

Bond Market Insight

MoF accumulates FX

Comment on government bond placement

Yesterday, the Ministry of Finance gave preference to FX-denominated bonds so as to be ready for next week's FX debt repayments without having to resort to using reserves from other sources. At the beginning of the month, UAH21bn was in the government's accounts in FX. The MoF offered short-term bills and accepted higher rates to collect about US\$187m and EUR69m, and an additional UAH2.8bn in local currency.

For local-currency bills, interest rates remained mostly steady, and UAH1.75bn and UAH1.04bn were borrowed at the expected level of cut off rates of 18%, as was UAH1.7m borrowed for two years at 16.8%. However, for 12-month bills, the cut-off rate was increased 20bp to get UAH11.8m of proceeds.

Because it needed FX funds, the MoF was forced to increase rates for FX-denominated bills. Yesterday, 3.5-month bills were sold at 5.55%, which was 35bp above the previous auction when longer maturities had lower rates. For six-month bills, the rate was increased 55bp to 5.95%. A higher rate was also set for euro-denominated bills, which were sold at 4.5%, higher than two weeks ago.

As a result, the MoF received about US\$268m in FX, which will enable it to refinance about 70% of FX-denominated repayments in the local market next week, in the amount of US\$389m. And with new FX borrowings next week, the MoF will be able to refinance domestic FX repayments scheduled for this month. Successful borrowings next week will allow the MoF to use funds for external debt repayments.

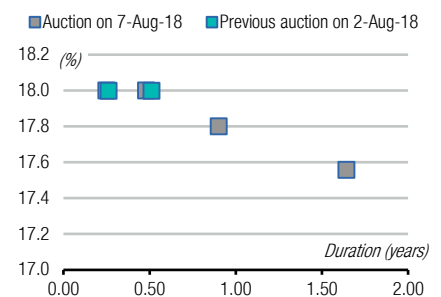
Table 1. Details of domestic government bonds placed at the auction (UAHbn)

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000200950	0.00	@Mty	7-Nov-18	1,823,809	957.05	1,745.48	1,823.81	18.00	4,592.01
UA4000201735	0.00	@Mty	30-Jan-19	1,127,682	920.55	1,038.09	1,127.68	18.00	2,745.53
UA4000201768	0.00	@Mty	3-Jul-19	13,636	861.74	11.75	13.64	17.80	26.74
UA4000198006	14.64	SA	10-Jun-20	1,754	988.78	1.73	1.75	17.56	3,555.71
Total UAH				2,966,881		2,797.05	2,966.88		10,919.99
UA4000201891	0.00	@Mty	21-Nov-18	132,835	984.51	3,528.45	3,583.95	5.47	3,583.95
UA4000201446	0.00	@Mty	27-Feb-19	58,301	968.44	1,523.35	1,572.99	5.86	6,922.98
Total USD				191,136		5,051.80	5,156.94		10,506.94
UA4000195663	4.00	@Mty	24-Oct-18	68,270	1,010.80	2,159.57	2,136.49	4.39	6,559.05
Total EUR				68,270		2,159.57	2,136.49		6,559.05

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 26.98/USD, 31.29/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

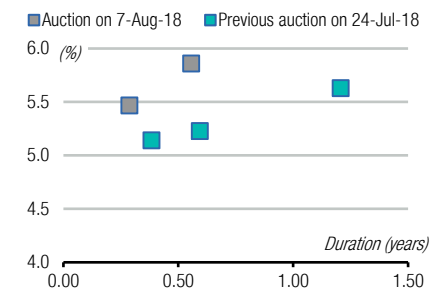
WEDNESDAY, 8 AUGUST 2018

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



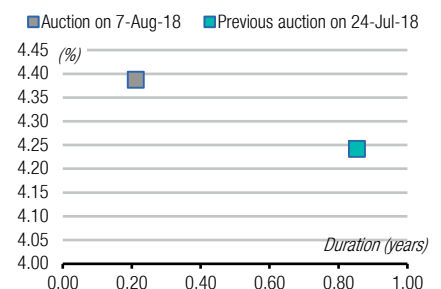
Source: Ministry of Finance of Ukraine, ICU.

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

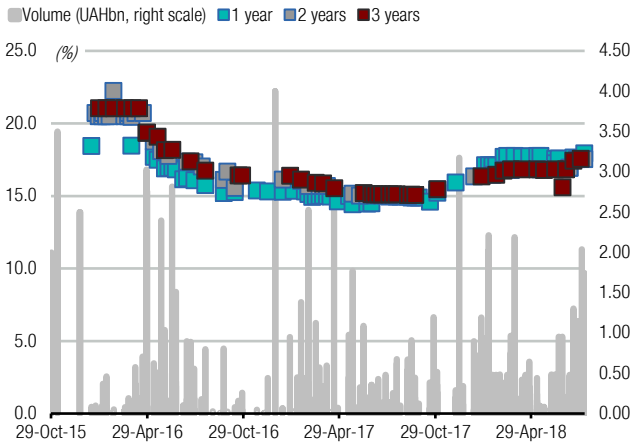


Source: Ministry of Finance of Ukraine, ICU.

Appendix: Yields-to-maturity, repayments

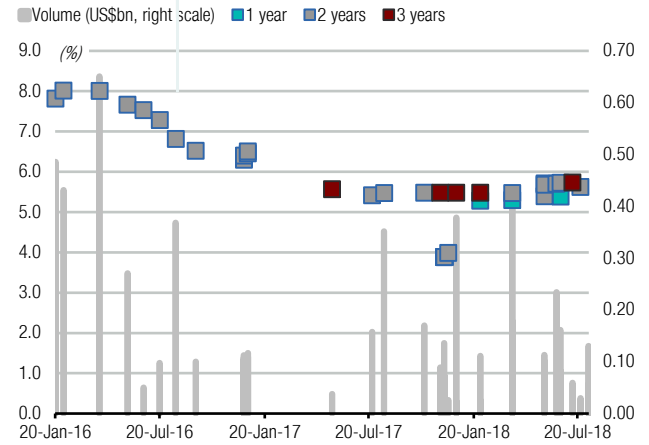
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

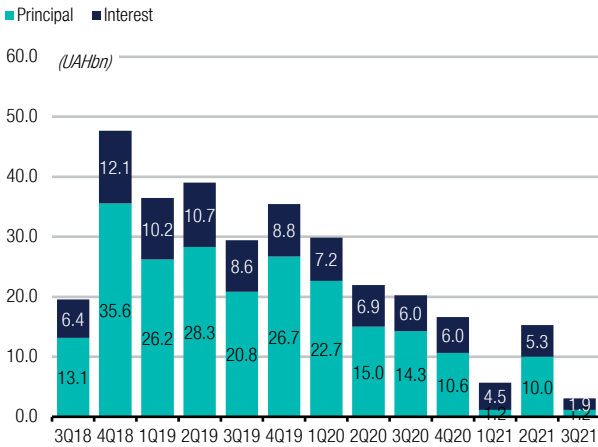
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

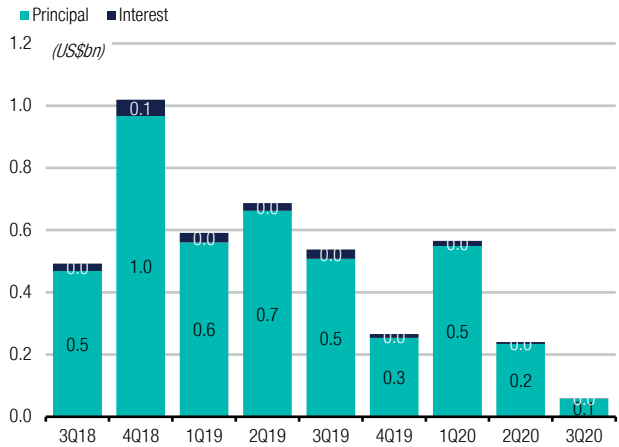
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

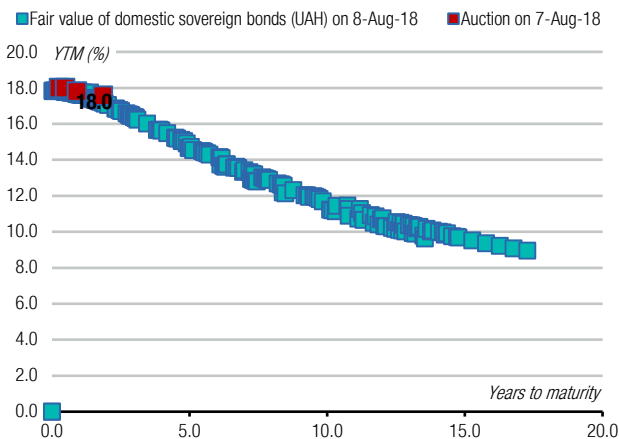
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

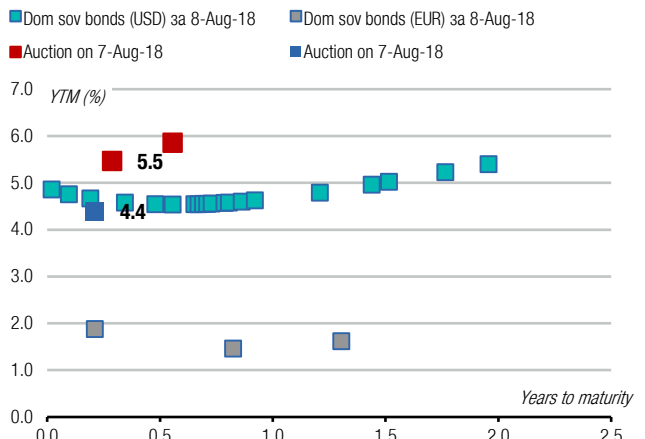
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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 2200120

WEB www.icu.ua    [@ICU_UA](https://twitter.com/ICU_UA)

CORPORATE FINANCE

Makar Paseniuk, CFA, Managing Partner
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

ASSET MANAGEMENT

Grigoriy Ovcharenko, Director
Head of Local Asset Management
grigoriy.ovcharenko@icu.ua

Liliya Kubytovych 
Head of Marketing and Sales
liliya.kubytovych@icu.ua


TRADE OPERATIONS

Konstantin Stetsenko 
Managing Partner
konstantin.stetsenko@icu.ua

Vlad Sinani, Director
Strategy and Business Development
vlad.sinani@icu.ua


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

Yevgeniya Gryshchenko
Head of Brokerage Services Department
yevgeniya.gryshchenko@icu.ua


Vitaliy Sivach 
Trader, Fixed-Income & Forex
vitaliy.sivach@icu.ua


Bogdan Vorotilin 
bogdan.vorotilin@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

Dmitriy Dyachenko
Junior financial analyst
dmitriy.dyachenko@icu.ua

Artem Gladchenko
Junior financial analyst
artem.gladchenko@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.

