

# Bond Market Insight

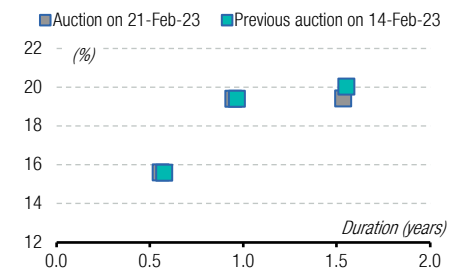
## Competition grows for UAH bonds

### Comment on government bond placement

WEDNESDAY, 22 FEBRUARY 2023

Yesterday, the Ministry of Finance raised UAH9.6bn (US\$261m) for the budget, mostly in local currency, rejecting part of the demand for all offered hryvnia bonds.

### UAH-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 frequency <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000226260	16.00	SA	27-Sep-23	500,000	1,069.67	534.84	500.00	15.61	8,322.91
UA4000224380	12.94	SA	14-Feb-24	51,215	954.50	48.88	51.22	19.41	9,006.45
UA4000227094	19.59	SA	4-Dec-24	7,000,000	1,056.20	7,393.39	7,000.00	19.43	20,167.41
<b>Total UAH</b>				<b>7,551,215</b>		<b>7,977.11</b>	<b>7,551.22</b>		<b>37,496.76</b>
UA4000227052	0.00	@Mty	20-Jul-23	44,109	983.17	1,594.10	1,621.39	4.22	11,560.69
<b>Total USD</b>				<b>44,109</b>		<b>1,594.10</b>	<b>1,621.39</b>		<b>11,560.69</b>

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 36.76/USD, 39.48/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

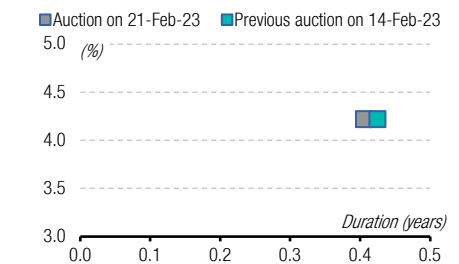
The shortest paper was oversubscribed for the first time in four weeks. With a cap of UAH500m (US\$13.6m), demand amounted to UAH641m (US\$17.5m), mainly in non-competitive bids. Competitive demand was unanimous at a rate of 15%, so most likely, all competitive bids were satisfied, and non-competitive demand was satisfied within the rest of the cap.

Twelve-month bills did not receive much demand, just UAH151m (US\$4.1m), but the bid for UAH100m (US\$3.7m) required a rate increase to 25%, so it was rejected.

"Reserve" bonds usually receive significantly greater demand than the cap, more than five times. Therefore, the MoF sold 30% of the offering under non-competitive bids, and 70% of the cap to those who submitted the lowest interest rates in their competitive bids. As a result, the cut-off rate for this paper was set at 18.6%, and the weighted average rate at 18.51%, which is 65bp and 56bp lower than last week.

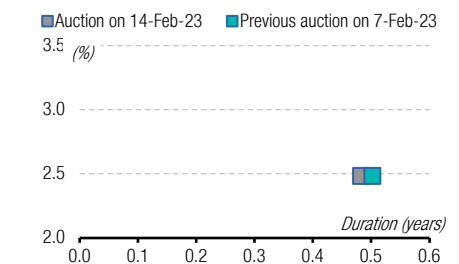
While the increase in demand for seven-month OVDPs was mainly unexpected, the demand for "reserve" paper and another reduction in rates were expected. Currently, according to the auction schedule, the MoF will offer new "reserve" paper in two weeks, so banks rushed to buy bonds to cover part of the required reserves now. Therefore, competition for the opportunity to purchase them immediately, and not in two weeks, was high.

### 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

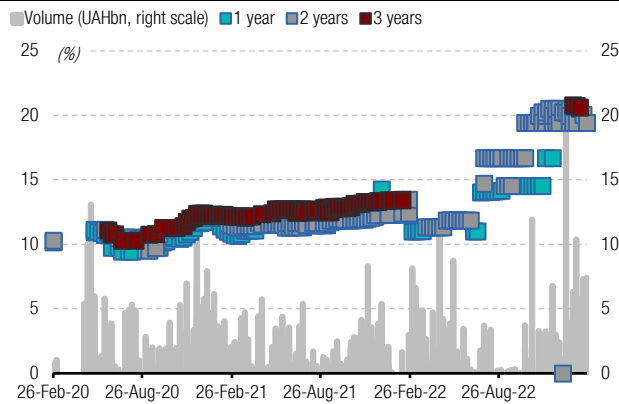


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

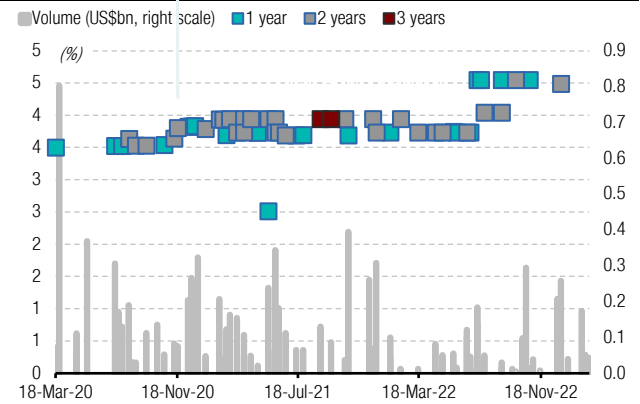
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

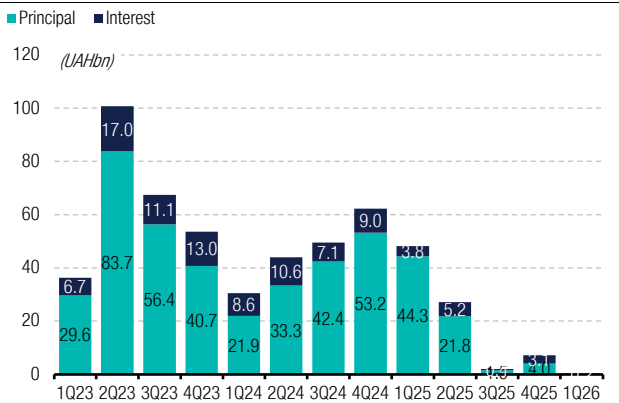
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

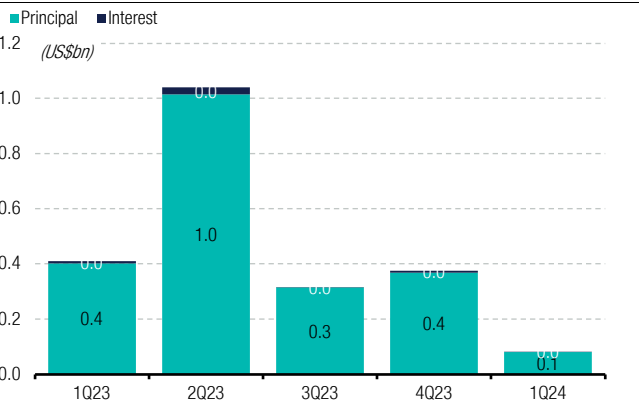
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

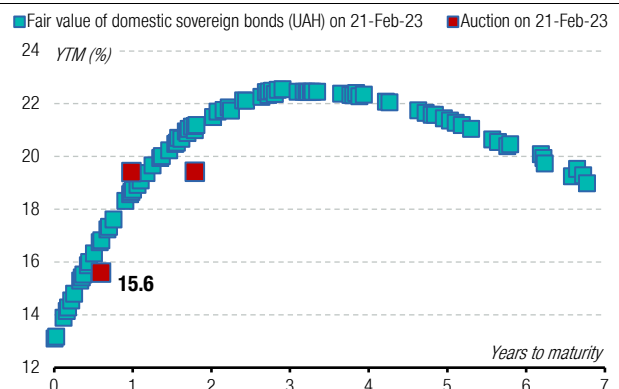
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

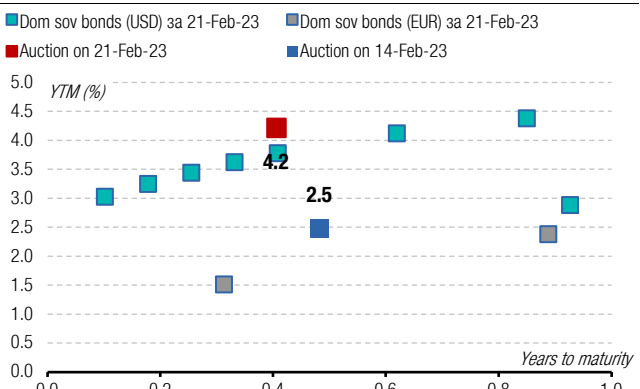
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kyiv, 01030 Ukraine  
Phone/Fax +38 044 3777040

**WEB** [www.icu.ua](http://www.icu.ua)



## RESEARCH

### Vitaliy Vavryshchuk

Head of macro research  
[vitaliy.vavryshchuk@icu.ua](mailto:vitaliy.vavryshchuk@icu.ua)

### Taras Kotovych

Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

### Dmitriy Dyachenko, CFA

Financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

### Alexander Martynenko

Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

### Mykhaylo Demkiv

Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

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