

Bond Market Insight

Yields and proceeds up

Comment on government bond placement

Large domestic debt repayments scheduled for October and November have encouraged the Ministry of Finance to take more radical actions in the primary bond market, and to change its view on interest rates. Yesterday, the MoF borrowed more funds than during the last month: x2.5 more in local currency and x1.4 in FX. Cut-off rates were increased for three out of five offered bonds: for the three-month and two-year local-currency bills, and for the nine-month USD-denominated bills.

For the 77-day bill, the cut-off rate was up 50bp, which resulted in the MoF receiving UAH834.4m of budget proceeds. A fourth part of these funds was from non-competitive bids, while competitive bids were mostly closer to the cut-off rate, moving the weighted-average rate up by 41bp. Only two bids for these bills amounting to UAH150m were rejected with insufficient impact on proceeds.

The offering of FX-denominated bills had a similar result. The cut-off rate was hiked by 105bp with the weighted-average rate increasing by 87bp, which provided the MoF with US\$67m. With these proceeds, the MoF closed refinancing of debt repayments done in September. For these bills, the non-competitive part of demand was small, just US\$5.3m. Our assumption is that without the increase in the cut-off rate, the budget would have only been able to receive about US\$15m of funds, which would not have met the refinancing goal.

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

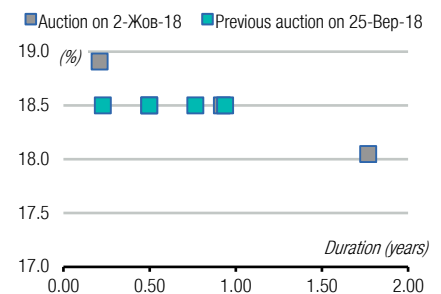
ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m) ⁴
UA4000202055	0.00	@Mty	19-Гpy-18	867,640	961.64	834.36	867.64	18.91	2,215.83
UA4000201370	0.00	@Mty	3-Кви-19	13,475	915.54	12.34	13.48	18.50	510.46
UA4000202295	0.00	@Mty	4-Бep-19	36,839	854.48	31.48	36.84	18.50	74.06
UA4000202469	17.25	SA	30-Бep-20	3,000	1,000.00	3.00	3.00	18.05	3.00
Total UAH				920,954		881.17	920.95		2,803.36
UA4000201453	0.00	@Mty	19-Чep-19	70,273	954.03	1,895.64	1,986.97	6.79	4,507.43
Total USD				70,273		1,895.64	1,986.97		4,507.43

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 28.28/USD, 33.04/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

For six-month and 12-month bills, rates remained steady at 18.5% with all bids accepted. At the same time, for the two-year instrument, the cut-off rate was moved up by 45bp compared with the last auction in August, prior the last key-rate increase.

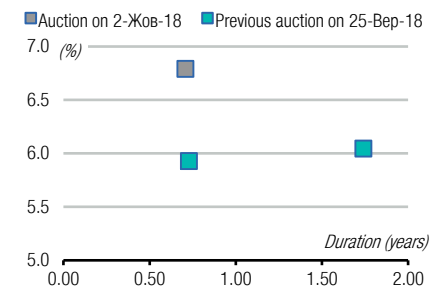
WEDNESDAY, 3 OCTOBER 2018

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



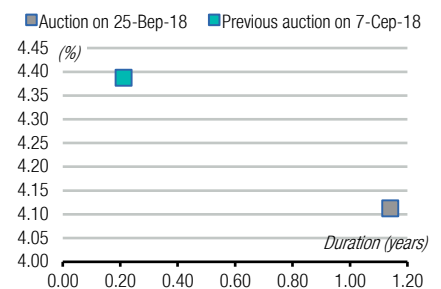
Source: Ministry of Finance of Ukraine, ICU.

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.

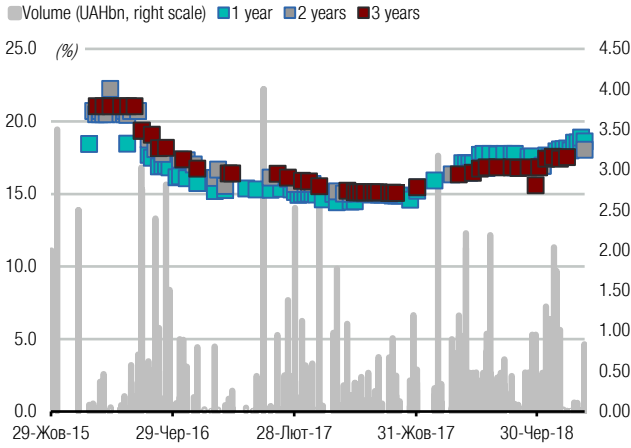
But the MoF accepted only one bid out of seven bids received, which should not cause a rise in demand for this maturity.

So, the yield-curve for local-currency bills was moved up at the short and long ends closer to the money-market rates. But interest rates remained low, although still high enough to increase the attractiveness of bills, especially for maturities above three months. Yesterday's auction could slightly change the situation at primary market with an increase in demand and a widening of the range of interest rates in bids. This should allow the MoF to increase borrowings with increases in rates. This is especially important as the MoF has large debt repayments scheduled, in particular in FX, refinancing of which is needed without new external borrowings.

Appendix: Yields-to-maturity, repayments

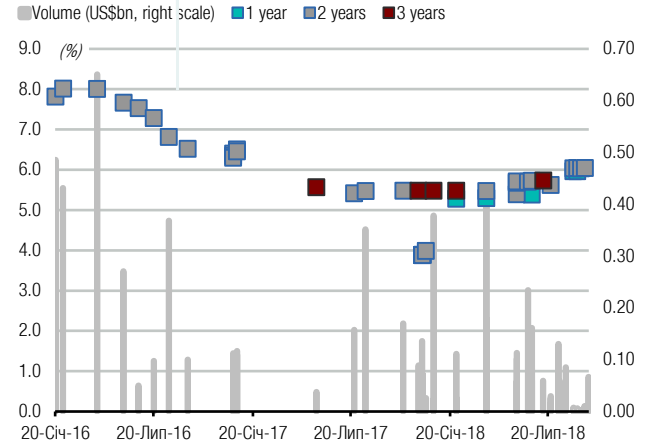
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

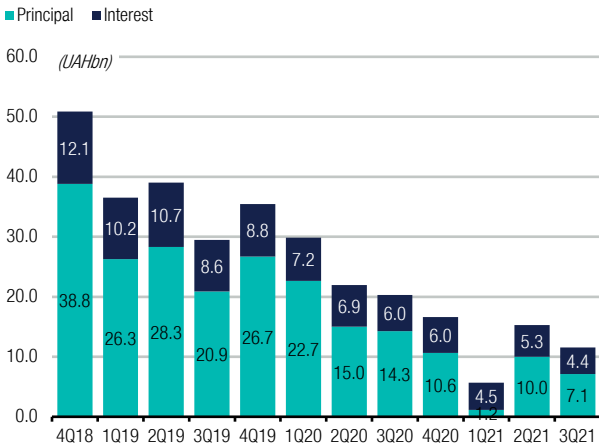
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

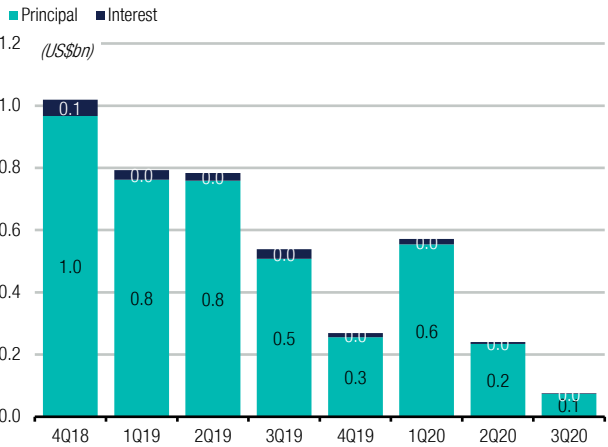
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

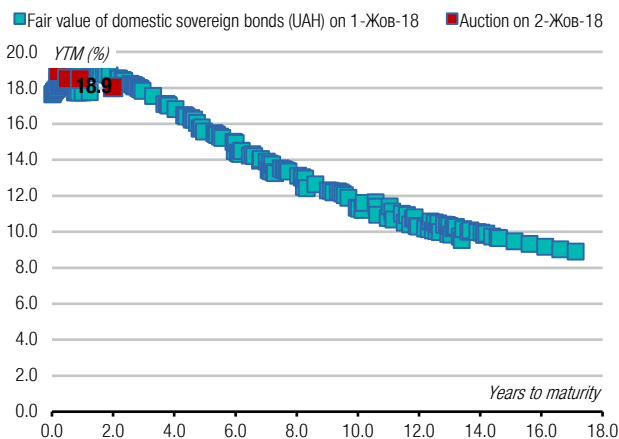
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

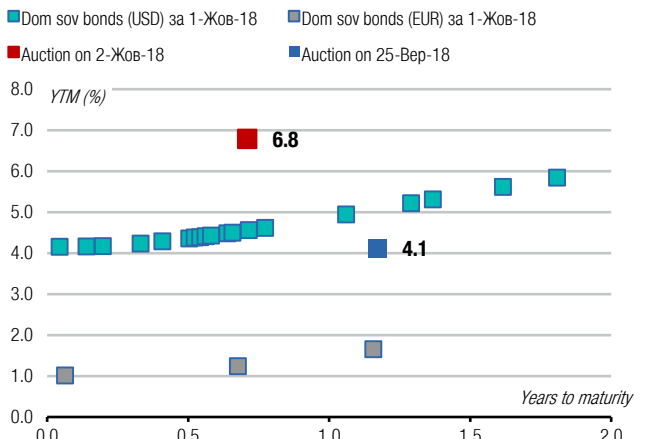
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

