

Bond Market Insight

Investors return to two-year bills

Comment on government bond placement

WEDNESDAY, 3 JULY 2024

Yesterday, the Ministry of Finance offered what has become the typical set of bonds in recent weeks, but investors returned to buying two-year instruments.

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
UA40002312K7	14.72	SA	10-Sep-25	3,330,147	1,044.65	3,478.85	3,330.15	15.31	3,330.15
UA4000231559	15.47	SA	10-Jun-26	4,000,000	1,010.37	4,041.47	4,000.00	16.00	8,661.96
UA4000231625	16.80	SA	9-Feb-28	1,775,184	1,064.07	1,888.93	1,775.18	17.56	8,181.47
Total UAH				9,105,331	9,409.25	9,105.33			20,173.57

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 40.55/USD, 43.14/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

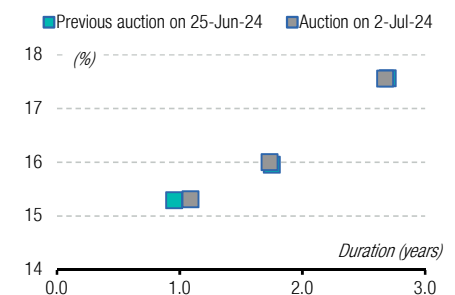
As expected, the new issue of one-year (actually 14-month) bonds received considerable demand for the shortest paper offered at the auction. But it was less than the cap for the second consecutive week. The MoF rejected seven out of 29 bids to keep the cut-off rate unchanged at 14.74%, while the weighted-average rate increased by 1bp to 14.72%.

Yesterday, investors preferred to buy two-year bills. Demand almost doubled compared with the previous week to UAH4.7bn. The MoF satisfied all bids, some partially to stay within the cap of UAH4bn. The cut-off rate remained at 15.4% for the third week in a row, but the weighted average rate continued to rise and was 15.36% yesterday, which was 4bp higher than last week.

Three-year notes continue to see demand, but lower than the cap. Yesterday, the MoF received 18 bids for UAH1.8bn. Interest rates were mostly 16.8%, so both the cut-off and weighted average rates remain unchanged.

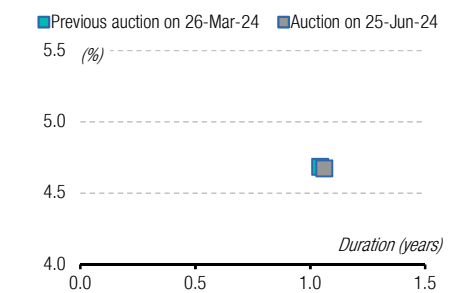
In total, the Ministry attracted UAH9.4bn yesterday, which almost completely covers today's debt repayment. This is a good result, considering that investors are not in a hurry to buy many new bonds without understanding how the NBU will change its macro forecast and whether it will predict a further decrease in the key policy rate and rates on CDs.

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



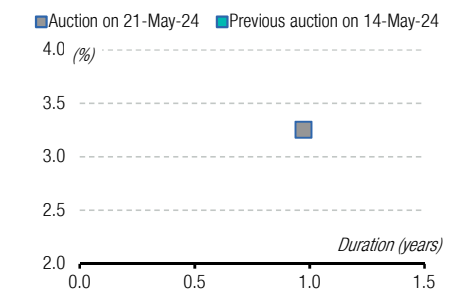
Source: Ministry of Finance of Ukraine, ICU.

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

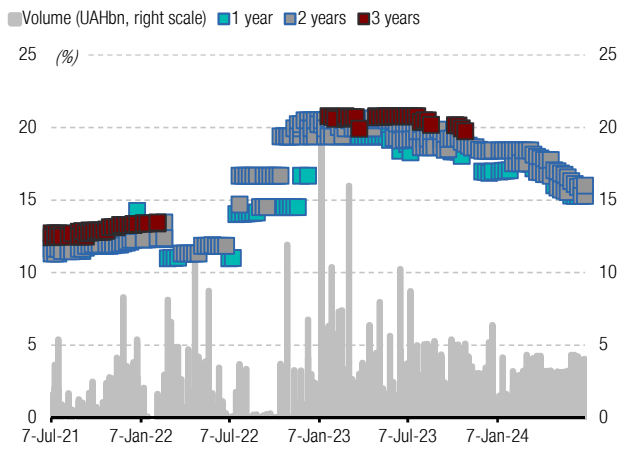


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

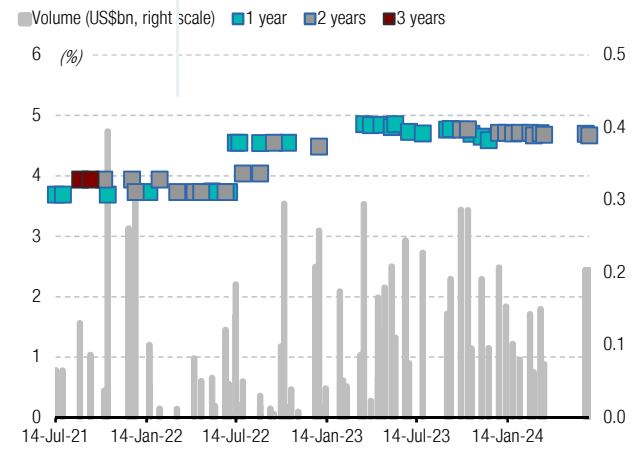
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

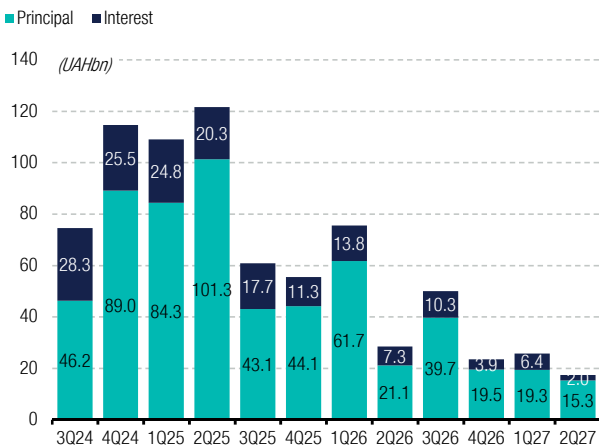
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

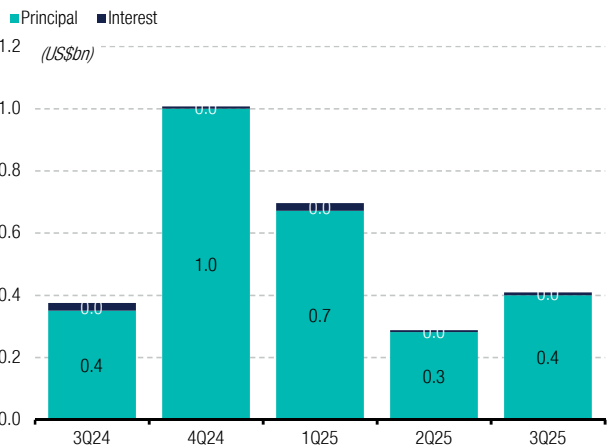
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

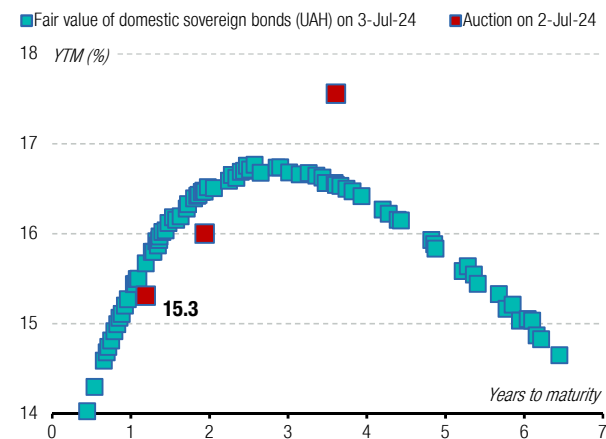
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

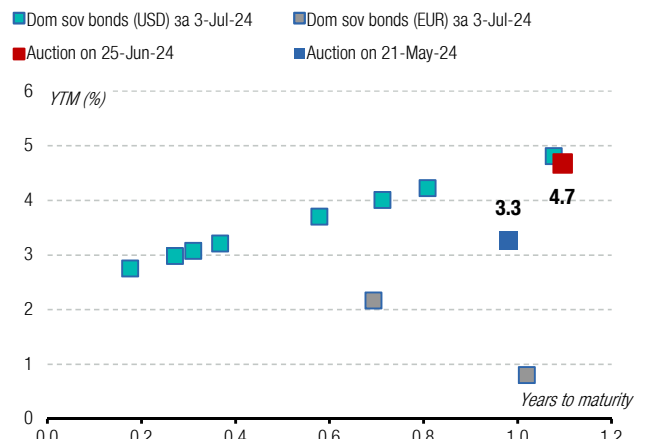
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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