

# Bond Market Insight

## NBU cuts key rate—bond rates down

### Comment on government bond placement

Yesterday, the MoF decreased interest rates for UAH bonds by 20–30bp, accepting about half of the received demand.

WEDNESDAY, 20 MARCH 2024

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>
UA4000230213	16.80	@Mty	12-Mar-25	3,000,000	1,006.06	3,018.17	3,000.00	17.19	20,617.75
UA4000230262	17.60	SA	28-Jan-26	4,000,000	1,026.83	4,107.30	4,000.00	18.16	14,210.46
UA4000230270	18.50	SA	7-Jul-27	3,242,291	1,039.46	3,370.24	3,242.29	19.19	7,544.41
<b>Total UAH</b>				<b>10,242,291</b>		<b>10,495.70</b>	<b>10,242.29</b>		<b>42,372.62</b>
UA4000230452	4.62	SA	24-Apr-25	147,100	1,018.23	5,857.55	5,752.68	4.71	8,164.82
<b>Total USD</b>				<b>147,100</b>		<b>5,857.55</b>	<b>5,752.68</b>		<b>8,164.82</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 39.11/USD, 41.71/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The largest demand and the most significant decline in interest rates were for 12-month bills. This paper was almost 3x oversubscribed—demand was UAH8.7bn while the cap was UAH3bn (US\$77m). All bids were lower than last week: the highest rate was 16.6% (20bp lower), while the lowest was 16.25% (45bp lower). Due to the cap, the MoF set the cut-off rate at 16.5% and the weighted-average rate at 16.46%, both 30bp below last week's rates.

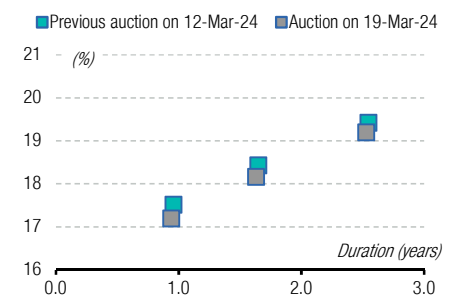
The two-year paper received almost 2x oversubscription. The minimum rate in demand was 17.15 (40bp lower than last week), while the highest rate remained at 17.6%. Probably most of the demand was with a 17.35% rate, which the MoF set as the cut-off and weighted-average rates, both 25bp lower than last week.

Demand for three-year notes more than doubled yesterday, but it is still lower than the cap. Therefore, the MoF had to reject some bids with rates above 18.3% to keep them in line with other instruments and decrease the cut-off and weighted-average rates by 20bp to 18.3%.

There were no visible changes in interest rates for USD-denominated bills. The MoF borrowed US\$149.8m, keeping the cut-off rate at 4.66% and increasing the weighted-average rate by 4bp to 4.66%. The MoF rejected just one small bid at a 5% rate.

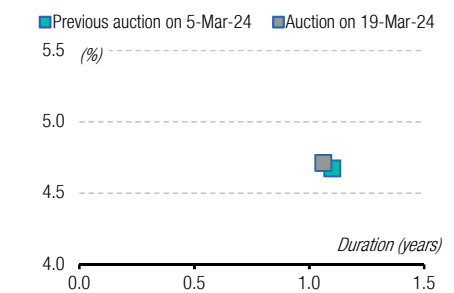
Demand for UAH bonds rose after the NBU surprised the market with its key policy rate cut last week, increasing expectations of further key rate cuts in 1H24. Also,

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



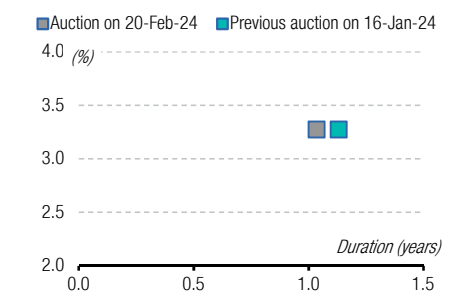
Source: Ministry of Finance of Ukraine, ICU.

### 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



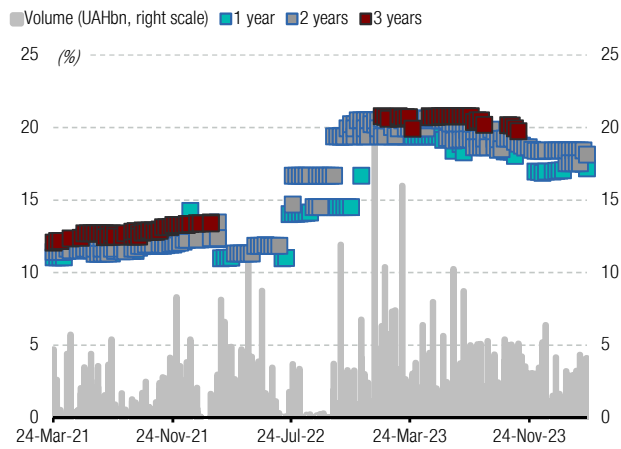
Source: Ministry of Finance of Ukraine, ICU.

a large part of the demand could have accumulated from last week's UAH debt redemption. So, large demand and market expectations allowed the MoF to decrease bond rates, although less than NBU key rate cut.

# Appendix: Yields-to-maturity, repayments

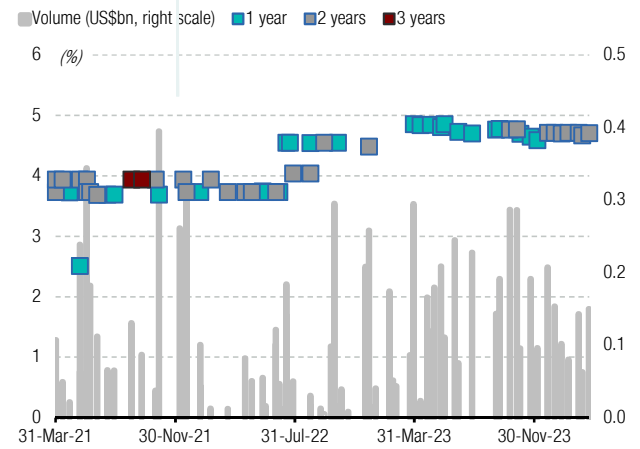
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

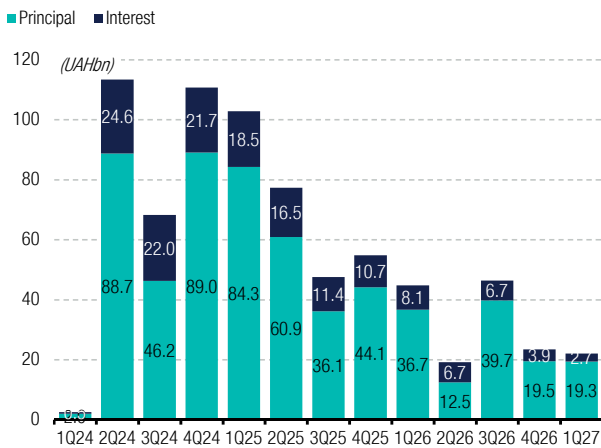
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

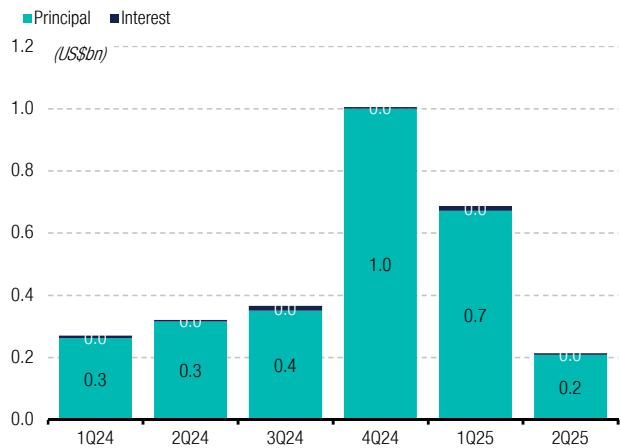
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

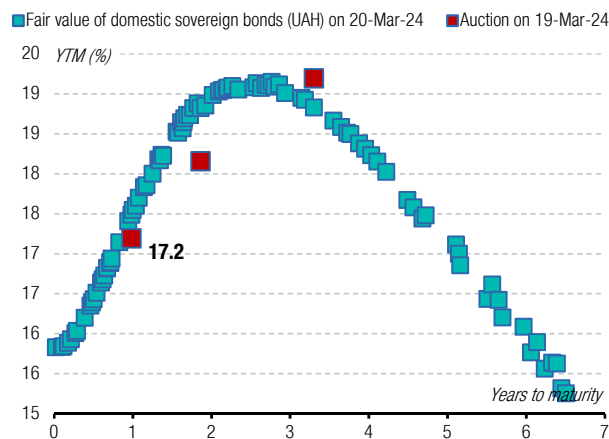
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

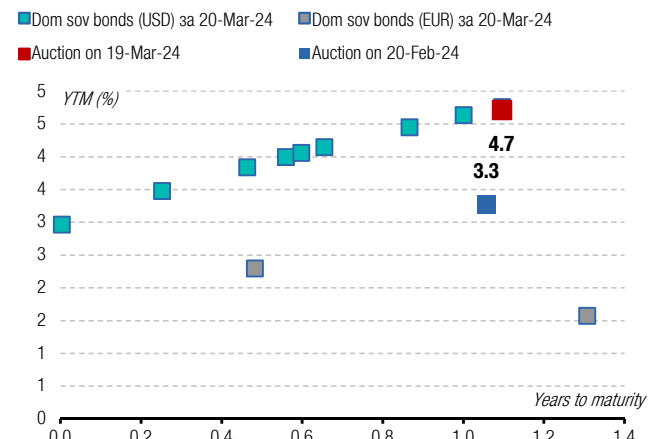
**Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*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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11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kyiv, 01030 Ukraine  
Phone/Fax +38 044 3777040

**WEB** [www.icu.ua](http://www.icu.ua)



## RESEARCH

### Vitaliy Vavryshchuk

Head of macro research  
[vitaliy.vavryshchuk@icu.ua](mailto:vitaliy.vavryshchuk@icu.ua)

### Taras Kotovych

Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

### Dmitriy Dyachenko

Financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

### Alexander Martynenko

Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

### Mykhaylo Demkiv

Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

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