

Bond Market Insight

Lower borrowings, but with lower rates

Comment on government bond placement

WEDNESDAY, 15 NOVEMBER 2023

The Ministry of Finance continued to lower interest rates, although it did not sell the offered amount of 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
UA4000229025	0.00	@Mty	5-Jun-24	3,000,000	914.14	2,742.41	3,000.00	16.89	9,000.00
UA4000228910	18.15	SA	23-Jul-25	2,681,320	1,060.15	2,842.61	2,681.32	18.62	14,681.32
UA4000229116	18.87	SA	24-Feb-27	3,390,608	1,040.72	3,528.67	3,390.61	19.73	7,390.61
Total UAH				9,071,928		9,113.69	9,071.93		31,071.93

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 36.44/USD, 39.37/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

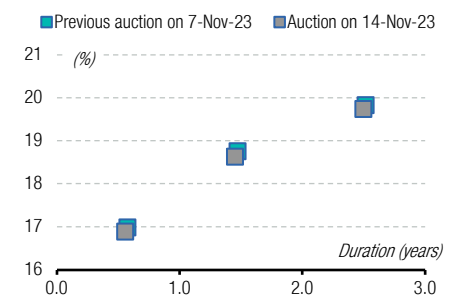
For the seven-month instrument, demand again significantly exceeded supply. Although oversubscription decreased to 3.4x from 3.8x, bids again allowed the reduction of the cut-off rate by 10bp to 16.9% and the weighted average rate, also by 10bp, to 16.89%. The MoF rejected only two bids with rates higher than 16.9%. However, a significant part of demand was partially satisfied within the cap and in proportion to the bid size.

One-and-a-half-year paper received just half of last week's demand, but all bids were at least 10bp below the previous week's auction cut-off rate. So, the Ministry of Finance satisfied all demand for these bills, lowering the cut-off rate by 10bp to 17.8% and the weighted average rate by 12bp to 17.78%.

To lower rates for three-year notes, the Ministry rejected one small bid for UAH40m with a rate of 18.87% (3bp lower than the cut-off rate of the previous auction), lowering the cut-off rate by 10bp to 18.8% and the weighted average by 8bp to 18.79%. The remaining bids were fully satisfied, as demand was smaller than the cap.

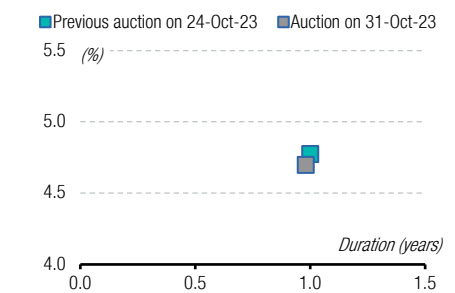
In general, interest in UAH government bonds remains high, as demand declined by only about a quarter, but exceeded the total planned volume of the placement. However, demand was, expectedly, concentrated in seven-month bills, and probably partially moved from longer maturities, slowed the decline in rates for 1.5-year and three-year securities. But generally, the downward trend of interest rates continues, so before the key policy rate review in December, the market can already reduce interest rates by approximately one percentage point.

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



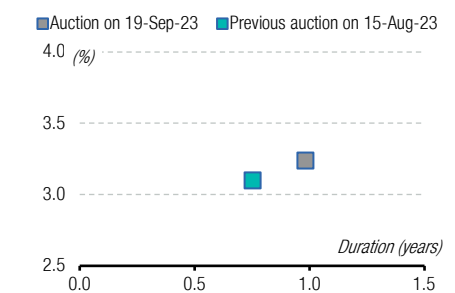
Source: Ministry of Finance of Ukraine, ICU.

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

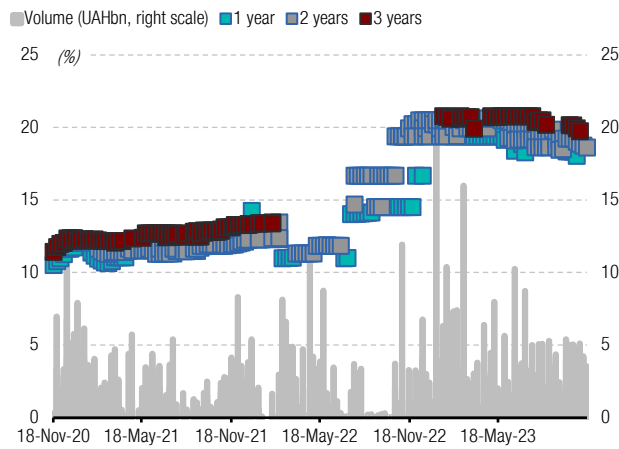


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

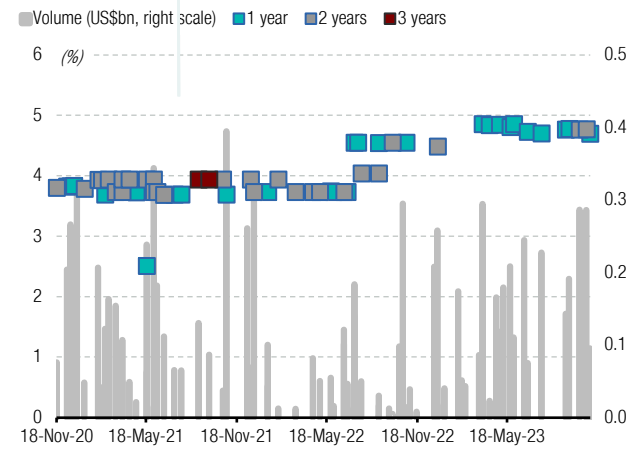
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

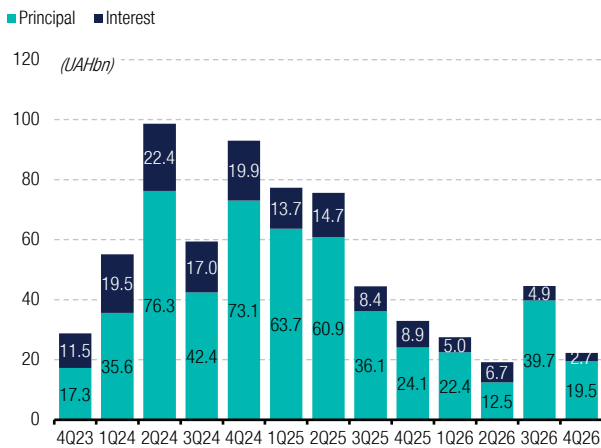
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

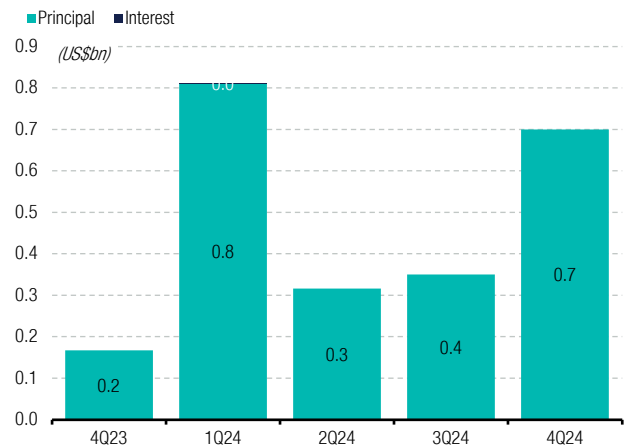
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

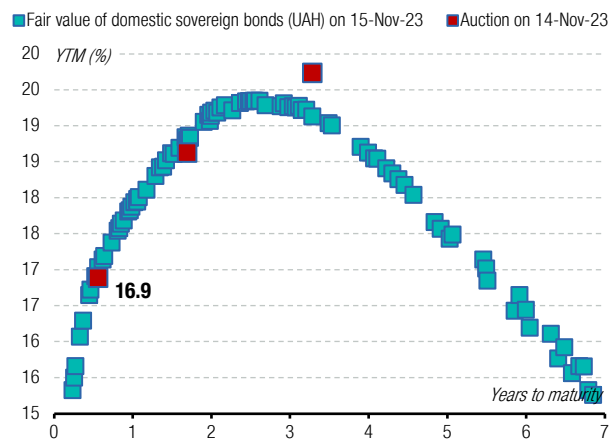
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

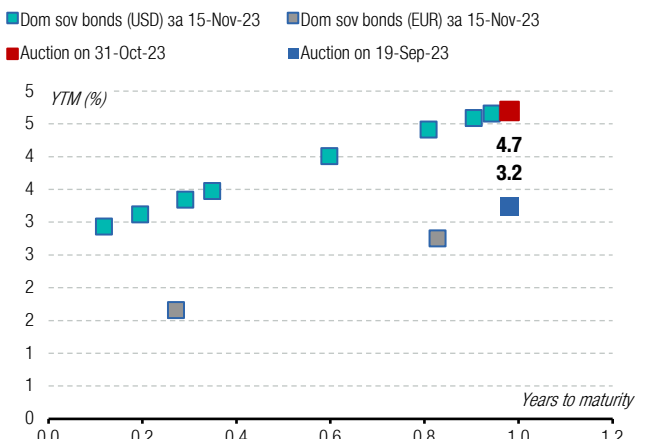
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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