

Bond Market Insight

Borrowings increase

Comment on government bond placement

At the last primary auction in April, the Ministry of Finance continued to borrow large amounts of funds and, continued to increase the tenor of borrowings. This week, borrowings increased to UAH13.4bn, including US\$82m in FX.

FX-denominated principal repayments scheduled for this week were fully refinanced, together with the main portion of interest repayments. Borrowings amounted to US\$82.1m, while principal repayments were US\$73m, and interest repayments amounted to US\$11.2m. Most of the proceeds were reinvestment of redemption of US\$73m of puttable bills into similar instruments with lower interest rate.

As for local-currency bills, there was a wide range of instruments, and a variety of bids. The MoF sold all offered bills and for some of them, with lower interest rates.

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
UA4000203830	0.00	@Mty	21-Aug-19	1,500,000	941.75	1,412.62	1,500.00	18.97	5,889.00
UA4000203624	0.00	@Mty	9-Oct-19	3,337,963	919.60	3,069.60	3,337.96	18.99	6,442.43
UA4000203749	0.00	@Mty	1-Apr-20	552,008	852.24	470.44	552.01	18.45	4,859.31
UA4000202469	17.25	SA	30-Sep-20	811,302	997.37	809.17	811.30	19.14	1,134.08
UA4000194377	16.75	SA	2-Jun-21	2,698,795	1,042.86	2,814.48	2,698.80	18.85	6,277.94
UA4000173371	10.00	SA	23-Aug-23	3,202,400	832.07	2,664.62	3,202.40	16.69	3,532.40
Total UAH				12,102,468	11,240.93	12,102.47			28,135.17
UA4000203566	0.00	@Mty	12-Dec-19	5,838	956.13	148.83	155.66	7.22	4,266.59
UA4000203848	3.85	SA	13-Aug-20	73,000	1,007.36	1,960.76	1,946.44	3.89	3,892.87
UA4000203392	7.50	SA	11-Feb-21	2,991	1,010.11	80.56	79.75	7.91	2,262.02
Total USD				81,829	2,190.15	2,181.85			10,421.48

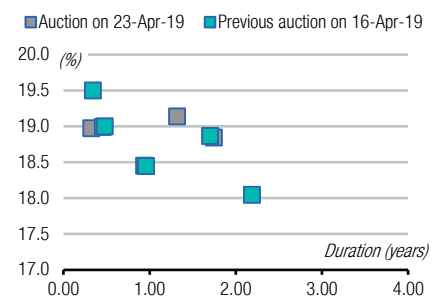
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.66/USD, 30.32/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The most active was a placement of four-month bills, which was limited to UAH1.5bn. This bill collected 25 bids, which amounted to UAH3.5bn, but the MoF accepted only nine of them. The cut-off rate was lowered by 50bp, with a weighted-average rate of 18.97% due to a low bid that came in at 18.95%.

Due to the limited offering of four-month bills, some investors instead bought six-month bills. This instrument received 25x larger demand than a week ago, and

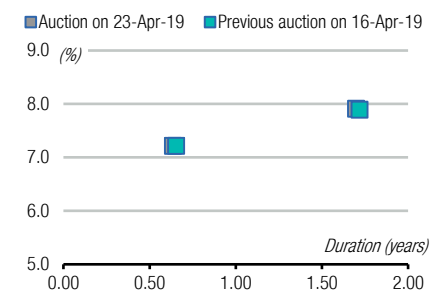
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



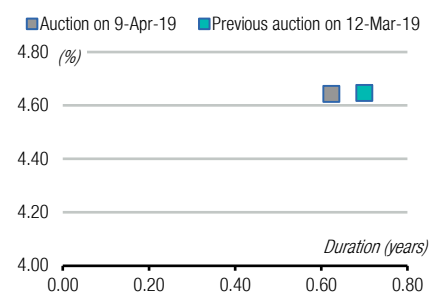
Source: Ministry of Finance of Ukraine, ICU.

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.

provided more than UAH3bn of proceeds with unchanged cut-off rate.

Less active were 12-month and 1.5-year bills, which provided the budget with UAH1.3bn of proceeds combined. Demand for 1.5-year bills rose three times compared with the auction three weeks ago.

Two-year instruments had steady demand, which exceeded UAH2bn, and provided UAH2.8bn of funds this week. The interest rates in bids supported the MoF's efforts to lower rates, with the weighted-average rate down 2bp.

The most unexpected result was the placement of four-year bills. Demand for this instrument was slightly below UAH3.5bn, but the MoF decided to reject one bid out of the three received. Only one small bid of UAH2.4m was non-competitive, while out of the two competitive bids, the MoF rejected one, which amounted to UAH290m with a rate 16.2%. The Ministry set the cut-off rate at 16% for which it received the largest bid of UAH3.2bn.

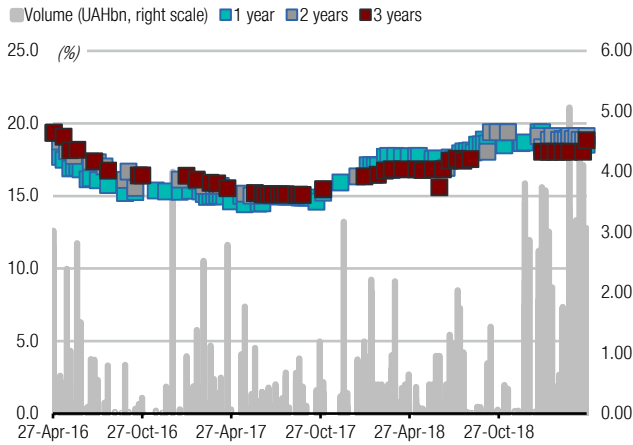
This level of cut-off rate was the same as when similar bills were sold last, which was at the end of August 2018, just in a week before key policy rate increase to 18%. Last year, these bills were also sold at 16%.

This auction underscored that the key policy rate is the main influence on demand and its structure, and the reason for the increase in medium-term bills. The market anticipates a decrease of key policy rate today, probably to 17.5%, the same level as it was last August. Expectedly the large portion of new bills were purchased by foreign investors.

Appendix: Yields-to-maturity, repayments

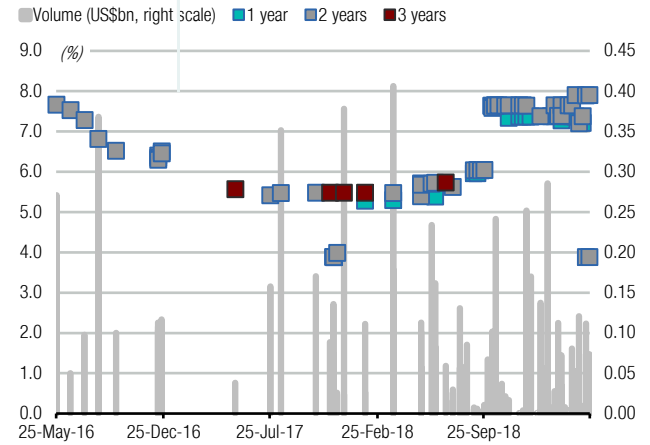
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

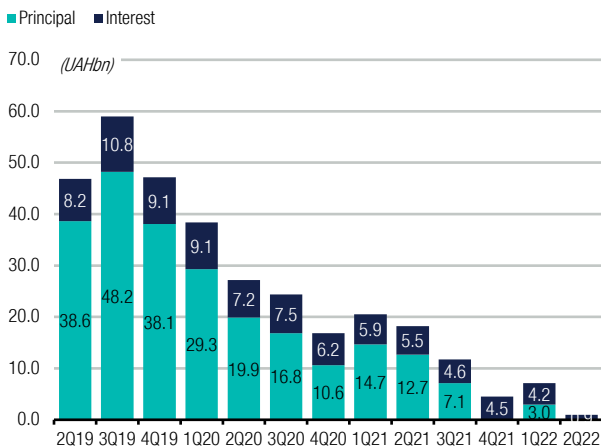
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

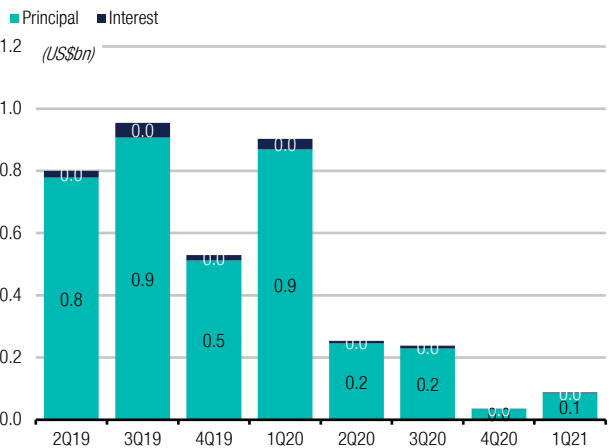
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

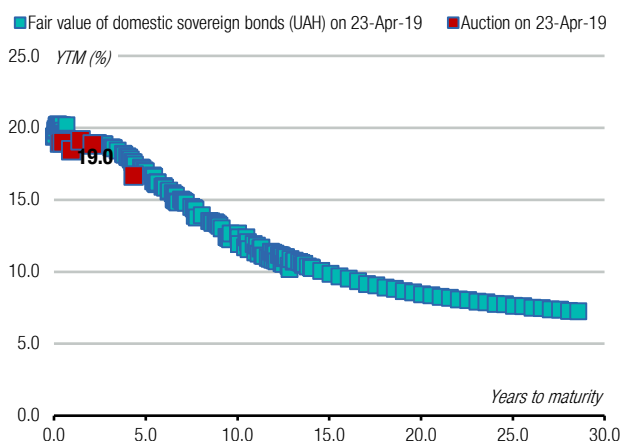
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

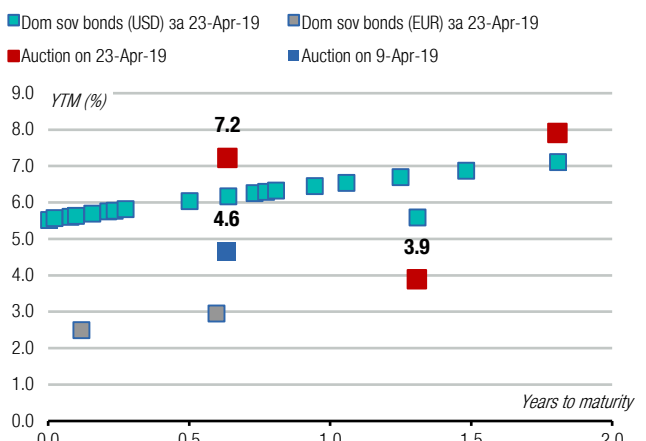
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.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

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