

Bond Market Insight

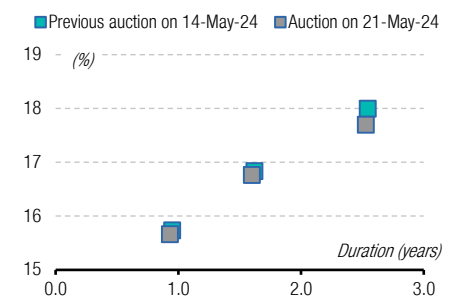
MinFin continues to lower interest rates on UAH bonds

Comment on government bond placement

At yesterday's auction, the Ministry of Finance lowered rates on UAH bonds again. The MoF has extended the total interest rate reduction more than 150bp during the two months after the start of the spring cycle of monetary policy easing.

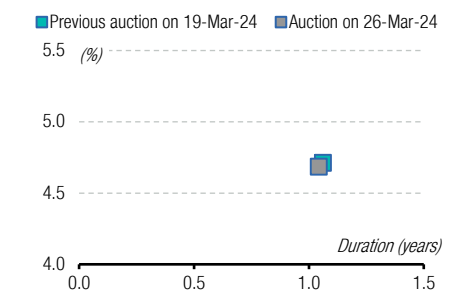
WEDNESDAY, 22 MAY 2024

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



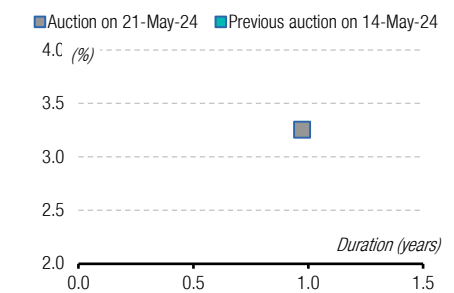
Source: Ministry of Finance of Ukraine, ICU.

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 freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000231187	15.25	SA	4-Jun-25	1,533,345	1,072.05	1,643.83	1,533.35	15.66	7,383.11
UA4000230809	17.00	SA	18-Mar-26	3,000,000	1,042.93	3,128.79	3,000.00	16.76	13,803.16
UA4000231195	17.50	SA	25-Aug-27	3,000,000	1,053.42	3,160.27	3,000.00	17.70	9,000.00
Total UAH				7,533,345	7,932.89	7,533.35			30,186.28
UA4000230817	3.25	SA	15-May-25	59,902	1,000.82	2,588.80	2,586.67	3.25	6,733.98
Total EUR				59,902	2,588.80	2,586.67			6,733.98

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, 43.18/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 was the lowest yesterday, only UAH1.5bn, or half of the cap set by the MoF. Two-thirds of demand was under non-competitive bids (satisfied at the weighted average rate), and in competitive bids, rates ranged from 15.0–15.05%, below the rate of the last auction. Therefore, as expected, all bids were satisfied fully, and rates decreased to 15.05%: the cut-off rate by 10bp and the weighted average rate by 7bp.

Demand for two-year paper exceeded supply by more than three times. Rates in competitive bids ranged between 15.95% and 16.1%, but approximately UAH1.5bn of the demand was in non-competitive bids. The Ministry decided to satisfy this non-competitive demand fully, so, about UAH1.5bn of bonds remained to satisfy competitive demand. That is probably why the cut-off rate decreased by 12bp to 16.08%, and the weighted average decreased by 7bp to 16.07%.

Again, the greatest demand was for three-year bonds—more than UAH14bn—while the cap was set at UAH3bn, as usual. The MoF refused to remove or change the cap. Therefore, 30%, or UAH900m, of bonds went to auction participants with non-competitive bids, and the rest of the offer was exhausted when bids with rates of 16.93% were reached. Therefore, the cut-off and the weighted-average rates decreased by 27bp to 16.93%.

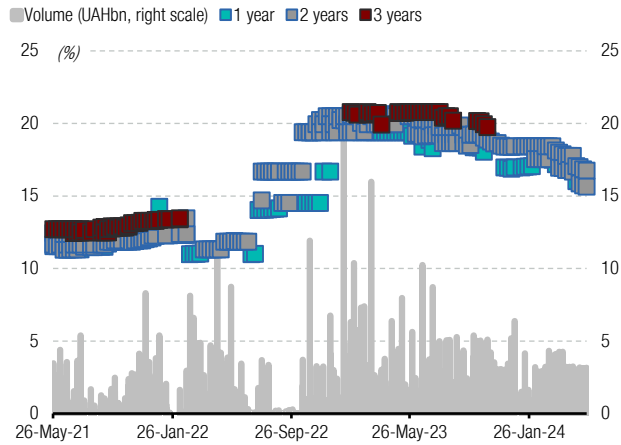
Investors continued to compete for longer securities in anticipation of further rate cuts

by the National Bank. That is why the reduction of bond rates has already exceeded the reduction of NBU rates and, given such competition, may decrease even more in the coming weeks. The Ministry of Finance set relatively small caps, which allowed it to reject most of the demand and sharply reduce rates, especially when investors want to reinvest large debt repayments.

Appendix: Yields-to-maturity, repayments

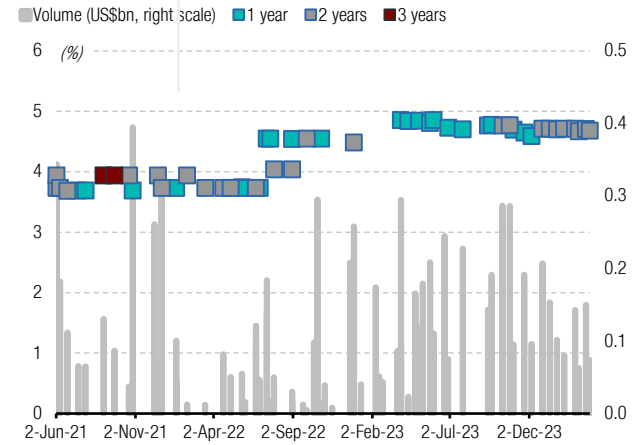
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

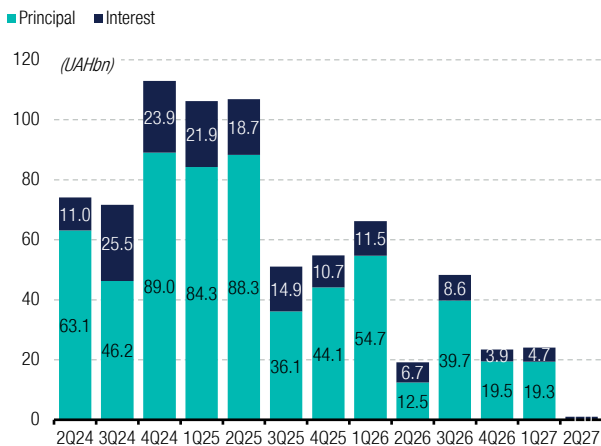
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

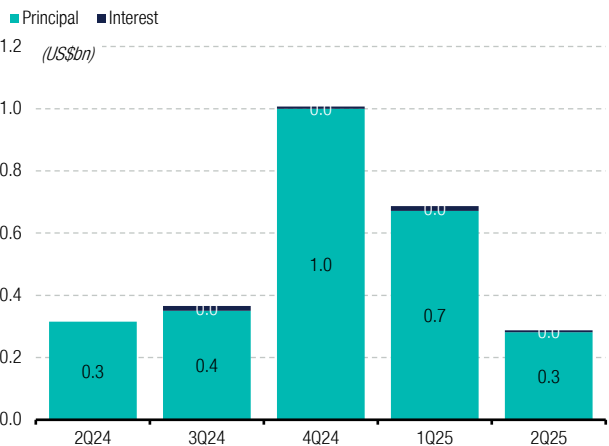
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

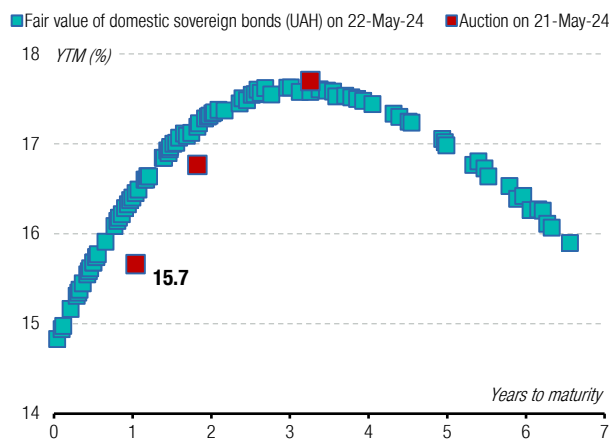
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

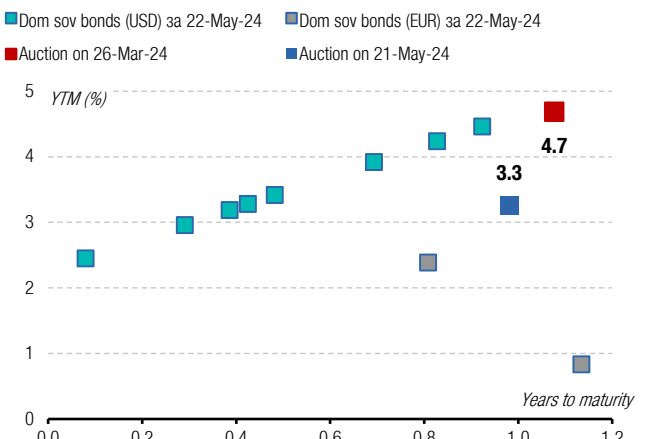
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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