

Bond Market Insight

Bond rate reduction on hold

Comment on government bond placement

WEDNESDAY, 17 APRIL 2024

Yesterday, demand at the primary auction did not allow the Ministry of Finance to continue lowering rates or to sell planned volumes of bonds.

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
UA4000230635	16.24	SA	30-Apr-25	3,000,000	1,076.08	3,228.25	3,000.00	16.79	14,000.00
UA4000230809	17.00	SA	18-Mar-26	479,676	1,012.65	485.74	479.68	17.77	789.13
UA4000230270	18.50	SA	7-Jul-27	3,000,000	1,053.52	3,160.56	3,000.00	19.19	15,612.22
Total UAH				6,479,676		6,874.56	6,479.68		30,401.35

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 39.32/USD, 41.96/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

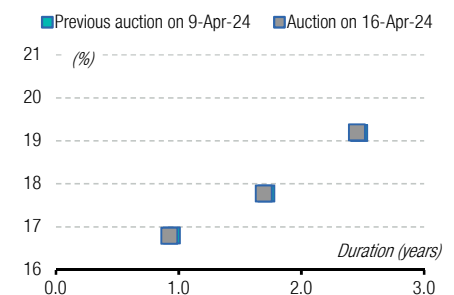
Demand for one-year bills continued to decline, but it still exceeded supply. The MoF set the cap at UAH3bn and received 22 bids with rates from 15.9% to 16.1% for UAH4.1bn. So, typically for such oversubscription, 30% of the cap was sold for non-competitive bids (satisfied at the weighted average rate), and the rest of the cap the MoF sold to other bidders at the rates in their bids. So, as a result, the cut-off rate did not change, and the weighted average rate decreased by 1bp to 16.09%.

Demand that the two-year paper received amounted to 1/6 of the cap. Most of the bids were at the rates of the last auction, so the cut-off and weighted average rates did not change and remained at 17%.

For the first time in two months, three-year notes due in July 2027 were oversubscribed. Demand was very flat for the fifth week in a row. Most bids were at 18.3%, so the cut-off rate hasn't changed all this time, and the weighted average rate fluctuates within a few basis points, slightly below or at 18.3%. The MoF rejected approximately 5% of demand simply because the supply volume was exhausted.

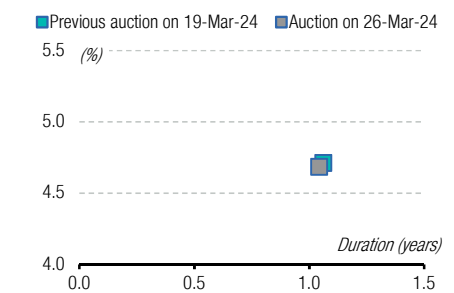
So, one week before NBU's next monetary committee meeting, we have a pause in the downward movement of UAH bond rates in the primary market. Given low inflation, the NBU may once again lower the key policy rate and rates for CDs, pushing the bond market to a new level of lower government bond rates in two weeks. However, rates may decline next week before the NBU meeting based on expectations.

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



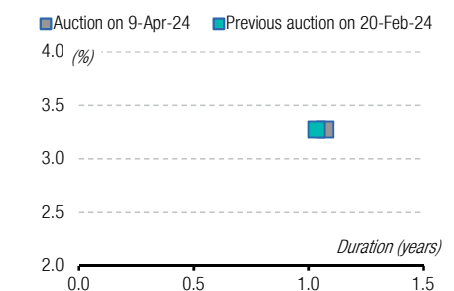
Source: Ministry of Finance of Ukraine, ICU.

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

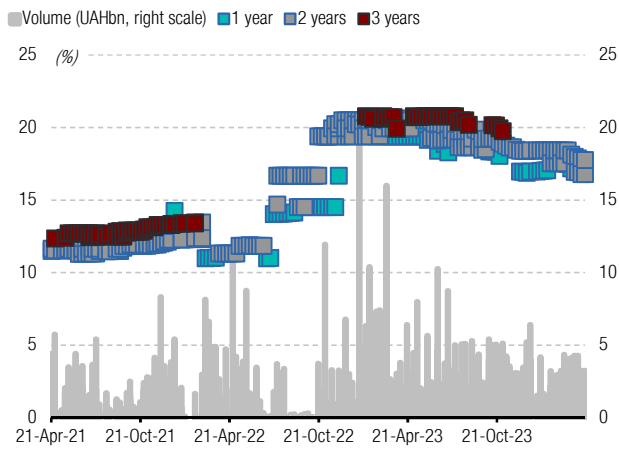


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

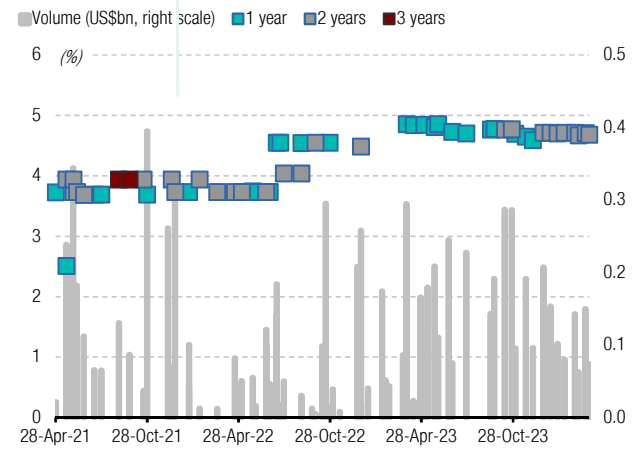
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

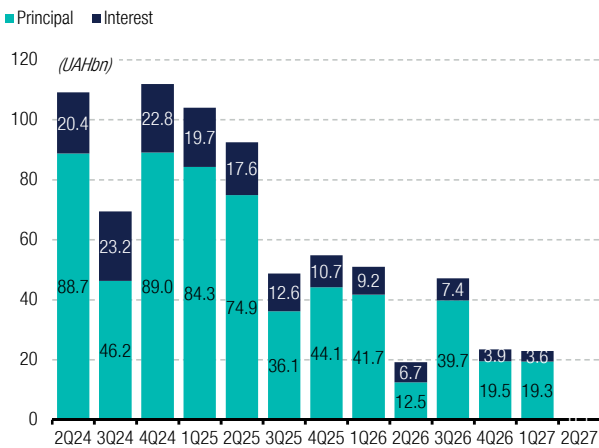
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

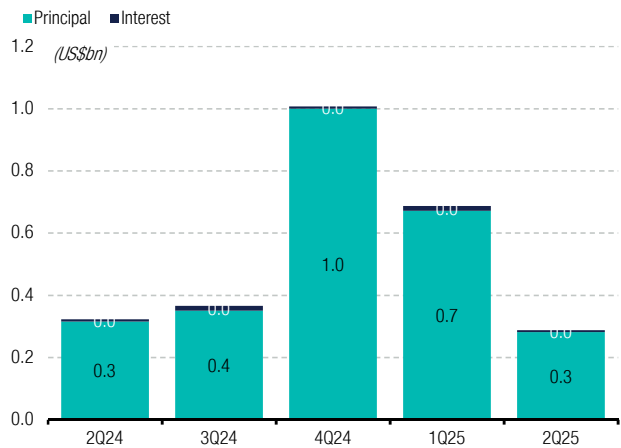
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

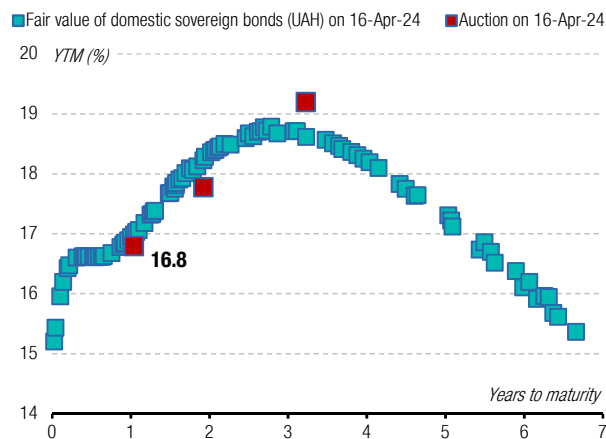
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

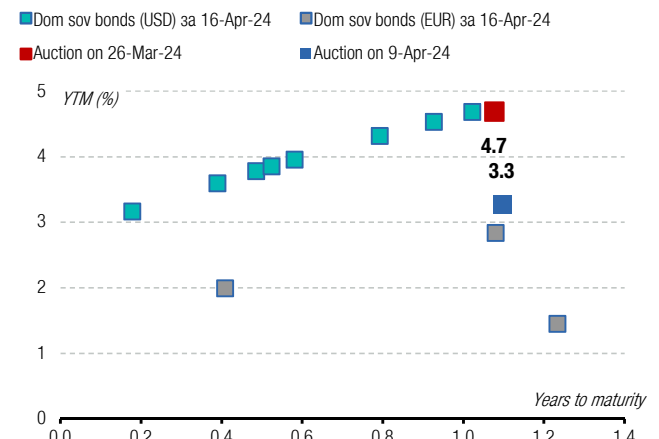
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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