

Bond Market Insight

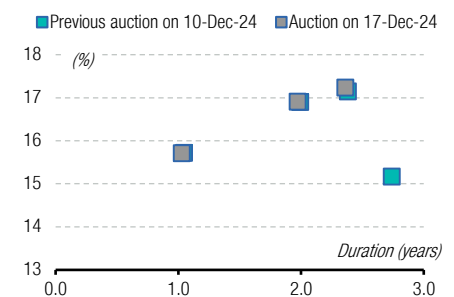
Restrained reaction to key policy rate hike

Comment on government bond placement

THURSDAY, 19 DECEMBER 2024

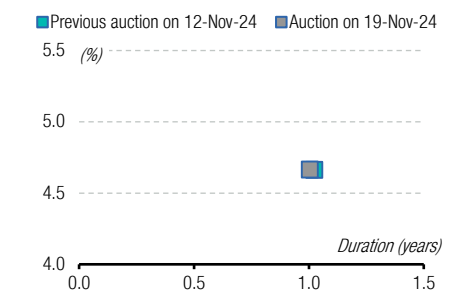
The first primary auction took place without a significant change in interest rates after the NBU increased its key policy rate. However, there was still some reaction to the National Bank's decision. The Ministry of Finance reduced caps to UAH3-4bn, and bidders moved their preferences closer to the maximum rates. The volume of demand decreased almost threefold, to UAH12.4bn, if we compare only military bonds.

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



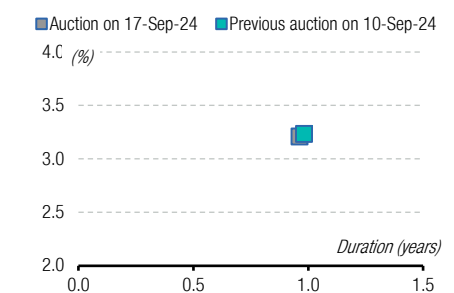
Source: Ministry of Finance of Ukraine, ICU.

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 | Maturity | Qty of bonds sold | Price (UAH) | Proceeds ² (UAHm) | Volume ² (UAHm) | YTM ³ (%) | Out-standing (m) ⁴ |
|------------------|-----------------|-------------------|-----------|-------------------|------------------|------------------------------|----------------------------|----------------------|-------------------------------|
| UA4000233696 | 15.09 | SA | 4-Feb-26 | 3,000,000 | 1,054.58 | 3,163.73 | 3,000.00 | 15.71 | 13,000.00 |
| UA4000233704 | 16.17 | SA | 14-Apr-27 | 4,000,000 | 1,026.71 | 4,106.85 | 4,000.00 | 16.91 | 14,000.00 |
| UA4000233712 | 16.46 | SA | 3-Nov-27 | 3,000,000 | 1,017.54 | 3,052.61 | 3,000.00 | 17.23 | 13,000.00 |
| Total UAH | | | | 10,000,000 | 10,323.19 | 10,000.00 | 40,000.00 | | |

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.

The most significant volume of bids was for 14-month securities: UAH5.3bn vs. the UAH3bn cap. The minimum rate in bids increased by 10bp to 15%, and the maximum was 15.1%. A considerable amount of demand was in non-competitive applications. Since the MoF satisfied UAH900m of non-competitive bids, competitive bids with lower rates gained an advantage and lowered the weighted average rate by 1bp to 15.09%.

For two-year paper, demand was only 1% higher than supply, so all bidders purchased almost the desired volume. However, most bids were at 16.2%, so the cut-off rate did not change, and the weighted average increased by 1bp to 16.2%.

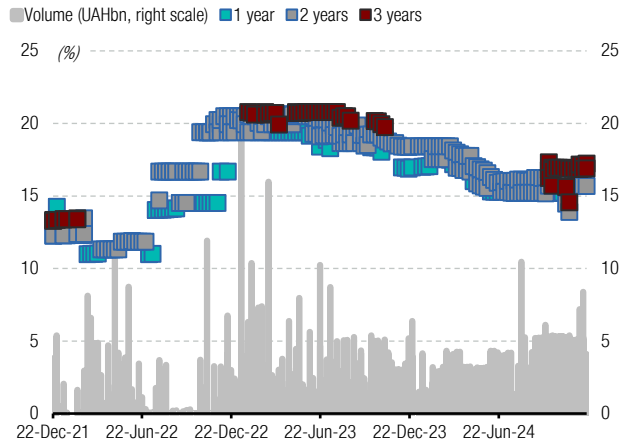
Demand for three-year bonds was also slightly higher than supply, by less than 1%. The minimum rate in bids increased significantly, by 105bp to 16.3%, the maximum rate remained unchanged, and the weighted average rate increased by 8 bp to 16.5%.

Primary auction showed a lack of reaction to the NBU's decision. Placement participants did not attempt to hint at a possible increase in bond rates, although the minimum rates have approached the maximum, and currently, the difference is 10-20bp. So, it is not worth expecting any unusual movements next week because the Ministry of Finance is reducing the supply, and investors' desire to buy military government bonds is gradually running out.

Appendix: Yields-to-maturity, repayments

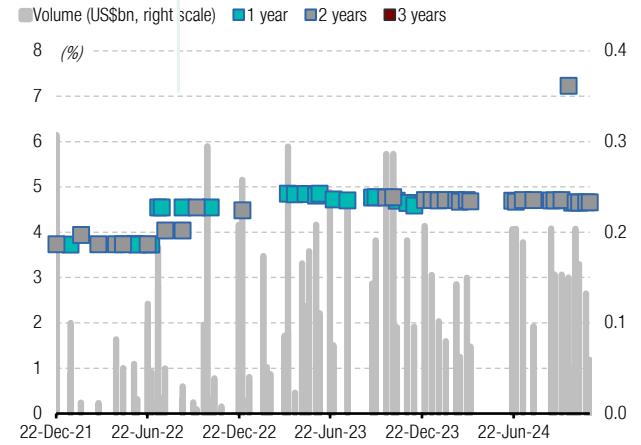
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

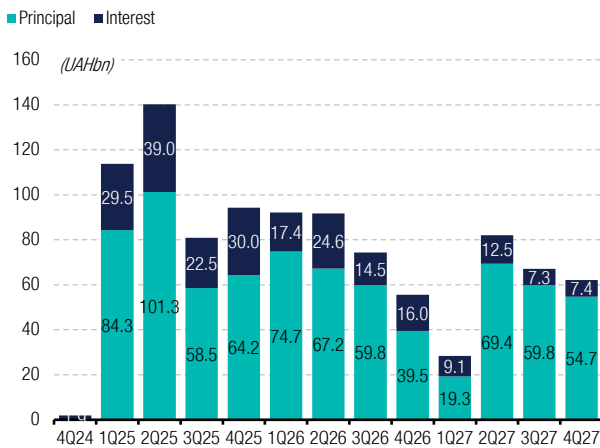
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

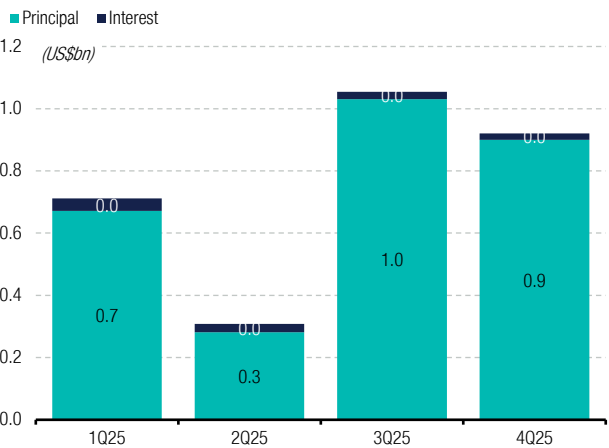
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

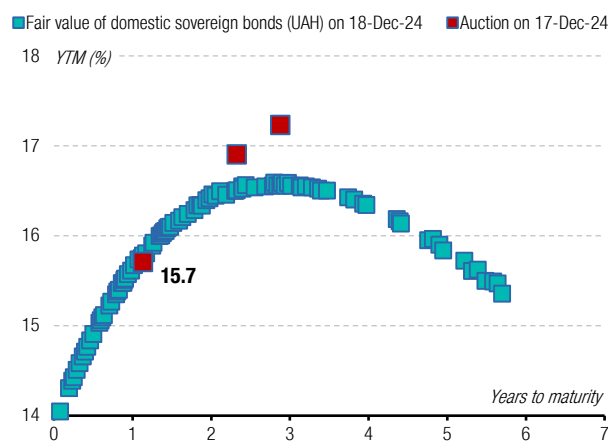
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

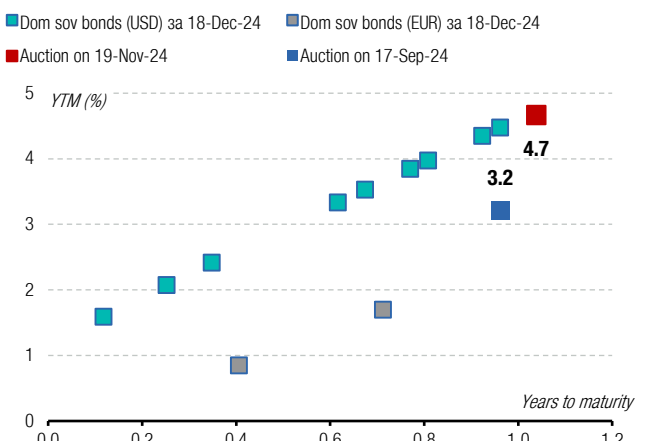
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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