

Bond Market Insight

Interest in reserve bonds

Comment on government bond placement

WEDNESDAY, 23 AUGUST 2023

The Ministry of Finance raised UAH3.3bn yesterday, satisfying only 22% of the demand at the primary auction.

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
UA4000187207	15.50	SA	2-Oct-24	215,234	1,036.64	223.12	215.23	18.65	4,556.41
UA4000227656	19.50	SA	15-Jan-25	914,074	1,031.78	943.12	914.07	19.25	17,671.28
UA4000228043	19.75	SA	22-Jul-26	2,100,000	1,026.34	2,155.32	2,100.00	20.19	19,987.26
Total UAH				3,229,308		3,321.56	3,229.31		42,214.95

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 36.93/USD, 40.11/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

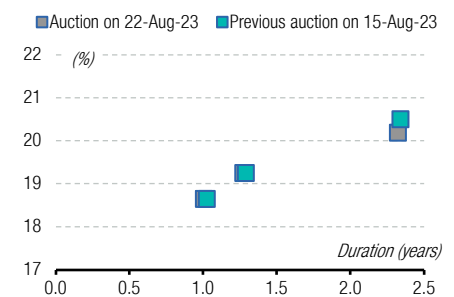
Demand for 14-month bills was the lowest yesterday—UAH215m in five bids, which mainly was competitive and unanimous with a rate of 17.8%—and it was fully satisfied. The MoF received UAH223m for the state budget.

Demand for 1.5-year military paper increased to UAH914m. There were 19 bids, with two-thirds of demand in non-competitive bids. Therefore, the MoF attracted UAH943m, satisfying all bids at 18.35%.

The reserve notes were most in demand at this auction. The offer was limited to UAH2.1bn, slightly below the amount of rejected demand last week. It was almost seven times oversubscribed, with demand amounting to UAH13.3bn, almost double from last week. Interest rates in competitive bids ranged from 19.0–19.5%, but the cap worked out at 19.25%. So, the cut-off rate declined by 25bp to 19.25%, and the weighted average rate fell by 28bp to 19.21%.

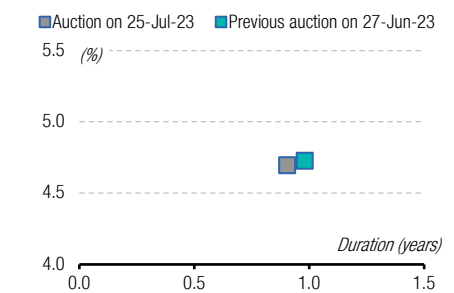
With yesterday's auction, the MoF increased reserve paper outstanding to almost UAH20bn (face value). Of course, the Ministry may offer a new issue next week, but it will take several weeks until the MoF includes it in the benchmark list, and the NBU will allow the use of new bonds to cover part of required reserves. Therefore, demand for new securities will decline prior the next NBU monetary policy meeting, and they will have lower yields.

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



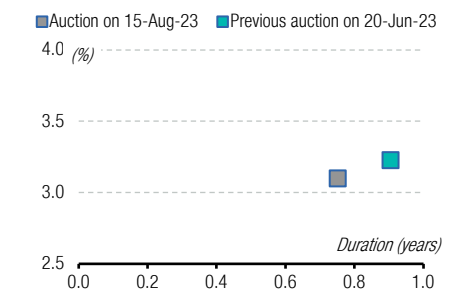
Source: Ministry of Finance of Ukraine, ICU.

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

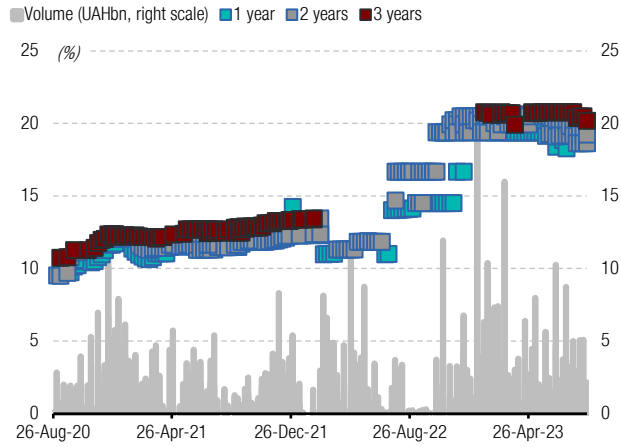


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

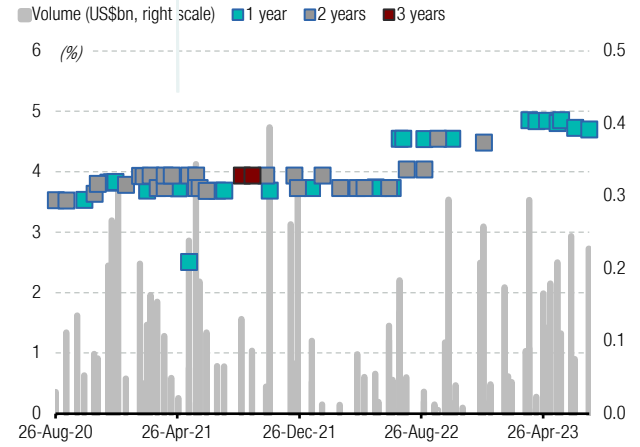
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

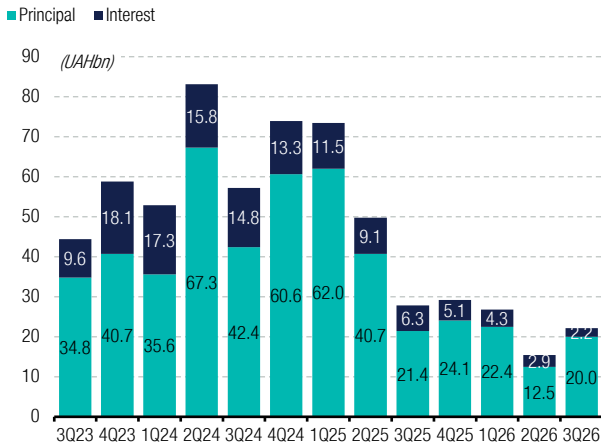
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

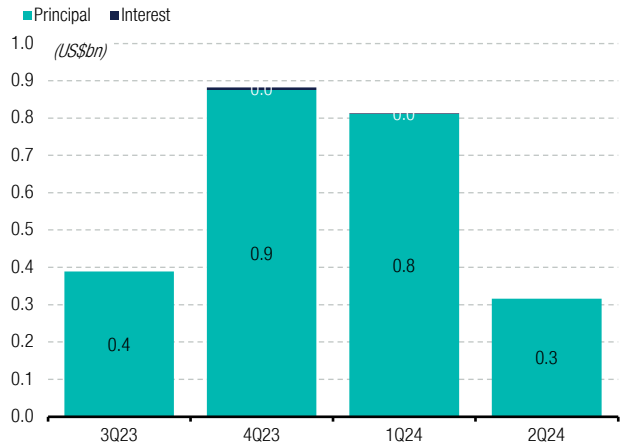
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

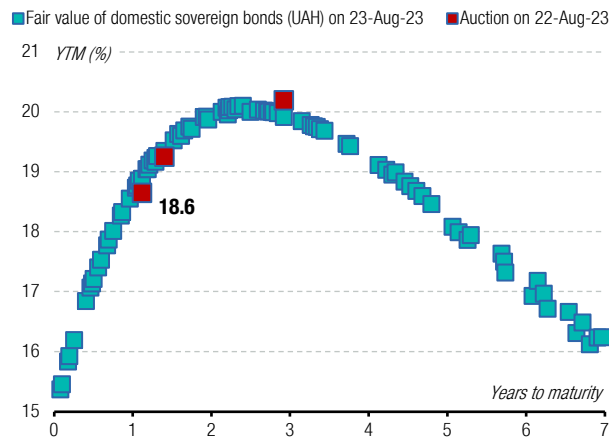
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

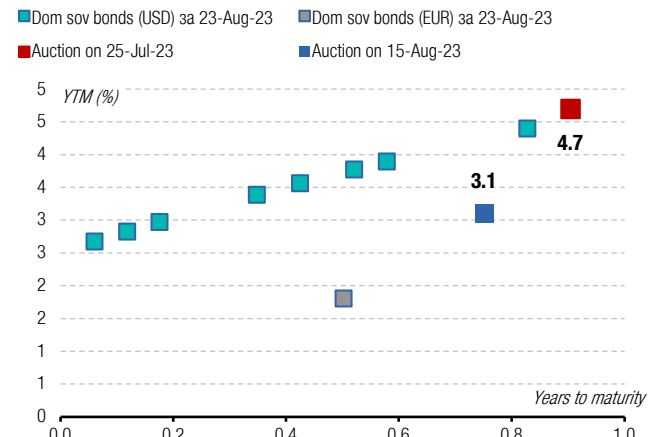
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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