

Bond Market Insight

UAH interest rates remain unchanged

Comment on government bond placement

WEDNESDAY, 6 MARCH 2024

Yesterday, the Ministry of Finance borrowed UAH7.6bn (US\$198.2m) for the state budget, including UAH5.2bn (US\$135.5m) in local currency. Proceeds from USD-denominated bills were US\$62.7m, half compared with the previous week.

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

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000230213	16.80	SA	12-Mar-25	4,000,000	1,080.64	4,322.57	4,000.00	17.56	13,617.75
UA4000230262	17.60	SA	28-Jan-26	514,085	1,016.35	522.49	514.09	18.43	6,904.16
UA4000230270	18.50	SA	7-Jul-27	336,300	1,027.61	345.59	336.30	19.41	2,836.75
Total UAH				4,850,385		5,190.65	4,850.39		23,358.66
UA4000230452	4.62	SA	24-Apr-25	61,680	1,016.83	2,407.75	2,367.90	4.67	2,367.90
Total USD				61,680		2,407.75	2,367.90		2,367.90

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 38.39/USD, 41.71/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand at yesterday's auction concentrated on 12-month UAH bills, which amounted to almost UAH6.6bn (US\$171m), while the MoF set the cap at UAH4bn (US\$104m). The MoF fully satisfied all non-competitive and competitive bids with rates below the cut-off level. At the same time, most of the competitive demand was at 16.8%, so it was partially satisfied within the remaining supply and in proportion to the bid size.

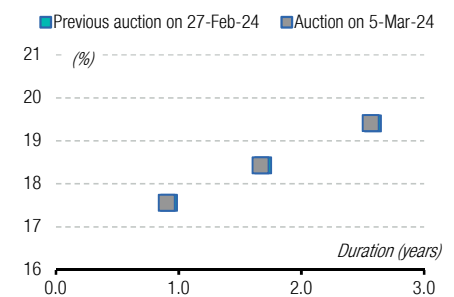
The demand for two-year paper decreased fourfold to UAH0.5bn (US\$13.4m). It was mainly at the usual rate of 17.6%, so the MoF accepted the demand in full.

Also, the Ministry completely satisfied demand for three-year notes, which increased 3x compared with the previous auction, to UAH336m (US\$8.8m), mainly at an 18.5% interest rate.

Despite the relatively small demand, the biggest competition was for USD-denominated bills. With the cap set at US\$300m, demand was only US\$64m, but with rates from 4.54% to 5.05%. The MoF rejected two bids with interest rates above the cut-off rate of 4.66%, attracting \$62.7 million to the budget.

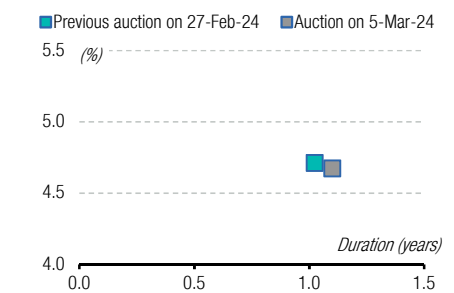
The Ministry of Finance steadily attracted more than UAH5bn in local currency for the fifth consecutive week. However, the demand structure again shifted to the shorter of the proposed bond issues. At the same time, the demand for FX-denominated instruments is decreasing. Therefore, the MoF may expand the offer of such securities soon to improve the refinancing of FX-denominated redemptions.

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



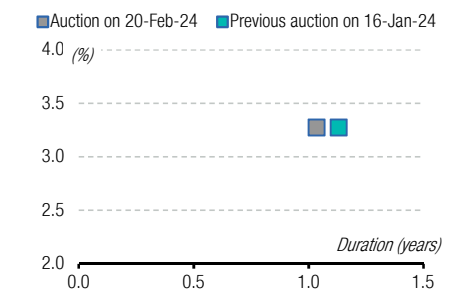
Source: Ministry of Finance of Ukraine, ICU.

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

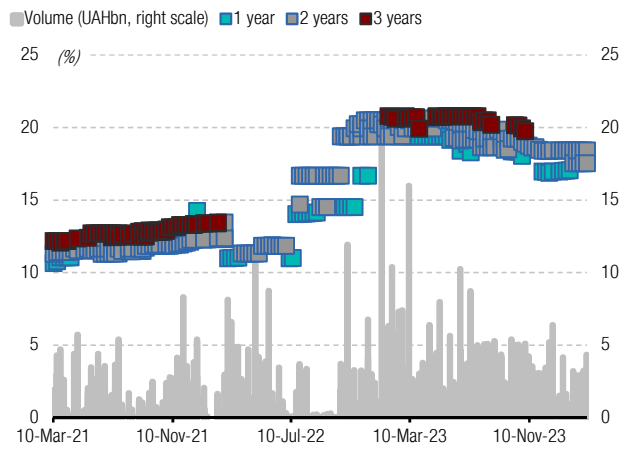


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

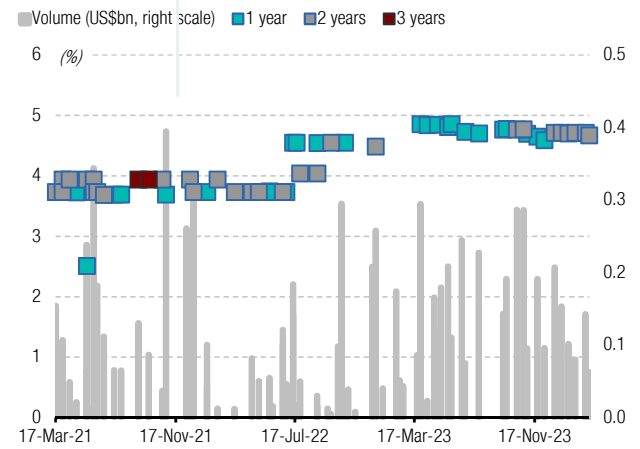
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

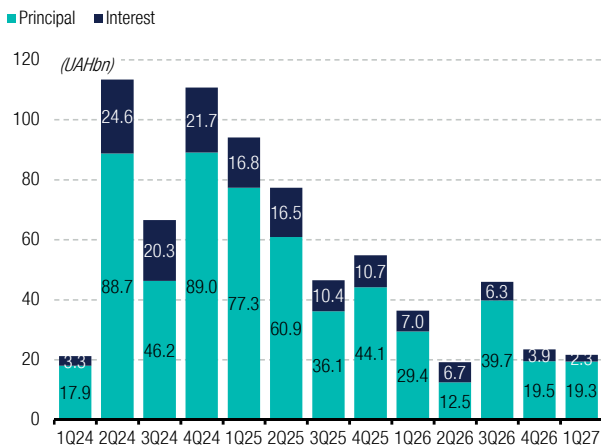
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

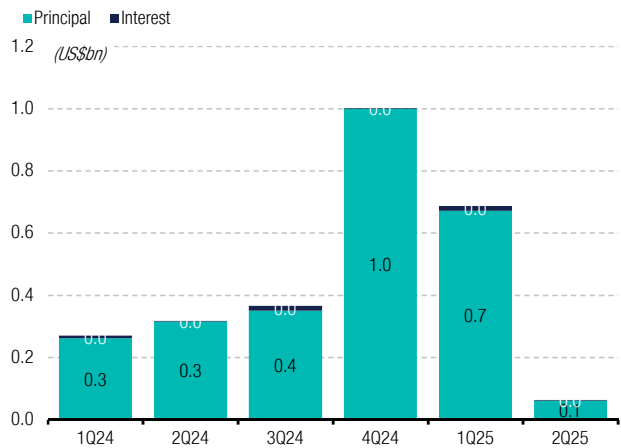
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

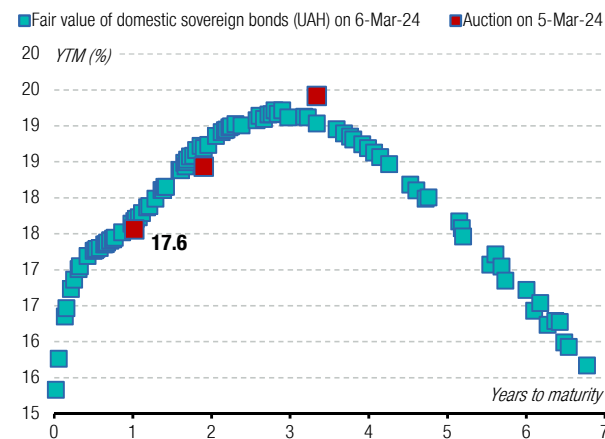
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

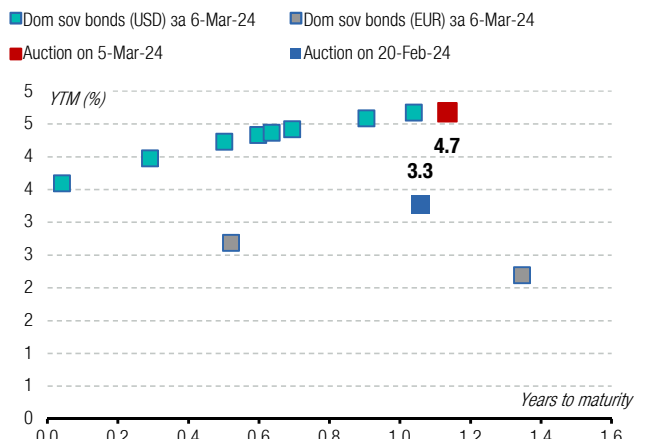
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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