

Bond Market Insight

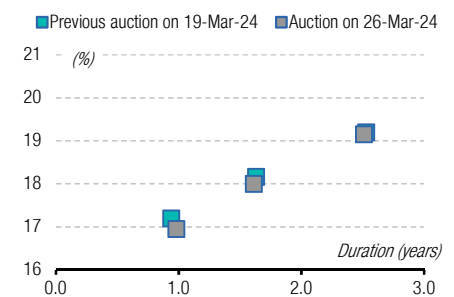
Bond rates continue to decline

Comment on government bond placement

After the NBU decreased its key rate and rates for CDs earlier this month, yesterday, the MoF used the opportunity to cut interest rates for UAH bonds once more. The decline in rates yesterday was moderate, and less significant than a week ago.

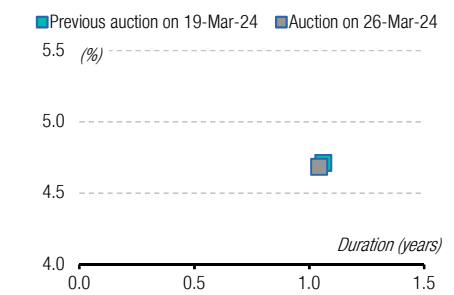
WEDNESDAY, 27 MARCH 2024

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



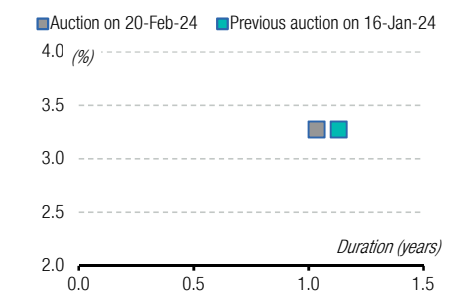
Source: Ministry of Finance of Ukraine, ICU.

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	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000230635	16.24	SA	30-Apr-25	4,000,000	1,065.11	4,260.45	4,000.00	16.95	4,000.00
UA4000230262	17.60	SA	28-Jan-26	4,000,000	1,032.41	4,129.64	4,000.00	17.99	18,210.46
UA4000230270	18.50	SA	7-Jul-27	1,168,011	1,043.94	1,219.34	1,168.01	19.15	8,712.42
Total UAH				9,168,011		9,609.43	9,168.01		30,922.88
UA4000230452	4.62	SA	24-Apr-25	72,343	1,019.40	2,886.98	2,832.05	4.69	11,005.26
Total USD				72,343		2,886.98	2,832.05		11,005.26

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 39.15/USD, 41.71/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand for a new issue of one-year paper declined by a third from last week, to UAH5.8bn (US\$147m) in 26 bids with interest rates ranging from 16.12% to 16.45%. The most conservative demand was just 1bp lower than the weighted-average rate last week, but most of the demand had lower rates. The MoF rejected only one bid and distributed the cap as following: 30% or UAH1.2bn of the offered amount was sold by non-competitive bids (partially in proportion to the bid size), competitive bids with rates lower than 16.35% were accepted fully, and the rest of the cap was used to satisfy bids with the cut-off rate (partially in proportion to the bid size). Consequently, the cut-off rate slid by 15bp to 16.35% (or 45% of the rate before NBU cut its key rate) and weighted-average rate by 22bp to 16.24%.

The MoF set the cap for two-year bills also at UAH4bn and got only UAH142.5m of extra demand. Bids were in tight range, 17.1%–17.2%. The MoF satisfied all bids, setting the cut-off and the weighted-average rates at 17.2%, 15bp lower than last week.

Three-year notes received low demand, one-third of last week's amount. Interest rates in demand slid insignificantly, so the MoF kept cut-off rate at 18.3% and decreased weighted-average rate by only 4bp to 18.26%.

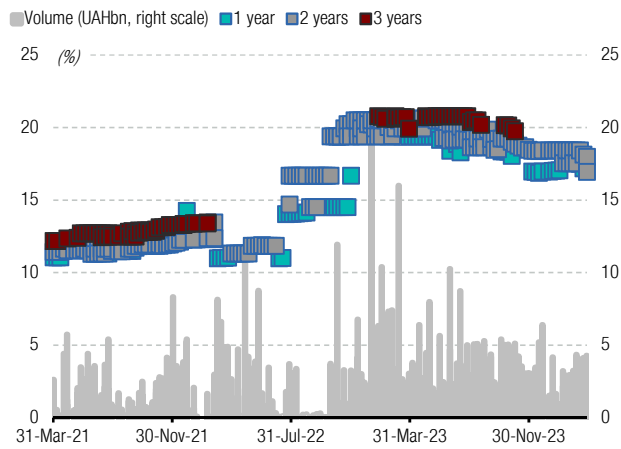
Demand for USD-denominated bills halved from last week and was mostly at 4.66%. The MoF satisfied most bids, decreasing the weighted-average rate by only 3bp.

The bond market continues to move towards lower rates, which is in line with the recent NBU decision to cut the key rates by 50bp to 14.5% and rates for three-month CDs by 150bp to 17.5%, but at a slower pace. Despite rates for one- and two-year securities in the primary market being lower than for three-month CDs, there is still room to manoeuvre as banks can lock current yields for a longer time when three-month CDs have lower rates.

Appendix: Yields-to-maturity, repayments

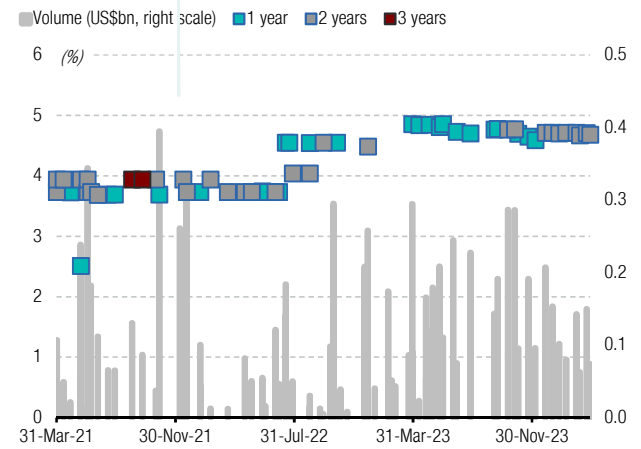
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

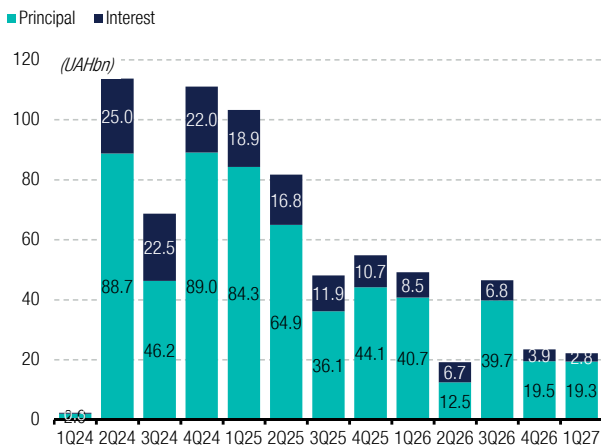
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

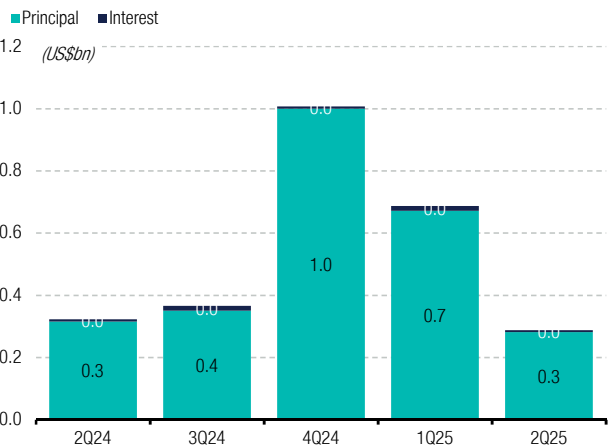
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

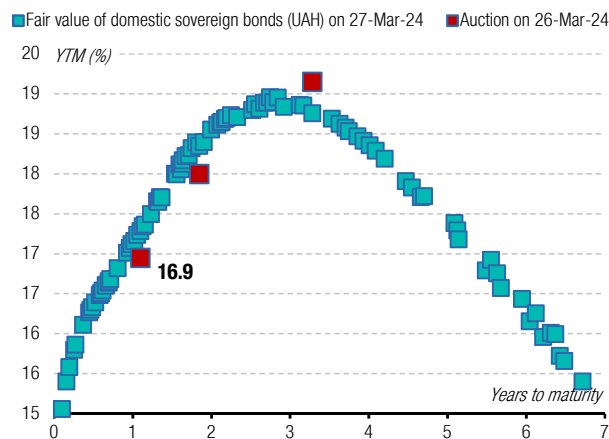
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

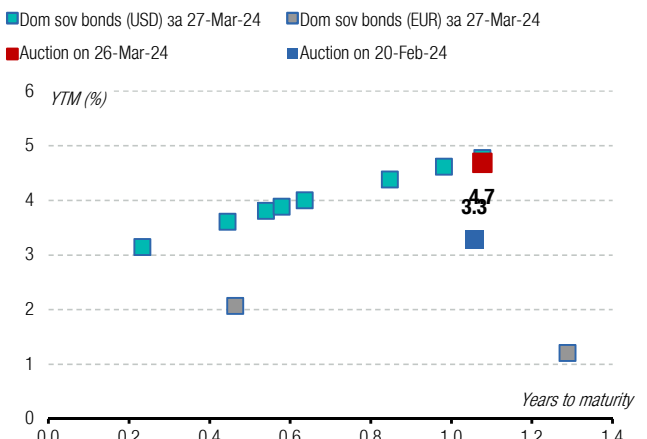
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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