

Bond Market Insight

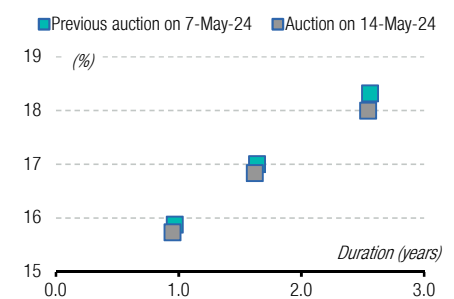
Demand shifts to longer instruments

Comment on government bond placement

WEDNESDAY, 15 MAY 2024

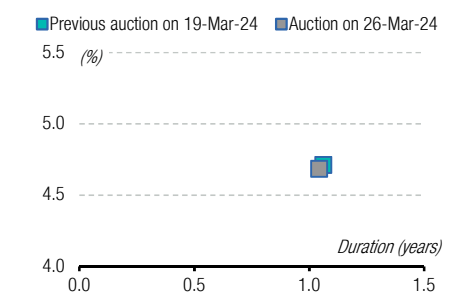
Yesterday, the Ministry of Finance continued to lower interest rates on UAH bonds, especially on three-year notes, which were significantly oversubscribed.

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



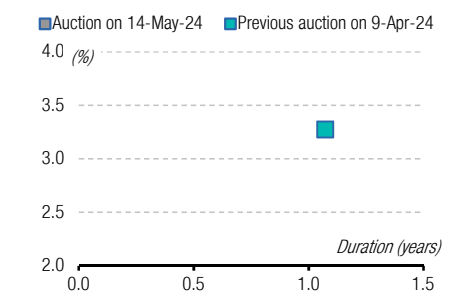
Source: Ministry of Finance of Ukraine, ICU.

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
UA4000231187	15.25	SA	4-Jun-25	2,849,767	1,068.40	3,044.69	2,849.77	15.74	5,849.77
UA4000230809	17.00	SA	18-Mar-26	3,000,000	1,038.78	3,116.35	3,000.00	16.84	10,803.16
UA4000231195	17.50	SA	25-Aug-27	3,000,000	1,043.45	3,130.34	3,000.00	17.99	6,000.00
Total UAH				8,849,767		9,291.38	8,849.77		22,652.93
UA4000230817	3.25	SA	15-May-25	53,677	1,000.01	2,302.62	2,302.60	5.00	4,119.99
Total EUR				53,677		2,302.62	2,302.60		4,119.99

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 39.32/USD, 42.9/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand for 13-month bills was slightly below the cap. All competitive bids were submitted at rates lower than the previous auction, so the Ministry satisfied all demand and set the cut-off rate at 15.15% (down 10bp from last week) and the weighted average rate at 15.12% (down 13bp from last week's auction).

The two-year paper received bids for a total of UAH6.8bn, which was more than double the cap. Most bids had a 16.2% interest rate, which was 10bp lower than last week's auction. Therefore, the MoF set the cut-off rate at 16.2%, and the weighted-average rate decreased by 15bp to 16.14%.

Three-year notes were four times oversubscribed and received over half of all demand for UAH bonds at the auction. Such oversubscription gave the Ministry room to manoeuvre. The MoF increased non-competitive bids' share in accepted demand to 35% of the cap, probably to satisfy only bids with rates no higher than 17.2%. Therefore, the MoF set the cut-off and the weighted average rates at 17.2%, 30bp lower than in the previous auction.

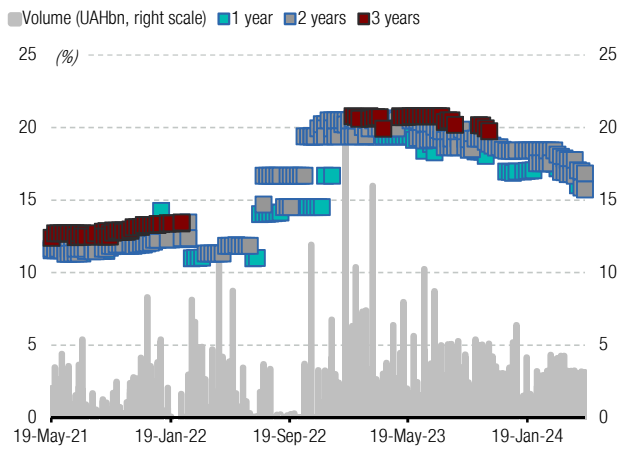
Conditions for EUR-denominated bills remain unchanged. The cut-off and weighted average rates are still 3.25%.

As a result, the Ministry of Finance attracted almost the same amount of UAH funds as last week. All interest rates are close to exceeding the reduction of the NBU rates. The low level of inflation increases expectations of a more aggressive NBU key rate cut, so investors will compete more for longer instruments, locking in yields for a longer time.

Appendix: Yields-to-maturity, repayments

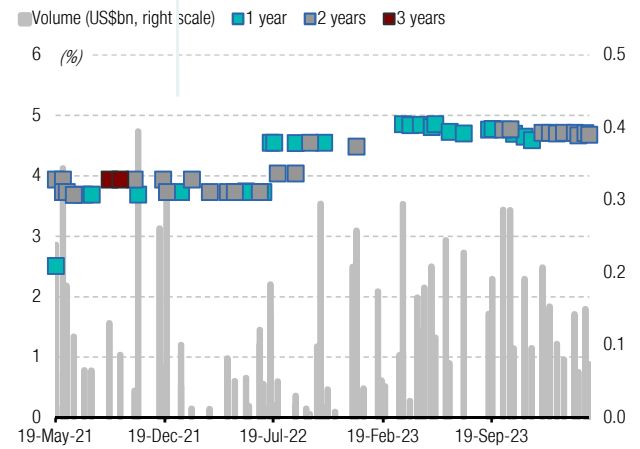
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

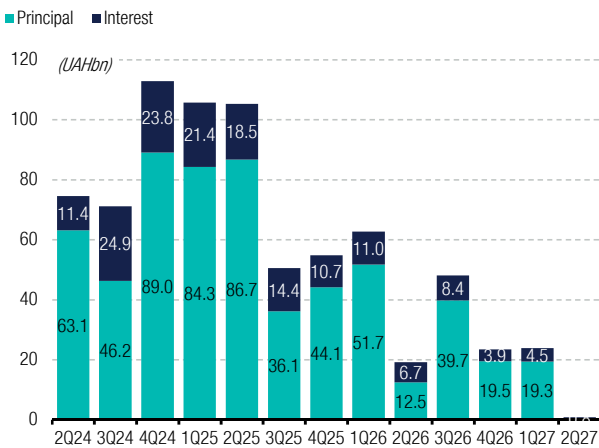
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

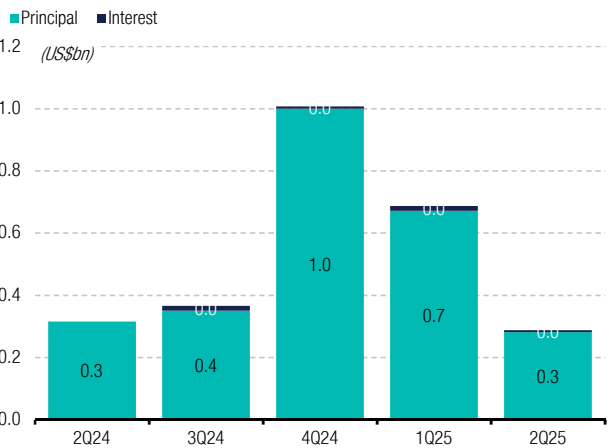
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

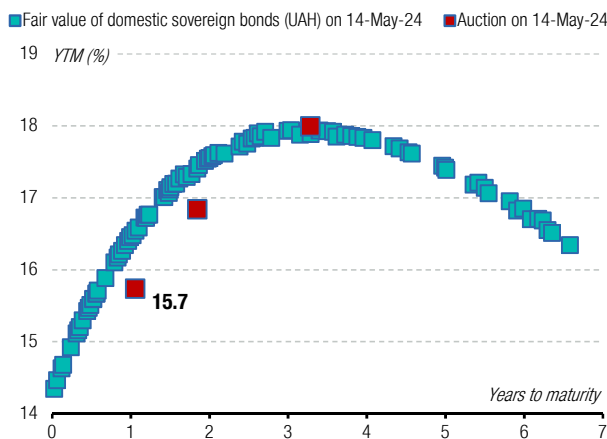
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

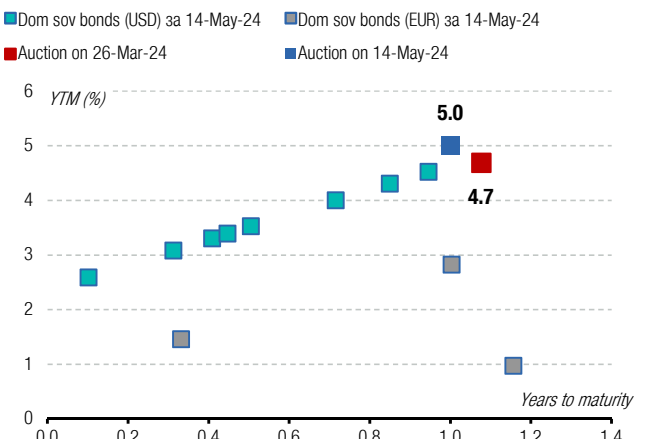
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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