

Bond Market Insight

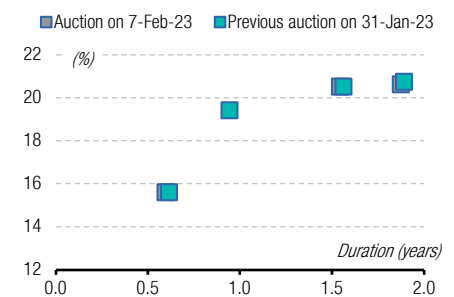
Another injection of reserve bonds into the market

Comment on government bond placement

WEDNESDAY, 8 FEBRUARY 2023

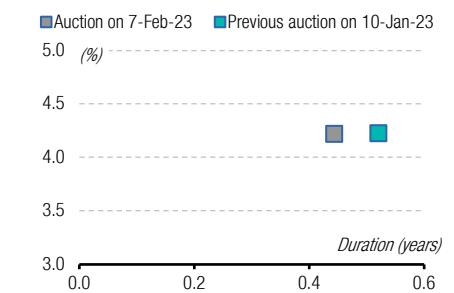
Yesterday, the Ministry of Finance raised UAH12.4bn (US\$340m), more than half of which was in hard currency. Almost the entire volume of UAH borrowings came from reserve bonds.

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



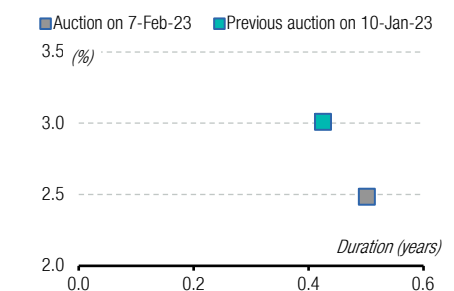
Source: Ministry of Finance of Ukraine, ICU.

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
UA4000226260	16.00	SA	27-Sep-23	47,378	1,063.74	50.40	47.38	15.61	7,642.96
UA4000222152	12.70	SA	30-Oct-24	14,783	937.44	13.86	14.78	20.51	15,873.68
UA4000227102	19.75	SA	21-May-25	5,500,000	1,043.50	5,739.23	5,500.00	20.61	20,234.17
Total UAH				5,562,161		5,803.48	5,562.16		43,750.81
UA4000227052	0.00	@Mty	20-Jul-23	177,211	981.60	6,427.53	6,548.02	4.22	8,064.91
Total USD				177,211	6,427.53	6,548.02			8,064.91
UA4000227136	0.00	@Mty	10-Aug-23	7,012	987.69	274.49	277.91	2.49	277.91
Total EUR				7,012	274.49	277.91			277.91

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 36.95/USD, 39.63/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

After a one-month hiatus, the Ministry placed FX-denominated bills yesterday. Two bills were due this year: one in USD with redemption in July brought US\$174m to the budget, and the second in euros due in August provided the budget with just EUR6.9m. So, at the current official hryvnia exchange rate, this is UAH6.6bn or 53.3% of yesterday's borrowings.

At the same time, UAH bonds, which are not eligible to cover banks' mandatory reserves, received low demand yesterday and brought only UAH64m (US\$1.8m) to the budget.

Again, the "reserve" bonds maturing in May 2025 were the most interesting. They received 43 bids for UAH32.5bn (US\$890m) (par value), but the Ministry was ready to sell only UAH5.5bn (US\$150m) of bonds. Therefore, some bidders sent bids at lower rates, so they bought all the volume they wanted. The rest of the offering was divided among the other bidders at a rate of 19.75%. As a result, the weighted average rate decreased by 12bp to 19.59% because bids again started from the level of 19.5%.

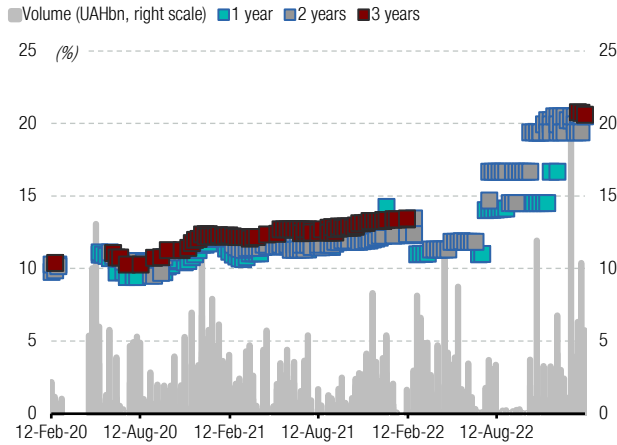
The Ministry of Finance continues to place "reserve" bonds with caps, gradually using the preference and need of banks to cover part of the required reserves with special "reserve" bonds. Since the beginning of the year, the MoF sold UAH46.4bn

(US\$1.27bn) of such bills in five auctions, and yesterday, they were able to place another UAH27bn (US\$739m). We expect this level or even greater demand at the next offering of reserve bonds, but it is unlikely that all of it will be satisfied by the Ministry of Finance. We expect the next placement of "reserve" bonds to be for UAH5–10bn (US\$136-273m) with a new wave of competition for purchasing the desired volume.

Appendix: Yields-to-maturity, repayments

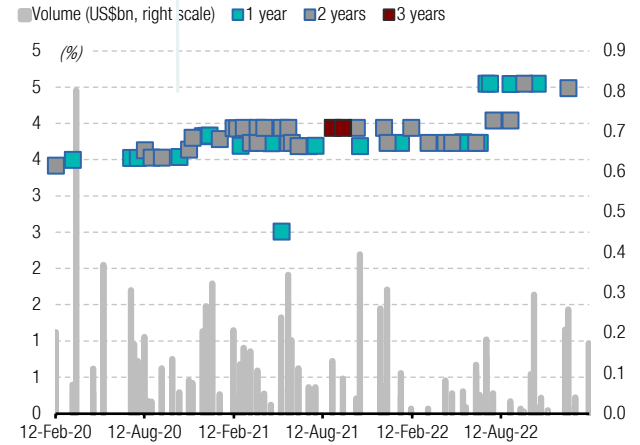
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

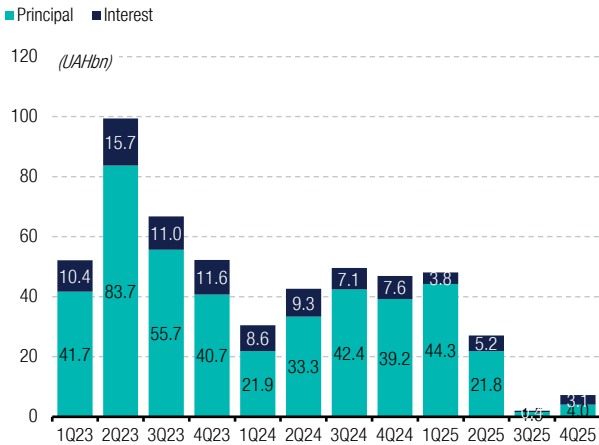
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

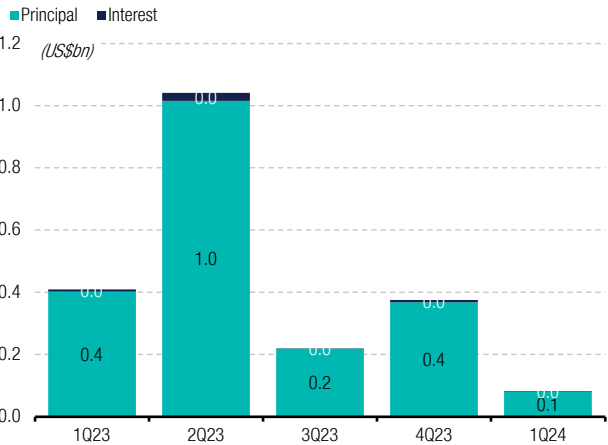
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

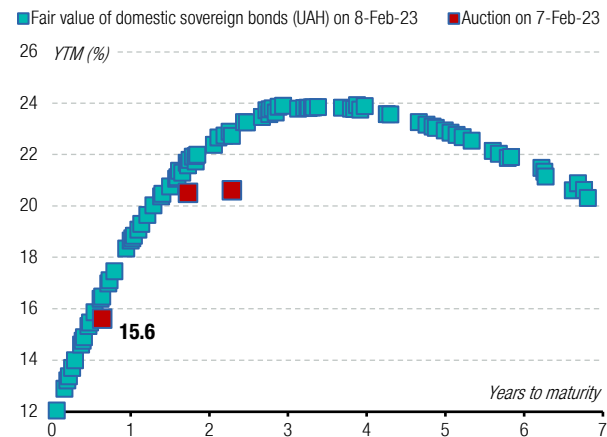
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

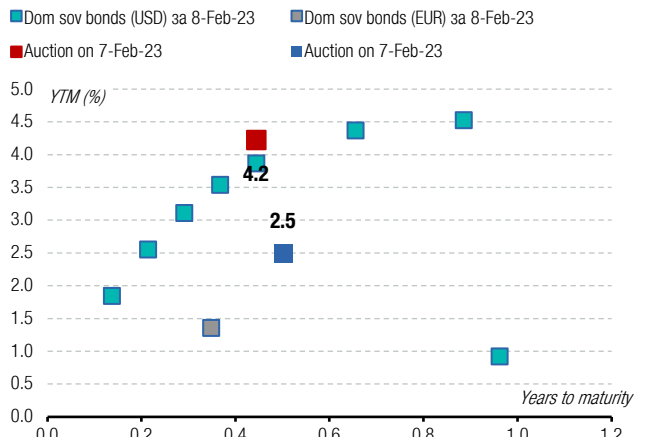
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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