

Bond Market Insight

New bonds and interest rates correct

Comment on government bond placement

WEDNESDAY, 4 DECEMBER 2024

Yesterday's auction allowed the MoF to borrow planned funds and to slightly correct interest rates due to changes in the maturities of offered bonds.

Yesterday, the MoF offered three new UAH military bonds with some differences in maturities compared with bonds sold earlier this year. The new one-year paper has a longer maturity than the 11-month bills sold in October, but is shorter than the 1.5-year paper sold in November. New three-year notes are shorter, too.

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 ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000233696	15.09	SA	4-Feb-26	5,000,000	1,048.75	5,243.74	5,000.00	15.70	5,000.00
UA4000233704	16.17	SA	14-Apr-27	5,000,000	1,021.18	5,105.92	5,000.00	16.87	5,000.00
UA4000233712	16.46	SA	3-Nov-27	5,000,000	1,012.29	5,061.45	5,000.00	17.19	5,000.00
UA4000233613	16.01	SA	10-May-28	7,000,000	1,029.58	7,207.03	7,000.00	15.84	12,000.00
Total UAH				22,000,000		22,618.14	22,000.00		27,000.00

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 41.33/USD, 46.13/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

New 14-month bills received a coupon rate of 15.09% and a cut-off rate of 15.1%, which are 11bp and 10bp below interest rates for 1.5-year paper in November. However, the new rates are 45bp above interest rates for 11-month bill in October.

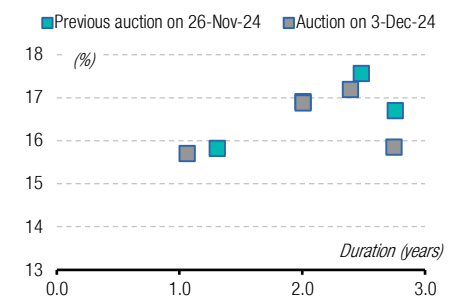
Interest rates for two-year instruments hardly changed as the maturity is almost the same. The cut-off rate rose by just 1bp to 16.2%, and the weighted average rate slid by 2bp to 16.17%.

Interest rates for three-year notes declined, as the new paper is shorter by three months. Cut-off rates slid by 30bp to 16.5%, and the weighted average rate fell by 34bp to 16.46%.

The most active issue was the placement of 3.5-year notes. The MoF increased the cap to UAH7bn while receiving UAH54bn of demand. Due to high competition, the MoF accepted only 28 out of 46 bids, with rates up to 15.48%. Therefore, the cut-off rate fell by 77bp to 15.48% and the weighted-average rate was down by 79bp to 15.22%.

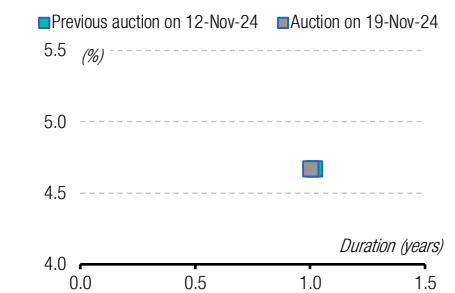
Finally, the MoF almost rolled its redemptions in December and will use new proceeds for other budget expenditures. Interest rate movements have mostly corrected due to the new maturities and do not indicate a possible NBU key policy rate revision in a week.

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



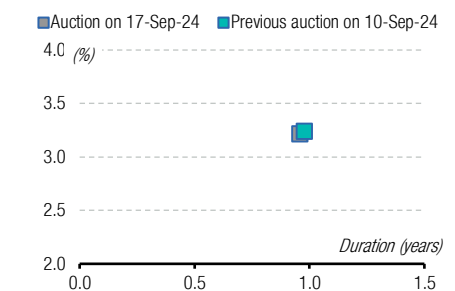
Source: Ministry of Finance of Ukraine, ICU.

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

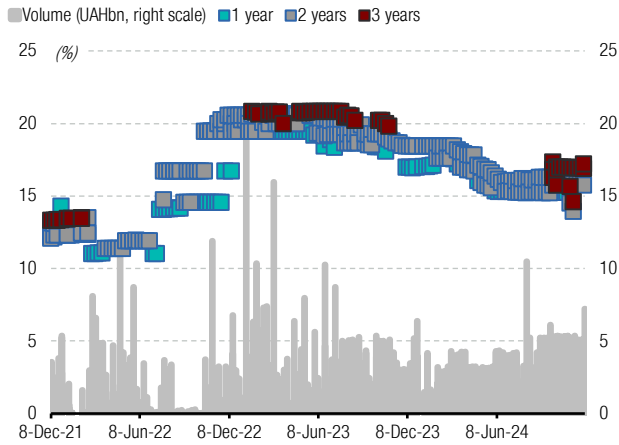


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

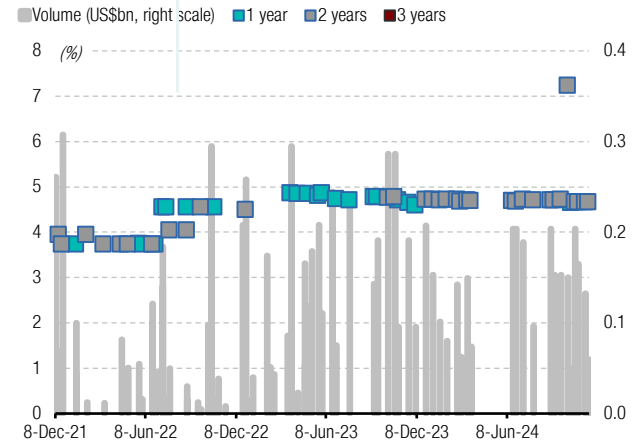
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

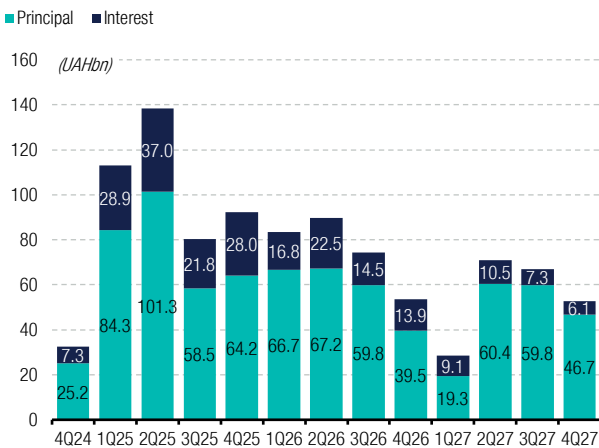
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

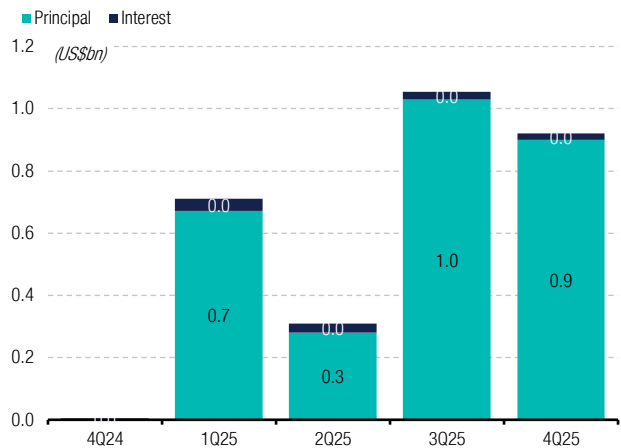
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

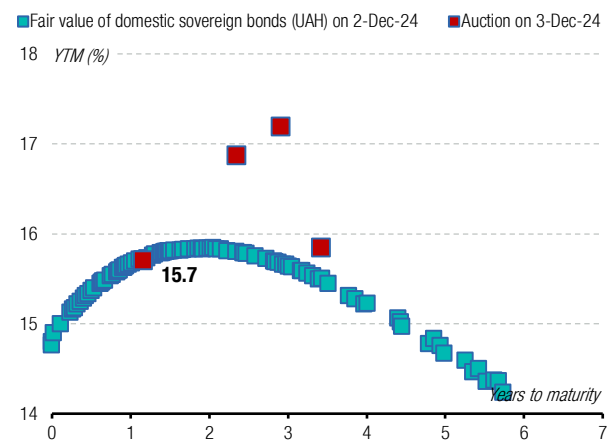
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

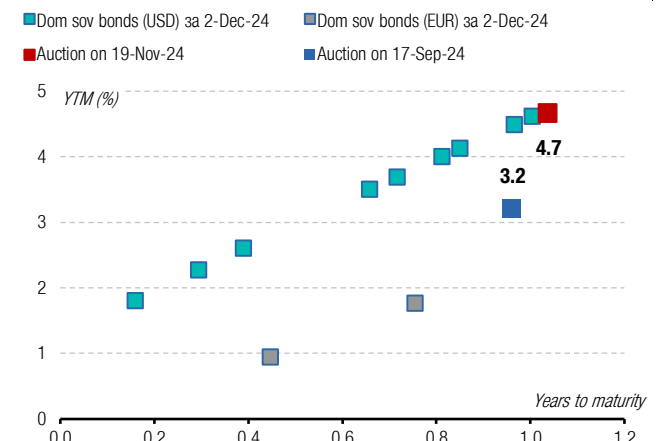
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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