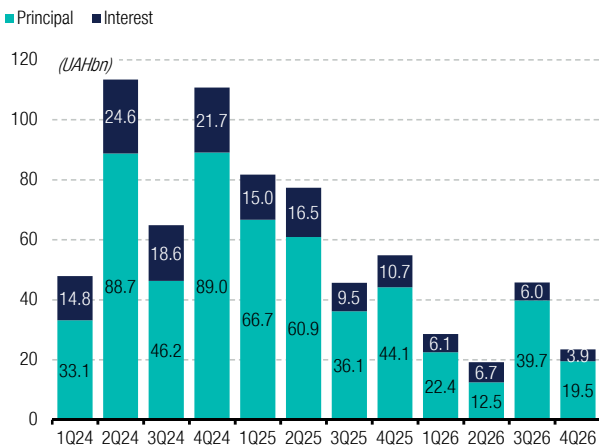
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

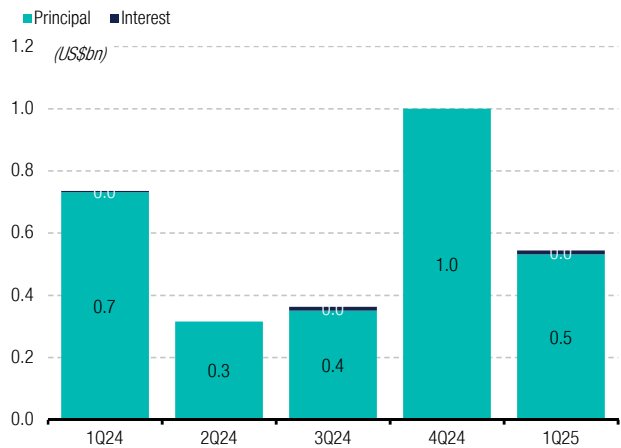
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

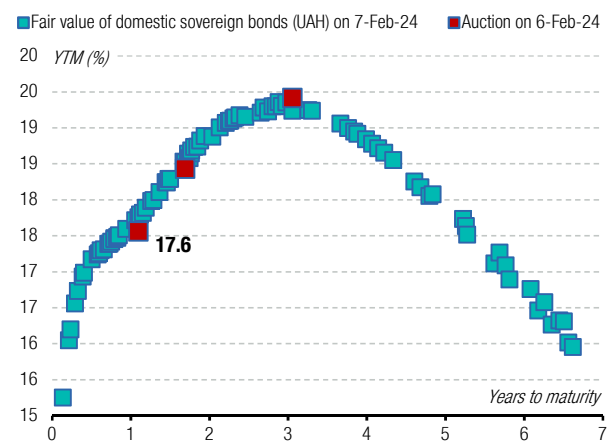
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

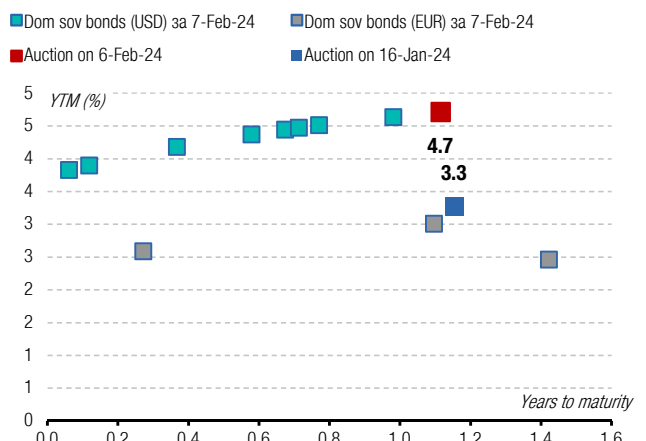
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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