

Bond Market Insight

Decline in rates despite lower demand

Comment on government bond placement

WEDNESDAY, 29 NOVEMBER 2023

Yesterday, demand for UAH securities was lower by about a third compared with the previous two weeks. However, lower demand did not prevent the MoF from lowering rates by 10–12bp on all three offered bonds.

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

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000229025	0.00	@Mty	5-Jun-24	3,000,000	921.16	2,763.48	3,000.00	16.53	15,000.00
UA4000229264	17.80	SA	15-Oct-25	3,000,000	1,022.37	3,067.12	3,000.00	18.47	6,000.00
UA4000229116	18.87	SA	24-Feb-27	660,029	597.98	394.68	660.03	52.70	10,238.16
Total UAH				6,660,029		6,225.28	6,660.03		31,238.16

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

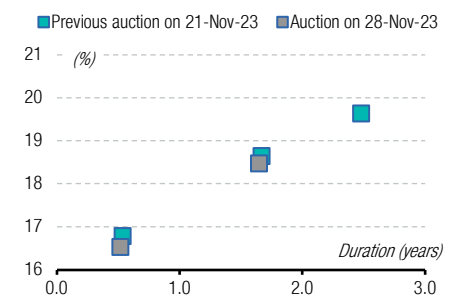
Demand for semi-annual government bills in terms of amount fell by a third, although the number of bids remained roughly the same. Rates in bids were significantly lower than last week, in the 16.5–16.7% range, but the cap was exhausted at 16.68%. So, the Ministry rejected the five most expensive bids and set the cut-off rate at 16.68%, down by 12bp from last week, and the weighted average is 16.53%, lower than last week by as much as 26bp.

For two-year paper, demand was more pragmatic with a much narrower range of rates—17.6–17.7%. The Ministry accepted all bids, but many partially, within the cap. Accordingly, rates decreased less than for semi-annual bills: the cut-off rate decreased by 10bp to 17.7%, and the average weighted rate decreased by 16bp to 17.64%.

Three-year notes, which may become "reserve" eligible in the future, received only UAH660m in demand. The maximum bid rate was 18.6%, 10bp below last week's cut-off rate. Since the MoF hoped to sell 6x more of such bonds, it met all the received demand. Accordingly, the cut-off rate and the weighted average decreased by 10bp to 18.6% since the bids at a lower level were small.

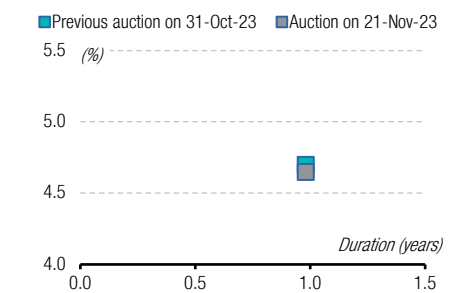
The Ministry of Finance continues its policy of lowering interest rates within the range submitted by participants. The shortage of short-term instruments prompts investors to increasingly compete for the shortest paper offered by the MoF, further pushing placement rates down. At the same time, expectedly, three-year notes received low

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



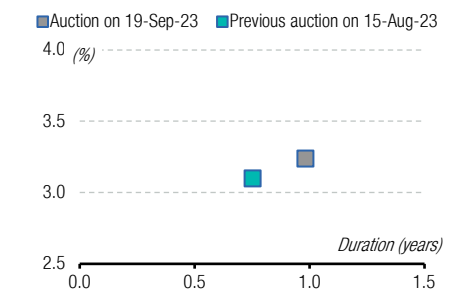
Source: Ministry of Finance of Ukraine, ICU.

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



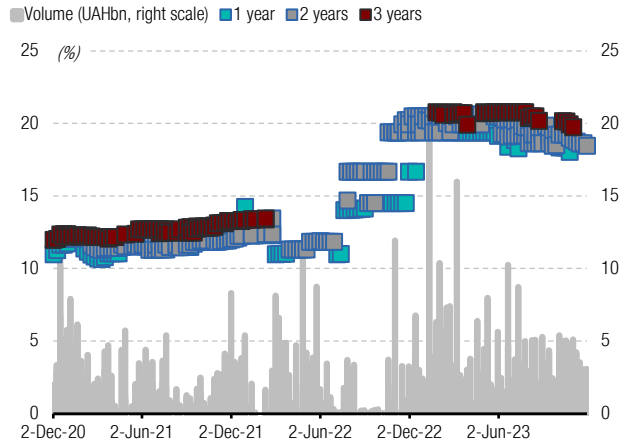
Source: Ministry of Finance of Ukraine, ICU.

demand as interest from banks is low until the NBU includes new paper in the list of bonds allowed to cover part of reserves requirements. That is why the total volume of demand and budget proceeds decreased compared with previous weeks, but may increase when three-year notes become interesting for banks to use for reserves.

Appendix: Yields-to-maturity, repayments

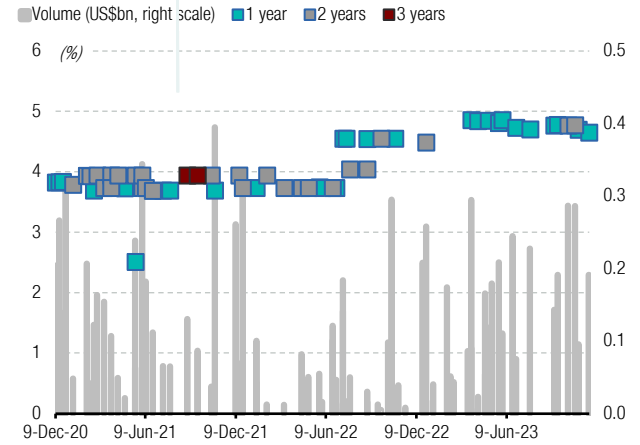
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

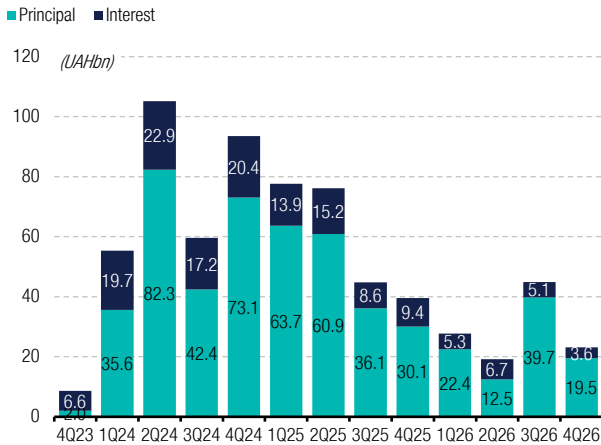
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

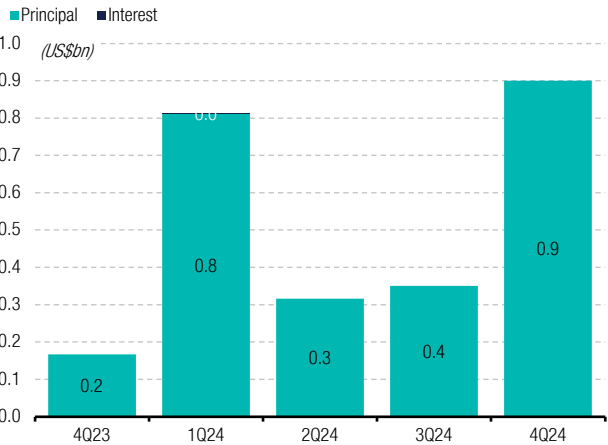
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

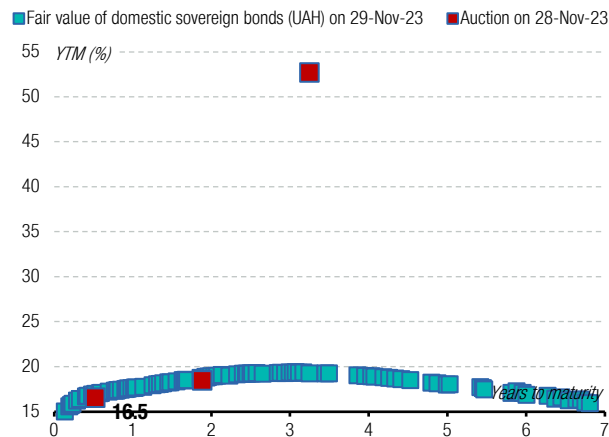
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

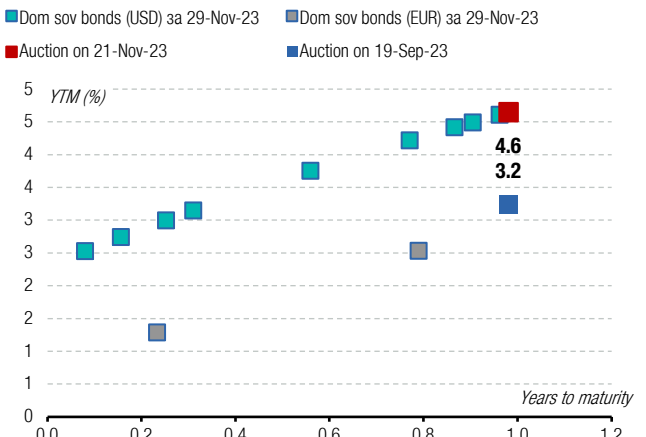
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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