

Bond Market Insight

Expect UAH bond-rate reductions to pause

Comment on government bond placement

Based on yesterday's auction, investors are still interested mostly in short (up to one year) and long (above three-year maturity) instruments. However, it looks like the potential for a further decline in interest rates is gradually running out.

Generally, demand at the primary auction increased by almost UAH1bn to above UAH22bn, but that was thanks to demand for USD-denominated bills. Demand for UAH bonds almost halved from the previous week. At the same time, there were 66 bids for almost US\$266m to purchase USD-denominated bills.

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

ISIN	Coupon rate (%)	Payment frequency ¹	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	4,000,000	1,010.26	4,041.06	4,000.00	15.31	20,383.11
UA4000231559	15.47	SA	10-Jun-26	351,656	1,006.02	353.77	351.66	15.91	4,351.66
UA4000231625	16.80	SA	9-Feb-28	4,000,000	1,057.43	4,229.73	4,000.00	17.56	4,000.00
Total UAH				8,351,656		8,624.56	8,351.66		28,734.77

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.

Twelve-month UAH bills received UAH5.5bn of bids vs. the UAH4bn cap. Interest rates in bids ranged between 14.25% and 14.75%, but most were at the previous auction's cut-off rate. The cut-off rate remains at 14.75%, and the weighted average rate increased by 1bp to 14.72%.

Interest in two-year securities fell to the lowest since April of this year. The total volume of bids was below UAH366m, mostly in non-competitive bids (satisfied at the weighted average rate). Therefore, the Ministry of Finance set interest rates based on small bids, few of which were competitive. Accordingly, the cut-off rate decreased by 10bp to 15.4%, and the weighted average fell sharply by 19bp to 15.28%.

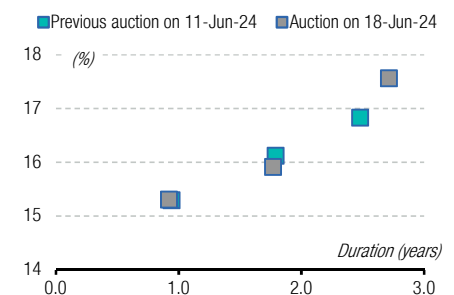
Yesterday, the Ministry replaced the three-year notes with a new instrument. The MoF offered notes due in February 2028. Currently, this is the longest duration offered in the primary bond market in more than two years.

Total demand amounted to UAH5.5bn in 22 bids. Most of them were competitive and with rates of 16.8%. The MoF set the cut-off, weighted average, and coupon rate at 16.8%. This rate is 60 bp higher than for the three-year notes last week. Considering that the cap was UAH4bn, most bids were accepted partially, approximately 70% of the desired volume.

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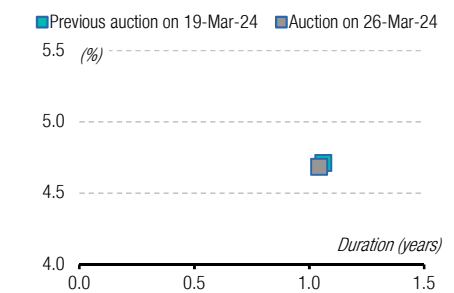
WEDNESDAY, 19 JUNE 2024

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



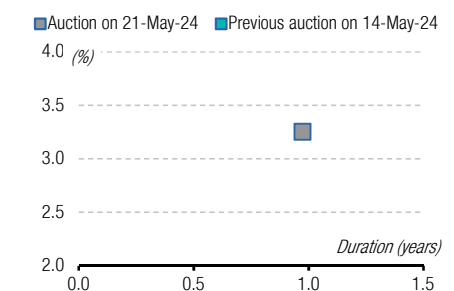
Source: Ministry of Finance of Ukraine, ICU.

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.

For FX-denominated bonds, bids were very close to the terms of the last auction in March, when the Ministry of Finance placed bonds denominated in US dollars. The cut-off rate remained unchanged at 4.66%, and the weighted average increased by 1bp to 4.64%.

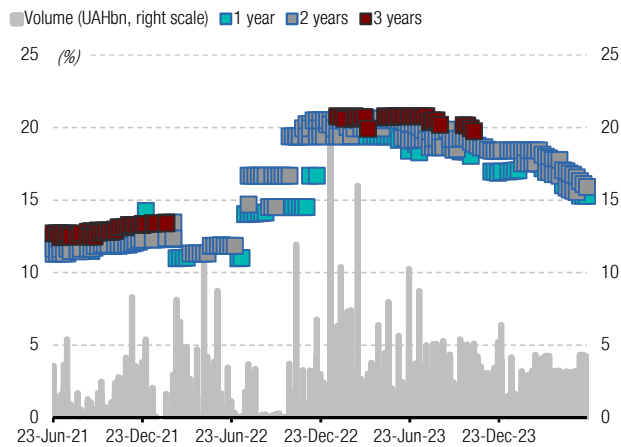
Finally, the reduction of rates for two-year bills was situational due to low demand and the insignificant competitive component. Accordingly, next week, we are unlikely to see a big difference in rates for this instrument and their significant difference from yesterday's rates. The 12-month paper will most likely be a new issue, so its rates are also unlikely to be much different from yesterday's. There is a certain probability that the new issue of bonds maturing in 2028 may receive slightly more diverse demand, and the Ministry of Finance will have the opportunity to slightly lower rates for it.

Immediate reinvesting the proceeds from next week's debt payments might prompt bidders to lower their rates in bids a bit, but it's unlikely to cause the rates to drop as much as we saw in April and May.

Appendix: Yields-to-maturity, repayments

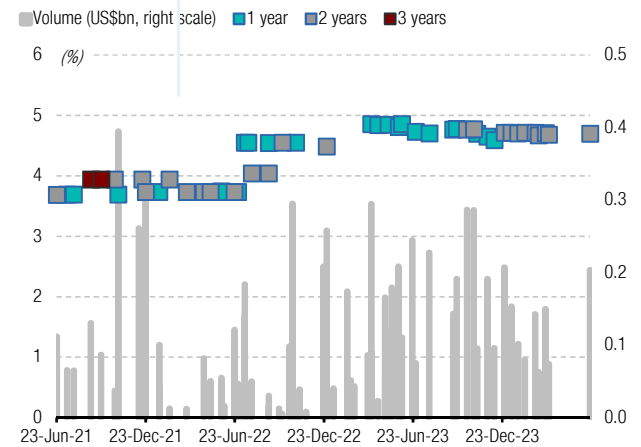
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

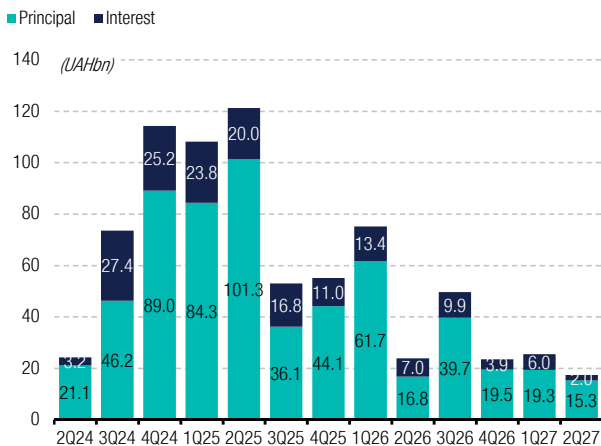
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

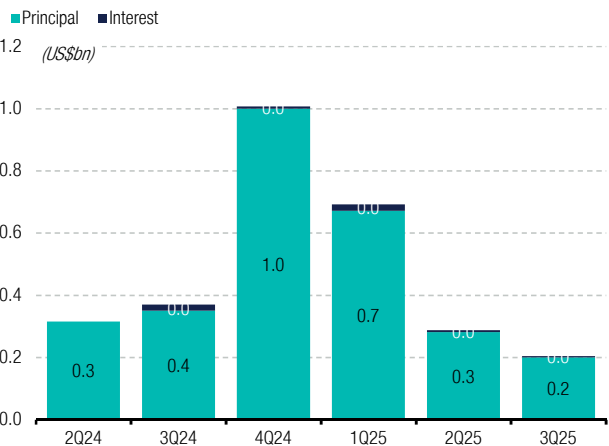
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

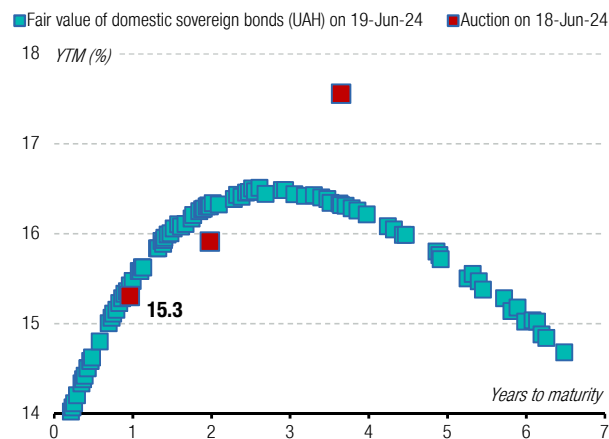
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

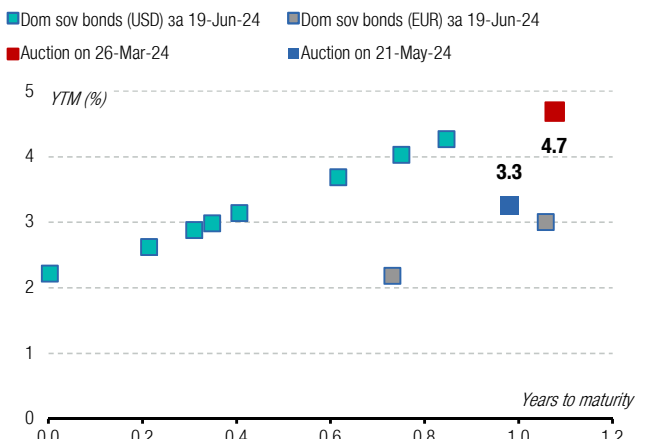
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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