

Bond Market Insight

Marginal changes in interest rates

Comment on government bond placement

WEDNESDAY, 20 SEPTEMBER 2023

The Ministry of Finance raised almost UAH15bn for the budget yesterday, mostly in hard currency. UAH bonds received low demand with little opportunity for the Ministry to decrease interest rates following the NBU's decision to cut the key policy rate by 200bp to 20%.

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
UA4000187207	15.50	SA	2-Oct-24	1,228,030	1,051.68	1,291.50	1,228.03	18.48	6,427.08
UA4000228449	18.31	SA	18-Jun-25	2,054,866	1,044.77	2,146.86	2,054.87	19.21	9,405.81
UA4000228381	19.18	SA	4-Nov-26	2,282,628	1,069.07	2,440.29	2,282.63	20.17	14,150.72
Total UAH				5,565,524	5,878.65	5,565.52			29,983.61
UA4000228506	0.00	@Mty	5-Sep-24	200,000	956.11	7,062.45	7,386.64	4.77	12,926.62
Total USD				200,000	7,062.45	7,386.64			12,926.62
UA4000228605	0.00	@Mty	12-Sep-24	50,000	969.20	1,911.31	1,972.05	3.24	1,972.05
Total EUR				50,000	1,911.31	1,972.05			1,972.05

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

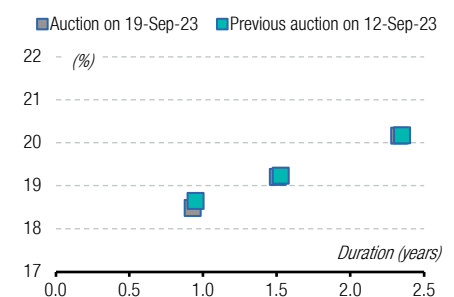
After repaying US\$380m last week, the MoF had to raise at least US\$120m to keep the USD-denominated redemptions refinancing rate at 100%. The MoF offered the same military bills as last week, but with US\$200m (par value) cap. Demand for this instrument amounted to almost US\$300m, so the Ministry decided to use the "residual" method of satisfying bids: 30% of the cap was used for partial and proportional satisfaction of non-competitive bids, competitive bids with rates below the maximum were satisfied in full, and the rest of the volume was distributed proportionally among participants whose bids were at the maximum rate. Interest rates in bids ranged from 4.68% to 4.8%. So, in the end, the budget received US\$191m, which was more than enough to refinance all USD-denominated redemptions in September.

Although there will be no EUR-denominated redemptions until the end of the year, the MoF offered EUR50m bills yesterday. The volume of demand was EUR70m. Non-competitive demand was fully satisfied, but, again, the competitive bids had to be partially accepted, distributing a part of the bonds among the participants in proportion to the size of the bids, as MoF did with the USD-denominated paper.

At the same time, all UAH instruments received less demand yesterday than the caps.

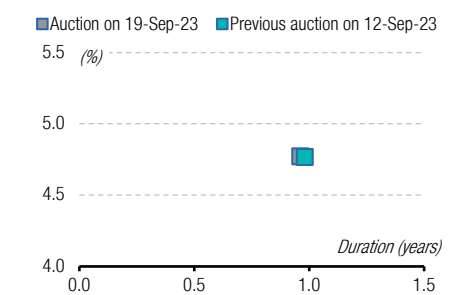
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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



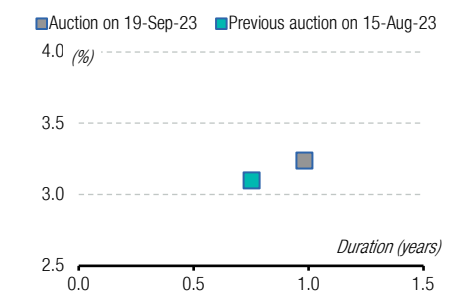
Source: Ministry of Finance of Ukraine, ICU.

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 MoF offered regular and military bills for UAH4bn each and "reserve" notes for UAH5bn. Therefore, applying the principle of residual bid satisfaction for UAH bonds was unnecessary. However, three bids were rejected.

Twelve-month bills received 12 bids with rates from 17% to 17.8% (the maximum rate last week). The MoF rejected two bids for UAH10m, setting the cut-off rate at 17.78% (down 2bp) and the weighted average at 17.65% (down 15bp from last week).

Demand for 1.5-year "military" bills declined to UAH2bn, but most were with rates at the cut-off level of the previous auction, 18.35%. Therefore, the MoF kept the cut-off rate at 18.35%, but because the minimum rate was 15bp lower than last week, the weighted average rate decreased by 3bp to 18.31%.

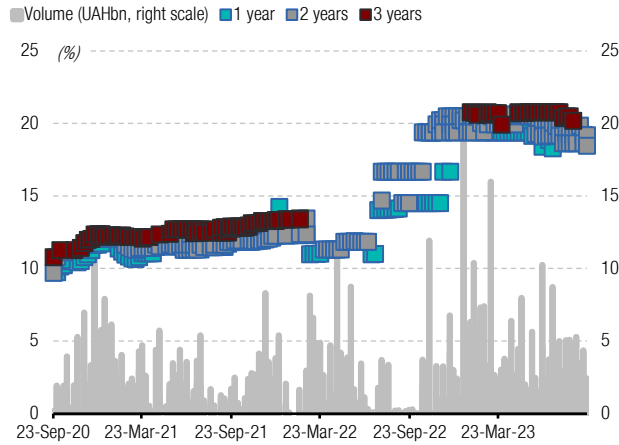
Demand for "reserve" notes was, for the most part, similar to last week: interest rates in competitive bids ranged from 19% to 19.20%. The MoF rejected only one bid for UAH70m with an interest rate of 19.9%. So, as a result, the MoF accepted demand with a cut-off rate 19.2% and a weighted average rate of 19.19%, the same as last week.

Yesterday's bidders were in no rush to lower interest rates on UAH bonds, just as the MoF was in no hurry to raise interest rates in June 2022 after the NBU increased the key policy rate to 25%. So, bond interest rates spread to the key policy rate in tightening, but interest rates are still lower than the key rate, having room for slight decline.

Appendix: Yields-to-maturity, repayments

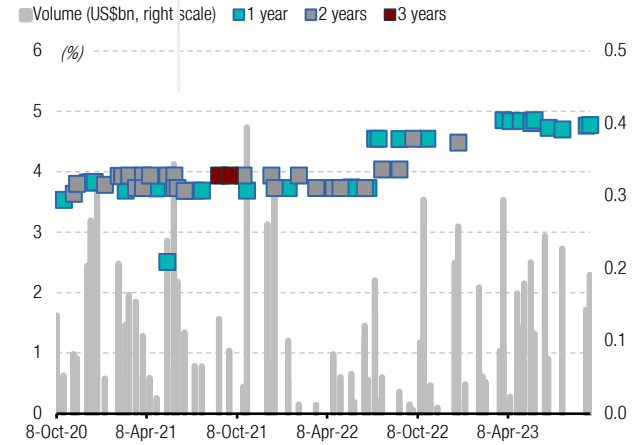
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

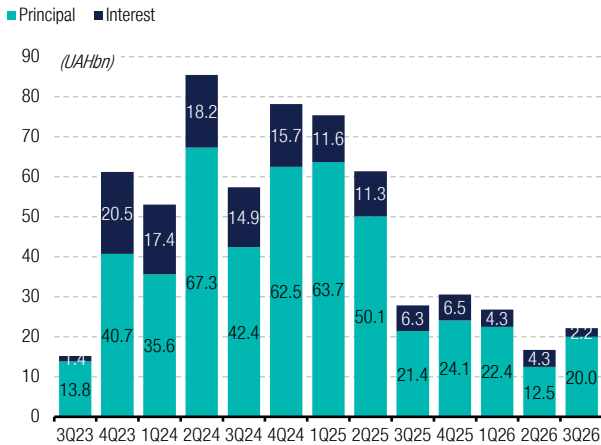
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

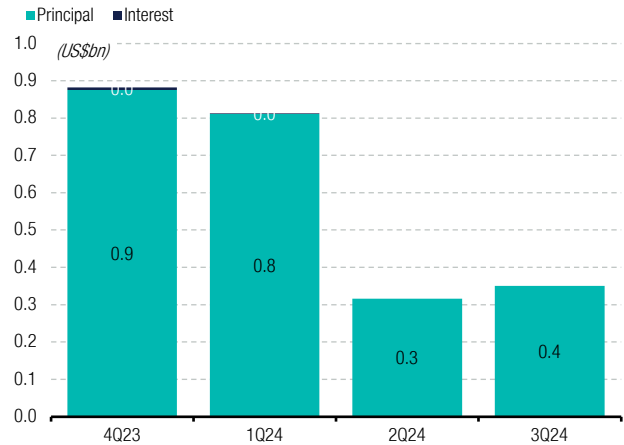
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

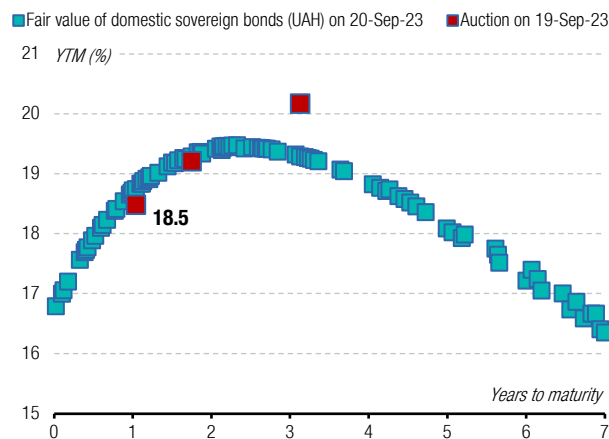
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

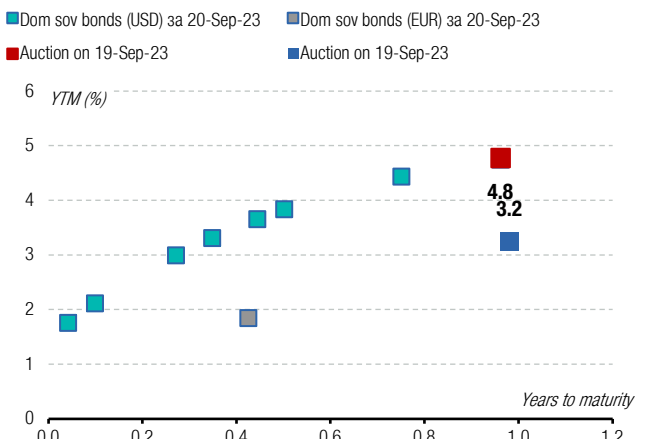
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

This page is intentionally left blank.



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

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

