

Bond Market Insight

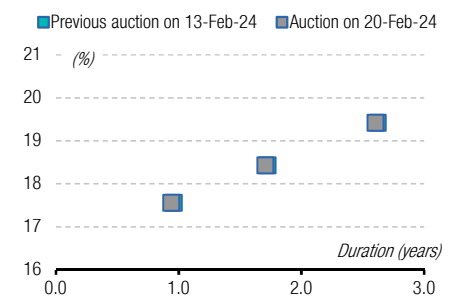
Borrowing increase thanks to FX-denominated bills

Comment on government bond placement

WEDNESDAY, 21 FEBRUARY 2024

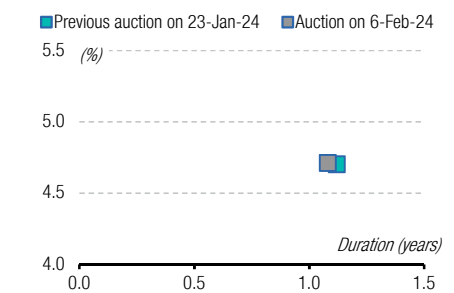
Yesterday, the Ministry of Finance increased borrowings to UAH16.6bn (US\$434m). Two-third of the funds came from EUR-denominated bills.

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



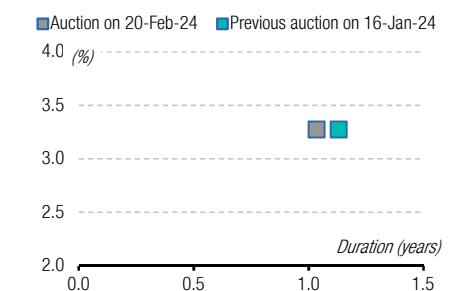
Source: Ministry of Finance of Ukraine, ICU.

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 freq 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 | 911,206 | 1,073.98 | 978.62 | 911.21 | 17.56 | 6,617.75 |
| UA4000230262 | 17.60 | SA | 28-Jan-26 | 2,904,473 | 1,009.78 | 2,932.88 | 2,904.47 | 18.43 | 4,214.90 |
| UA4000230270 | 18.50 | SA | 7-Jul-27 | 1,194,993 | 1,020.64 | 1,219.65 | 1,194.99 | 19.41 | 2,405.14 |
| Total UAH | | | | 5,010,672 | | 5,131.15 | 5,010.67 | | 13,237.79 |
| UA4000230023 | 3.25 | SA | 13-Mar-25 | 274,763 | 1,014.36 | 11,599.59 | 11,435.37 | 3.28 | 13,307.47 |
| Total EUR | | | | 274,763 | | 11,599.59 | 11,435.37 | | 13,307.47 |

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 37.59/USD, 41.62/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

tomorrow, the MoF has to redeem EUR304m (at face value) of bonds, so yesterday, the key focus was on whether the Ministry could refinance at least the majority of this repayment. Total demand was slightly lower, EUR275.3m, including a bid for EUR0.5m at a 4% interest rate. Most of the demand was at 3.25%, similar to the auction in January, so the MoF satisfied all bids except one expensive outlier and refinanced almost all of tomorrow's redemption.

At the same time, demand for UAH bonds remains restrained. In general, hryvnia instruments brought UAH5.1bn to the budget, almost similar to previous auctions. But this was less than half of what the Ministry of Finance planned to borrow.

The MoF sold less than one-third of the cap for the 13-month military bills and about a quarter of the cap for the three-year instrument. At the same time, they sold three-fourths of the cap for two-year securities.

Interest rates in bids were unchanged compared with the previous week, so the cut-off and weighted average rates remained unchanged for all UAH instruments for the fifth week: 16.8% for one-year, 17.5% for two-year, and 18.5% for three-year bonds.

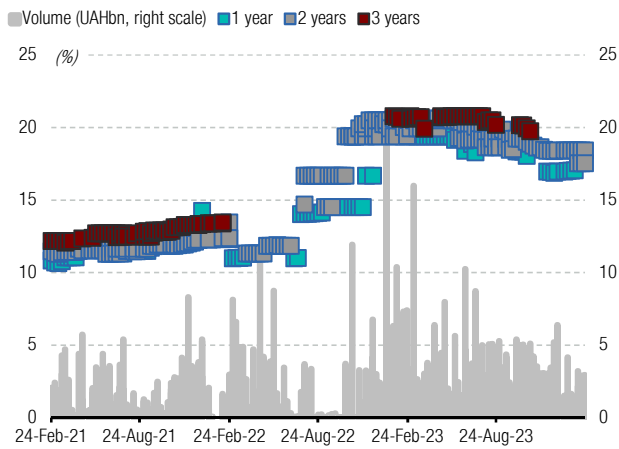
The overall result of the auction was quite good and even exceeded expectations because the previous placements of EUR-denominated bills were less active and gathered much less demand. Total borrowing for February has already exceeded UAH30bn (US\$0.8bn), so by the end of the month, the amount of borrowings may exceed the amount of funds received in January, with a possible increase in the share of funds from FX-denominated bills above 50%.

READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Appendix: Yields-to-maturity, repayments

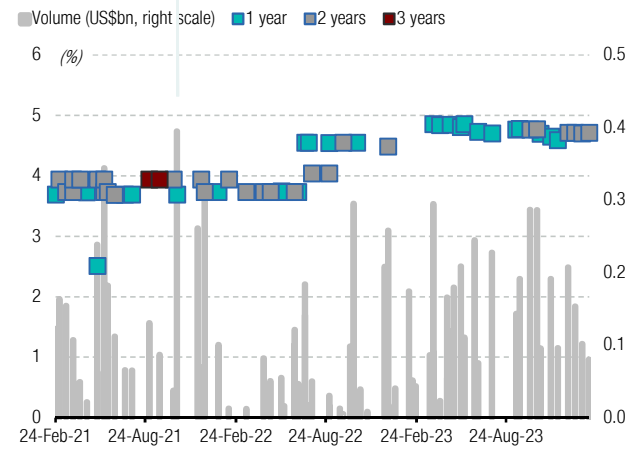
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

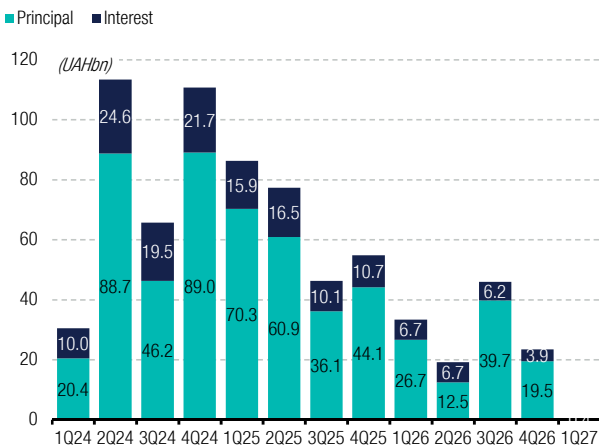
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

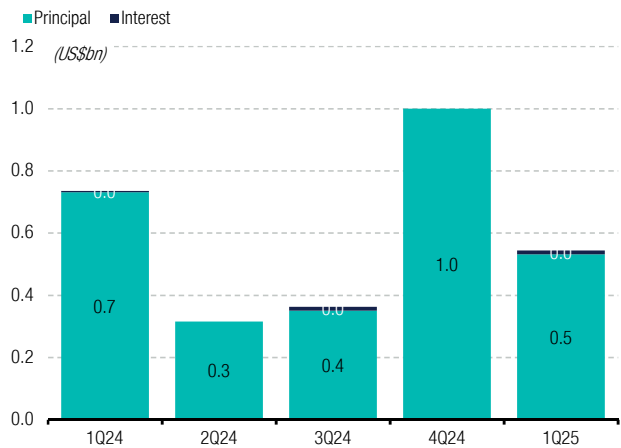
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

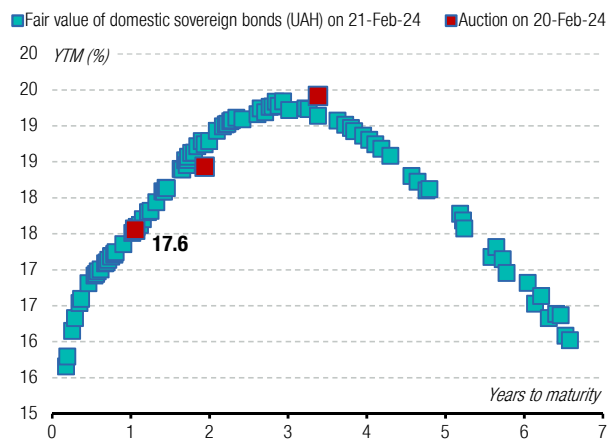
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

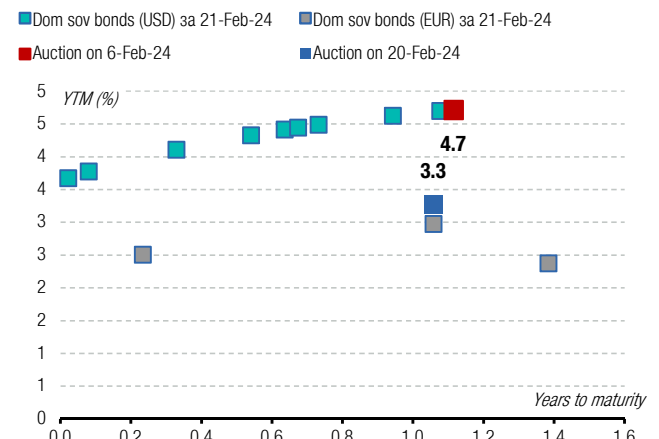
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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