

Bond Market Insight

Borrowings increases and so do rates

Comment on government bond placement

WEDNESDAY, 4 SEPTEMBER 2024

The MoF borrowed more than UAH20bn yesterday, increasing interest rates for most offered bonds.

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
UA4000232599	14.65	SA	1-Oct-25	1,840,532	1,061.64	1,953.98	1,840.53	15.23	1,840.53
UA4000232607	15.60	SA	5-Aug-26	4,088,830	1,011.66	4,136.53	4,088.83	16.25	4,088.83
UA4000232615	16.60	SA	24-Nov-27	5,000,000	1,043.90	5,219.49	5,000.00	17.34	5,000.00
UA4000231625	16.80	SA	9-Feb-28	781,791	1,007.05	787.31	781.79	17.66	9,560.28
Total UAH				11,711,153		12,097.30	11,711.15		20,489.64
UA4000232623	4.65	SA	25-Sep-25	200,000	1,020.51	8,438.93	8,269.36	4.71	8,269.36
Total USD				200,000		8,438.93	8,269.36		8,269.36

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

The Ministry received almost 41% of yesterday's proceeds from USD-denominated bills. The Ministry sold the planned US\$200m of securities and rejected nearly 1/3 of the demand for this paper. The MoF reduced only the weighted-average rate by 1bp to 4.65%, keeping the cut-off rate unchanged at 4.66%.

Interest rates for 12-month bills remained unchanged, too, at 14.65%. The Ministry rejected just one bid for UAH10m at 14.75%.

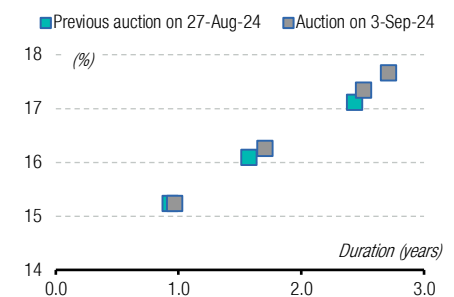
However, the MoF had to increase interest rates for longer maturities to satisfy demand or to sell planned amounts of bonds.

For the two-year paper, the MoF offered UAH5bn, but received UAH4.1bn of demand. The low rate was 15.4%, while most bids were closer to 15.6%. Therefore, the MoF increased the cut-off rate to 15.6%, by 15bp compared with last week, but 10bp compared with the auction a month ago.

For the three-year note, demand was mainly at 16.6%, which induced the MoF to increase the cut-off rate by 11bp to 16.6%.

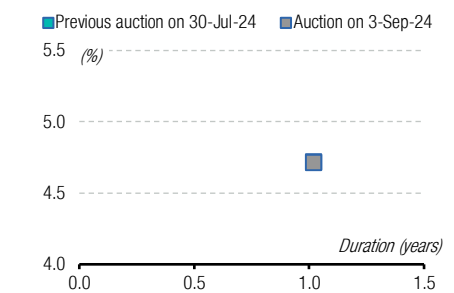
For the 3.5-year paper, the MoF received significantly larger demand than the previous offering a month ago, but it was a bit more expensive. Most bids were at

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



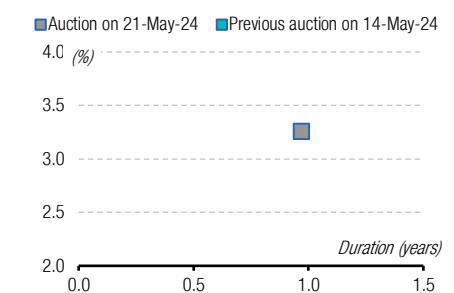
Source: Ministry of Finance of Ukraine, ICU.

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.

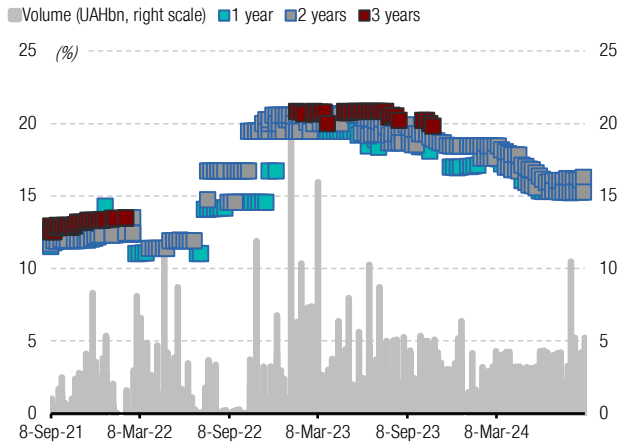
16.9%, causing the cut-off rate to increase by 10bp to 16.9%.

The summer lull is likely coming to an end. The MoF probably needs more funds to cover the budget deficit, while the local bond market does not expect interest rates to go down. Yesterday's rate increase does not look like it's starting a trend, but it indicates that a new rate-cutting cycle will not start soon.

Appendix: Yields-to-maturity, repayments

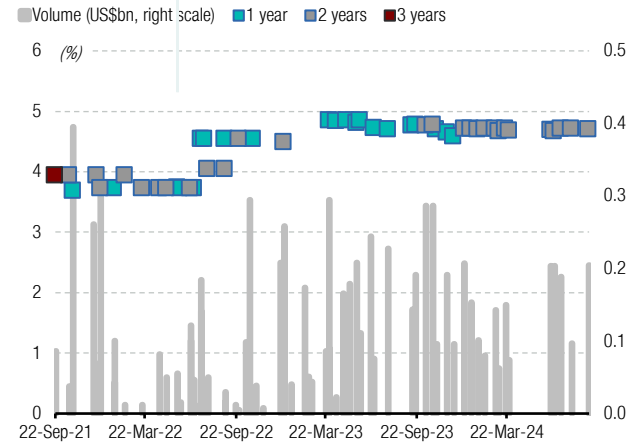
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

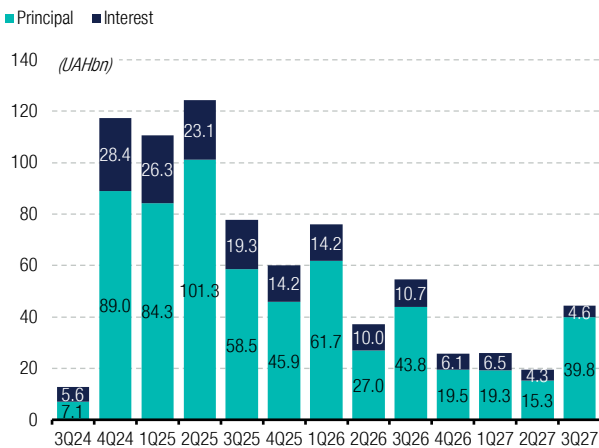
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

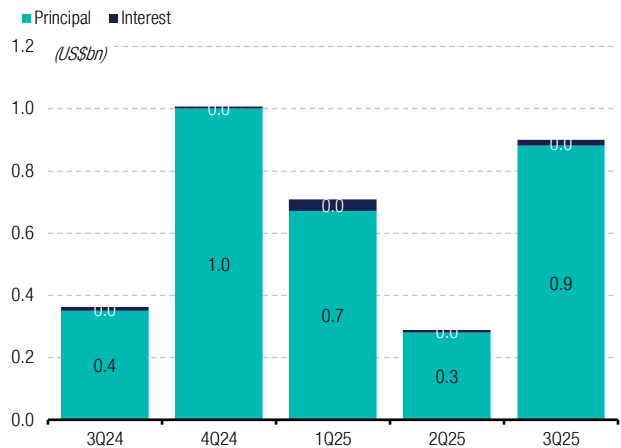
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

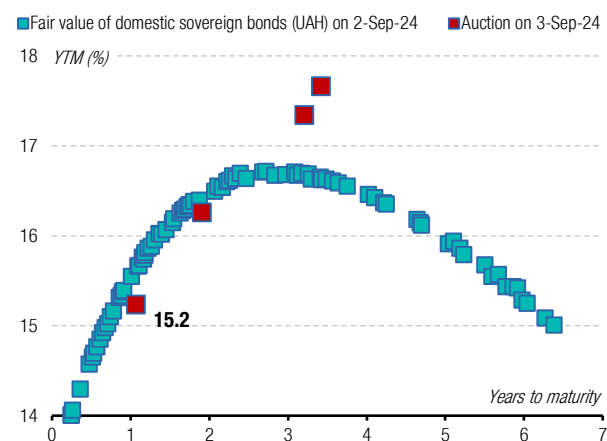
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

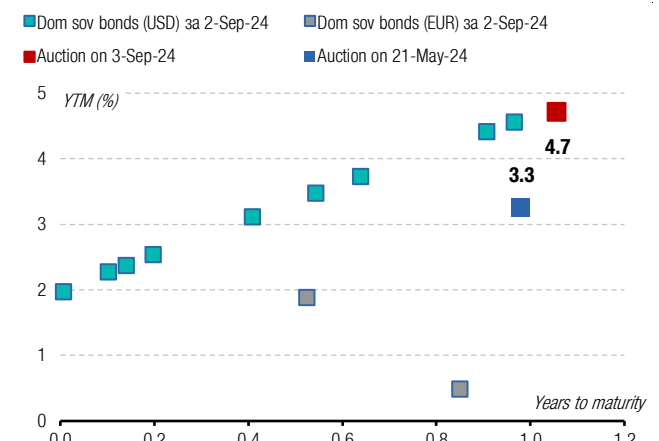
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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