

Bond Market Insight

MoF continues to reduce rates

Comment on government bond placement

WEDNESDAY, 6 DECEMBER 2023

Yesterday, the Ministry of Finance raised almost UAH12bn, mainly in local currency, lowering the rates for most offered bonds.

Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000229470	0.00	@Mty	20-Nov-24	3,000,000	860.40	2,581.20	3,000.00	16.92	3,000.00
UA4000229264	17.80	SA	15-Oct-25	2,955,200	1,026.55	3,033.66	2,955.20	18.41	8,955.20
UA4000229116	18.87	SA	24-Feb-27	2,694,164	1,056.21	2,845.61	2,694.16	19.52	12,932.32
Total UAH				8,649,364		8,460.47	8,649.36		24,887.52
UA4000229272	0.00	@Mty	14-Nov-24	100,000	958.56	3,522.61	3,674.90	4.59	11,024.70
Total USD				100,000		3,522.61	3,674.90		11,024.70

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 36.75/USD, 39.37/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

After a month of placing semi-annual bills, the MoF returned one-year paper to the offerings yesterday. The demand was 2x larger than the cap, so only 16 out of 27 bids were satisfied, and the rates were set at 16.92%. Compared with the previous placement of a similar instrument in October, the cut-off rate decreased by 38bp, and the weighted average fell by 35bp.

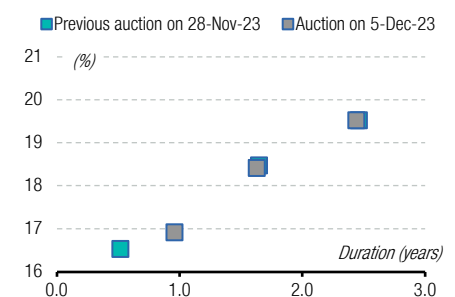
Demand for the two-year instrument was only slightly less than the supply, so it was fully satisfied. Thanks to lower rates in bids, the cut-off rate declined by 10bp to 17.6%, and the average weighted rate slid by 6bp to 17.58%.

Only interest rates for three-year notes did not change. Almost all demand was at the rate of 18.6%, the same as last week, even less than the supply. Therefore, the MoF satisfied it fully.

Once again, the reduction of interest rates included FX-denominated bills. The cut-off rate slid by 4bp to 4.66%, and the weighted average rate declined by 6bp to 4.6%. The Ministry of Finance rejected eight bids and could partially satisfy some bids within the cap after meeting bids with lower yields.

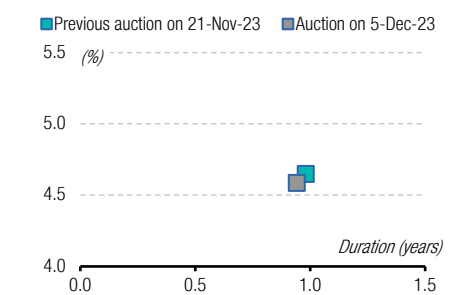
The tendency to lower rates continues, although placement participants are in no hurry to push the Ministry of Finance to even lower rates on three-year bonds. So, the difference in rates between short and long instruments gradually widens as investors increasingly compete for bonds with shorter maturities.

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



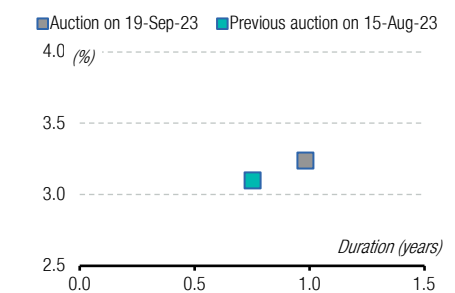
Source: Ministry of Finance of Ukraine, ICU.

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

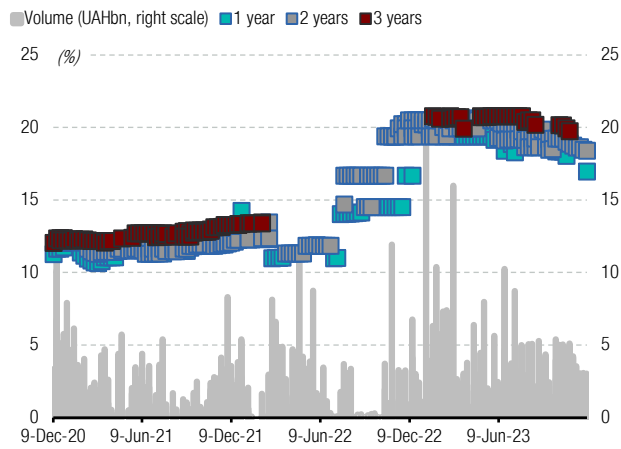


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

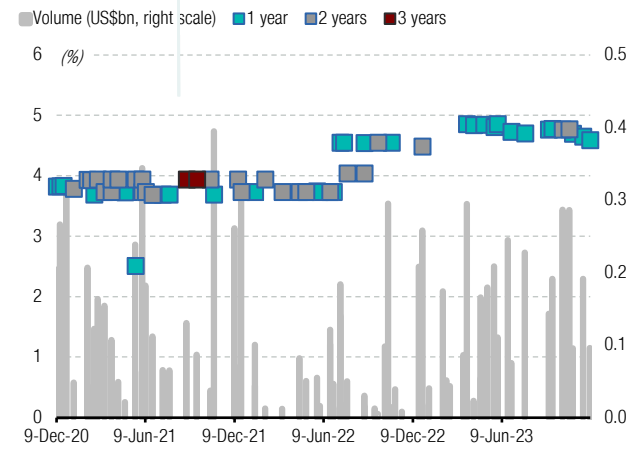
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

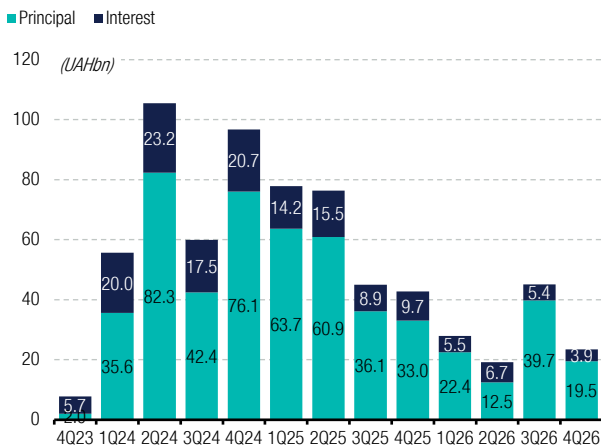
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

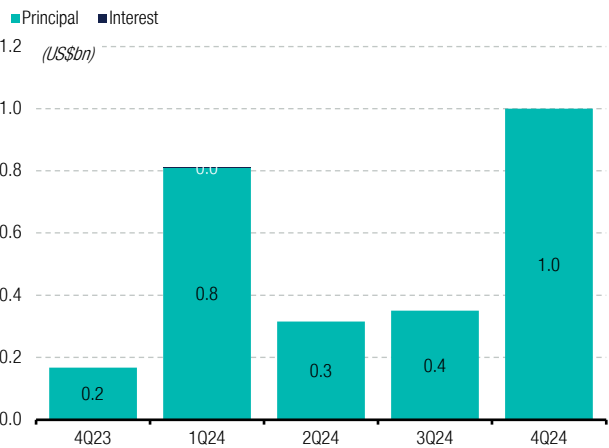
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

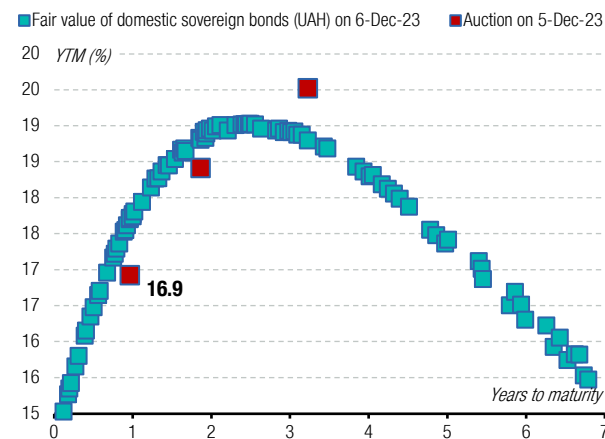
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

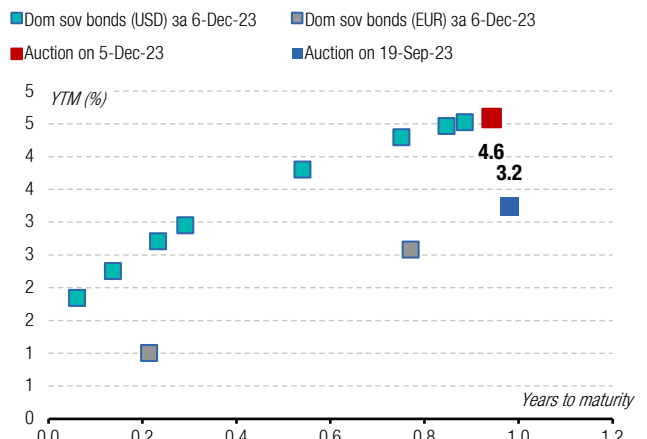
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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