

Bond Market Insight

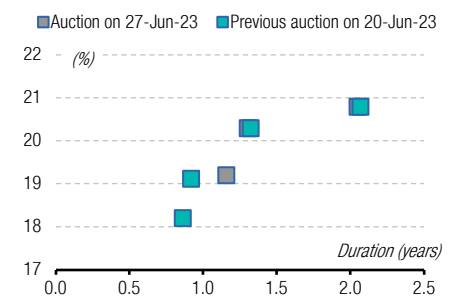
Interest rates on USD bills decline further

Comment on government bond placement

WEDNESDAY, 28 JUNE 2023

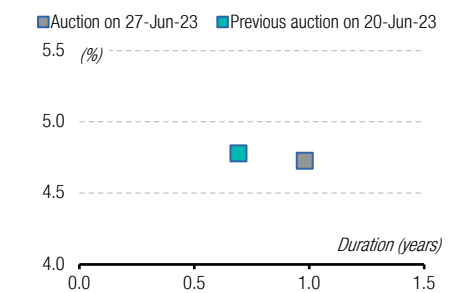
The Ministry of Finance attracted almost UAH7.8bn (US\$212m) in yesterday's auction, mainly in local currency, but more than a third in hard currency, even with reduced interest rates.

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



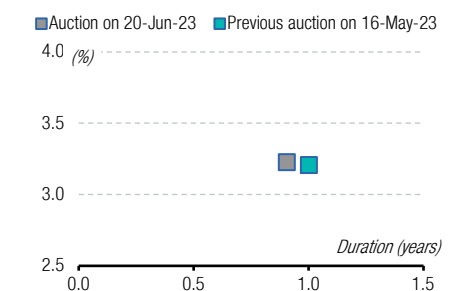
Source: Ministry of Finance of Ukraine, ICU.

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 (%) | Outstanding (m) ⁴ |
|------------------|-----------------|-------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000187207 | 15.50 | SA | 2-Oct-24 | 722,500 | 1,004.44 | 725.71 | 722.50 | 19.19 | 2,722.50 |
| UA4000227656 | 19.50 | SA | 15-Jan-25 | 2,122,246 | 1,088.38 | 2,309.82 | 2,122.25 | 20.29 | 7,078.79 |
| UA4000227490 | 19.75 | SA | 18-Feb-26 | 1,849,290 | 1,067.37 | 1,973.88 | 1,849.29 | 20.79 | 11,600.66 |
| Total UAH | | | | 4,694,036 | | 5,009.40 | 4,694.04 | | 21,401.94 |
| UA4000227847 | 0.00 | @Mty | 20-Jun-24 | 78,739 | 955.69 | 2,779.12 | 2,907.97 | 4.73 | 2,907.97 |
| Total USD | | | | 78,739 | | 2,779.12 | 2,907.97 | | 2,907.97 |

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, 40.57/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The Ministry of Finance replaced the 12-month bills with 15-month paper yesterday, but conditions remained unchanged. Demand amounted to UAH1.3bn (US\$36m), where UAH450.5m (US\$12m) was at 18.3%, UAH272m (US\$8m) was in non-competitive bids, and UAH584m (US\$16m) had rates up to 19.3%. This could be why the MoF accepted competitive bids at 18.3% and non-competitive demand at the same weighted-average rate.

Placement conditions for 1.5-year military bills and three-year reserve notes did not change. The MoF sold the 1.5-year paper at 19.3%, and "reserve" securities at 19.75%.

This week, the MoF continued to reduce rates on USD-denominated bills. Last week, the Ministry of Finance sold eight-month USD-denominated bills at 4.8%. Yesterday, the demand for new 12-month bills in US dollars saw interest rates ranging from 4.5% to 4.85%. The maximum rate was similar to the placement of 11-month paper at the beginning of May. However, yesterday, the MoF decided that the rate of 4.85% was too high and rejected nine bids for US\$10.5m. The maximum accepted rate was set 5bp lower at 4.8%, and the weighted-average rate decreased by 11bp compared with May to 4.74%.

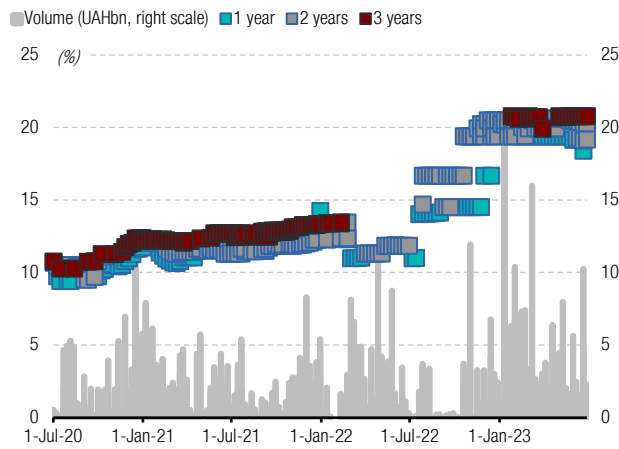
The Ministry of Finance continued to raise funds in local and hard currencies, partially from last week's debt redemptions. Considering July has smaller repayments in local and hard currencies than June, the Ministry has more opportunities to manoeuvre and choose more attractive rates for new placements.

READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

Appendix: Yields-to-maturity, repayments

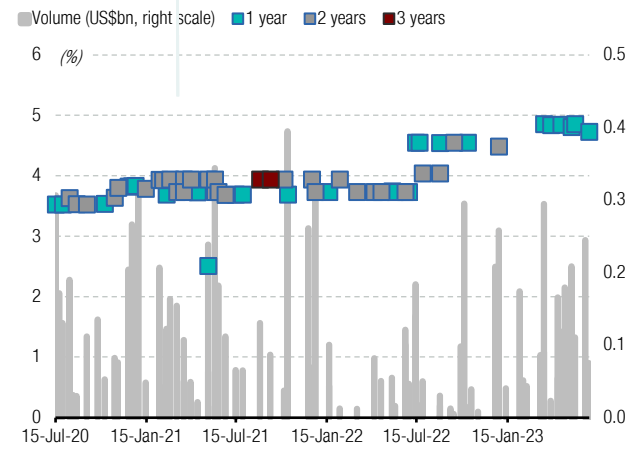
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

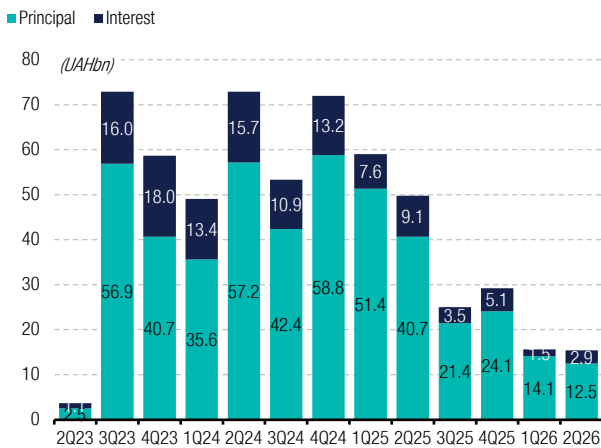
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

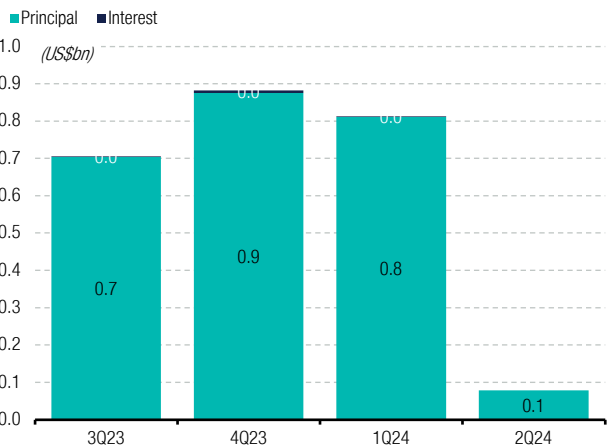
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

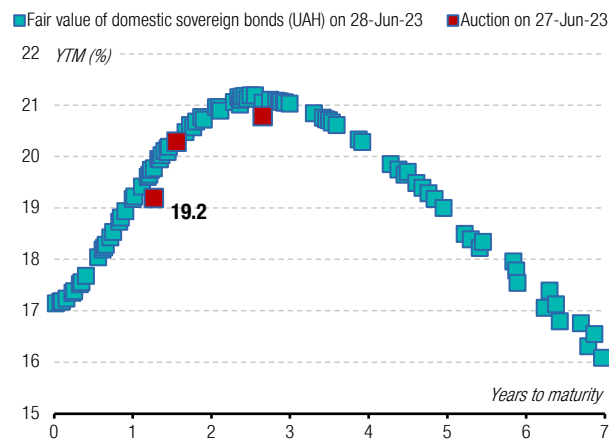
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

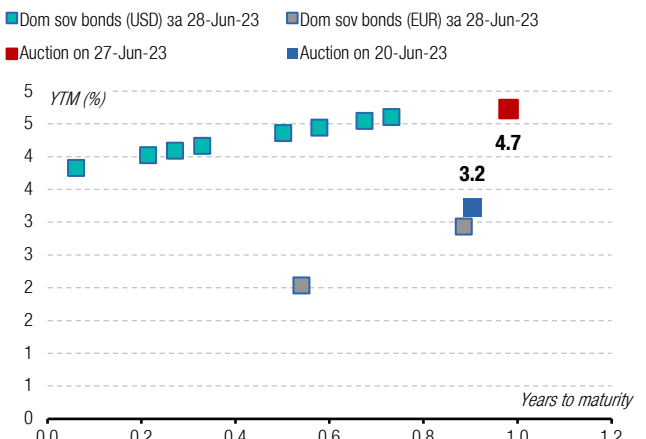
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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