

# Bond Market Insight

## Investors await news on rates and NBU's forecast

### Comment on government bond placement

The MoF received the lowest demand for a primary auction over the last year and a half. Therefore, budget proceeds were the weakest since January 2023. The total demand was just UAH1.4bn, one-tenth of the offered amount, and mostly received for 14-month bills (93%).

**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>
UA40002312K7	14.72	SA	10-Sep-25	1,281,787	1,054.08	1,351.11	1,281.79	15.22	12,611.93
UA4000231559	15.47	SA	10-Jun-26	63,326	1,018.47	64.50	63.33	16.04	9,685.29
UA4000231625	16.80	SA	9-Feb-28	29,097	1,073.96	31.25	29.10	17.56	8,748.58
<b>Total UAH</b>				<b>1,374,210</b>	<b>1,446.85</b>	<b>1,374.21</b>			<b>31,045.80</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 40.75/USD, 43.14/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Interest rates in bids for 14-month paper slightly declined. The lowest rate slid by 4bp to 14.6%, and the highest rate was 14.65% or 5bp lower. Therefore, the cut-off rate slid by 5bp and the weighted average rate by 2bp to 14.64%. The MoF accepted all received bids, borrowing almost UAH1.4bn.

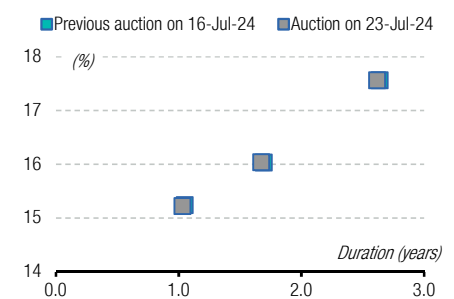
At the same time, two- and 3.6-year instruments received insufficient demand, just UAH63m and UAH29m, respectively. Cut-off rates for these two securities remained steady at 15.4% and 16.8%.

The state budget received UAH1.4bn of proceeds, the smallest amount since the debut auction in January 2023, when the MoF borrowed just UAH1.1bn. However, this small amount of funds is fine for the government. All redemptions paid this year have already been refinanced, and the next one is scheduled in two weeks.

Lack of redemptions is the base reason for low demand, as investors do not receive large redemptions to reinvest. However, the main reason for low activity is awaiting the NBU's decision on interest rates and the publication of its new macro forecast both for tomorrow. Investors are in no hurry to buy bonds, as the NBU may pause its rate-cutting cycle.

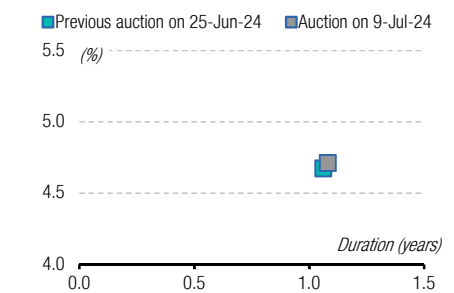
### WEDNESDAY, 24 JULY 2024

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



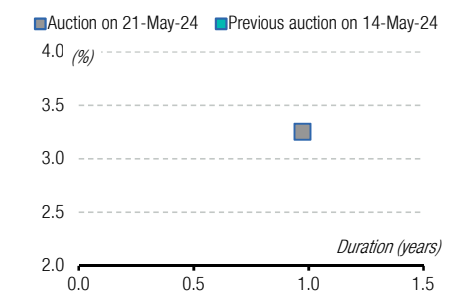
Source: Ministry of Finance of Ukraine, ICU.

#### 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

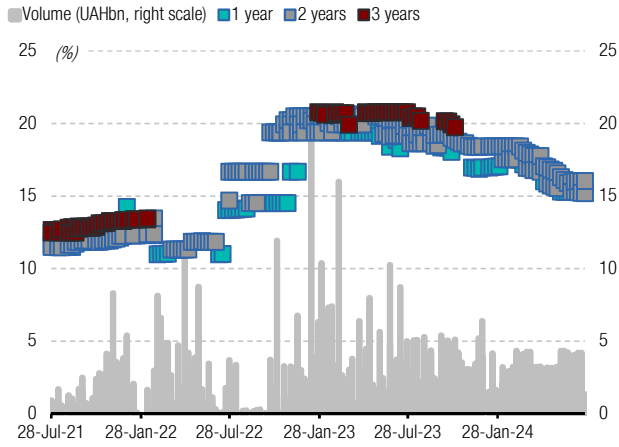


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

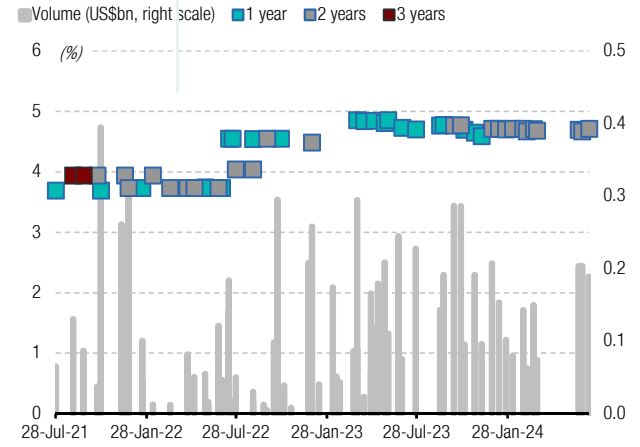
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

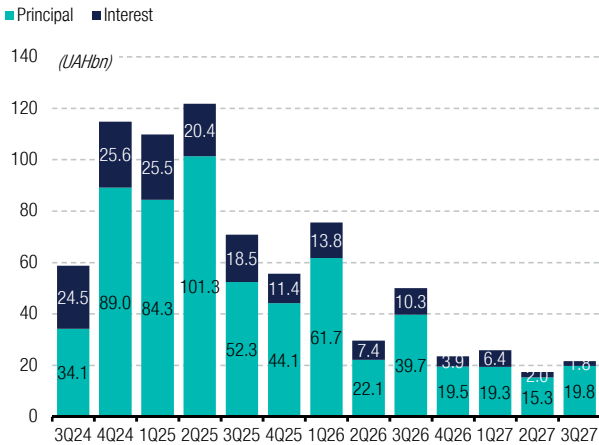
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

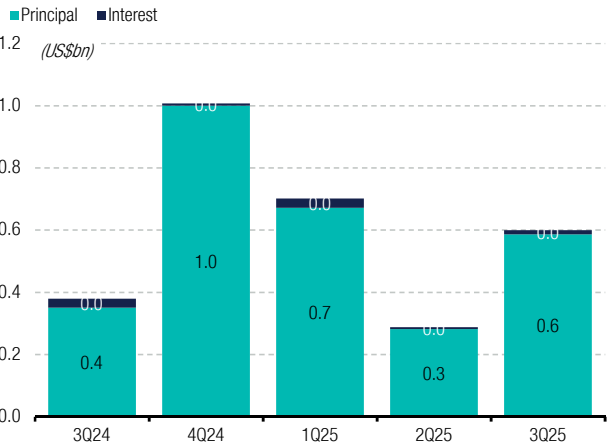
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

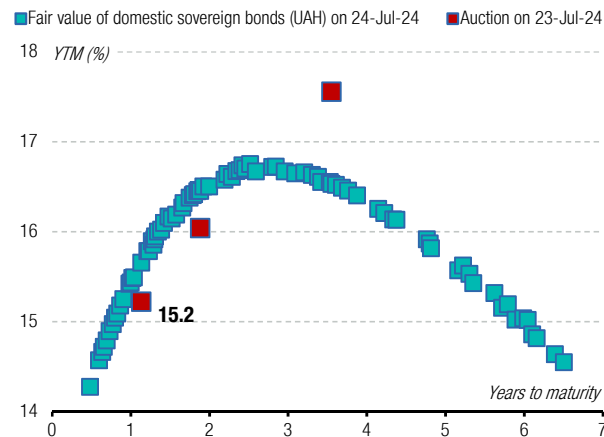
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

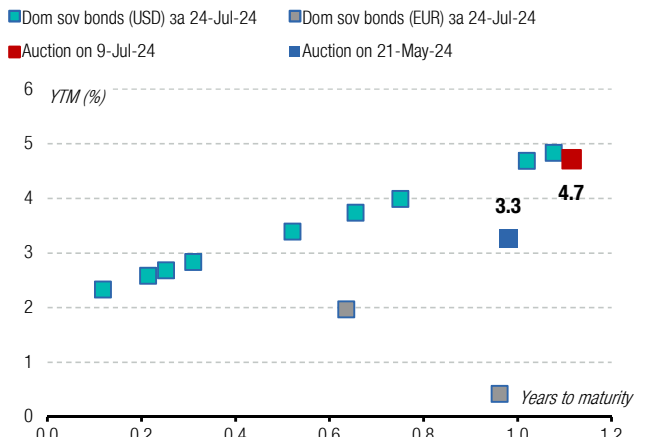
**Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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