

Bond Market Insight

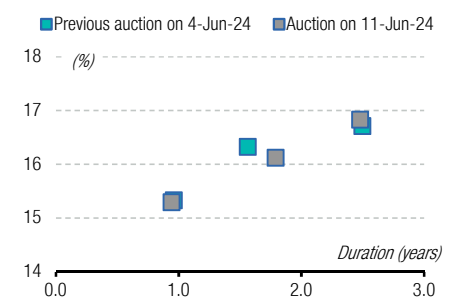
Restrained demand before NBU key rate revision

Comment on government bond placement

Yesterday, the Ministry of Finance routinely placed the desired volume of bonds and lowered rates on all three instruments. However, demand at the auction was significantly lower than in the previous two weeks, so the rate reduction was restrained.

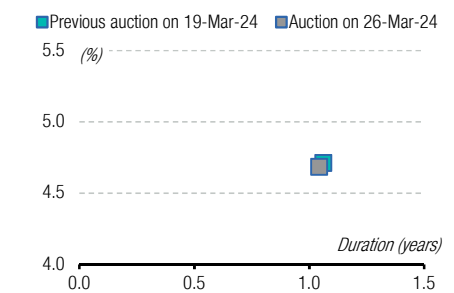
WEDNESDAY, 12 JUNE 2024

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



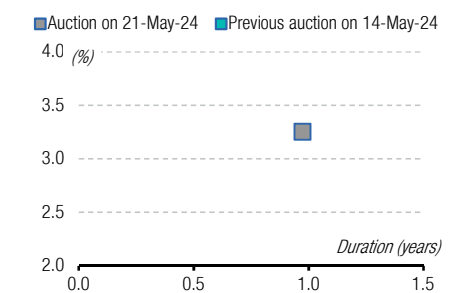
Source: Ministry of Finance of Ukraine, ICU.

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.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000231187	15.25	@Mty	4-Jun-25	3,000,000	1,007.61	3,022.83	3,000.00	15.30	16,383.11
UA4000231559	15.47	SA	10-Jun-26	4,000,000	999.96	3,999.84	4,000.00	16.12	4,000.00
UA4000231195	17.50	SA	25-Aug-27	4,000,000	1,082.98	4,331.91	4,000.00	16.83	20,000.00
Total UAH				11,000,000		11,354.58	11,000.00		40,383.11

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.

The volume of demand for 12-month bills amounted to UAH5.4bn, while the cap was only UAH3bn. Interest rates in bids were in the range of 14.49–15.0%, but the offer was exhausted at 14.75%. The Ministry sold almost UAH1.6bn of bonds under non-competitive bids and only UAH1.4bn under competitive bids, thereby increasing the rate reduction step. The cut-off rate decreased by 14bp to 14.75%, and the weighted average slid by 3bp to 14.71%.

The new issue of two-year military bills received the highest demand yesterday, almost UAH11bn. The MoF sold UAH4bn of bonds to bidders with rates not higher than 15.5%, which was 19bp lower than the previous auction. The weighted average rate slid by the same 19bp to 15.47%.

Demand for three-year notes decreased almost threefold to UAH5bn. Having satisfied almost all demand, the Ministry of Finance lowered the cut-off rate by 9bp to 16.2%, while the weighted average rate, on the contrary, increased by 11bp to 16.13%.

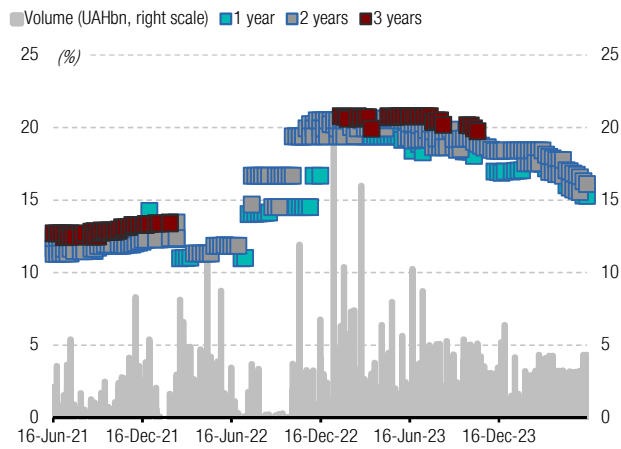
As a result of the auction, interest rate reductions since the beginning of the spring cycle of monetary policy easing already amounts to more than 200bp, so before the NBU revises the discount rate for the next six weeks, auction participants competed more cautiously for new bonds. After all, if the National Bank of Ukraine lowers the interest rate by only 50bp tomorrow, as predicted in its April forecast, the rate reduction for UAH bonds will already be greater. Further changes in rates will depend on the regulator's signals about the prospects of revising the key policy rate in the future.

READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Appendix: Yields-to-maturity, repayments

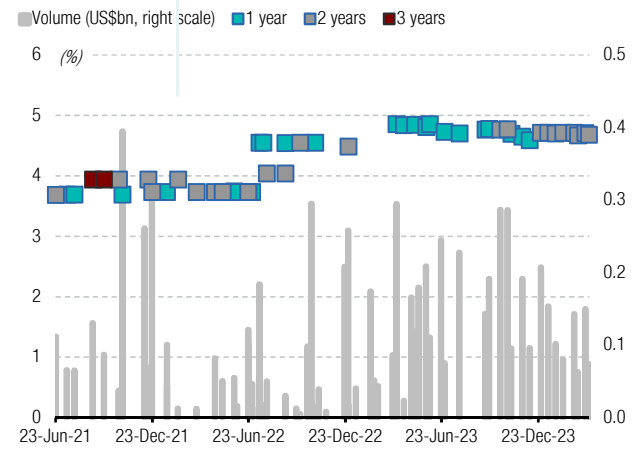
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

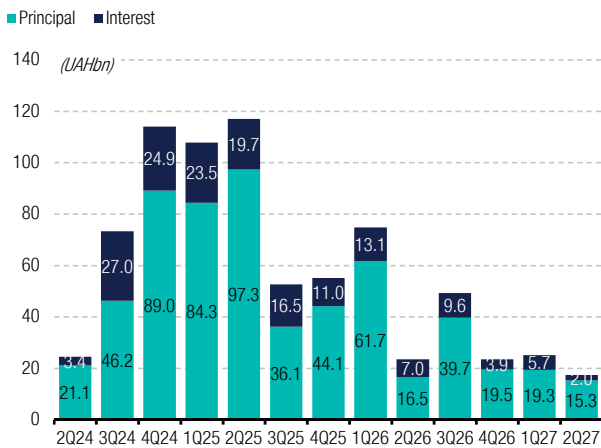
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

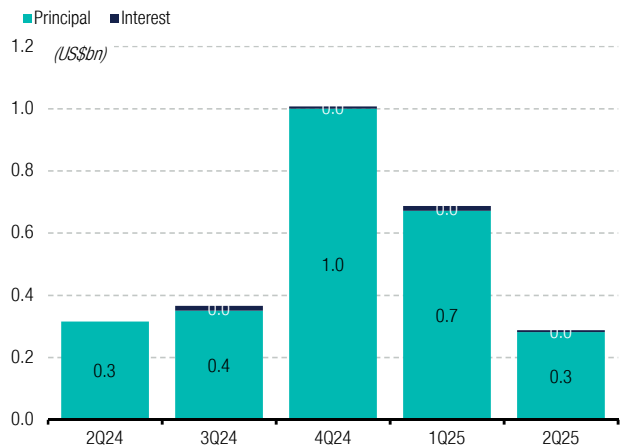
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

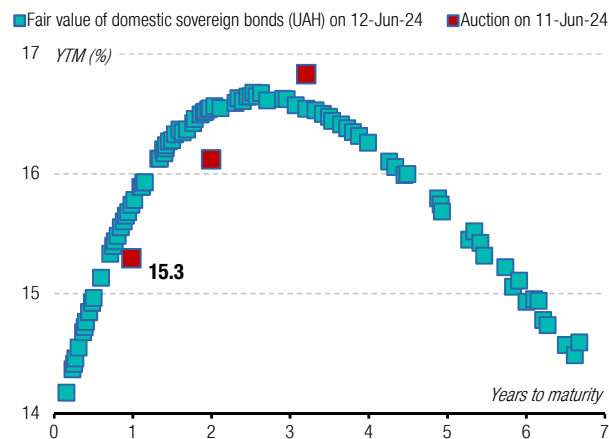
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

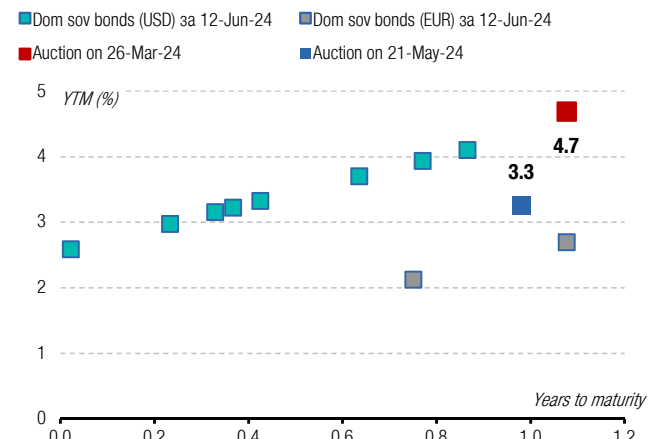
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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