

# Bond Market Insight

## Slight situational rate reduction

### Comment on government bond placement

THURSDAY, 15 AUGUST 2024

The new "reserve" notes attracted demand from banks and helped the Ministry of Finance raise two-thirds of the UAH7.2bn received for the budget.

**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 <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA40002312K7	14.72	SA	10-Sep-25	1,812,949	1,062.61	1,926.46	1,812.95	15.23	17,731.02
UA4000231559	15.47	SA	10-Jun-26	22,973	1,026.74	23.59	22.97	16.07	13,985.05
UA4000232177	16.47	SA	20-Oct-27	5,000,000	1,050.90	5,254.49	5,000.00	17.15	15,000.00
<b>Total UAH</b>				<b>6,835,922</b>	<b>7,204.54</b>	<b>6,835.92</b>			<b>46,716.07</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 41.08/USD, 43.14/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

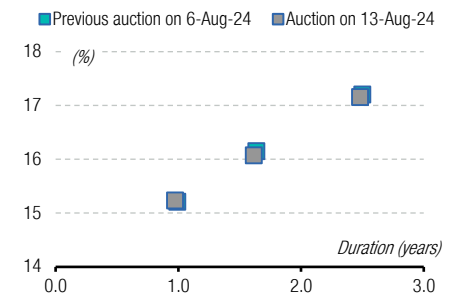
This three-year instrument collected almost UAH8.7bn of bids with rates from 16.29% to 16.5%, but the Ministry set the cap at UAH5bn. So, demand was satisfied partially: bids with lower rates than 16.5% the MoF satisfied fully, while bids at the cut-off rate and non-competitive bids were accepted partially within the rest of the cap and pro-rata. Therefore, the cut-off rate remained unchanged at 16.5%, while the weighted average rate slid by 4bp to 16.43%.

Interest rates for two-year paper also decreased. Demand was scant, only UAH23m, including 10% of demand in competitive bids. So, small competitive bids determined the conditions for all others who submitted non-competitive bids. Since the maximum rate was 5bp lower than last week, the Ministry lowered the cut-off rate by 5bp and the weighted average rate by 7bp to 15.45% and 15.43%, respectively.

Only 13-month bills saw no changes in terms. Demand rose to UAH2.1bn, but among the participants, there was an attempt to get higher interest rates. The Ministry rejected a bid for UAH300m, leaving the cut-off rate at 14.65%, and the weighted average increased by 2bp to 14.65%.

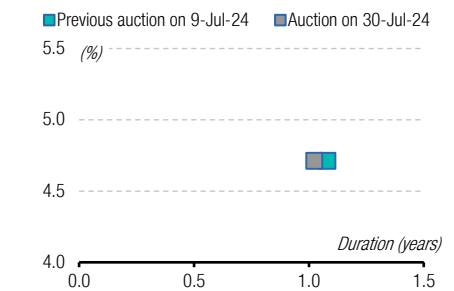
As a result, the Ministry almost refinanced last week's redemption of "reserve" bonds, and huge demand for a new "reserve" instrument may gradually shift to next week, allowing the Ministry of Finance to increase the size of the new issue to UAH20bn, similar to what was redeemed last Wednesday. As for rates, their change is situational and is unlikely to be decisive for the general situation in the market anytime soon.

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



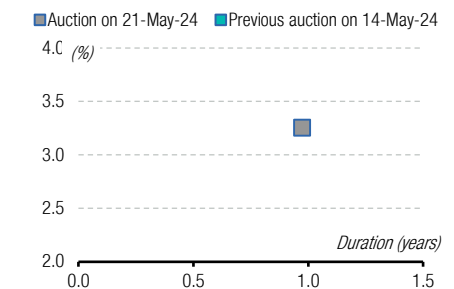
Source: Ministry of Finance of Ukraine, ICU.

### 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

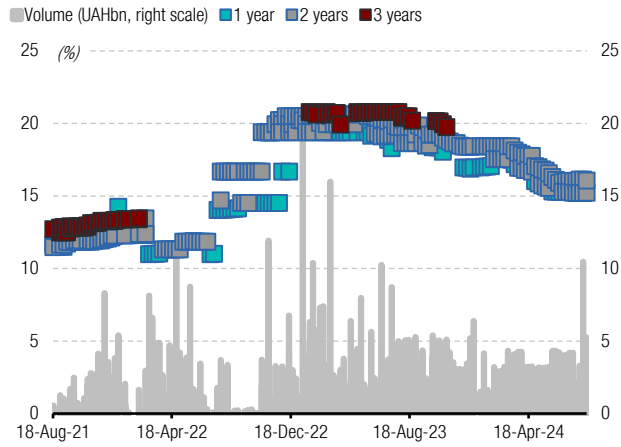


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

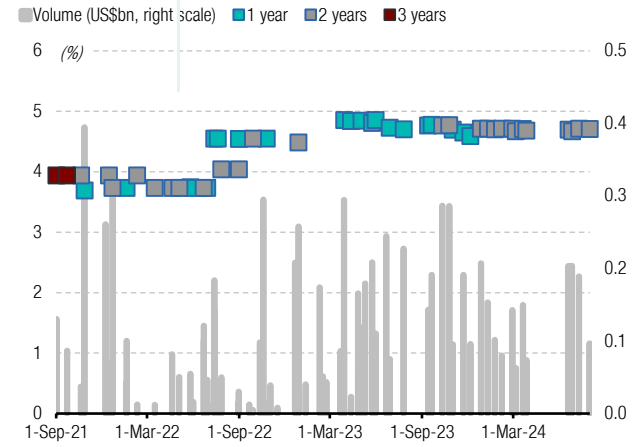
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

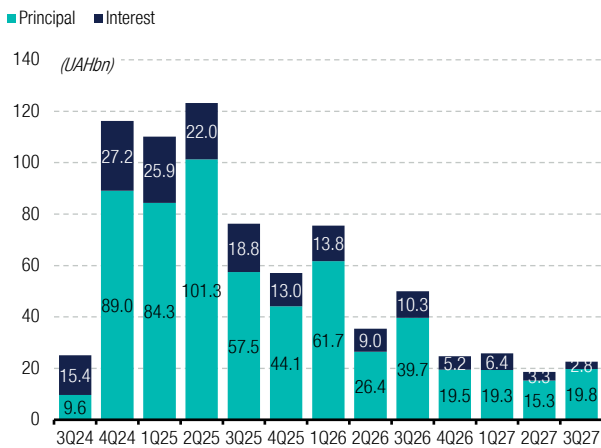
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

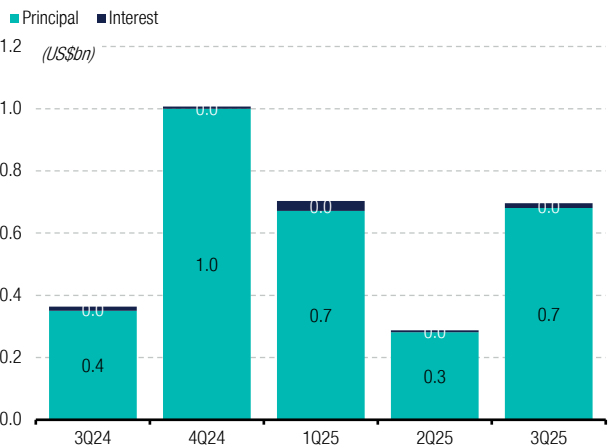
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

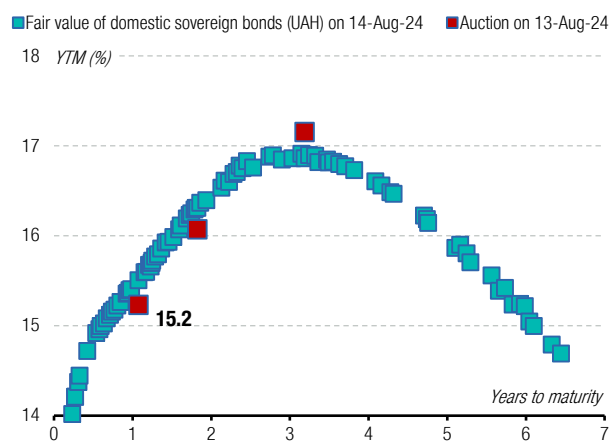
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

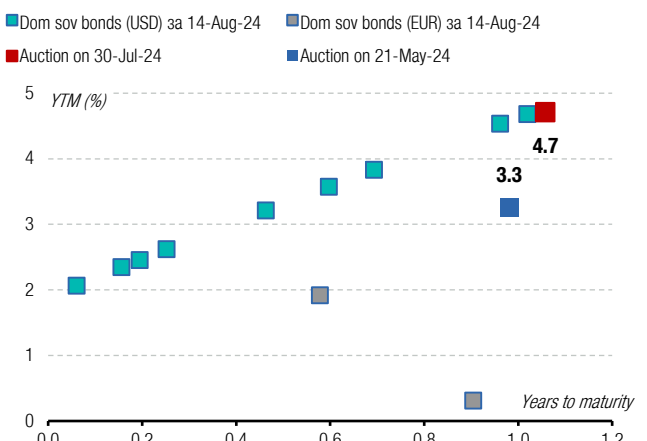
**Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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