

# Bond Market Insight

## MoF continues to lower rates

### Comment on government bond placement

WEDNESDAY, 5 JULY 2023

The Ministry of Finance is using the advantage of relatively small volumes of local-currency debt redemptions in July and continued to lower interest rates on UAH-denominated bills.

**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment freq <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>
UA4000226286	14.00	SA	26-Jun-24	85,199	968.02	82.47	85.20	18.87	12,106.17
UA4000187207	15.50	SA	2-Oct-24	140,125	1,007.83	141.22	140.13	19.19	2,862.63
UA4000227656	19.50	SA	15-Jan-25	3,418,404	1,093.52	3,738.09	3,418.40	20.18	10,497.19
UA4000227490	19.75	SA	18-Feb-26	1,909,840	1,071.24	2,045.90	1,909.84	20.79	13,510.50
<b>Total UAH</b>				<b>5,553,568</b>		<b>6,007.69</b>	<b>5,553.57</b>		<b>38,976.48</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 36.93/USD, 40.57/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The demand for 12-month military paper, which the MoF returned to the supply palette, was the lowest. Auction participants submitted 23 bids, but only for UAH110m. Two of them, for more than UAH25m, were at 18.3%, similar to the maximum accepted rate two weeks ago. But yesterday, most of the demand was in non-competitive bids, so the Ministry satisfied only part of the competitive bids with a rate of 18.2% and all non-competitive demand at the same rate.

The MoF placed the 15-month bills on the same terms as a week ago when there was likely an attempt to replace the 12-month bills with a longer maturity. But if we look at it separately, the last time a similar instrument was placed at the end of May it was at 19.5%. So, the current 18.3% is already a significant decline for such tenor.

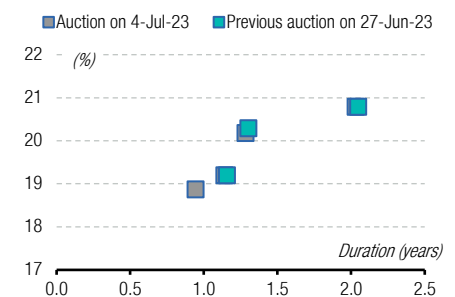
Demand for 19-month paper was the most mixed, with almost a third of bids being at a higher rate than the rest of the competitive demand, but by volume, it was less than 1% of total demand. So, these seven bids at 19.3% were rejected, and the cut-off and weighted average rates were down by 10bp to 19.2%.

Only the "reserve" note received unanimous demand, which banks purchased again at an unchanged rate 19.75% for another UAH1.9bn (par value).

Yesterday, for the first time this year, the MoF set caps for all offered bonds. Although the demand for all securities was less than the supply, this step could push banks to expect more competition and submit bids with a lower, or desired-by-the-MoF level of rates.

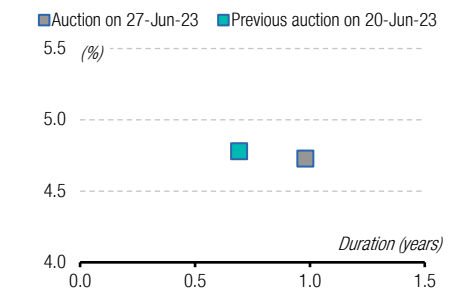
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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



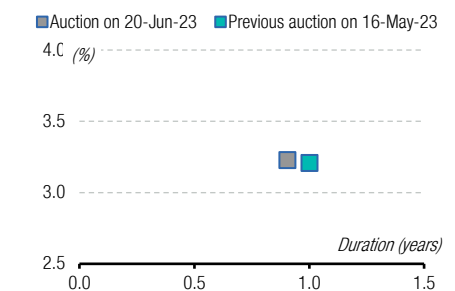
Source: Ministry of Finance of Ukraine, ICU.

### 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



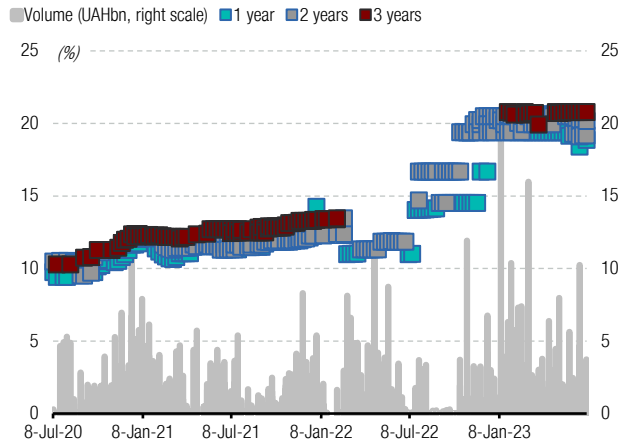
Source: Ministry of Finance of Ukraine, ICU.

The debut auction in July coincides with the UAH10bn redemption of UAH bonds. A large part of yesterday's demand could be a rollover of repayments, but the rest of these funds could be reinvested in the secondary market or invested next week at the primary auction. But given the trend started in June, the Ministry of Finance may continue to lower rates further.

# Appendix: Yields-to-maturity, repayments

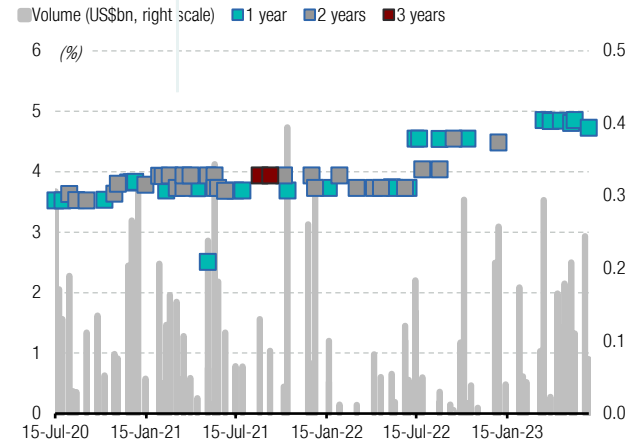
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

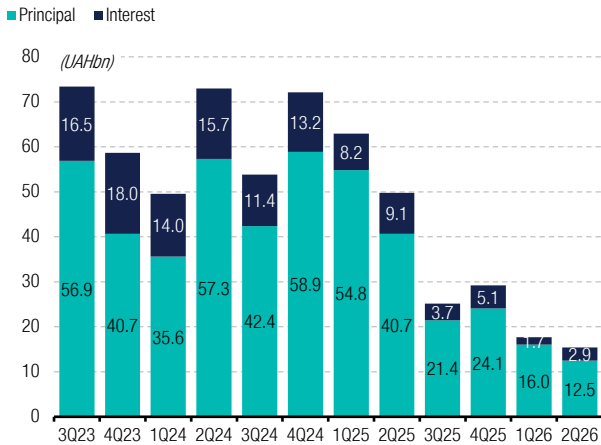
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

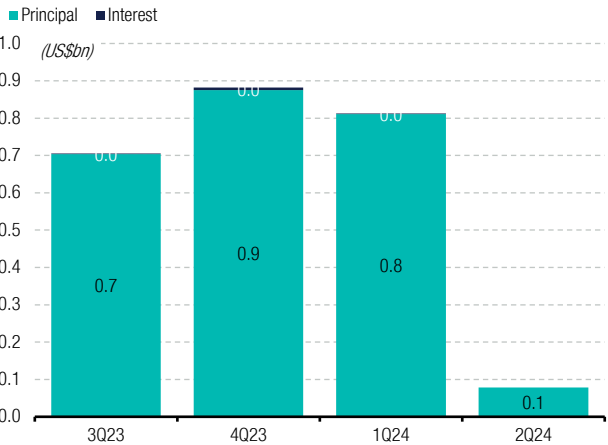
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

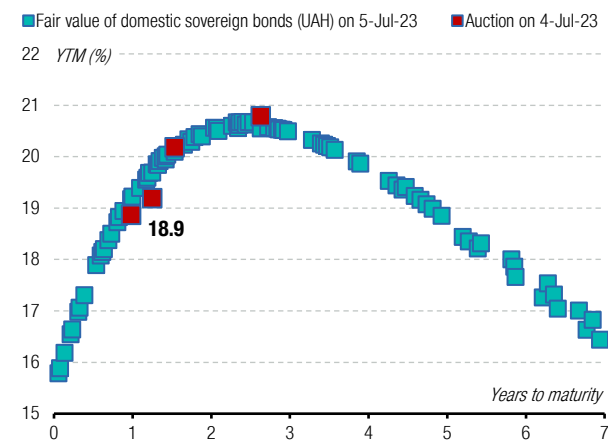
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

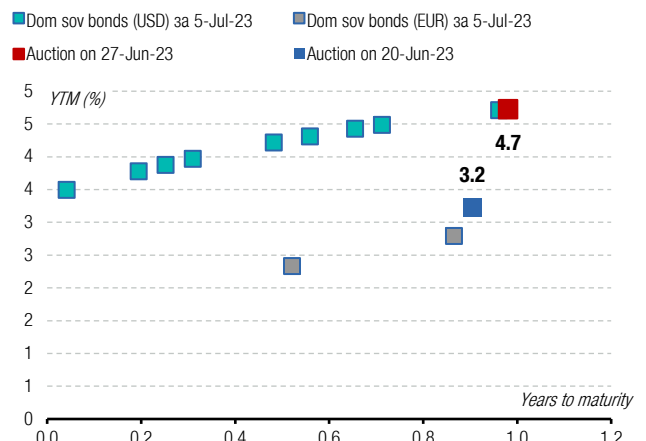
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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