

Bond Market Insight

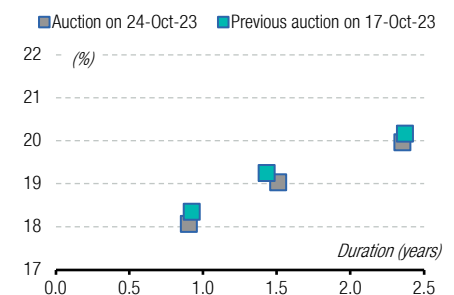
Sharp reduction in UAH interest rates

Comment on government bond placement

WEDNESDAY, 25 OCTOBER 2023

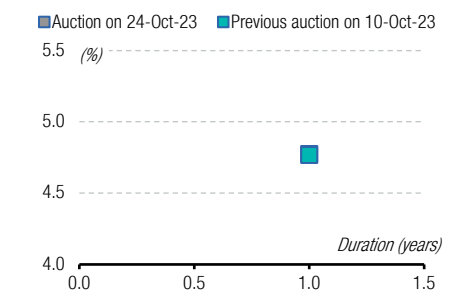
Yesterday, the Ministry of Finance raised almost UAH23bn (US\$627m), lowering rates on all UAH-denominated instruments.

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



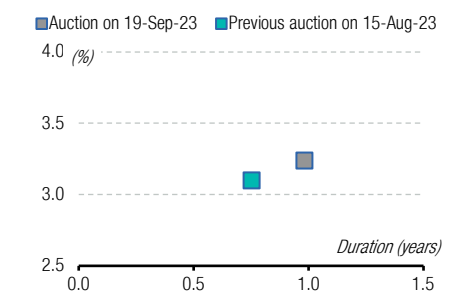
Source: Ministry of Finance of Ukraine, ICU.

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 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	3,500,000	993.81	3,478.34	3,500.00	18.07	17,030.99
UA4000228910	18.15	SA	23-Jul-25	4,000,000	1,044.39	4,177.57	4,000.00	19.03	4,000.00
UA4000228811	19.19	SA	30-Sep-26	4,715,737	1,014.77	4,785.39	4,715.74	19.96	14,715.74
Total UAH				12,215,737	12,441.30	12,215.74			35,746.73
UA4000228928	0.00	@Mty	24-Oct-24	300,000	954.43	10,490.80	10,991.64	4.77	10,991.64
Total USD				300,000	10,490.80	10,991.64			10,991.64

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 36.64/USD, 39.37/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand for 12-month bills increased almost fourfold, to UAH3.9bn (US\$109m), exceeding the cap, but it was mainly in non-competitive bids. Interest rates in competitive bids were mostly lower than last week, although the maximum was the same—17.53%. Using the cap, the Ministry of Finance satisfied 9 out of 12 bids, setting the cut-off rate at 17.3% and the weighted average rate at 17.27%, 23bp and 26bp lower than last week. Almost all accepted demand was in non-competitive bids, and only UAH124m (US\$3m) was competitive.

The greatest demand was for new military paper maturing in July 2025. It attracted more than UAH8.8bn (US\$242m) in 31 bids, including a third in non-competitive bids. Therefore, within the cap, the Ministry of Finance accepted only part of the competitive bids and non-competitive demand amounted to UAH2.9bn (US\$79m), setting the cut-off and weighted average rates at 18.15%, 20bp lower than last week.

Interest rates for "reserve" notes also decreased yesterday, the cut-off rate by 19bp and the weighted average by 18bp, to 19%. However, to set new interest rates, the Ministry of Finance sold less than planned, UAH4.7bn (US\$129m), and again, mainly through non-competitive bids which amounted to UAH3.3bn (US\$90m).

Only the cut-off rate for USD-denominated bills remained unchanged. The Ministry of Finance has placed all the planned US\$300m, including US\$62m, under non-competitive bids, attracting US\$286m to the budget. However, the weighted average

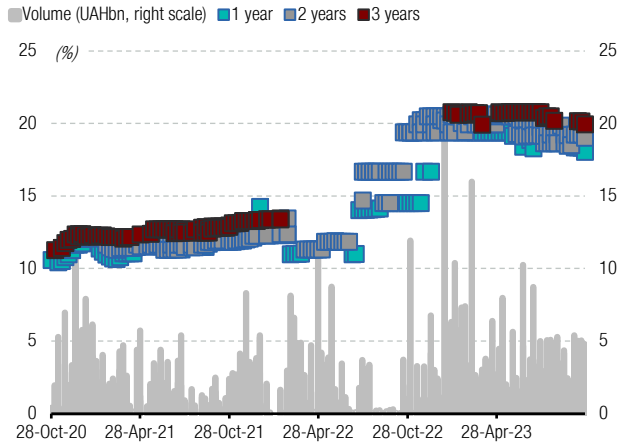
rate increased by 1bp to 4.79% compared with the auction two weeks ago.

The Ministry of Finance satisfied only 62% of demand for UAH government bonds and was able to sharply decrease interest rates. The high demand may have resulted from expectations of a further decrease in the NBU discount rate this Thursday and interest rates for NBU CDs.

Appendix: Yields-to-maturity, repayments

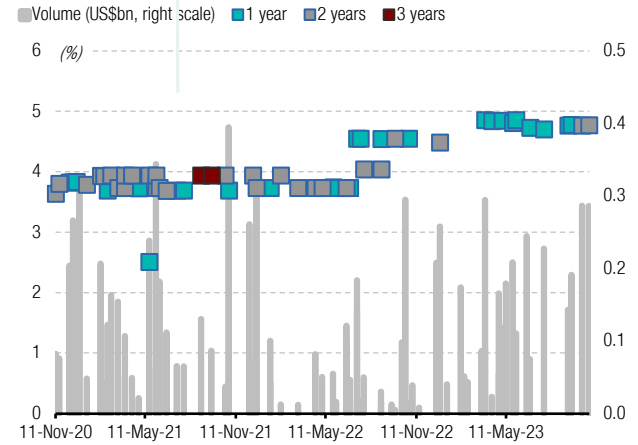
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

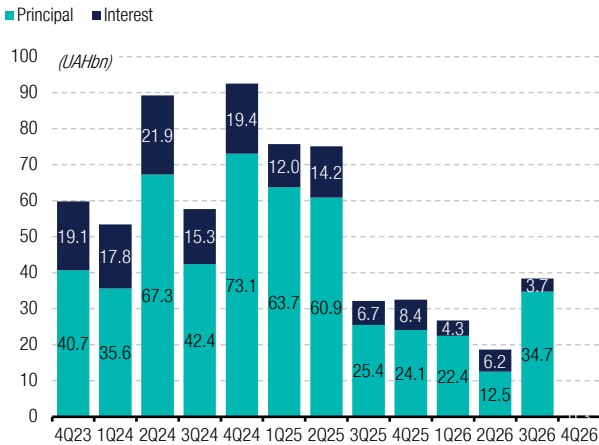
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

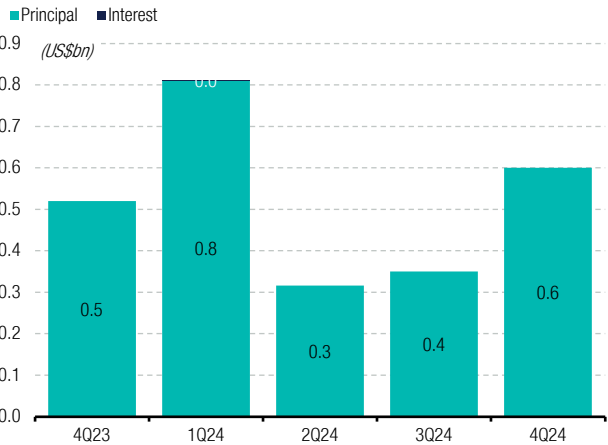
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

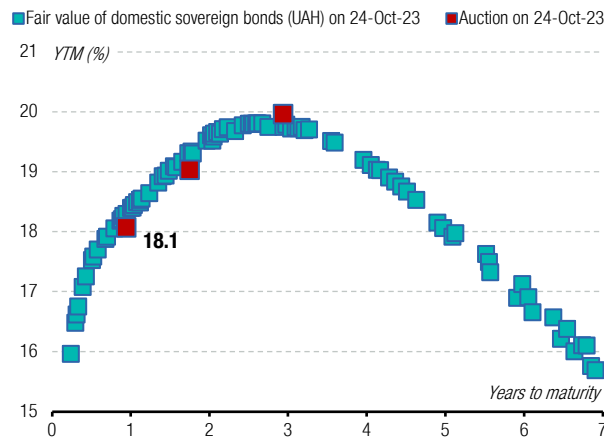
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

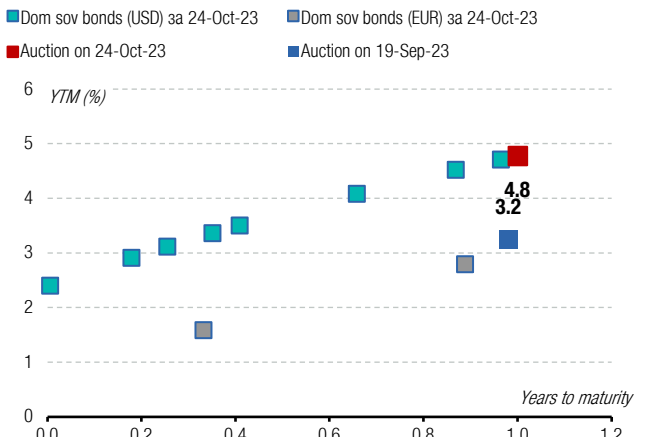
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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