

Bond Market Insight

Ongoing summer doldrums

Comment on government bond placement

WEDNESDAY, 17 JULY 2024

The summer lull in the government bond market continues, and the Ministry of Finance has attracted slightly below UAH5bn from UAH bonds for the second consecutive week.

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
UA40002312K7	14.72	SA	10-Sep-25	4,000,000	1,051.03	4,204.14	4,000.00	15.24	11,330.15
UA4000231559	15.47	SA	10-Jun-26	360,246	1,015.69	365.90	360.25	16.03	9,621.97
UA4000231625	16.80	SA	9-Feb-28	395,920	1,070.63	423.89	395.92	17.56	8,719.48
Total UAH				4,756,166		4,993.92	4,756.17		29,671.59

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

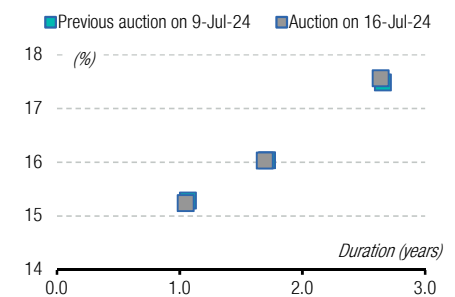
Demand again concentrated on 14-month paper. The Ministry got 24 bids for UAH7.5bn vs a UAH4bn cap. Most of the demand was at interest rates below last week's cut-off rate or in non-competitive bids (satisfied at the weighted average rate). So, although the cut-off rate remained at 14.7%, the weighted average rate decreased by 4bp to 14.66%.

Interest in two-year paper decreased to UAH360m. The cut-off rate remained unchanged at 15.4%, while the weighted average rate slid by 1bp to 15.39%.

The total volume of bids for notes maturing in February 2028 increased almost threefold, but was still insignificant—UAH396m. The cut-off rate for this paper remains steady at 16.8%, with the weighted average rate up 7bp.

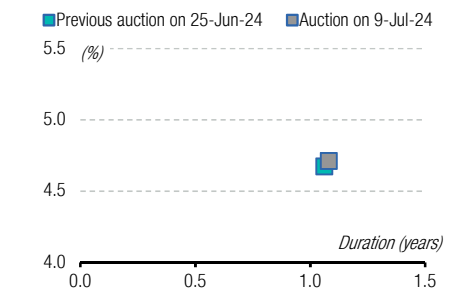
Investors are in no rush to buy bonds with maturities of two years or more. The acceleration of inflation in June makes it even more important to update the NBU's macro forecasts to understand what rate changes may be, at least until the end of this year.

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



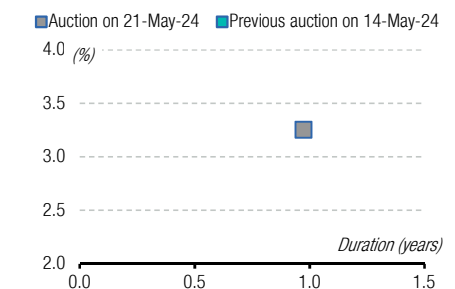
Source: Ministry of Finance of Ukraine, ICU.

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

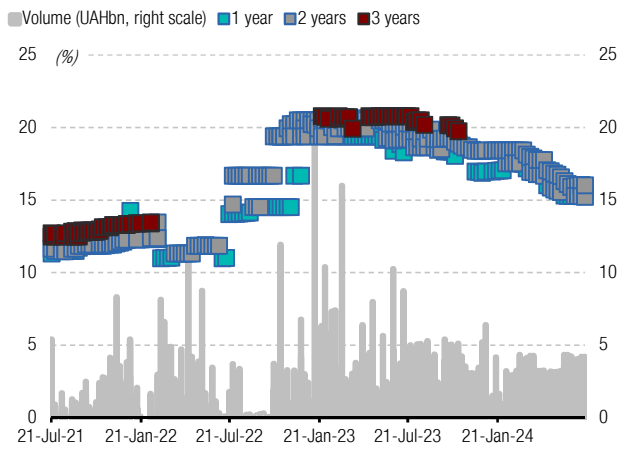


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

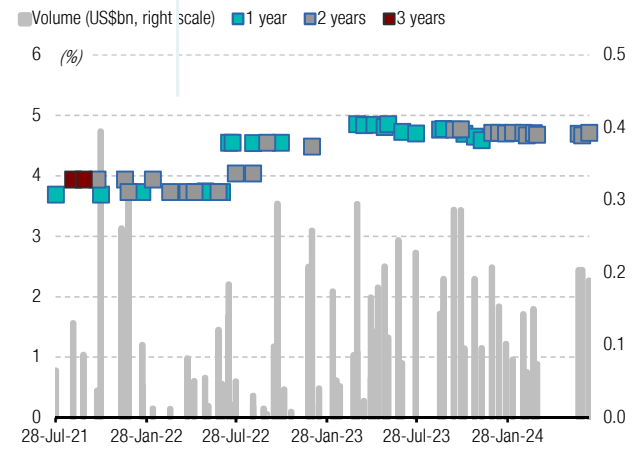
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

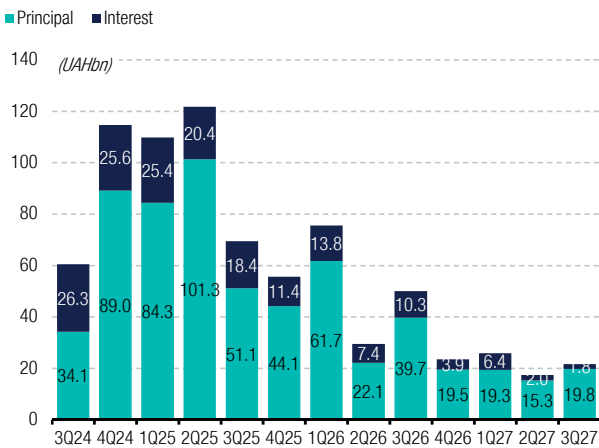
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

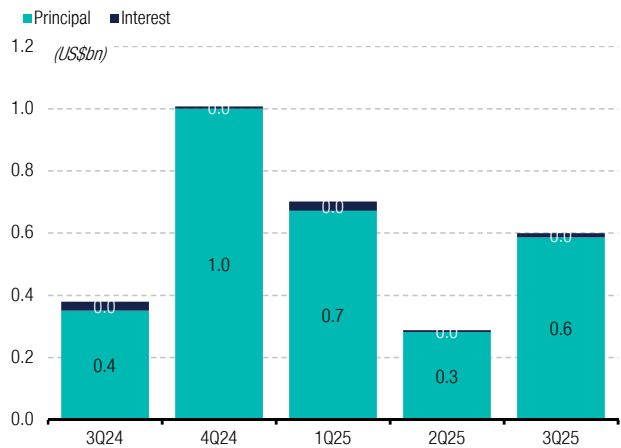
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

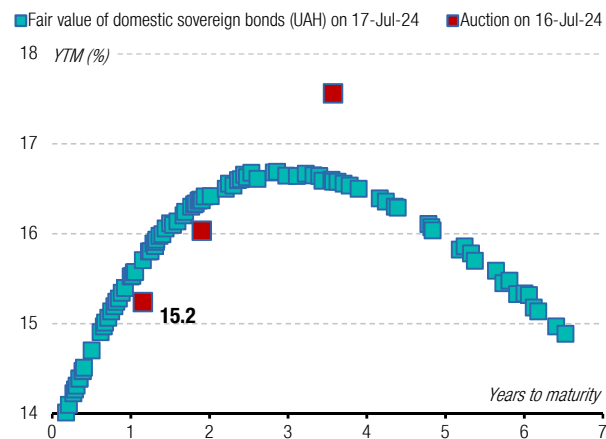
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

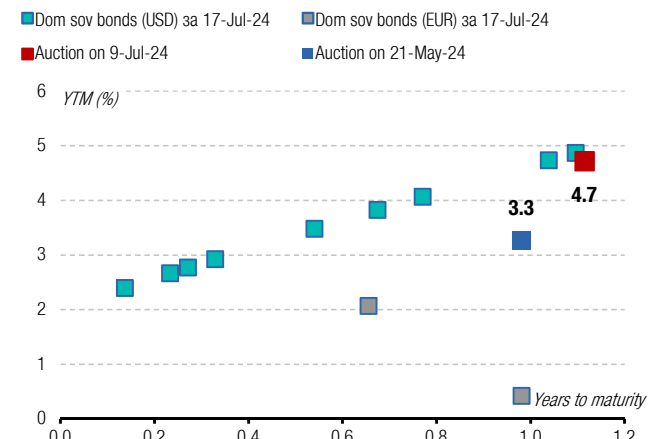
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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