

# Bond Market Insight

## Minor changes in interest rates

### Comment on government bond placement

WEDNESDAY, 27 SEPTEMBER 2023

The Ministry of Finance, yesterday, offered the same UAH bonds as in previous weeks, but was able to borrow only UAH2.6bn—the smallest volume in over three months.

**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>
UA4000187207	15.50	SA	2-Oct-24	770,853	1,054.81	813.10	770.85	18.52	7,197.94
UA4000228449	18.31	SA	18-Jun-25	1,345,972	1,047.87	1,410.41	1,345.97	19.24	10,751.78
UA4000228381	19.18	SA	4-Nov-26	371,954	1,072.75	399.01	371.95	20.17	14,522.68
<b>Total UAH</b>				<b>2,488,779</b>	<b>2,622.52</b>	<b>2,488.78</b>		<b>32,472.39</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, 39.37/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand for 12-month bills was the most diverse yesterday. The maximum interest rate in bids for this paper was 17.77%, 1bp below the cut-off rate of the previous auction, but most of the demand was with interest rates between 17.5% and 17.75%. Therefore, the Ministry of Finance had room to manoeuvre and decreased the cut-off rate by 3bp to 17.75%. The weighted average rate was up by 3bp to 17.68, as the bid with the maximum rate of 17.77% for UAH50m was rejected.

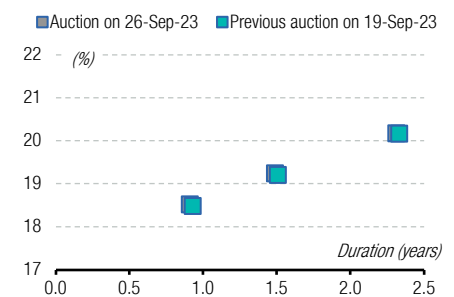
For 1.5-year paper, investors bid with the broadest range of interest rates—from 17.5% to 18.5%. Of course, the Ministry refused to raise the cut-off rate, rejecting the bid for UAH2,000 at 18.5%. However, demand with a rate of 17.5% did not affect the weighted average rate because, keeping the cut-off rate at the level of 18.35%, the Ministry of Finance satisfied the non-competitive demand at 18.34%, which was 3bp higher than last week.

The MoF sold reserve notes at the same rates as in previous weeks—the cut-off rate was 19.2%, and the weighted average was 19.19%. The bid for UAH2m, which would have required an increase in the cut-off rate to 19.5%, was rejected.

The demand for UAH bonds fell to one of the lowest volumes this year, which may be, in particular, a consequence of investors' desire to purchase shorter bonds than those offered at the auction, as the Ministry of Finance refinanced only a third of today's redemption. Also, banks could exhaust the current need for reserve bonds and buy them later. Due to the small volume, demand concentrates closer to the cut-off rates, which does not allow the Ministry of Finance to use caps and reduce rates further and more aggressively.

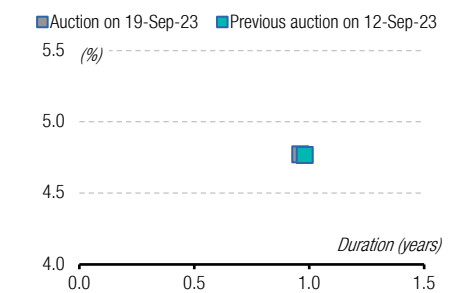
READ FIRST THE DISCLOSURES SECTION (ON LAST PAGE) FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATION

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



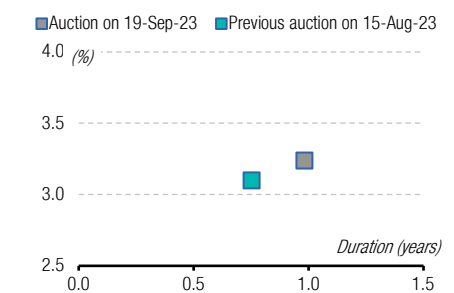
Source: Ministry of Finance of Ukraine, ICU.

### 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

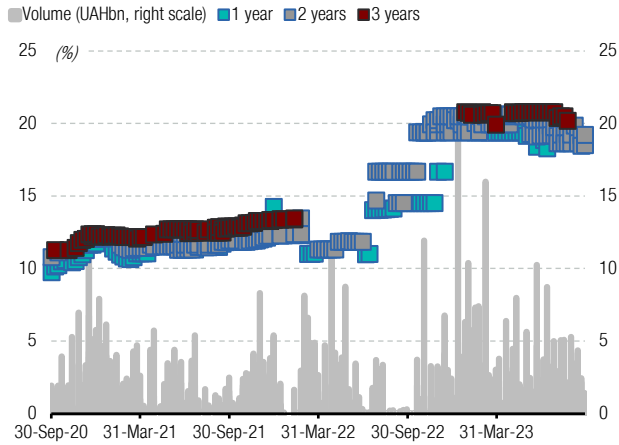


Source: Ministry of Finance of Ukraine, ICU.

# Appendix: Yields-to-maturity, repayments

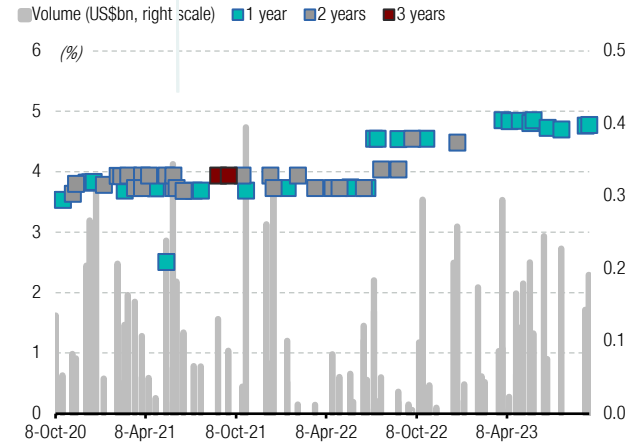
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

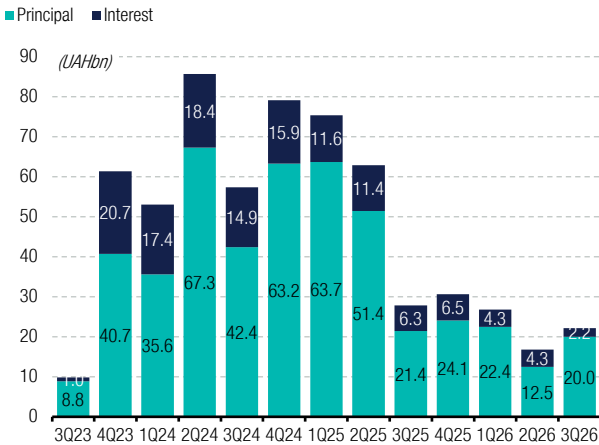
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

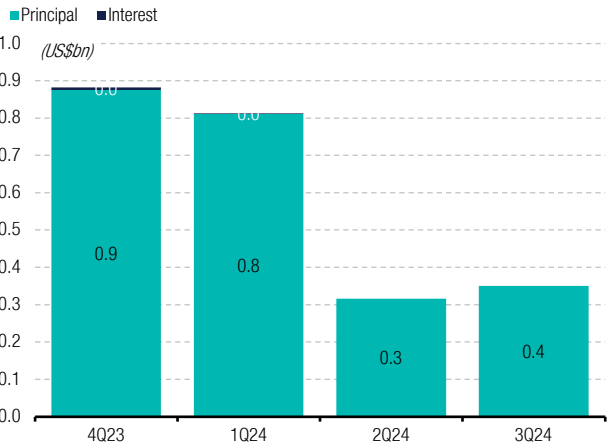
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

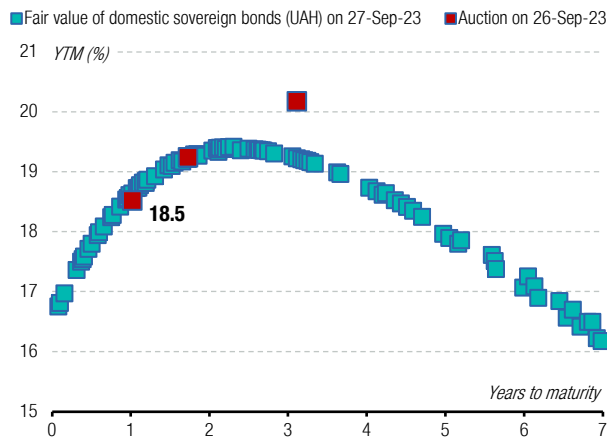
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

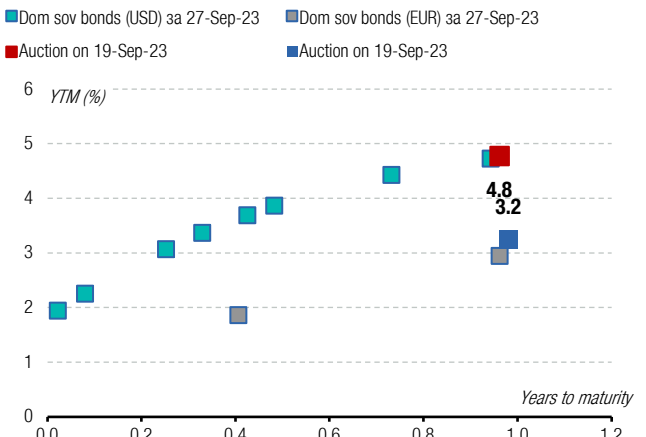
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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