

Bond Market Insight

Pause in interest-rate cuts

Comment on government bond placement

WEDNESDAY, 13 DECEMBER 2023

Yesterday, the Ministry of Finance raised UAH5.2bn from the primary auction almost without changes in interest rates.

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
UA4000229470	0.00	@Mty	20-Nov-24	4,000,000	863.10	3,452.38	4,000.00	16.88	7,000.00
UA4000229264	17.80	SA	15-Oct-25	689,923	1,029.78	710.47	689.92	18.42	9,645.12
UA4000229116	18.87	SA	24-Feb-27	993,551	1,059.72	1,052.89	993.55	19.52	13,925.87
Total UAH				5,683,474	5,215.74	5,683.47			30,571.00

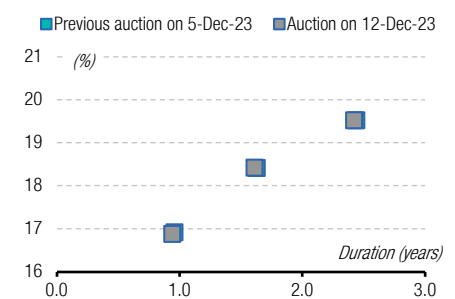
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 36.67/USD, 39.37/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The most significant demand was for 11-month bills, as expected. The MoF received 26 bids for UAH10bn and accepted 25 of them, selling only UAH4bn of bonds. The Ministry likely satisfied fully non-competitive demand at 16.88% (only 4bp lower than last week) for UAH3.4bn and competitive bids with rates below the cut-off rate of 16.9%. Bids at 16.9% were partially satisfied within the rest of the cap. The MoF rejected only one bid with a 16.97% interest rate.

At the same time, longer maturities again received low demand, just UAH1.7bn. Bids mostly had interest rates similar to last week's auction and were fully satisfied. The MoF sold the two-year paper for UAH690m with an unchanged cut-off rate of 17.6% and an increase of the weighted average rate of 1bp to 17.59%. At the same time, the Ministry placed three-year "reserve" notes for almost UAH994m, keeping both the cut-off rate and the weighted average at 18.6%.

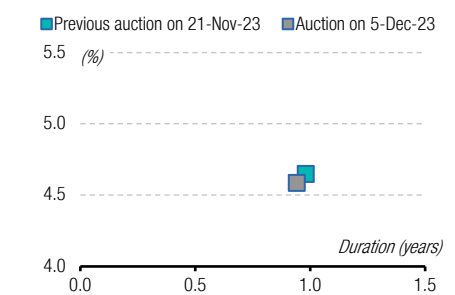
Yesterday's auction demonstrated that the market had already evaluated all the NBU's previous decisions on the key policy rate, and factored in its announced plans to lower the rate in December by another 100bp to 15%. Market participants were in no hurry to buy longer instruments, seeking first to receive new indicators from the NBU for 2024 tomorrow, especially given the current uncertainty regarding external financing for next year and the recent weakening of the hryvnia exchange rate.

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



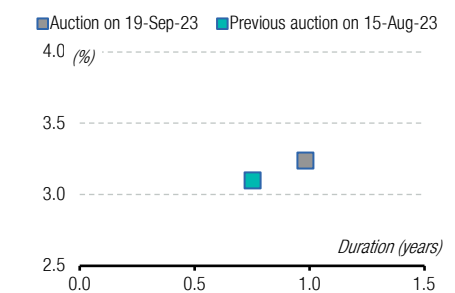
Source: Ministry of Finance of Ukraine, ICU.

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

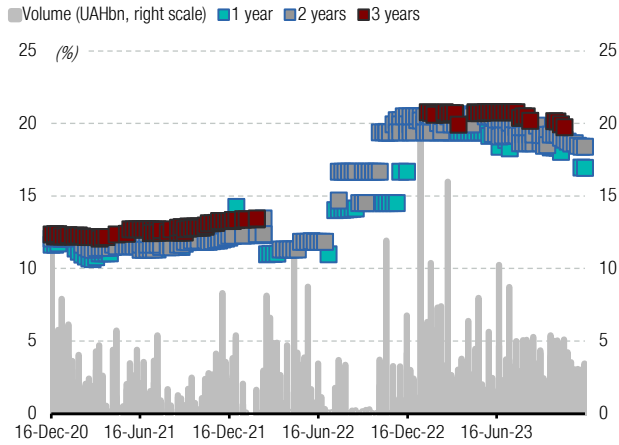


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

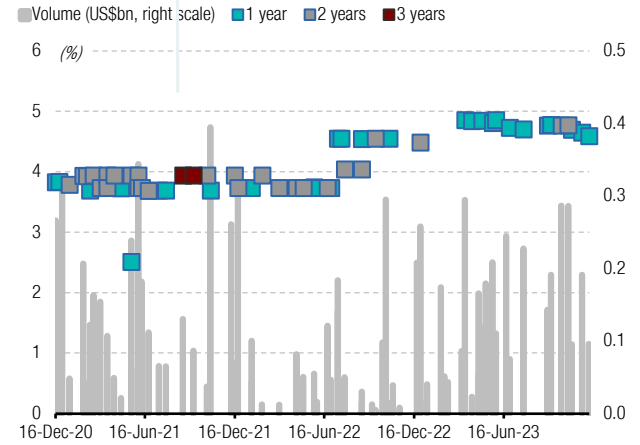
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

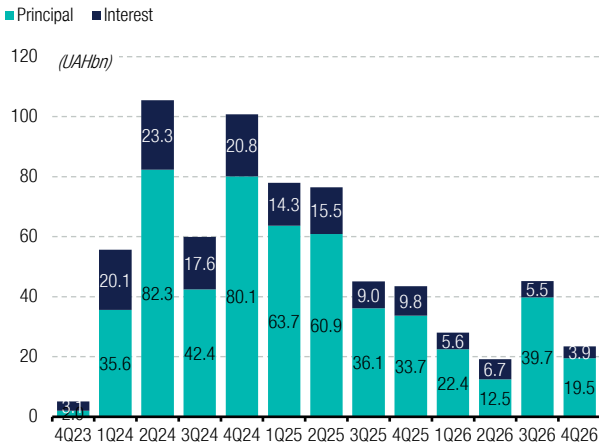
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

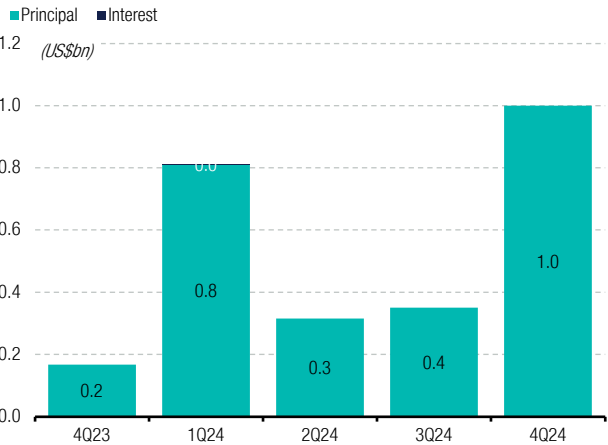
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

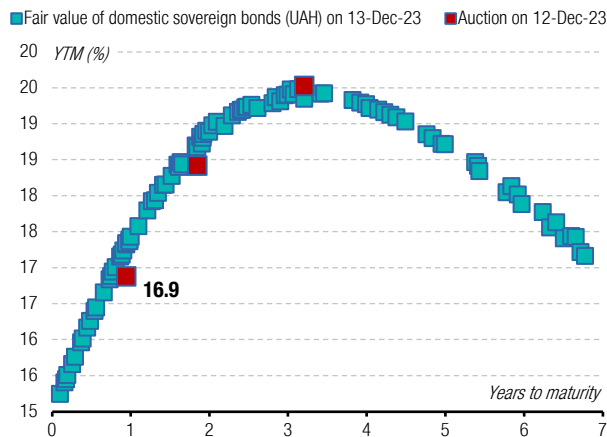
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

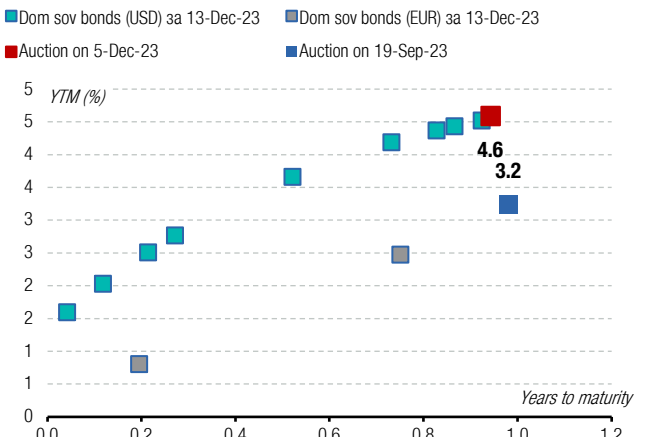
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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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

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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