

Bond Market Insight

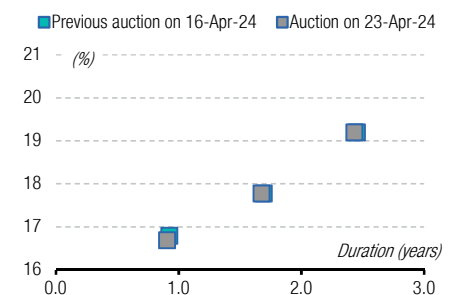
Bond market waits for NBU to cut rates

Comment on government bond placement

WEDNESDAY, 24 APRIL 2024

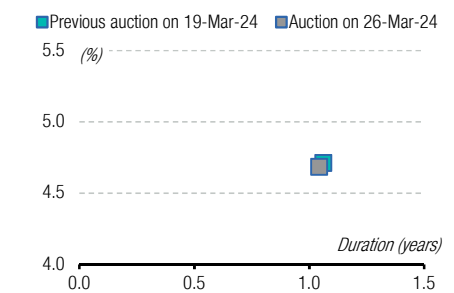
Yesterday's auction received UAH9.4bn of demand, mainly for 12-month bills, but also strong demand for two- and three-year securities. Proceeds for the state budget amounted to almost UAH7.6bn. The MoF decreased interest rates for 12-month paper only.

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



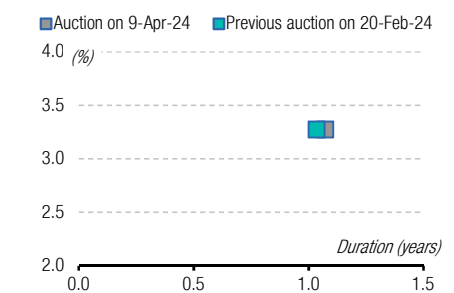
Source: Ministry of Finance of Ukraine, ICU.

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 freq 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	1,080.14	3,240.43	3,000.00	16.69	17,000.00
UA4000230809	17.00	SA	18-Mar-26	2,014,033	1,015.81	2,045.87	2,014.03	17.78	2,803.16
UA4000230270	18.50	SA	7-Jul-27	2,178,281	1,057.17	2,302.81	2,178.28	19.19	17,790.50
Total UAH				7,192,314	7,589.11	7,192.31			37,593.67

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.

The 12-month bills were almost twice oversubscribed, with UAH5.2bn of demand and UAH3bn of the cap. Almost half of the demand was in non-competitive bids (satisfied at the weighted average rate). Interest rates in competitive bids were similar to the previous auction, in the range of 15.9%–16.2%. The MoF decided to satisfy all non-competitive demand (UAH2.4bn) and to sell the rest of the cap to competitive bids with rates not higher than 16%. Therefore, the cut-off and weighted average rates slid by another 10bp to 16%.

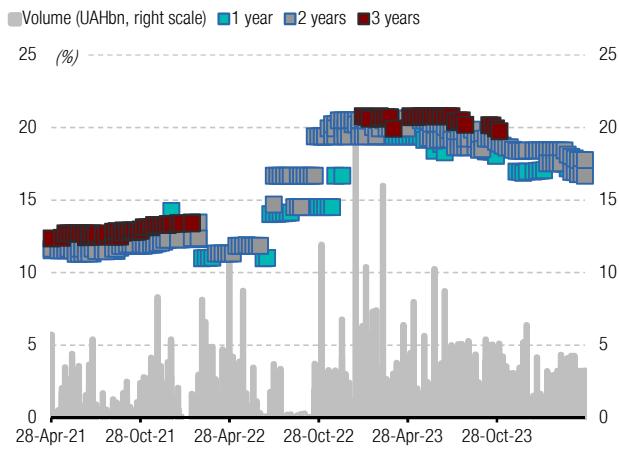
Demand for two-year bills increased more than fivefold to UAH2bn, keeping interest rates unchanged from last week. At the same time, the demand for three-year notes declined to UAH2.2bn and remained with the same interest rates as last Tuesday. Therefore, the MoF would have to reject most bids to decrease interest rates for these two securities. Thus, the Ministry satisfied all bids, keeping interest rates at 17% and 18.3% for two-year and three-year securities, respectively.

Investors expect that the NBU may lower the key policy rate and rates for CDs again, so they are trying to buy more bonds at the current YTM's. Therefore, demand remained considerable in recent weeks, but with minimal opportunities for the Ministry of Finance to reduce interest rates for UAH bonds. As early as next Tuesday, we can see a further reduction in rates for all UAH instruments, but more aggressively for one-year bills and much slower for two- and three-year instruments.

Appendix: Yields-to-maturity, repayments

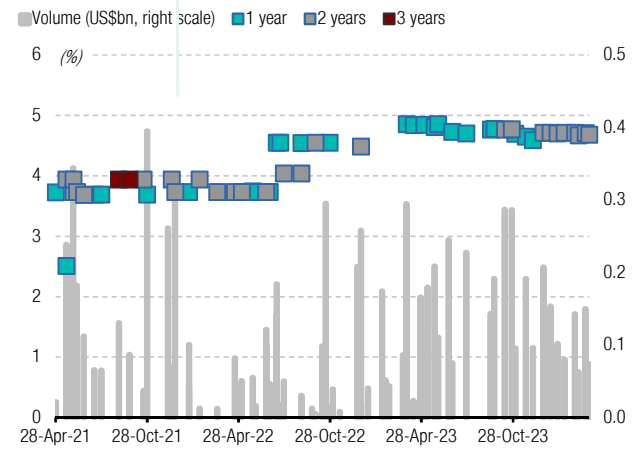
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

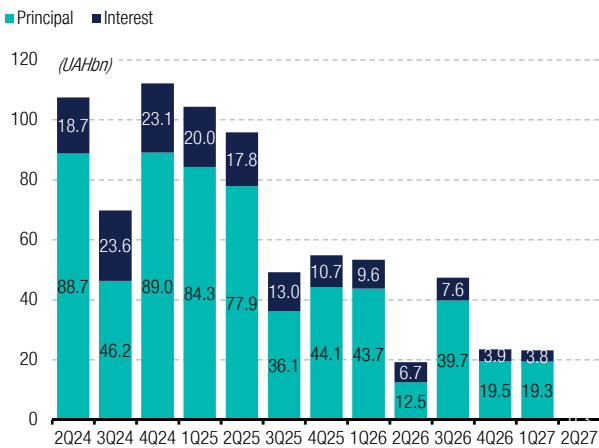
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

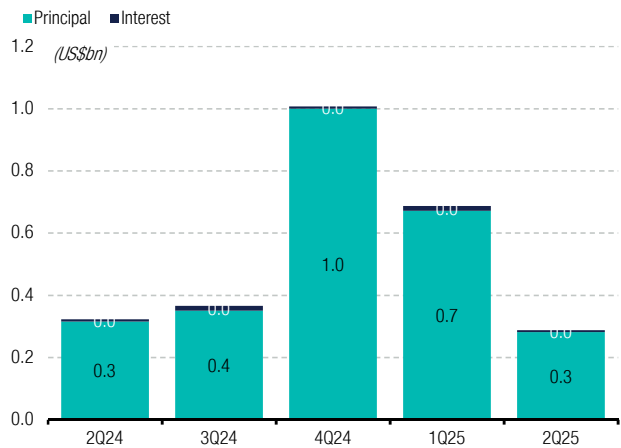
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

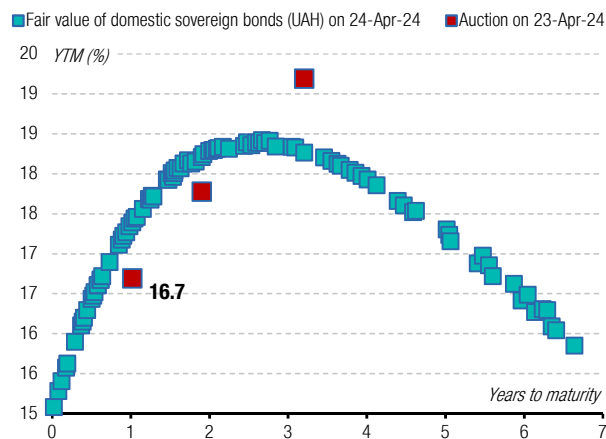
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

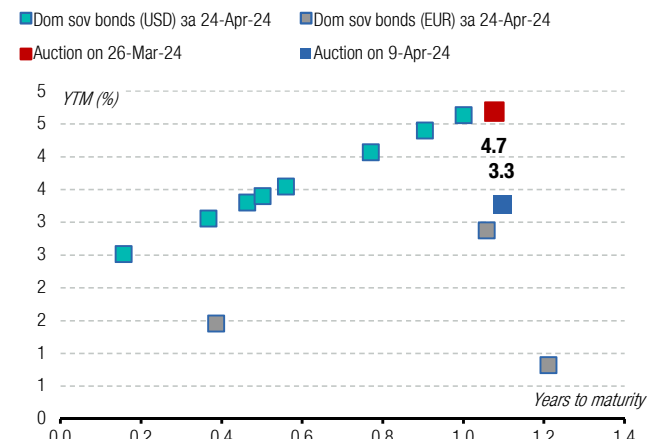
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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