

Bond Market Insight

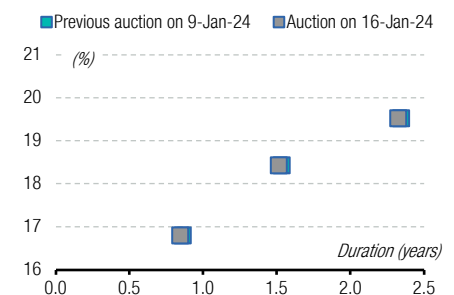
Interest rates unchanged

Comment on government bond placement

WEDNESDAY, 17 JANUARY 2024

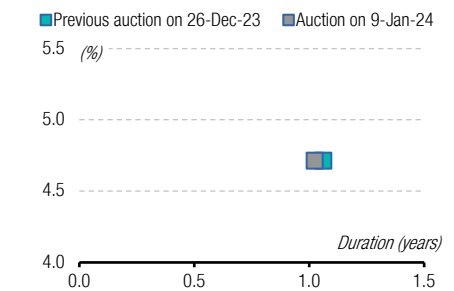
Yesterday's auction brought UAH8.5bn (US\$225m) to the budget, just half of last week's proceeds, but without significant changes in interest rates.

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



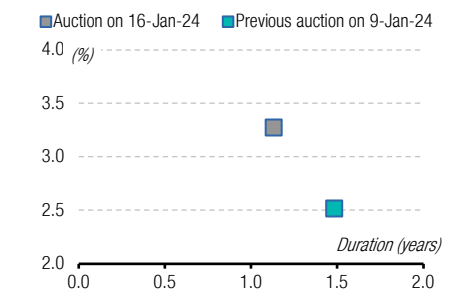
Source: Ministry of Finance of Ukraine, ICU.

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	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	1,002,592	875.84	878.11	1,002.59	16.80	15,110.34
UA4000229264	17.80	SA	15-Oct-25	3,978,310	1,046.48	4,163.20	3,978.31	18.43	15,602.75
UA4000229116	18.87	SA	24-Feb-27	1,465,035	1,078.00	1,579.31	1,465.04	19.52	18,901.70
Total UAH				6,445,937		6,620.63	6,445.94		49,614.80
UA4000230023	3.25	SA	13-Mar-25	44,982	1,011.23	1,876.28	1,855.44	3.28	1,855.44
Total EUR				44,982		1,876.28	1,855.44		1,855.44

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 38.05/USD, 41.25/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Demand for a 10-month paper increased fivefold to UAH1bn (US\$26m), with interest rates within the 16.8%–16.84% range, or between the cut-off and the weighted average rate of the last auction. However, only two bids for UAH0.2m (US\$6'000) were with rates higher than the weighted average rate of the previous auction. Hence, the Ministry of Finance rejected them without a noticeable impact on the volume of borrowing. The MoF set both the maximum and weighted average rates at 16.8%.

Bills maturing in October next year received the greatest demand, three times higher than last week and only UAH22m (US\$579'000) less than the cap. As all bids were similar to the previous two auctions, the Ministry satisfied all bids in full, mostly at 17.6%.

The demand for three-year "reserve" notes increased by only UAH65m (US\$1.7m) from last week's UAH1.4bn (US\$37m), with interest rates unchanged since the end of November: 18.5%–18.6%. So, the Ministry also satisfied all the demand by setting the maximum and weighted average rates at 18.6%.

Demand for EUR-denominated bills decreased fivefold compared with last week, but the new paper is not comparable as it does not have a put option. The most comparable is 12-month EUR-denominated paper tenor sold in September last year at the same rate of 3.25%.

The auction demonstrated the dominance of interest in UAH instruments over

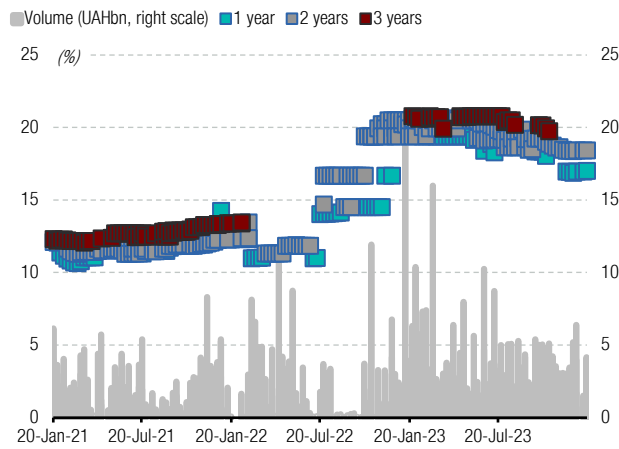
FX-denominated bills, and the Ministry of Finance was only about EUR16m short of fully refinancing the debt redemption paid last week. Therefore, the MoF can offer the same instrument next week or at the end of the month to complete the refinancing of debt redemptions paid in January in each currency.

At the same time, interest in UAH bonds demonstrates that the market agrees with the current level of interest rates without active attempts to lower or raise them. Therefore, the Ministry of Finance can continue to keep the current rates.

Appendix: Yields-to-maturity, repayments

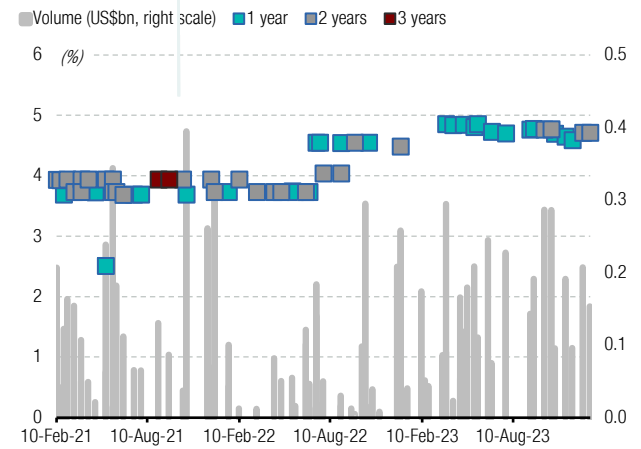
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

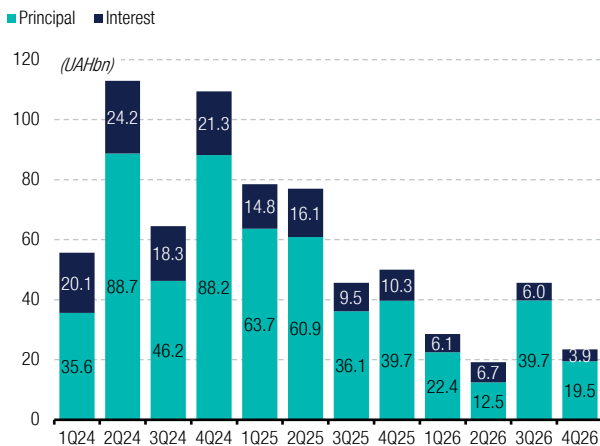
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

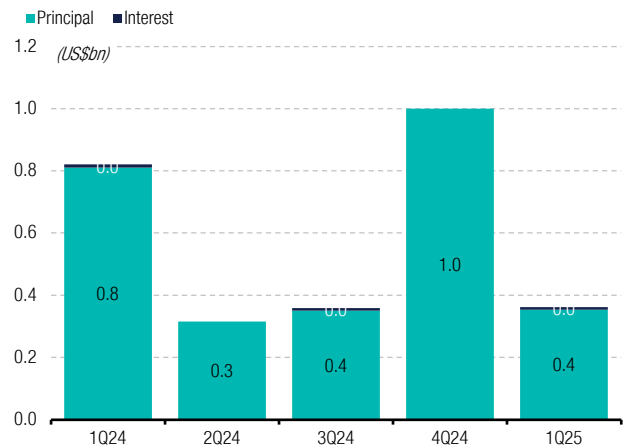
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

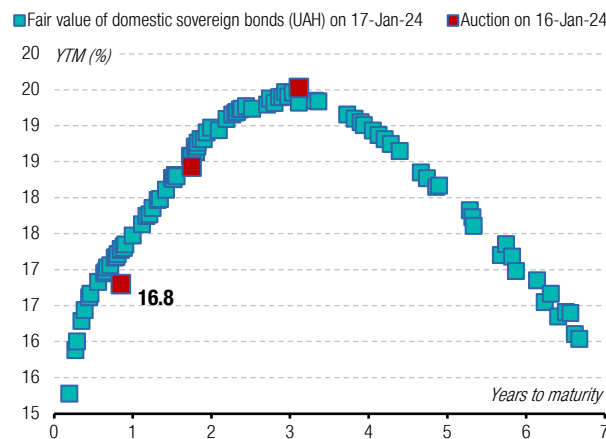
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

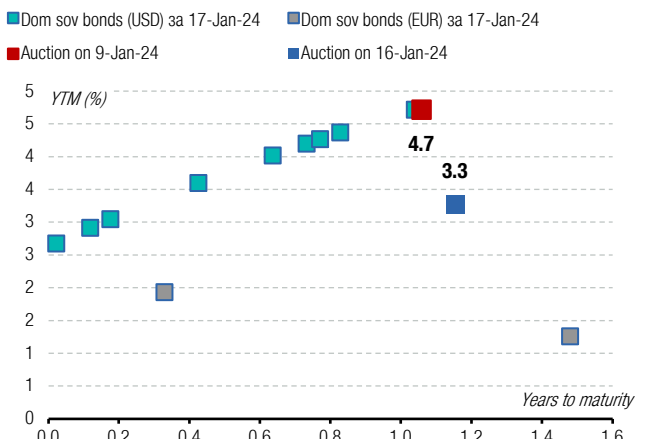
Chart 3. YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions

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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