

# Bond Market Insight

## Decline in bond interest rates continues

### Comment on government bond placement

WEDNESDAY, 19 JULY 2023

The MoF borrowed UAH5.5bn (US\$313m) with a decline in interest rates.

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 <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000187207	15.50	SA	2-Oct-24	21,686	1,014.63	22.00	21.69	19.19	3,019.03
UA4000227656	19.50	SA	15-Jan-25	2,441,507	1,007.53	2,459.89	2,441.51	19.85	13,933.73
UA4000227490	19.75	SA	18-Feb-26	3,000,000	1,079.07	3,237.21	3,000.00	20.79	19,949.31
<b>Total UAH</b>				<b>5,463,193</b>		<b>5,719.10</b>	<b>5,463.19</b>		<b>36,902.07</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, 40.57/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

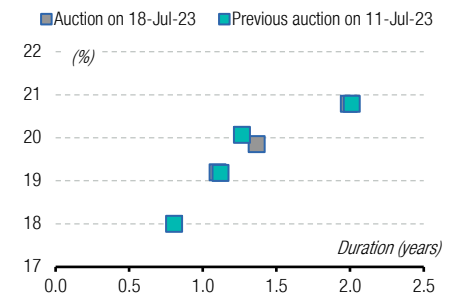
The shortest paper sold yesterday matures in 2024. This paper usually sees low demand; this time seven bids amounted to UAH21.7m (US\$0.6m). All bids had an interest rate of 18.3% (unchanged for the fourth consecutive week) and were accepted fully.

The MoF offered military bills maturing in January 2025, in the amount of UAH5bn (US\$140m), but demand was smaller, UAH2.6bn (US\$71m), and interest rates were in the range of 18.9–19.1%. Although the highest interest rate was similar to last week's cut-off rate, the main part of demand was at 18.9%. Therefore, the MoF decided to accept only 19 bids out of the 49 received, selling UAH2.4bn (US\$67m), and decreasing the cut-off rate by 20bp to 18.9% and the weighted average rate by 19bp to 18.9%.

The MoF offered a "reserve" note in the amount of UAH3bn (US\$82m). Demand exceeded the offered amount for the first time since May: the MoF received 23 bids for UAH6.2bn (US\$169m), but sold only UAH3bn of these notes. The MoF set the cut-off rate as usual at 19.75%, and satisfied bids with lower rates in full, and bids with a 19.75% interest rate and non-competitive demand partially, in proportion to their amount within the rest of the cap.

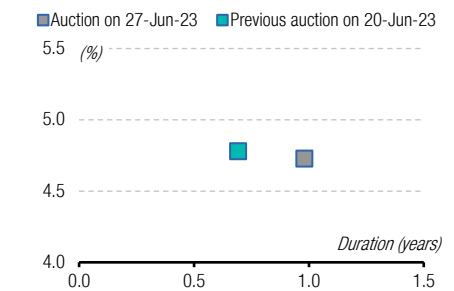
We can assume that demand for UAH bonds remains large, concentrating on "reserve" and military securities, as banks prefer "reserve" notes to cover part of mandatory reserves and, together with traders, to satisfy demand from retail investors.

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



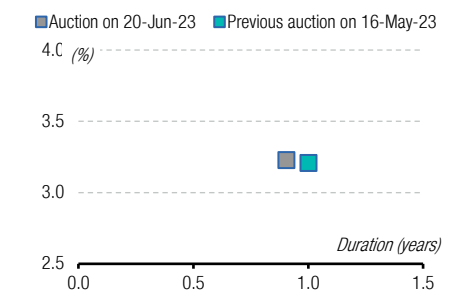
Source: Ministry of Finance of Ukraine, ICU.

### 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

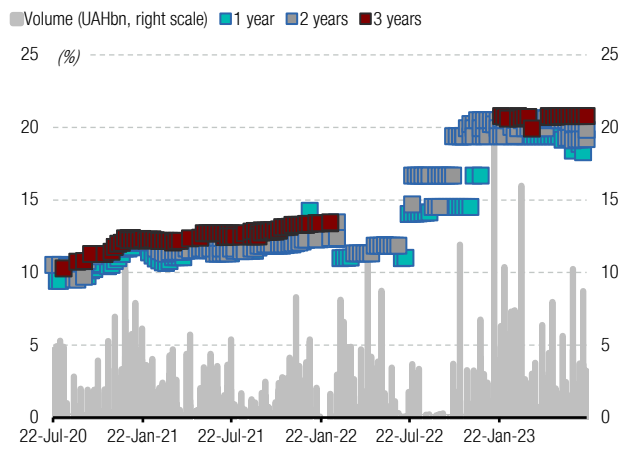


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

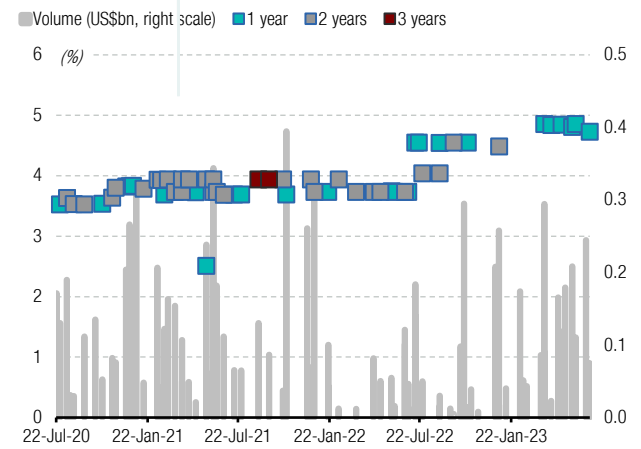
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

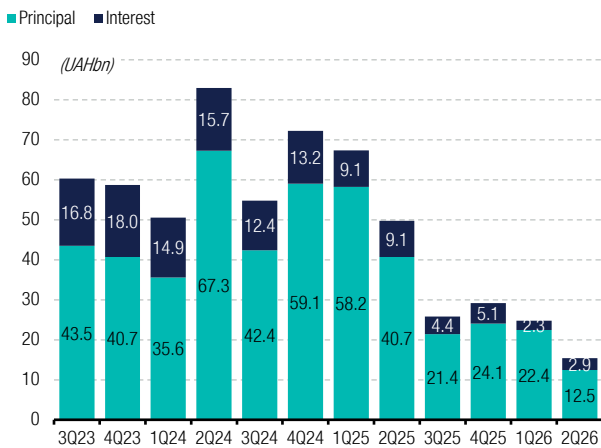
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

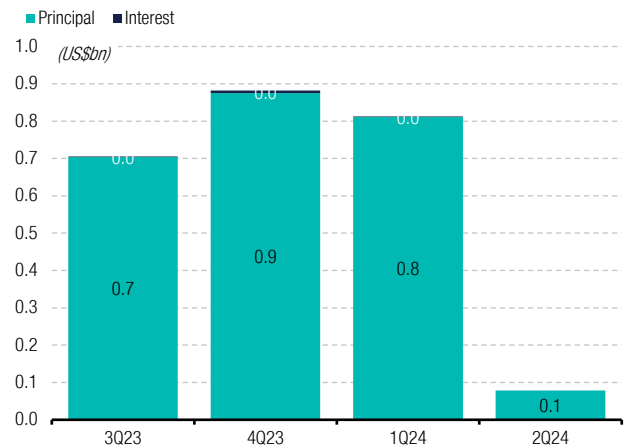
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

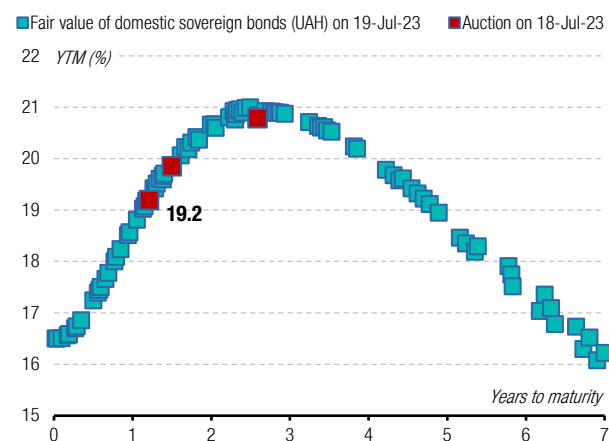
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

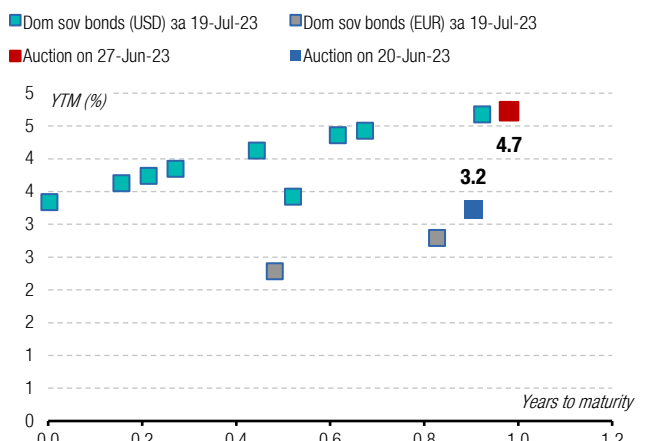
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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