

# Bond Market Insight

## Demand remains sufficient to reduce rates

### Comment on government bond placement

The Ministry of Finance increased the supply of bonds offered and easily placed the planned amount, reducing interest rates even more despite overall demand decreasing by 5% to UAH33.8bn.

The Ministry increased supply to UAH11bn, increasing the cap on two and three-year bonds to UAH4bn for each and keeping the cap for 12-month paper at UAH3bn. Oversubscription for one-year bills was almost twofold, and for two and three-year bonds, it was more than threefold.

**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	1,004.58	3,013.74	3,000.00	15.33	13,383.11
UA4000230809	17.00	SA	18-Mar-26	4,000,000	1,055.42	4,221.68	4,000.00	16.32	20,803.16
UA4000231195	17.50	SA	25-Aug-27	4,000,000	1,082.48	4,329.93	4,000.00	16.71	16,000.00
<b>Total UAH</b>				<b>11,000,000</b>		<b>11,565.36</b>	<b>11,000.00</b>		<b>50,186.28</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, 43.14/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

With such demand, competition at the auction remained high for each issue. As a result, weighted average rates decreased more significantly than the cut-off rates, indicating that demand at lower rates was huge.

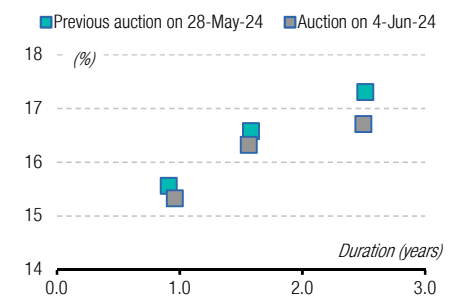
The minimum bid rate for one-year bills was 14.45% (45bp lower than the previous auction), for two-year bills 15.5% (33bp lower than last week), and for three-year notes 15.99%, 41bp lower than at the previous auction.

The cut-off rate for 12-month bills decreased by 9bp to 14.89%, while the weighted average rate (used to satisfy non-competitive demand) decreased by 22bp to 14.74%. For two-year paper, the cut-off rate decreased by 21bp to 15.69%, and the weighted average by 24bp to 15.66%.

The greatest rate reduction was for the three-year note. Yesterday, the cut-off rate decreased by 33bp to 16.29%, and the weighted average rate fell sharply by 55bp to 16.02%. Since the beginning of the spring cycle of monetary policy easing, the cut-off rate has decreased by 221bp and the weighted average by 248bp. This decline is significantly larger than for the other two maturities: the cut-off rates for one-year and two-year bills decreased by 191 bps, and the weighted average rates declined

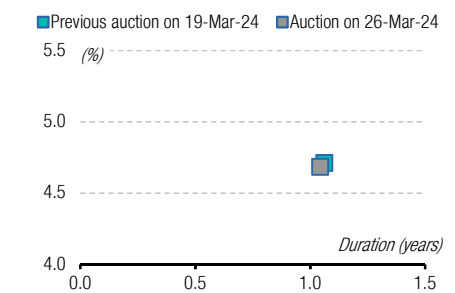
### WEDNESDAY, 5 JUNE 2024

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



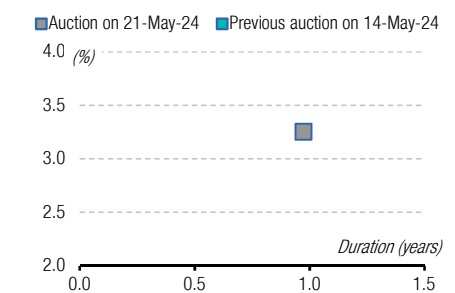
Source: Ministry of Finance of Ukraine, ICU.

#### 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.

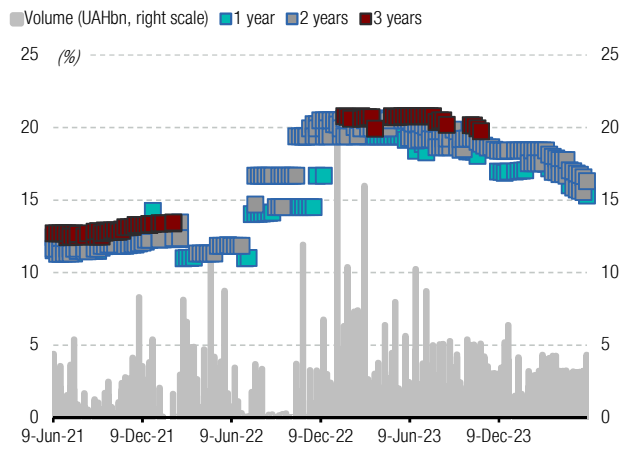
by 202bp and 194bp, respectively, from levels seen before the NBU's March decision to lower the key rate to 14.5%.

Next Tuesday, the auction will be held just prior the NBU board meeting on monetary policy. The expectation of a larger-than-forecast rate decrease will remain a determining factor in the behaviour of auction participants. Therefore, the rates for UAH bonds may continue to decline. Further rate dynamics will depend on the NBU's decision.

# Appendix: Yields-to-maturity, repayments

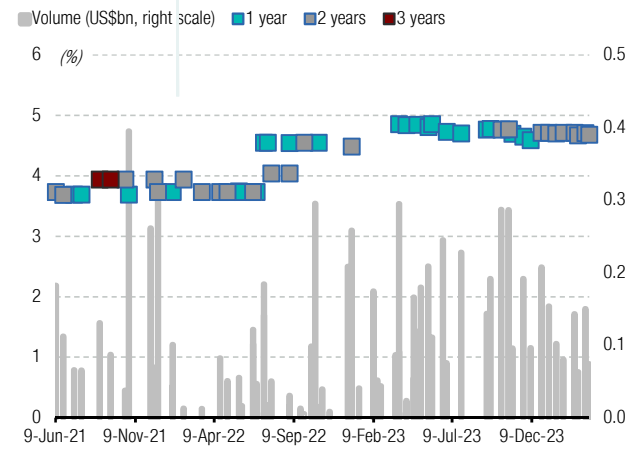
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

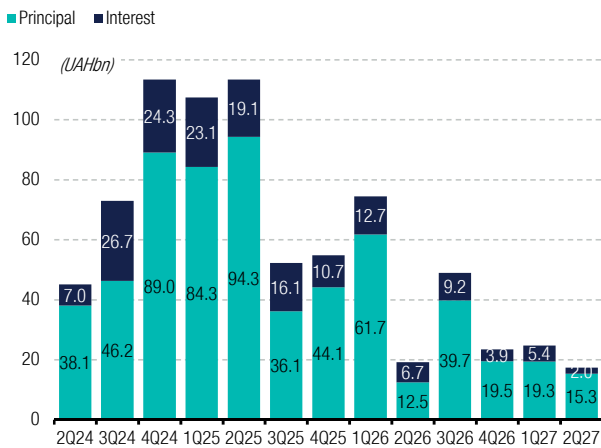
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

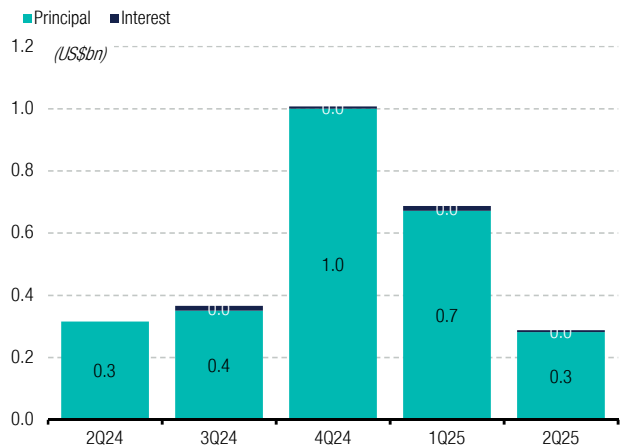
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

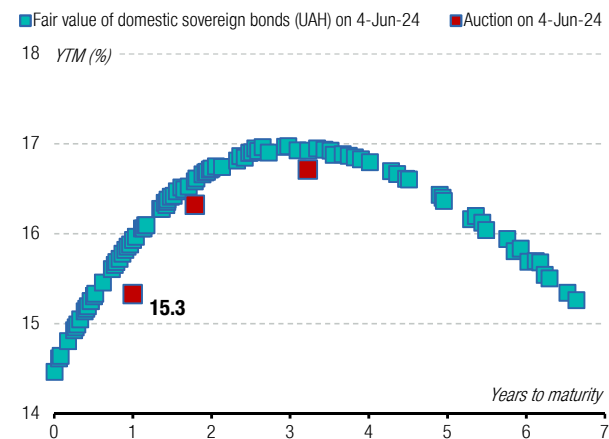
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

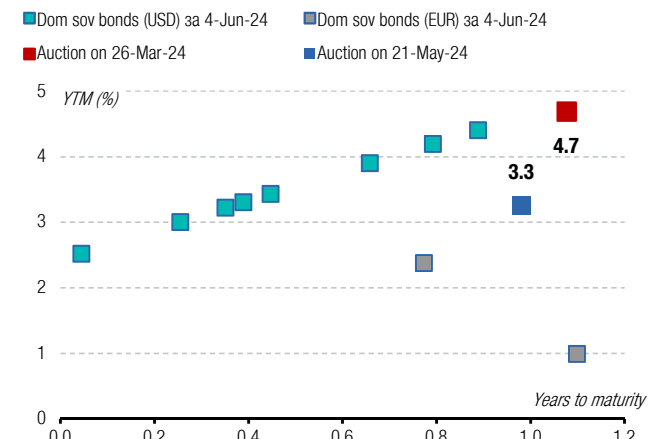
**Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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