

# Bond Market Insight

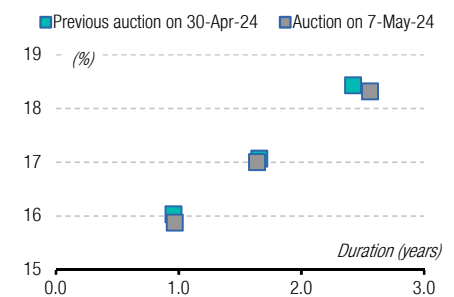
## Yields on UAH bonds continues to decline

### Comment on government bond placement

WEDNESDAY, 8 MAY 2024

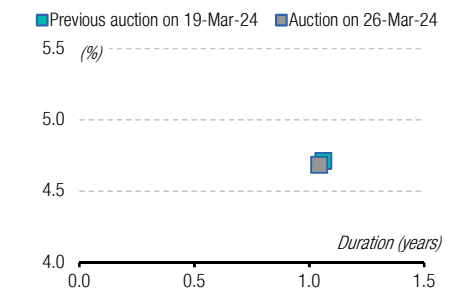
The MoF continued to reduce interest rates for UAH bonds, sold the planned amount, and received UAH9.4bn of budget proceeds. Investors and traders tried to reinvest funds from last week's redemption, allowing the MoF to reduce rates by 6-20bp.

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



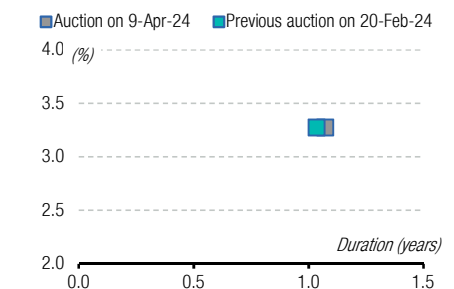
Source: Ministry of Finance of Ukraine, ICU.

### 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 <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000231187	15.25	SA	4-Jun-25	3,000,000	1,064.15	3,192.45	3,000.00	15.88	3,000.00
UA4000230809	17.00	SA	18-Mar-26	3,000,000	1,033.31	3,099.93	3,000.00	17.00	7,803.16
UA4000231195	17.50	SA	25-Aug-27	3,000,000	1,032.83	3,098.50	3,000.00	18.32	3,000.00
<b>Total UAH</b>				<b>9,000,000</b>		<b>9,390.88</b>	<b>9,000.00</b>		<b>13,803.16</b>

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.

A new 12-month paper received UAH9.4bn of demand in 34 bids with interest rates from 15.25% to 15.39%. Much of the demand was at the lowest rate, so the MoF sold the planned UAH3bn of bills at this rate. The cut-off rate declined by 20bp, and the weighted-average rate slid by 14bp to 15.25%. The total interest rate decline for 12-month bills in two weeks is 75bp.

The two-year paper was about 50% oversubscribed with a tight range of interest rates, 16.2%–16.3%. Therefore, the MoF accepted all bids, some partially within the cap. The cut-off rate declined by 10bp to 16.3%, and the weighted-average rate slid by 6bp to 16.29%. In two weeks, interest rates for this paper declined by 70–71bp.

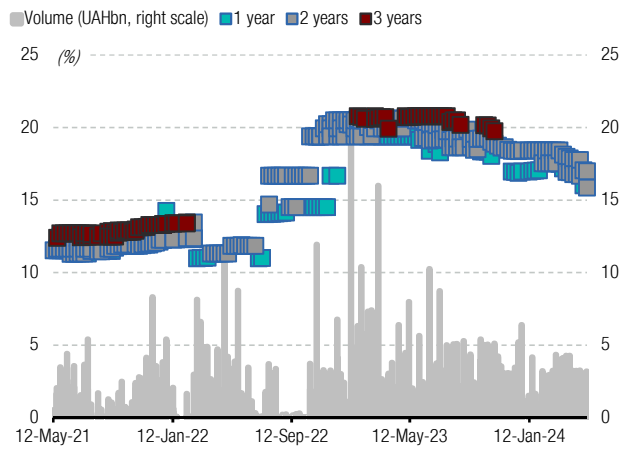
The largest demand, almost UAH10bn, was for the three-year note, which the MoF planned to sell within the UAH3bn cap. Interest rates were from 17% to 17.6%, but the MoF accepted only bids with rates up to 17.5% within the cap, so most were satisfied partially. The cut-off rate declined by 20bp, and the weighted-average rate slid by 10bp to 17.5%. During the two weeks since the NBU decreased its rates, the decline in interest rates for the three-year paper was the greatest at 80bp.

Despite the NBU declaring the plan to decrease its rates further by 50bp this year (most likely in June), market players expect that the NBU rates cut can be bigger and, in two weeks, allow the MoF to decrease interest rates for UAH bonds more than by 2/3 from the recent NBU decision. If such expectations increase by the next NBU monetary policy committee, the bond rate reduction may be even greater than April's reduction in the NBU key policy rate.

# Appendix: Yields-to-maturity, repayments

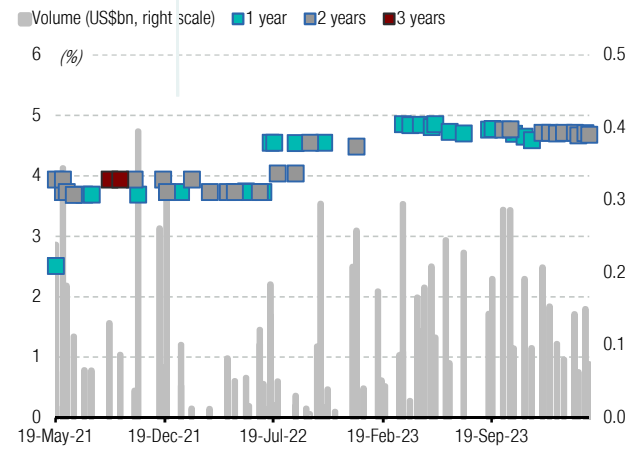
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

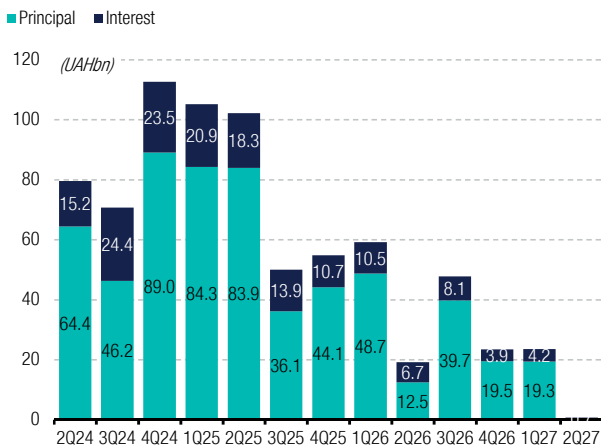
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

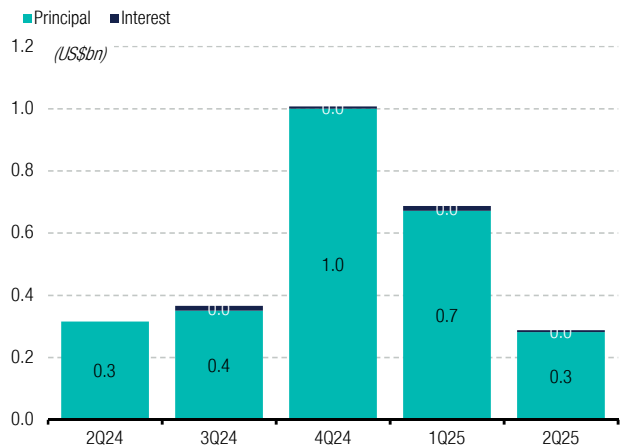
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

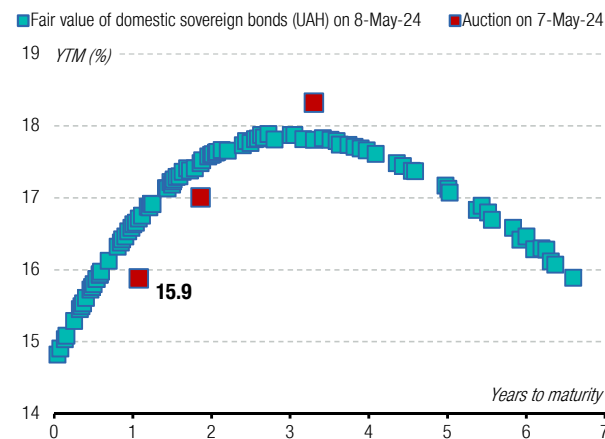
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

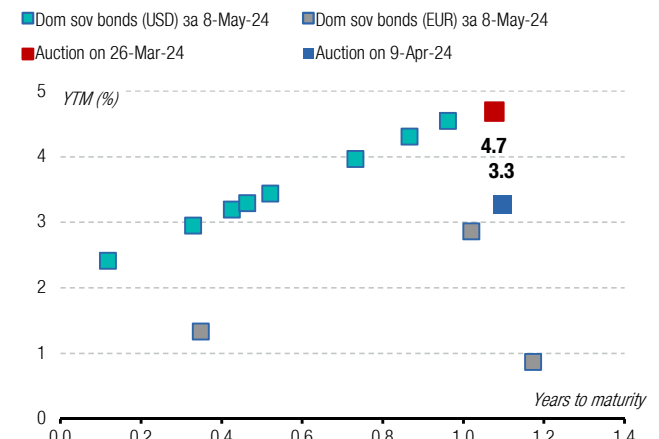
**Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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