

Bond Market Insight

Market prefers local currency bonds

Comment on government bond placement

Despite the MoF's offering of the USD-denominated debut bond this year and first 3-year bonds since 2013, demand was low, of which the MoF accepted slightly more than a half. While it did satisfy all UAH1.4bn (par value) in demand for local currency bonds, bids for UAH-denominated bonds unexpectedly was split between the 6-month and 11-month bonds, nearly one-third for the 6-month and the remaining two-thirds for the re-opening of bonds with redemption next April.

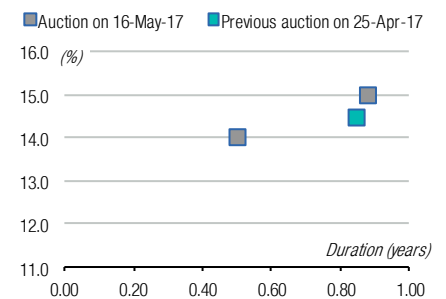
The largest demand (at the exchange rate) was for US\$63.68m in USD-denominated bonds, which is 2.5 times lower than what the MoF has to repay today for the USD-denominated bond redemption. Bondholders uninterested in refinancing should receive redemptions in new USD-denominated bonds. The MoF collected 27 bids for these bonds at interest rates between 5.42% and 6.00%, from which it accepted bids no higher than 5.50%. The MoF must satisfy non-competitive bids, most likely with partial fulfillments of each bid. Finally, the MoF sold US\$38.09m of new USD-denominated bonds at a weighted average cost of 5.49%.

6-month local currency bonds received five bids at 13.50%-14.20%, and accepted all of them for a weighted average rate of 14.03%, significantly less than the 14.30% for a similar bond this past February. The 11-month bond's interest rate fell less significantly, with the cut-off rate unchanged from 14.50%, as set at the end of April for 10-month bonds (both were offered as a 1-year bond). The weighted average rate slid just 5bp to 14.44%, setting rates at 14.42%-14.50%.

The MoF will raised UAH1.43bn in local currency and US\$38.09 in FX, which is sufficient but not very necessary financing for the budget. It continues satisfying demand and supporting market auctions, having a positive impact on the secondary market and attracting new investors. All in all, May's debut auction was positive, partially refinancing FX-denominated debt with new local currency denominated debt.

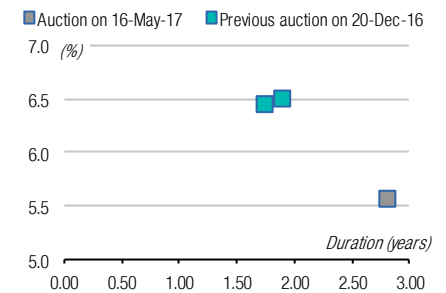
WEDNESDAY, 17 MAY 2017

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.

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

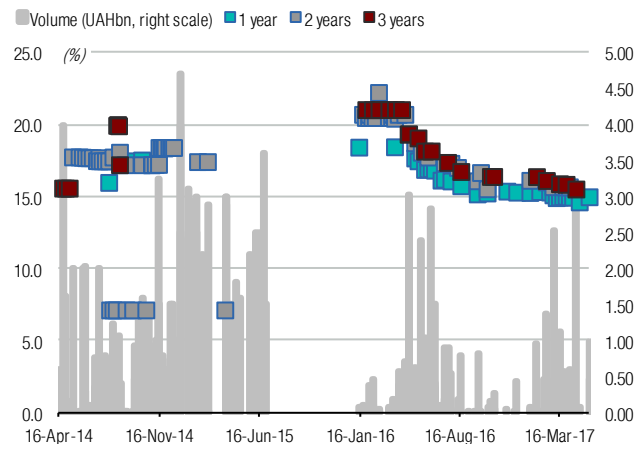
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000197388	0.00		15-Nov-17	480,000	934.61	448.61	480.00	14.03	480.00
UA4000193908	19.70	SA	18-Apr-18	925,500	1,058.70	979.83	925.50	15.01	2,232.27
Total				1,405,500		1,428.44	1,405.50		2,712.27
UA4000197396	5.49	SA	13-May-20	38,082	1,000.21	1,006.72	1,006.51	5.57	1,006.51
Total				38,082		1,006.72	1,006.51		1,006.51

Note: [1] payment frequency abbreviations: Q - quarterly, SA - semi-annually; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Appendix: Yields-to-maturity, repayments

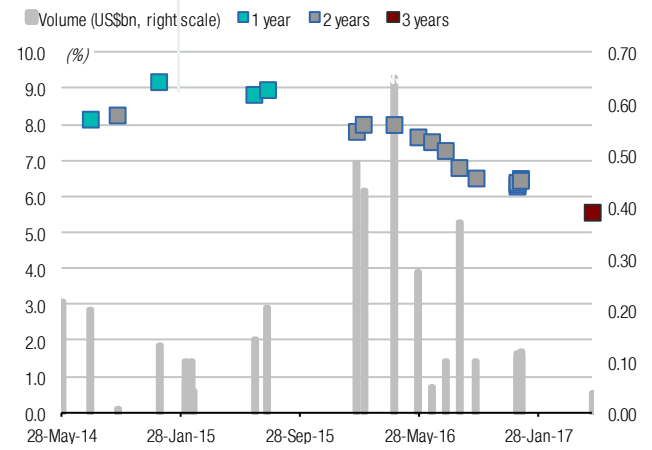
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

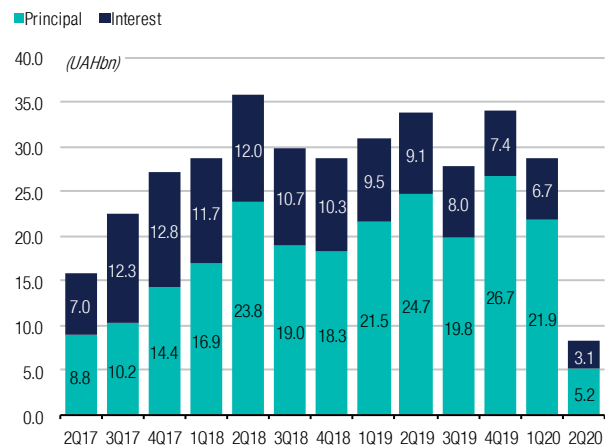
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

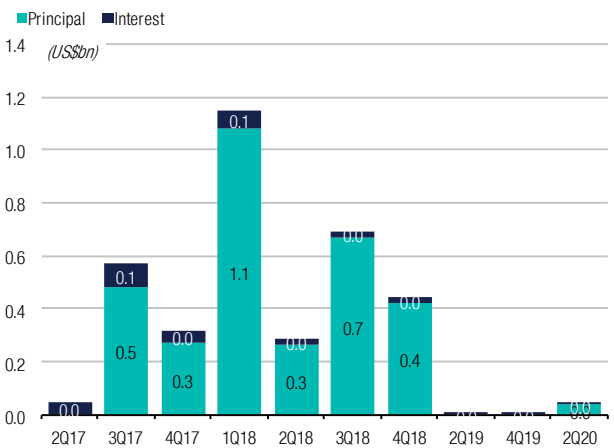
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

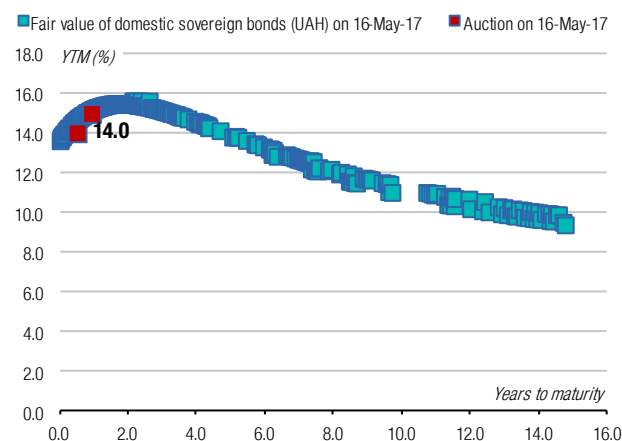
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

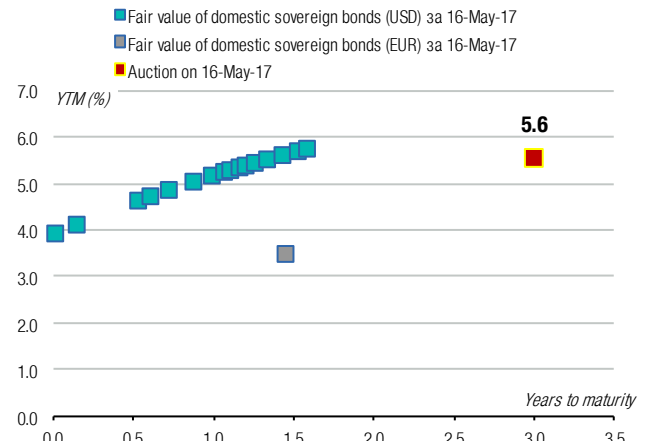
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

USD- and EUR-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

WEB www.icu.ua



@ICU_UA

CORPORATE FINANCE

Makar Paseniuk, CFA, Managing Director
makar.paseniuk@icu.ua

Ivan Shvydanenko, Director
ivan.shvydanenko@icu.ua

Roman Nikitov, ACCA Director
roman.nikitov@icu.ua

Yuriy Kamarytskyi, Vice President
yuriy.kamarytskyi@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

Ruslan Patlavsky, Director
ruslan.patlavsky@icu.ua

STRATEGY AND CORPORATE DEVELOPMENT

Vlad Sinani, Director
vlad.sinani@icu.ua

SALES AND TRADING

Konstantin Stetsenko
Managing Director
konstantin.stetsenko@icu.ua

Liliya Kubytovych
Asset Management Product Sales
liliya.kubytovych@icu.ua

Sergiy Byelyayev
Fixed-Income Trading
sergiy.byelyayev@icu.ua

Yevgeniya Gryshchenko
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

Vitaliy Sivach
Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

RESEARCH

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

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

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

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

Bogdan Vorotilin
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

Lee Daniels, Rolfe Haas
Editors

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