

# Bond Market Insight

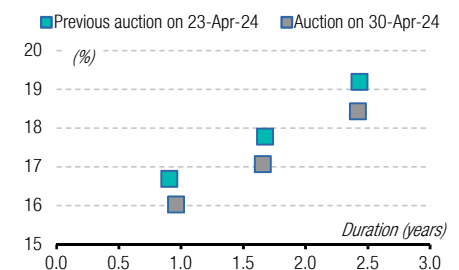
## Reduction of UAH bond rates resumes

### Comment on government bond placement

The NBU's decision to cut its interest rates by 100bp caused increased competition at yesterday's primary auction and led to a decrease in bond interest rates by 55–70bp.

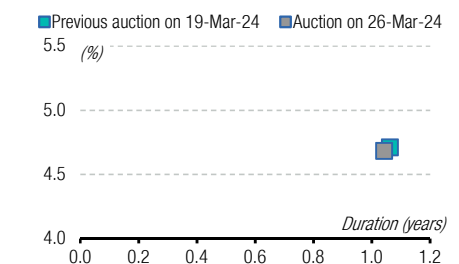
WEDNESDAY, 1 MAY 2024

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



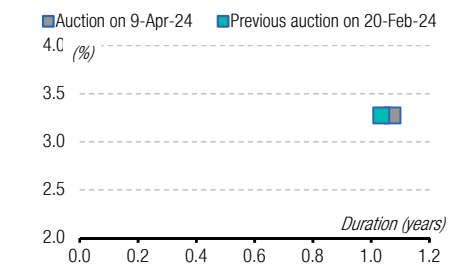
Source: Ministry of Finance of Ukraine, ICU.

### 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>
UA4000230635	16.24	SA	30-Apr-25	3,000,000	1,007.60	3,022.79	3,000.00	16.03	20,000.00
UA4000230809	17.00	SA	18-Mar-26	2,000,000	1,029.22	2,058.44	2,000.00	17.07	4,803.16
UA4000230270	18.50	SA	7-Jul-27	2,000,000	1,077.29	2,154.59	2,000.00	18.43	19,790.50
<b>Total UAH</b>				<b>7,000,000</b>		<b>7,235.82</b>	<b>7,000.00</b>		<b>44,593.67</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 39.32/USD, 41.96/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Realizing that this is likely the last placement of this issue of 12-month bills (as the MoF stops placing all new bonds when they reach UAH20bn outstanding), investors submitted bids three times above the cap set by the MoF (UAH9bn vs UAH3bn). Of course, where the competition was the greatest, the rate reduction was the smallest. The maximum rate in bids was 15.6%, which was only 40bp below last week's cut-off rate. The minimum rate was 15.35% or 50bp lower than last week.

Yesterday, the Ministry divided the cap as usual, with a 30% share for non-competitive bids (satisfied at the weighted-average rate) and 70% for competitive bids, which were accepted up to 15.45% interest rates. So, the cut-off rate decreased by 55bp to 15.45%, and the weighted-average rate declined by 61bp to 15.39%.

Two-year and three-year bonds were offered with a UAH2bn cap each and also received considerable demand, which more than doubled the supply. But the rate decline for them was even greater than for one-year bills.

The maximum rate in bids for the two-year paper was 16.5%, which is 50bp lower than the cut-off rate of the last auction. The minimum rate decreased by 60bp to 16.3%. The MoF accepted only bids with rates up to 16.4%, which was 60bp lower than last week, and the weighted average rate decreased by 65bp to 16.35%.

For three-year notes, the maximum rate in the bids decreased by 30bp to 18% compared with last week, but most bidders set lower rates. So, the minimum and cut-off rates decreased by 60bp to 17.5% and 17.7%, respectively, and the decrease in

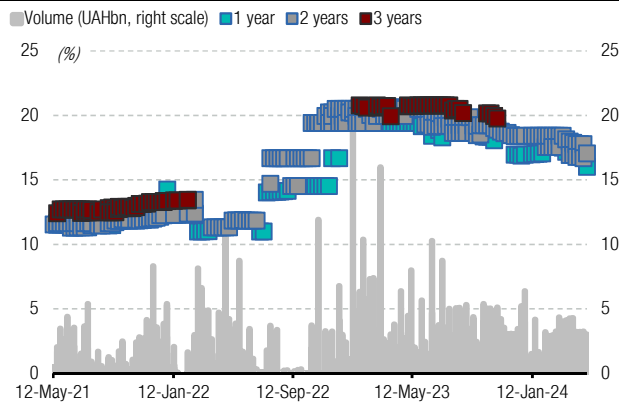
the weighted-average rate was the largest yesterday, 70bp to 17.6%.

The bond market reacted much more actively to the NBU's decision to lower the key policy rate and rates on CDs than it did to the previous decision in March to cut rates by 50bp. So next week, the decline may be much smaller or stop altogether since most of the NBU's rate change was already priced yesterday.

# Appendix: Yields-to-maturity, repayments

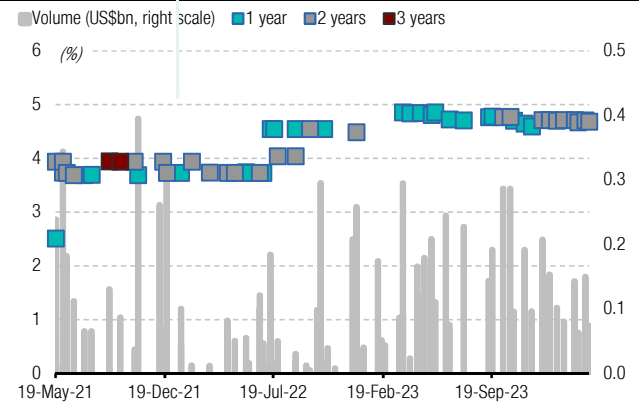
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

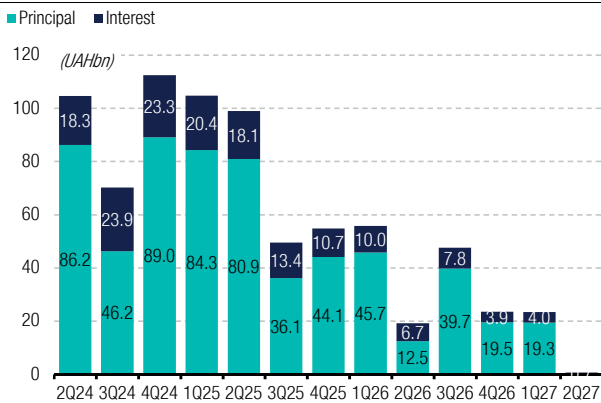
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

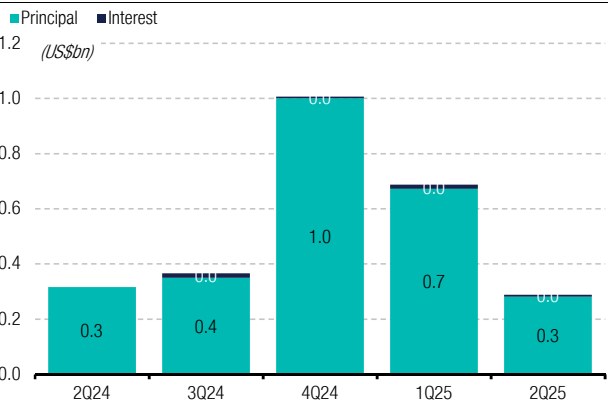
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

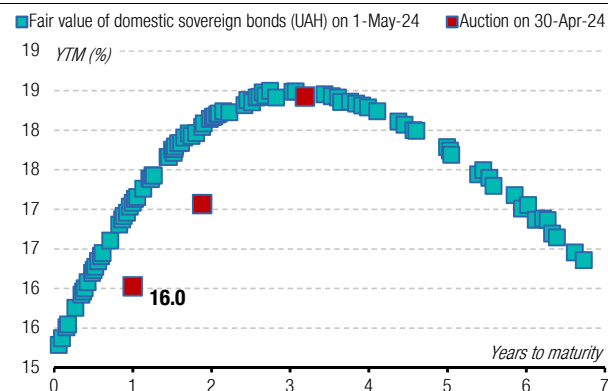
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

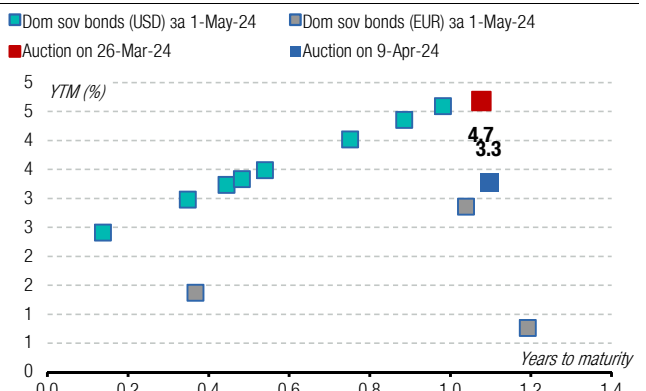
**Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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