

Bond Market Insight

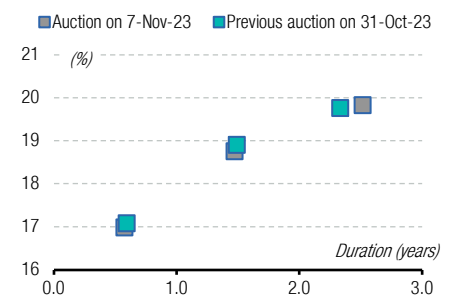
Interest rates continue to decline

Comment on government bond placement

WEDNESDAY, 8 NOVEMBER 2023

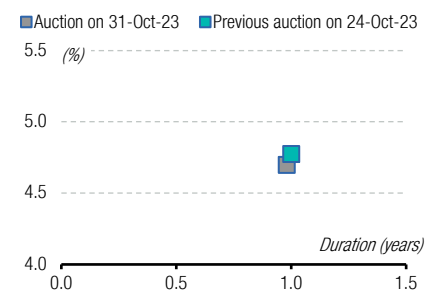
Although the total volume of demand slightly declined from last week, it was almost double the amount offered, allowing the MoF to continue lowering interest rates on UAH bonds. For all instruments, the Ministry of Finance used the cap, dividing bids between competitive (indicating the desired interest rate) and non-competitive (satisfied with the weighted average rate), with only a 30% share for non-competitive demand.

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



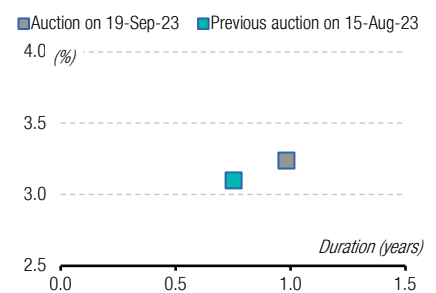
Source: Ministry of Finance of Ukraine, ICU.

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
UA4000229025	0.00	@Mty	5-Jun-24	3,000,000	910.97	2,732.91	3,000.00	16.99	6,000.00
UA4000228910	18.15	SA	23-Jul-25	4,000,000	1,054.96	4,219.85	4,000.00	18.76	12,000.00
UA4000229116	18.87	SA	24-Feb-27	4,000,000	1,035.21	4,140.84	4,000.00	19.82	4,000.00
Total UAH				11,000,000	11,093.60	11,000.00	11,000.00		22,000.00

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 36.44/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 seven-month bills increased compared with last week, with almost 4x oversubscription. Interest rates in competitive bids were in a very wide range, from 16.39% to 17.08%. The Ministry rejected the bid with the highest rate, setting the cut-off rate at 17.00% (down 10bp from last week) and the weighted average rate at 16.99% (down 9bp). Bids with a rate of 17% and non-competitive bids were satisfied partially in proportion to their size within the cap.

Interest rates for 21-month paper decreased the most: the cut-off rate by 15bp to 17.9% and the weighted average by 13bp, to 17.9%. The MoF satisfied only 32 out of 44 bids, fully satisfying only competitive bids with rates below the cut-off rate.

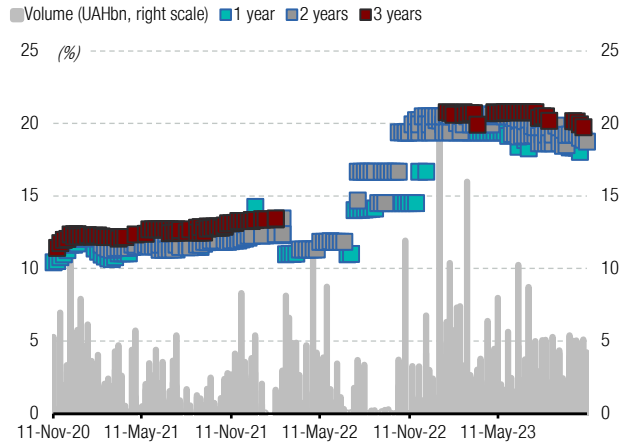
At the same time, interest rates for the new issue of three-year notes increased slightly. This new paper, which may later become a "reserve bond", has a tenor five months longer than bonds offered in previous weeks. Therefore, participants submitted bids evaluating the longer maturity and the prospect of rates being lowered, with minor differences from last week's auction. The Ministry of Finance satisfied all bids, of course, in full, only those with rates below the cut-off level.

Demand for UAH bonds remains high, but concentrated in the shortest instrument. The total amount of demand could have doubled the amount of funds raised, but with only a selective decline in interest rates. Such demand may allow the Ministry of Finance to attract more funds by changing caps. However, this is unlikely to happen in the coming weeks.

Appendix: Yields-to-maturity, repayments

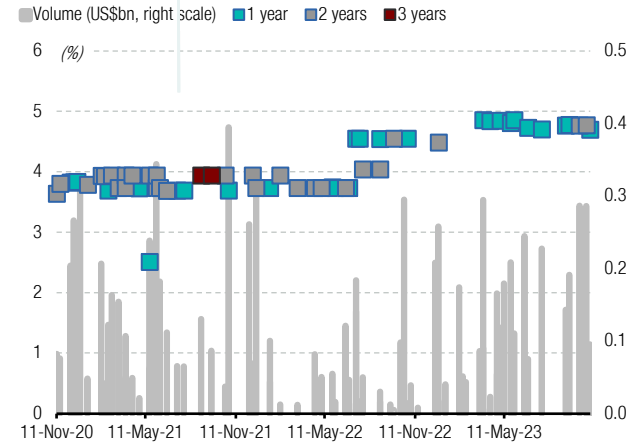
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

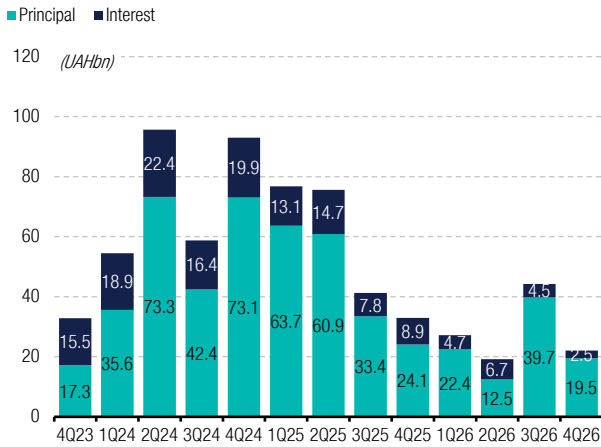
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

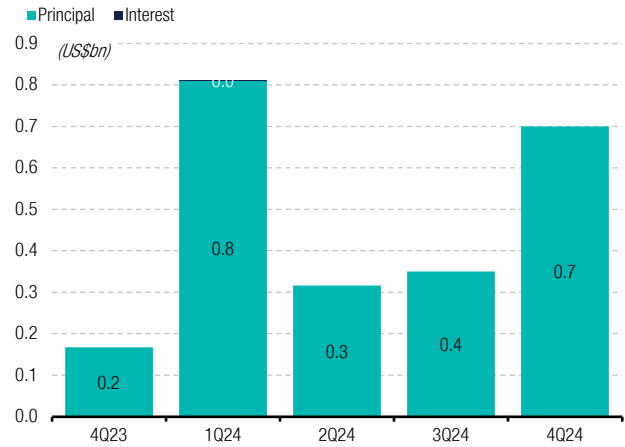
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

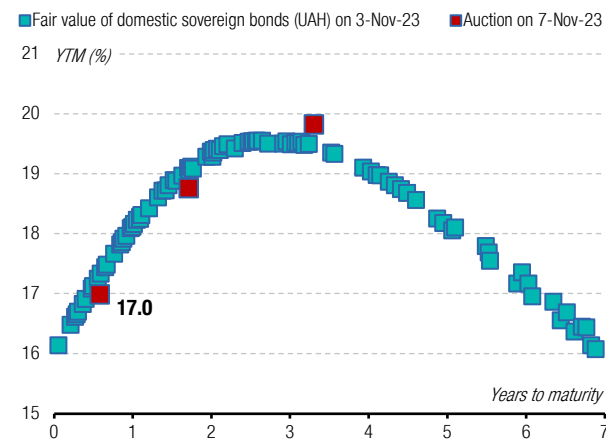
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

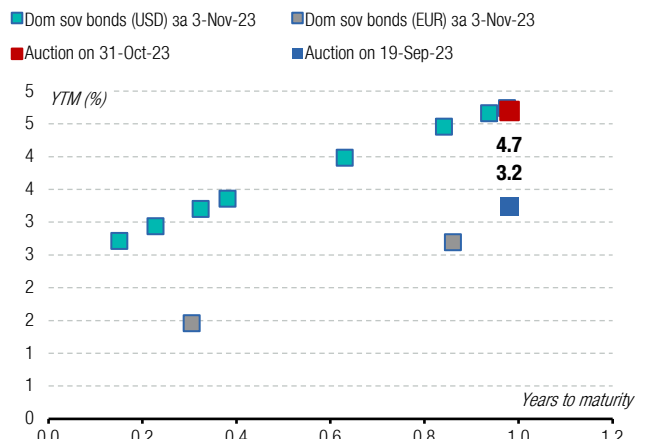
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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