

# Bond Market Insight

## Rate reduction continues

### Comment on government bond placement

Yesterday, the Ministry of Finance raised UAH31.4bn (US\$859m), mostly in local currency, lowering interest rates on some instruments.

At yesterday's auction, the MoF offered four issues of UAH bills and two FX-denominated bills in US dollars and euros. Three out of six securities saw a decrease in interest rates.

**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>
UA4000227763	0.00	@Mty	1-May-24	11,863,968	864.25	10,253.44	11,863.97	18.20	11,863.97
UA4000226286	14.00	SA	26-Jun-24	700,711	1,029.39	721.30	700.71	19.12	12,020.97
UA4000227656	19.50	SA	15-Jan-25	1,294,927	1,084.52	1,404.38	1,294.93	20.29	4,956.54
UA4000227490	19.75	SA	18-Feb-26	4,376,386	1,063.51	4,654.33	4,376.39	20.79	9,751.37
<b>Total UAH</b>				<b>18,235,992</b>		<b>17,033.45</b>	<b>18,235.99</b>		<b>38,592.84</b>
UA4000227581	0.00	@Mty	29-Feb-24	252,546	967.93	9,027.81	9,326.95	4.78	17,303.20
<b>Total USD</b>				<b>252,546</b>		<b>9,027.81</b>	<b>9,326.95</b>		<b>17,303.20</b>
UA4000227557	0.00	@Mty	16-May-24	140,000	971.64	5,485.01	5,645.08	3.23	10,695.22
<b>Total EUR</b>				<b>140,000</b>		<b>5,485.01</b>	<b>5,645.08</b>		<b>10,695.22</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 36.93/USD, 40.32/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

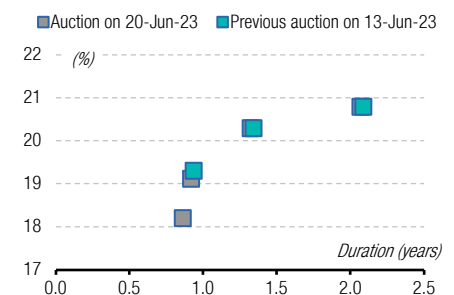
The shortest UAH paper, maturing at the beginning of May 2024, was a new placement and received the highest demand of almost UAH12bn in 12 bids. The interest rates in the competitive bids were 18–18.2%, and all of them were satisfied. Thus, thanks to aggressive demand, the cut-off rate was lowered by 30bp compared with bills of similar maturity sold at the end of May. The weighted average rate decreased by 7bp.

The MoF continued to lower interest rates for 12-month paper, rejecting four competitive bids for almost UAH57m (US\$1.5m). Most likely, they were submitted at a rate of 18.4%, similar to last week's auction. Most of the competitive demand was submitted with rates from 18.2% to 18.3%, which was fully satisfied. The cut-off rate was set at 18.3%, 10bp lower than last week, and the weighted average rate declined by 17bp to 18.23%.

Conditions for 1.5-year military paper have not changed. The Ministry of Finance sold them for UAH1.3bn (US\$35m) (par value) at 19.3%, similar to the previous auction.

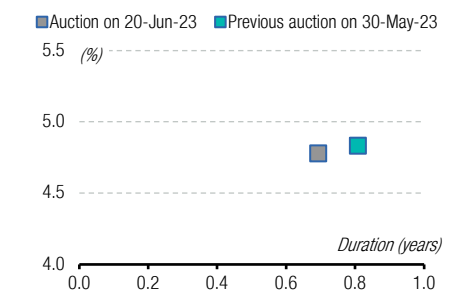
### WEDNESDAY, 21 JUNE 2023

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



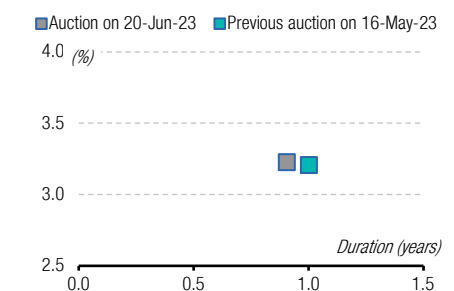
Source: Ministry of Finance of Ukraine, ICU.

#### 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.

Banks' interest in reserve bonds has increased. Demand was up more than a hundredfold compared with last week and amounted to almost UAH4.4bn (US\$120m). All bids were submitted at the usual rate of 19.75% and were fully satisfied.

The Ministry also lowered interest rates on USD-denominated bills with eight months' maturity. Since the offer of these bills was limited, bidders submitted most of the bids at 4.8%, 5bp lower than at the end of May when 10-month bills were placed. Total demand did not exceed the offer, and it was fully satisfied with the cut-off and weighted average rates down by 5bp to 4.8%.

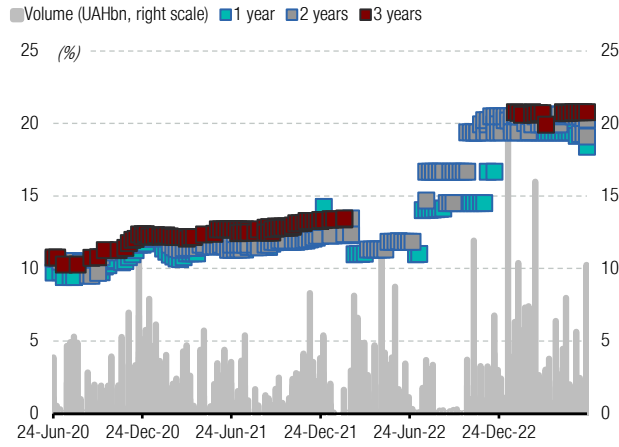
At the same time, demand for EUR-denominated paper was greater than the supply. These bills were placed last time more than a month ago, which pushed the lowest rate in demand down by 10bp. But most of the demand was at the same rate as in May. Accordingly, most of the bids were satisfied partially within the proposed volume, so the maximum rate did not change (3.25%), and the weighted average even increased by 2bp up to 3.24% compared with the placement in May.

Investors' desire to reinvest funds from recent or upcoming redemptions and caps used by the MoF allowed the Ministry of Finance to decrease interest rates on some instruments and attracted a considerable amount of funds to the state budget. Considering another auction in June, such borrowings make it possible to count on them as the predominant refinancing of redemptions this month and maintain the level of domestic debt refinancing above 100% YTD.

# Appendix: Yields-to-maturity, repayments

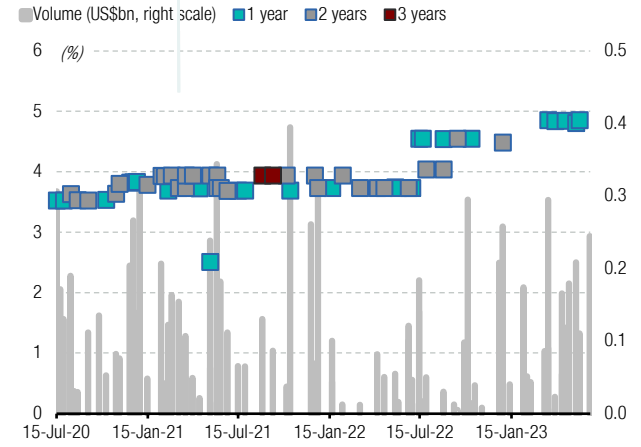
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

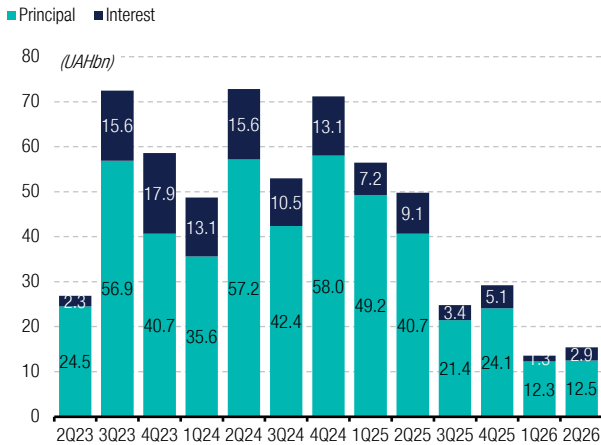
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

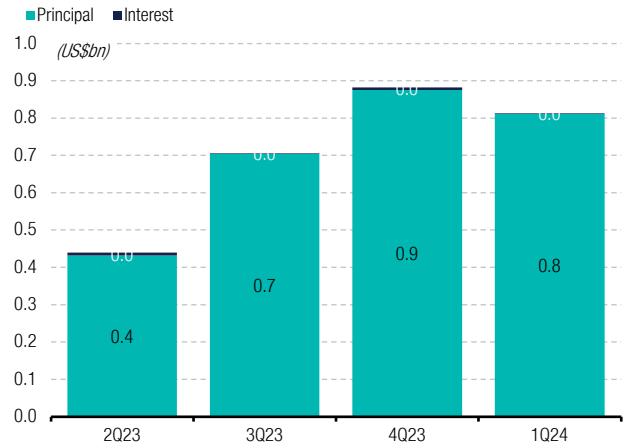
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

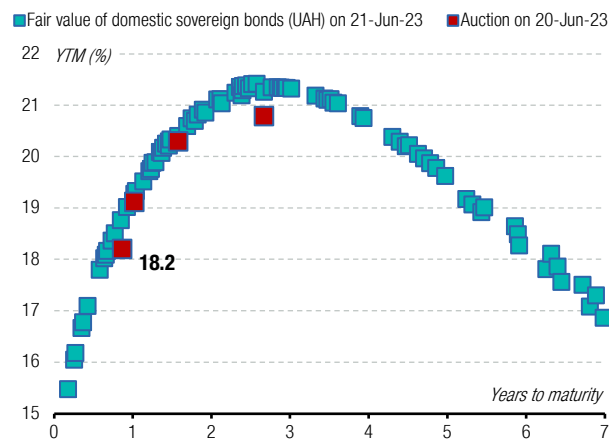
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

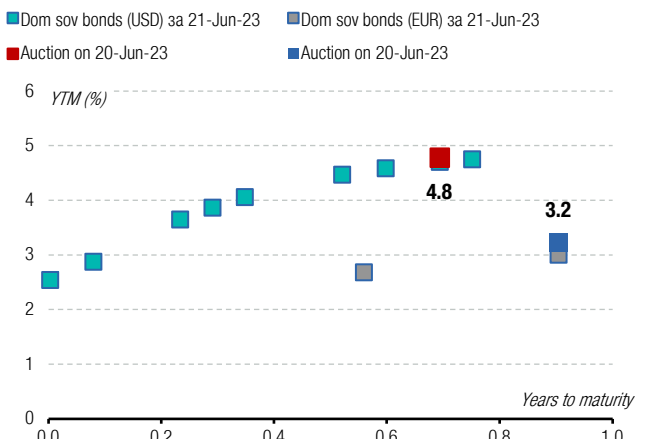
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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