

# Bond Market Insight

## MoF raises rates on military bonds

### Comment on government bond placement

WEDNESDAY, 29 JANUARY 2025

Yesterday, the Ministry of Finance raised interest rates on military bills, keeping the yield on reserve bonds unchanged. However, the rate increase was not proportional to the NBU's recent decisions on the key policy rate.

**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	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>
UA4000234215	15.10	SA	24-Jun-26	364,367	1,011.02	368.38	364.37	15.95	1,778.45
UA4000234223	16.20	SA	9-Jun-27	162,407	1,011.77	164.32	162.41	17.42	4,682.27
UA4000234140	15.99	SA	31-Jan-29	5,000,000	1,138.93	5,694.66	5,000.00	14.43	20,000.00
<b>Total UAH</b>				<b>5,526,774</b>		<b>6,227.36</b>	<b>5,526.77</b>		<b>26,460.72</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 41.33/USD, 46.13/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

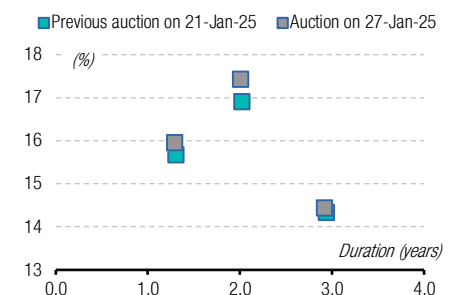
For 1.5-year bills, the MoF raised the cut-off rate by 50bp to 15.6% and the weighted average rate by 29bp to 15.35%, satisfying 16 bids out of 21 received. However, in terms of volume, only 24% were satisfied, as the five rejected bids were, apparently, the largest. It is worth noting that the maximum rate in bids did not change (16%), and the minimum rate increased by only 10bp to 15.1%.

The MoF's decision regarding 2.5-year bonds was similar. The maximum bid rate did not change (17%), and the minimum increased by 50bp to 16.5%. The Ministry satisfied only 18% of total demand, and the cut-off rate was increased by 50bp to 16.7%. Also, the weighted average rate was increased by 50bp to 16.7%.

At the same time, the trend of increasing rates was avoided with the placement of reserve bonds. The cut-off rate remained unchanged at 13.99%, and the weighted average increased by 12bp to 13.92%. Demand for these bonds gradually declined, almost half from last week, but it still exceeded supply.

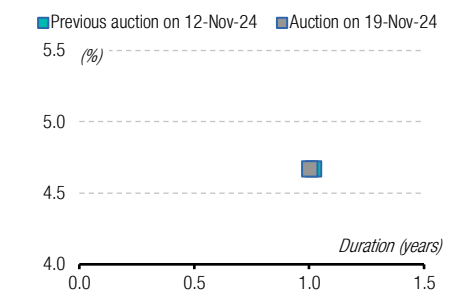
The MoF raised rates on military government bonds yesterday, but this can be thought of as a delayed reaction to the NBU's December decision to raise the key rate by 50bp. But this is only a third of the total increase in the key monetary rate in a month. At the same time, the rates in bids received by the Ministry of Finance also do not require an increase in yields similar to the key rate, which allows the MoF to stay restrained in its decisions.

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



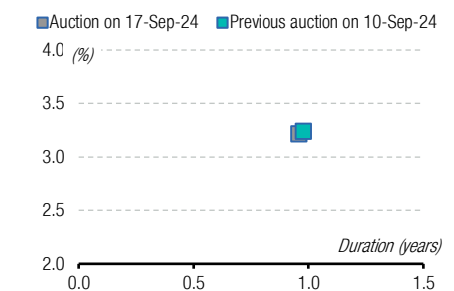
Source: Ministry of Finance of Ukraine, ICU.

### 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

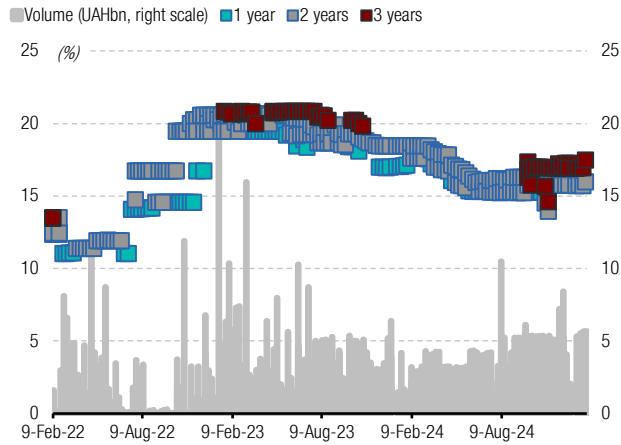


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

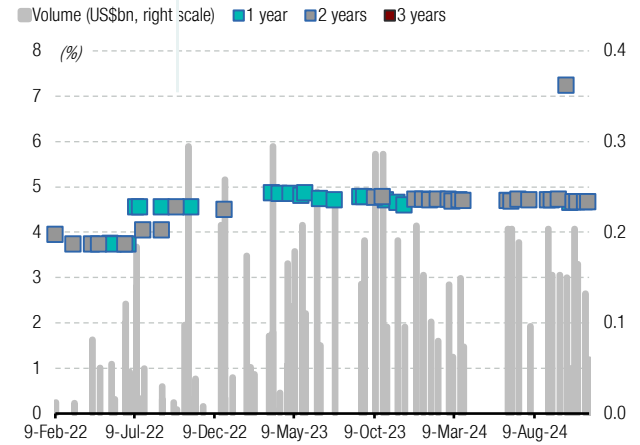
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

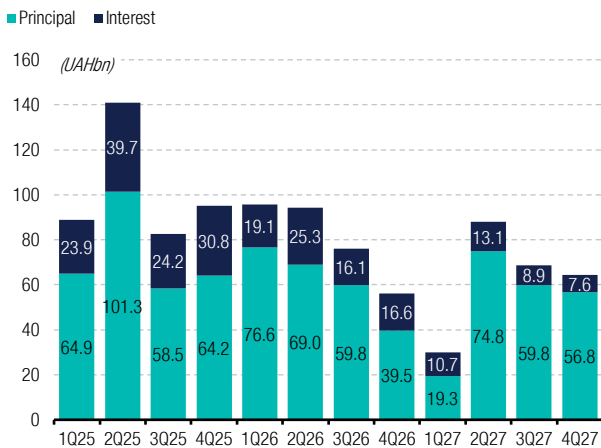
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

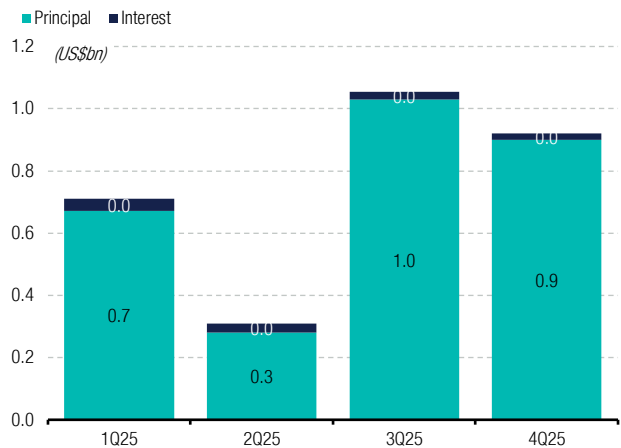
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

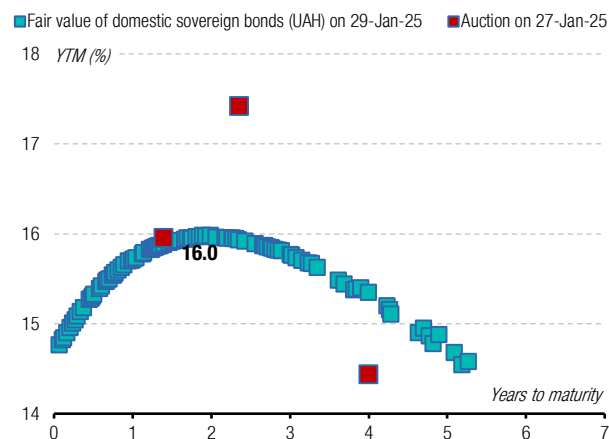
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

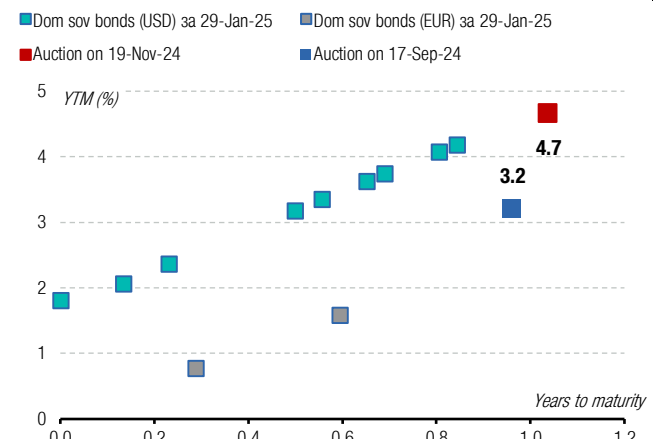
**Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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