

Bond Market Insight

Decline of interest rates accelerates

Comment on government bond placement

Yesterday, the MoF rejected a large part of demand and decreased interest rates for all offered securities, including "reserve" notes.

Demand for ordinary and military bills was expectedly low and accepted partially.

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 (%)	Out-standing (m) ⁴
UA4000187207	15.50	SA	2-Oct-24	38,028	1,026.50	39.04	38.03	18.65	3,937.77
UA4000227656	19.50	SA	15-Jan-25	88,088	1,022.37	90.06	88.09	19.16	14,554.42
UA4000228043	19.75	SA	22-Jul-26	2,887,258	1,011.49	2,920.44	2,887.26	20.39	7,887.26
Total UAH				3,013,374	3,049.54	3,013.37			26,379.45

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 MoF accepted five out of nine bids for 14-month bills for UAH38m (par value), while demand was for UAH139m. Interest rates ranged from 17.8% to 18.3%, and the MoF's decision was likely to accept one competitive bid with the lowest rate and all non-competitive demand. Therefore, the cut-off and weighted-average rates declined by 50bp to 17.8%.

The MoF made a similar decision for the 18-month paper. There were 17 bids for UAH122m, with rates ranging from 18.25% to 18.6%. The MoF decided to accept just nine bids for UAH88m (par value). However, the MoF accepted different competitive bids with rates from 18.25% to 18.35%, so the cut-off rate was set at 18.35% (down 50bp) and the weighted-average rate at 18.27% (down 54bp).

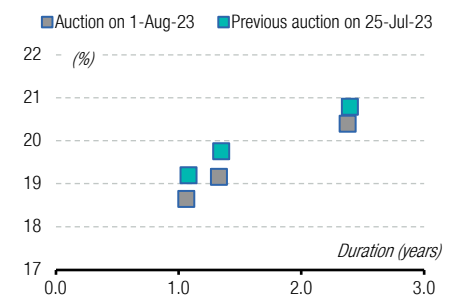
Yesterday, the MoF decreased the interest rate for "reserve" notes, too. Demand for this paper, which banks allowed to use to cover part of required reserves since August 11, 2023, was UAH3.9bn in 20 bids, with interest rates ranging from 19.19% to 19.75%. Most of the demand was below 19.5%, which the MoF set as the cut-off rate, down 25bp from last week. Significant demand with low rates caused the weighted-average rate to slide by 36bp to 19.39%.

The MoF borrowed a moderate amount of funds yesterday, but achieved the largest decrease in rates since the beginning of June when it started to selectively reduce interest rates for UAH bills. This is the debut bond interest-rate cut after the NBU revised its key policy rate, but probably not the last before the next review of the NBU key policy rate in September.

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

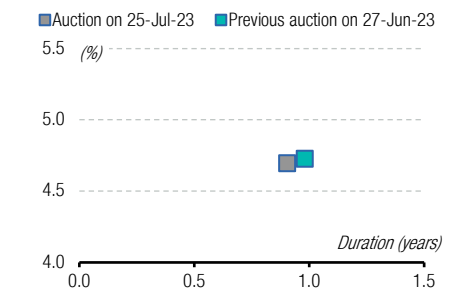
WEDNESDAY, 2 AUGUST 2023

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



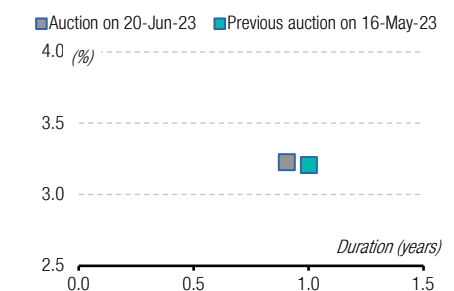
Source: Ministry of Finance of Ukraine, ICU.

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

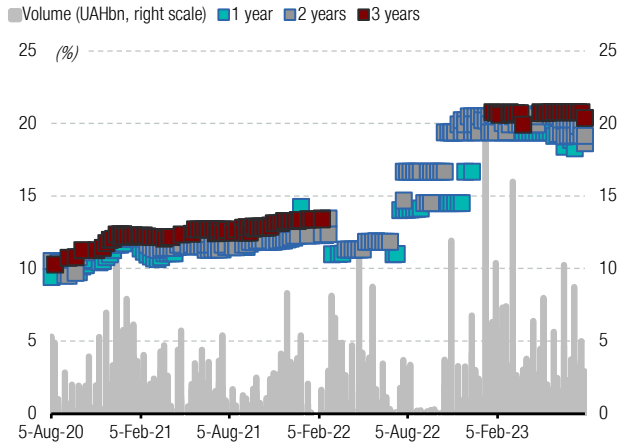


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

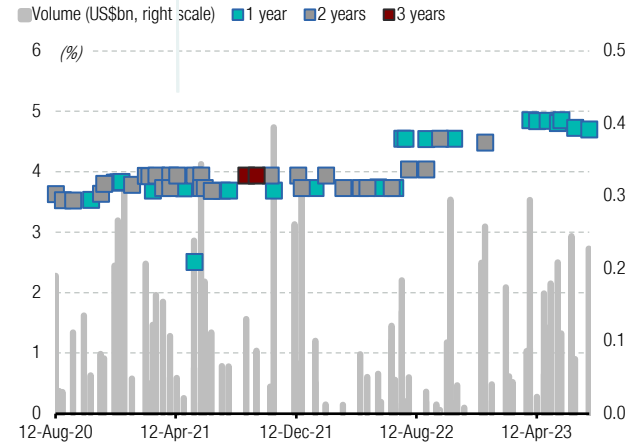
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

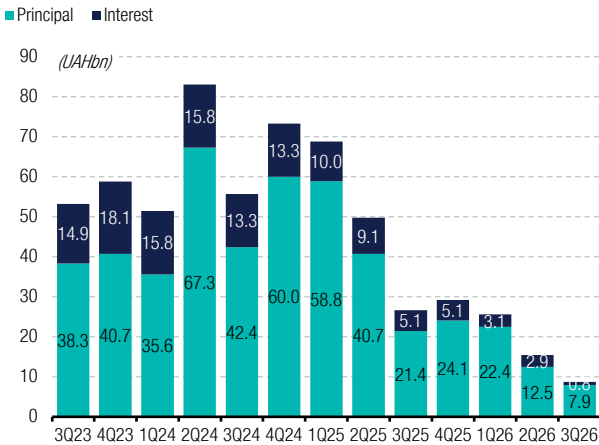
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

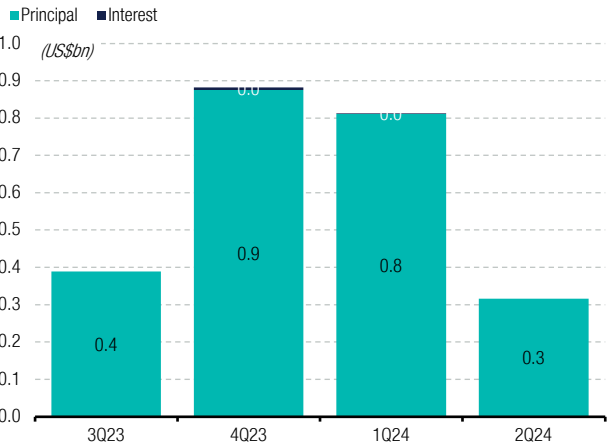
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

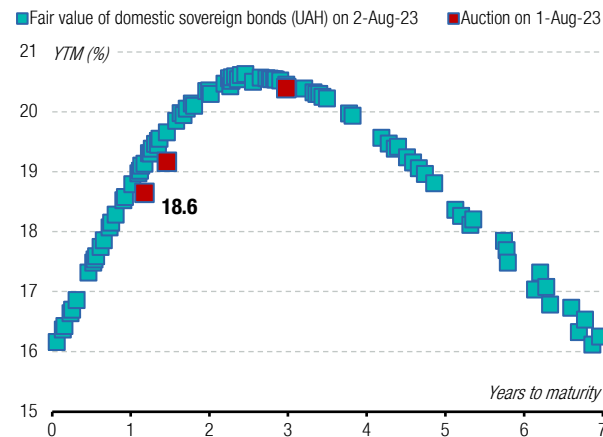
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

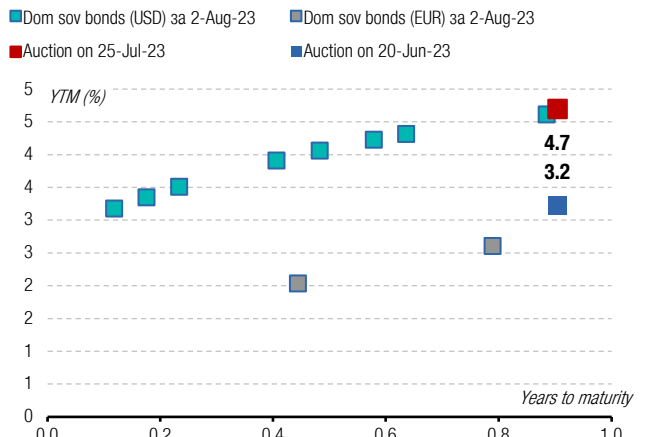
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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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, CFA

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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