

Bond Market Insight

Investors concentrate on short-term bonds

Comment on government bond placement

The MoF borrowed almost UAH6.8bn (US\$173m) yesterday with a decline in interest rates.

WEDNESDAY, 3 APRIL 2024

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
UA4000230635	16.24	SA	30-Apr-25	4,000,000	1,068.41	4,273.64	4,000.00	16.94	8,000.00
UA4000230262	17.60	SA	28-Jan-26	250,425	1,037.34	259.77	250.43	17.88	18,460.88
UA4000230270	18.50	SA	7-Jul-27	2,119,129	1,046.73	2,218.15	2,119.13	19.18	10,831.55
Total UAH				6,369,554		6,751.57	6,369.55		37,292.43

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

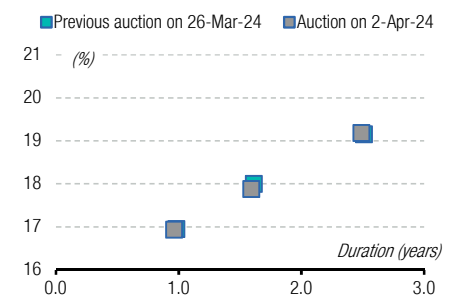
The greatest demand was for 12-month bills, which was almost twice oversubscribed. The range of interest rates in bids narrowed to 19bp: the lowest rate was 16.15% (up 3bp), and the highest rate declined by 11bp to 16.34%. Due to the cap, the MoF accepted bids with rates up to 16.25%, which was set as a cut-off rate or 10bp lower than last week. The weighted-average rate slid by 1bp to 16.23%.

Demand for two-year paper fell to UAH0.3bn (US\$8m). Although it was with similar rates as a week ago, the MoF rejected two bids with rates above 17.1%, selling only UAH250m (US\$6.6m) of bills, decreasing the cut-off rate by 10bp to 17.1% and weighted average by 11bp to 17.09%.

At the same time, demand for three-year notes almost doubled from last week and rates were unanimous, the same as a week ago, from 18.1% to 18.3%. The MoF decided to accept all bids and did not decrease rates. Most of the demand was at 18.3%, so the cut-off rate remained unchanged at 18.3%, and the weighted-average rate rose 3bp to 18.29%.

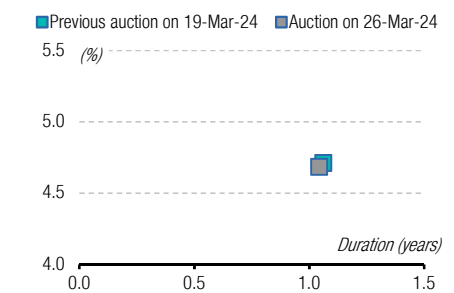
The possibility of a rate cut is probably gradually running out, and in the primary bond market, investors are mainly interested in the shortest of the offered instruments. So, 12-month bills still have the prospect of a gradual decrease in rates due to high competition. Other bonds are unlikely to have such diverse demand to give the Ministry opportunities to lower rates, especially given the lack of large redemptions in April.

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



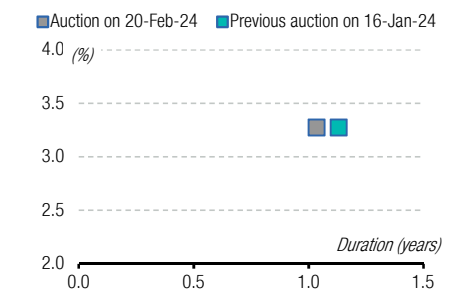
Source: Ministry of Finance of Ukraine, ICU.

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

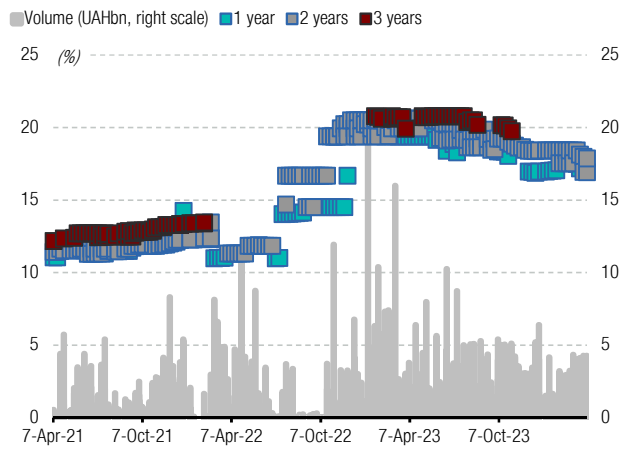


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

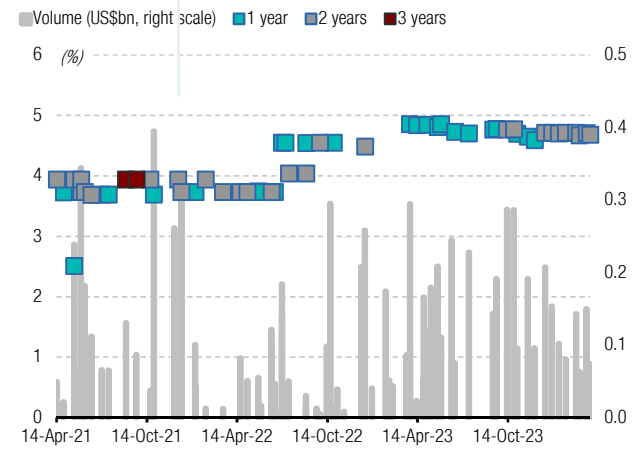
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

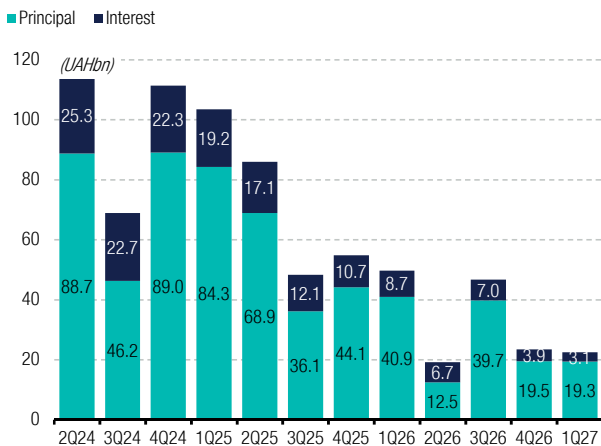
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

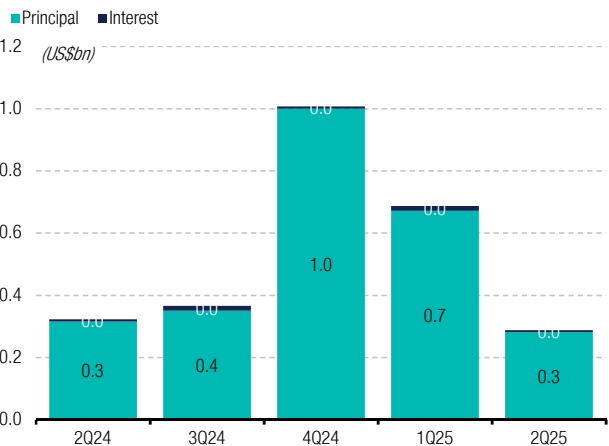
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

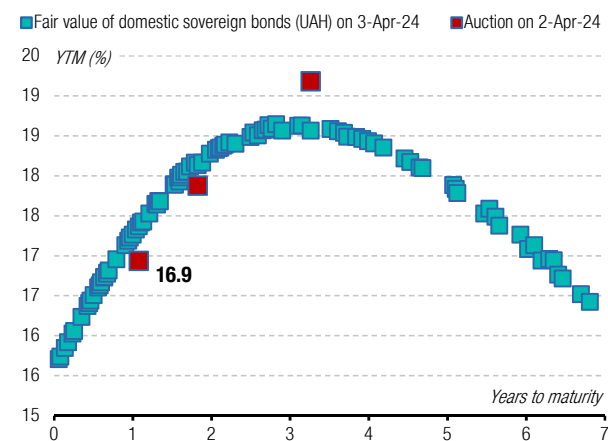
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

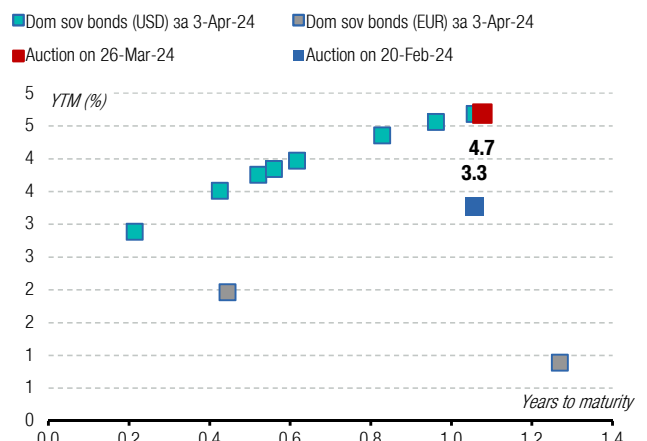
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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