

# Bond Market Insight

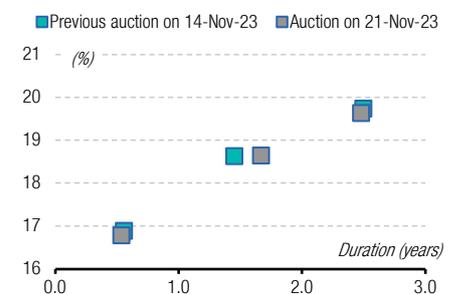
## MoF continues to reduce bond rates

### Comment on government bond placement

WEDNESDAY, 22 NOVEMBER 2023

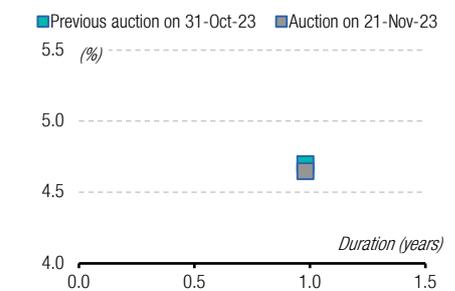
Yesterday, the Ministry of Finance raised almost UAH15bn for the budget, reducing interest rates on all bonds, including USD-denominated.

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



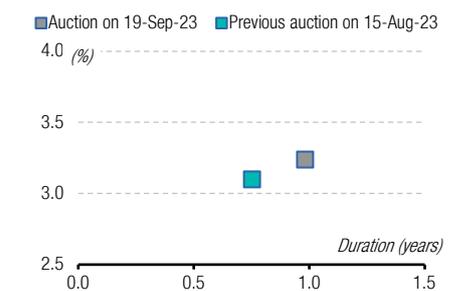
Source: Ministry of Finance of Ukraine, ICU.

### 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.

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

ISIN	Coupon rate (%)	Payment frequency <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>
UA4000229025	0.00	@Mty	5-Jun-24	3,000,000	917.31	2,751.92	3,000.00	16.79	12,000.00
UA4000229264	17.80	SA	15-Oct-25	3,000,000	1,016.55	3,049.65	3,000.00	18.65	3,000.00
UA4000229116	18.87	SA	24-Feb-27	2,187,521	1,046.58	2,289.41	2,187.52	19.63	9,578.13
<b>Total UAH</b>				<b>8,187,521</b>		<b>8,090.99</b>	<b>8,187.52</b>		<b>24,578.13</b>
UA4000229272	0.00	@Mty	14-Nov-24	200,000	956.38	6,898.19	7,212.78	4.65	7,212.78
<b>Total USD</b>				<b>200,000</b>		<b>6,898.19</b>	<b>7,212.78</b>		<b>7,212.78</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 36.06/USD, 39.37/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The seven-month paper was 3x oversubscribed, allowing the Ministry of Finance to lower rates by 10bp: cut-off rate to 16.8% and weighted average rate to 16.79%. At the same time, all bids were accepted, some of them partially within the cap in proportion to the size of the bid. The range of interest rates narrowed to 10bp compared with 23bp last week.

The MoF placed two-year bills on similar terms to the 20-month paper sold last week. The cut-off rate remained at 17.8%, and the weighted average increased by 2bp to 17.8%. The difference between the minimum and maximum rate was only 5bp, so the Ministry did not reject any bids, but satisfied many of them partially because demand significantly exceeded the supply. So, the Ministry placed an instrument about three months longer, almost without changing the rates, equivalent to lowering the rates.

Interest rates for three-year notes also decreased, approximately the same as in previous weeks: by 10bp for the cut-off rate and 9bp for the weighted average rate. However, the Ministry rejected one bid of UAH400m with a rate of 18.8%, similar to the cut-off rate of the previous auction.

USD-denominated bills also saw a reduction in rates. The MoF sold USD-denominated paper with a cut-off rate of 4.7% and a weighted average of 4.66%, which was 4bp and 5bp lower than three weeks ago. The Ministry rejected three bids and satisfied the rest mostly partially within the cap.

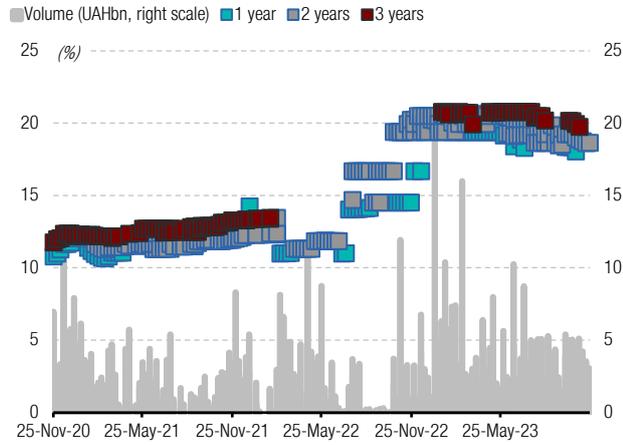
Demand for domestic bonds has even increased. The total volume of bids for UAH

securities was higher than last week and for FX-denominated bills higher than at the end of October. Investors were interested in FX-denominated bills, while for UAH securities, demand partially moved from seven-month and three-year bonds to two-year bills. Such changes in demand indicate investors' desire to lock in the YTM for a compromise maturity (longer than a year, but not for three years) and to hedge the risk of a possible hryvnia devaluation over the next 12 months.

# Appendix: Yields-to-maturity, repayments

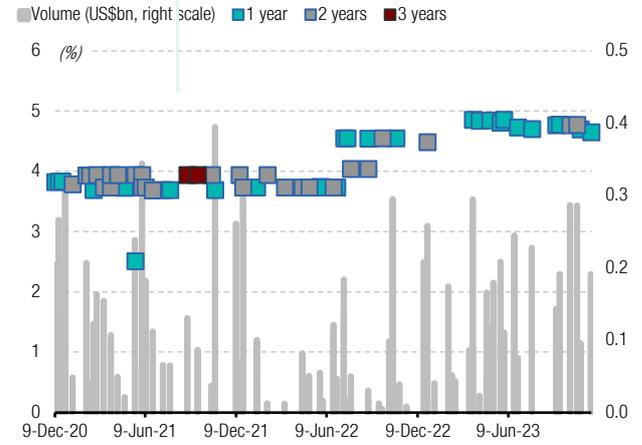
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

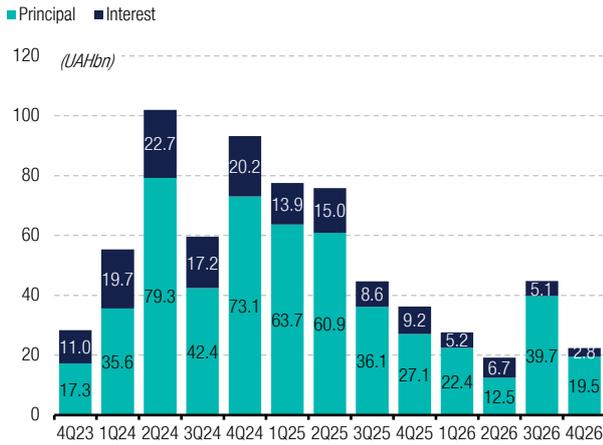
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

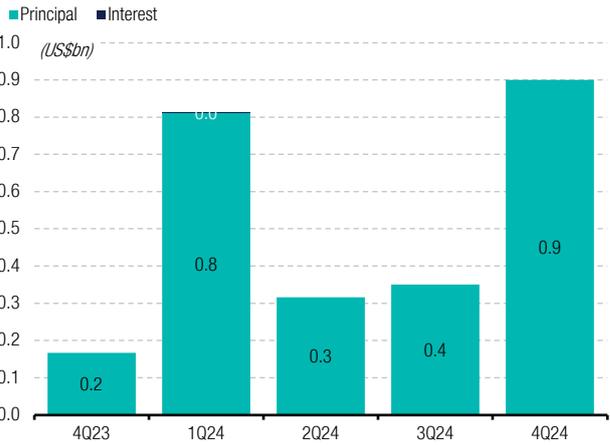
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

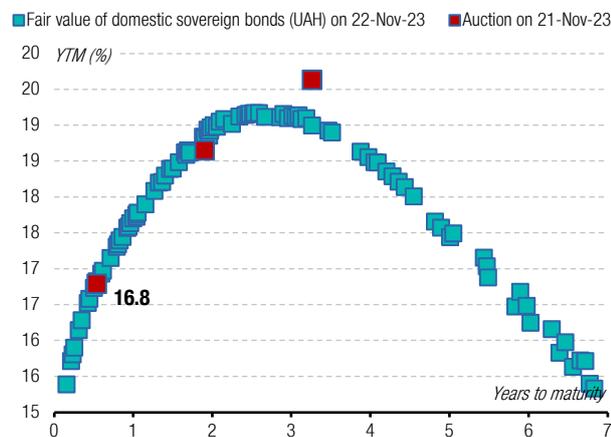
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

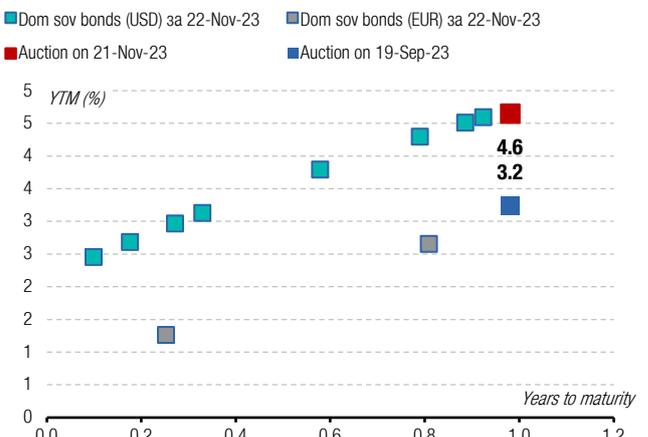
**Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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