

Bond Market Insight

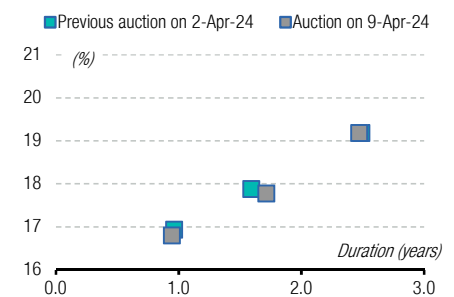
UAH bond rates decline further

Comment on government bond placement

WEDNESDAY, 10 APRIL 2024

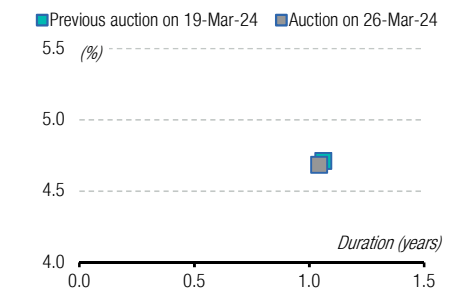
The Ministry of Finance decreased interest rates for two out of three offered UAH bonds yesterday, coming closer to a decrease in three-month NBU CDs interest rates.

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



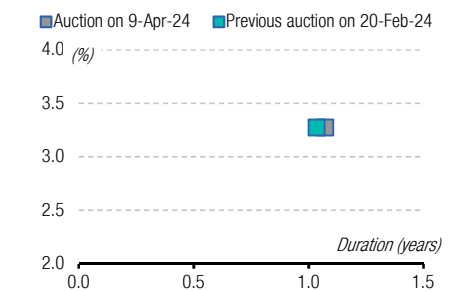
Source: Ministry of Finance of Ukraine, ICU.

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 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	3,000,000	1,072.82	3,218.46	3,000.00	16.80	11,000.00
UA4000230809	17.00	SA	18-Mar-26	309,454	1,009.46	312.38	309.45	17.78	309.45
UA4000230270	18.50	SA	7-Jul-27	1,780,671	1,050.26	1,870.17	1,780.67	19.18	12,612.22
Total UAH				5,090,125		5,401.01	5,090.13		23,921.68
UA4000230817	3.25	SA	15-May-25	42,366	1,013.11	1,815.06	1,791.57	3.28	1,791.57
Total EUR				42,366		1,815.06	1,791.57		1,791.57

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

Competition in 12-month bill purchases caused a significant decline in interest rates. The lowest rate in bids declined by 10bp to 16.05%, and the highest rates fell by 19bp to 16.15%, 10bp below last week's cut-off rate. With such rates in bids and over x2 oversubscription, the MoF satisfied only 17 out of 26 bids with rates up to 16.1%. Due to the cap, most of the bids could be satisfied partially. Both the cut-off and weighted-average rates decreased to 16.1% or 15bp and 13bp lower than last week.

Demand for two-year paper was usually low, but all investors submitted bids at a 17% rate, 10bp lower than last week. Therefore, the MoF was ready to accept all bids.

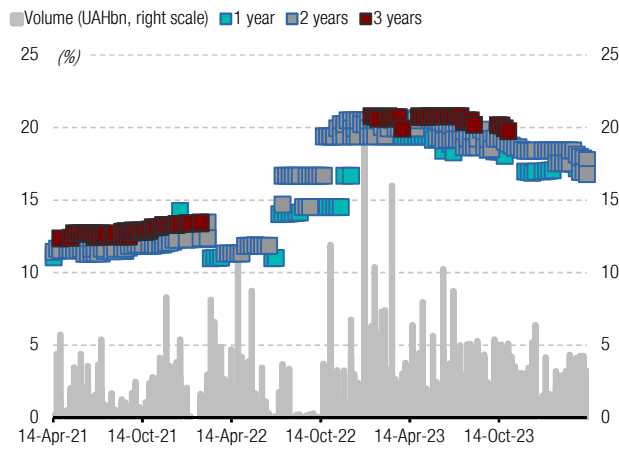
For the three-year notes, demand was lower than the cap. But in contrast to the other two securities, the Ministry was constrained in its ability to cut rates. The lowest rate remains at 18.10%, while the highest rate was up 5bp to 18.35%. Expectedly, the MoF did not accept the rate increase to borrow an extra UAH100m. The Ministry kept all rates unchanged with an 18.3% cut-off rate and an 18.29% weighted-average rate.

Yesterday's auction provided the state budget with UAH7.2bn proceeds, including UAH5.4bn in local currency and EUR42.9m. UAH proceeds were lower due to a smaller cap for 12-month bills and lower demand for three-year notes. However, this did not prevent the Ministry from continuing to lower rates for some instruments. Four weeks after the NBU cut its interest rates, interest rates for 12-month bills fell by 70bp, for two-year paper by 60bp and three-year notes by only 20bp.

Appendix: Yields-to-maturity, repayments

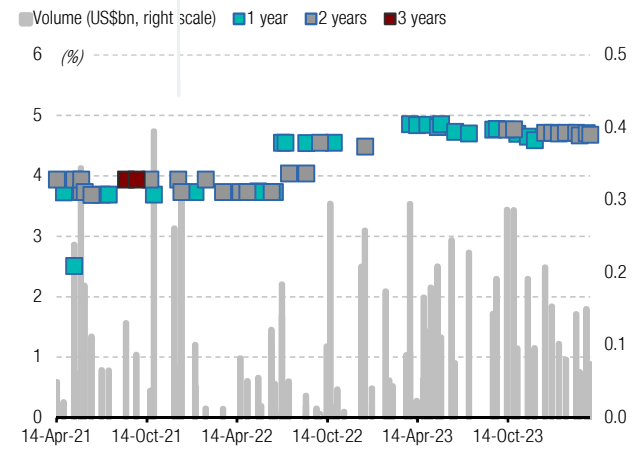
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

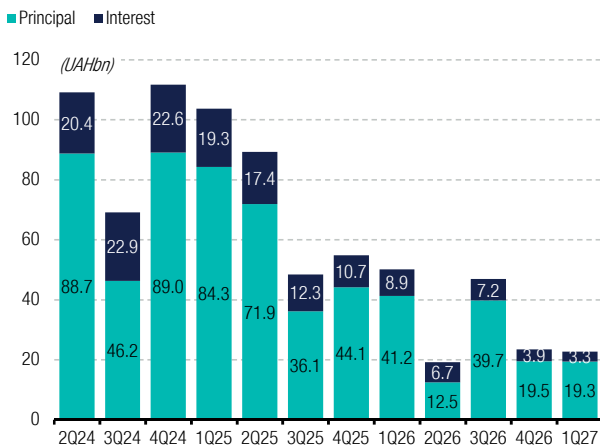
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

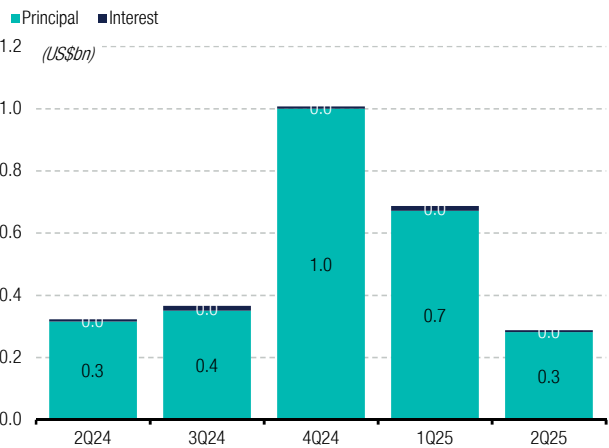
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

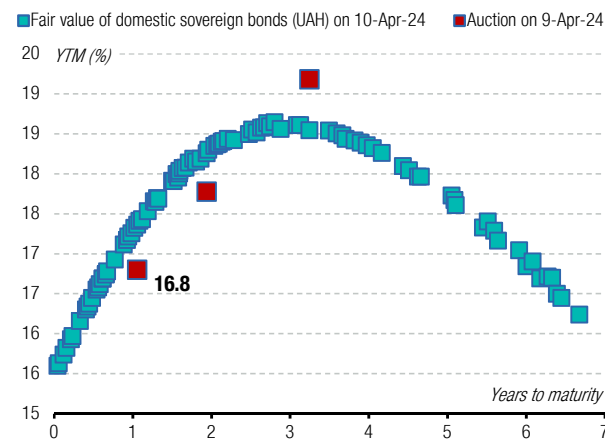
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

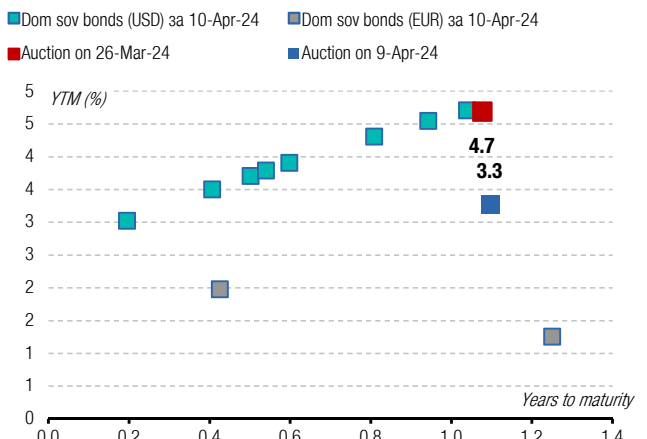
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

This page is intentionally left blank.



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

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

