

Bond Market Insight

MoF rejects interest rate increase

Comment on government bond placement

WEDNESDAY, 15 JANUARY 2025

The Ministry of Finance rejected yesterday a major part of the demand for military bills as it did not want to increase interest rates on them.

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
UA4000234215	15.10	SA	24-Jun-26	1,308,432	1,008.44	1,319.48	1,308.43	15.72	1,308.43
UA4000234223	16.20	SA	9-Jun-27	1,866,952	1,015.09	1,895.12	1,866.95	16.91	1,866.95
UA4000234140	15.99	SA	31-Jan-29	5,000,000	1,108.84	5,544.20	5,000.00	15.29	10,000.00
Total UAH				8,175,384		8,758.80	8,175.38		13,175.38

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.

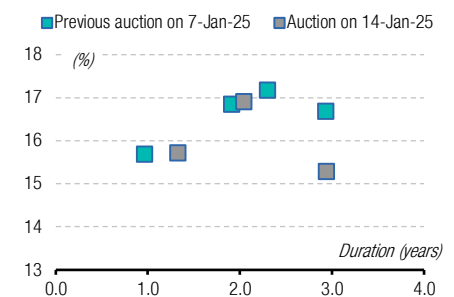
New 1.5-year bills received 24 bids, amounting to UAH3.3bn, with interest rates ranging from 15% to 16%. The MoF rejected the most significant bid, amounting to UAH2.0bn, with the highest rate. Therefore, the MoF set the cut-off and weighted-average rates at 15.1% or 10bp below a similar bond sold last November.

The MoF made a similar decision for a 2.5-year paper. Out of 24 bids, which amounted to UAH3.9bn, the MoF rejected two with interest rates above 16.2%, which amounted to UAH2bn. Therefore, the MoF set the cut-off and weighted-average rates at 16.2%, 1bp, and 5bp above last week's levels.

At the same time, four-year notes received UAH43bn of demand in 48 bids vs the UAH5bn cap, which was exhausted at the lowest rate, 14.7% or 130bp, below last week's level.

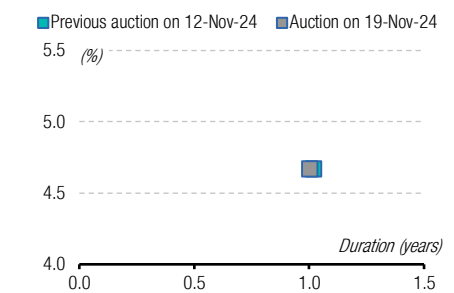
Finally, the MoF received UAH8.8bn last week and UAH13.8bn YTD, slightly more than half of UAH23bn of debt repayments scheduled for January. With two more auctions this month, the MoF will refinance these repayments fully, but is unlikely to increase interest rates, as demonstrated yesterday.

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



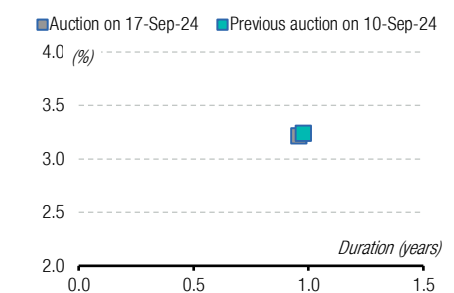
Source: Ministry of Finance of Ukraine, ICU.

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

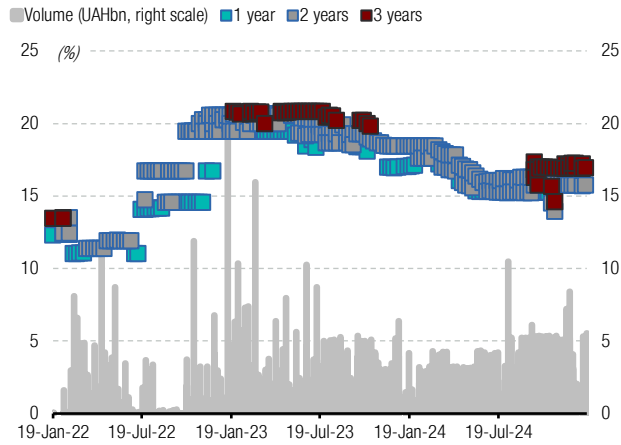


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

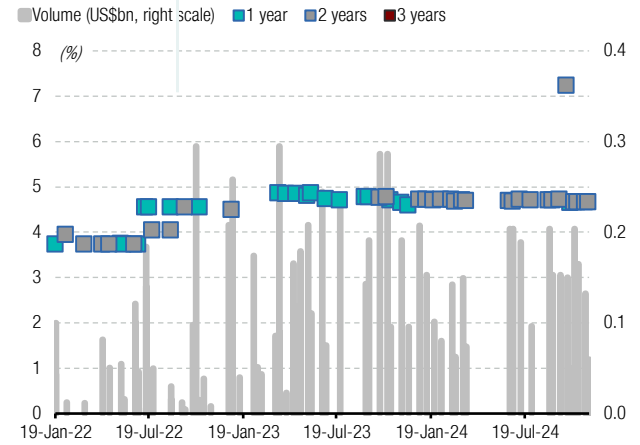
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

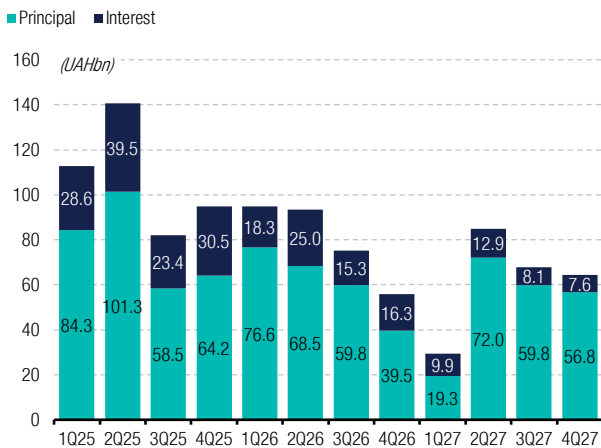
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

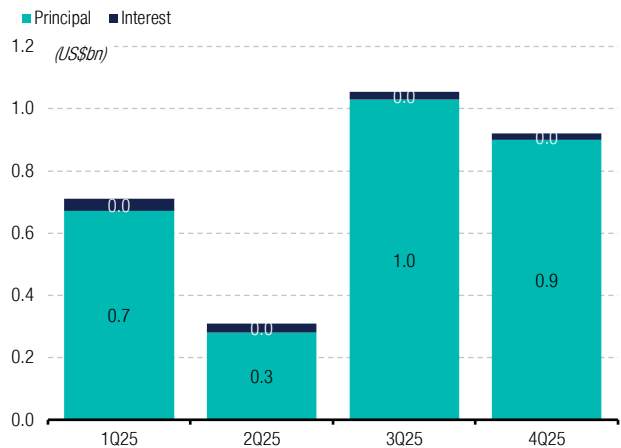
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

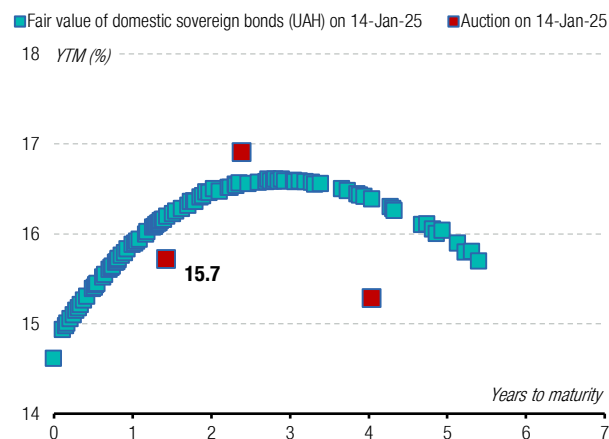
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

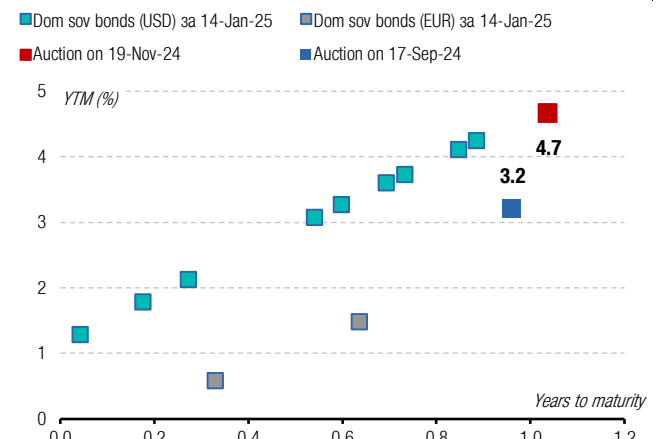
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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