

Bond Market Insight

Rates continue to fall

Comment on government bond placement

Another break in the high activity in the primary market was seen yesterday, and demand slightly moved to FX-denominated bills. The total amount of borrowings rose by about UAH1bn compared with last week.

After receiving low demand for the two shortest bills last week, the three and six month, the Ministry could not use limited offerings to decrease interest rates because demand was lower than supply. In yesterday's auction, offerings amounted to UAH0.5bn, or three times lower than the previous week. With this limit, Ministry was able to decrease rates for the three-month bills.

Out of 18 received bids for the three-month bills for UAH674.6m, the Ministry accepted only eight bids for the full amount offered. The Ministry rejected 10 bids, setting the cut-off and weighted-average rates at 17.89% which was 61bp lower than the cut-off rate and 48bp lower than the weighted-average rate compared with a week ago.

Cut-off rates were unchanged for other issues. The Ministry sold six-month and 12-month bills at 18.5%. The 1.5-year bills were set at 18%, and the four-year instrument came in at 16%.

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

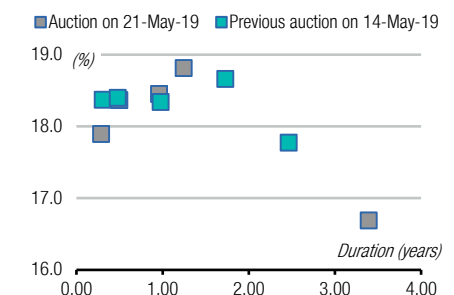
ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000202295	0.00	@Mty	4-Sep-19	500,000	951.05	475.53	500.00	17.89	3,501.80
UA4000203319	0.00	@Mty	20-Nov-19	319,475	916.10	292.67	319.48	18.37	998.96
UA4000203921	0.00	@Mty	6-May-20	498,172	849.68	423.29	498.17	18.45	2,669.73
UA4000202469	17.25	SA	30-Sep-20	345,456	1,014.31	350.40	345.46	18.81	1,734.54
UA4000173371	10.00	SA	23-Aug-23	667,203	841.98	561.77	667.20	16.69	5,401.48
Total UAH				2,330,306	2,103.65	2,330.31			14,306.50
UA4000199244	5.40	SA	23-Oct-19	97,928	998.94	2,559.37	2,562.09	6.79	11,777.09
UA4000203764	0.00	@Mty	2-Apr-20	8,618	941.27	212.23	225.47	7.21	2,120.77
UA4000203392	7.50	SA	11-Feb-21	6,390	1,016.17	169.89	167.18	7.90	2,386.75
Total USD				112,936	2,941.49	2,954.74			16,284.61

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 26.16/USD, 30.32/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

There was some movement in weighted-average cost of borrowings: the six-month bills were down 3bp, 12-month paper rose 11bp, and the 1.5-year bills slid 4bp. The

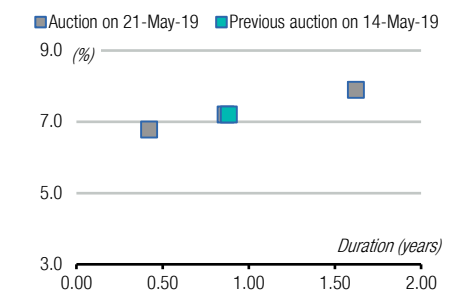
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



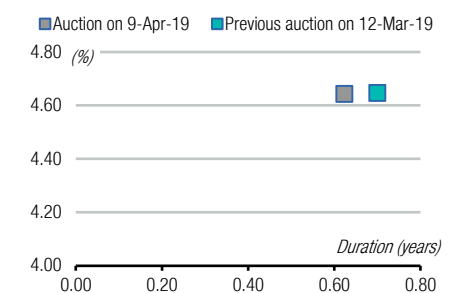
Source: Ministry of Finance of Ukraine, ICU.

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.

weighted-average rate for the four-year bills remained the same at 16%.

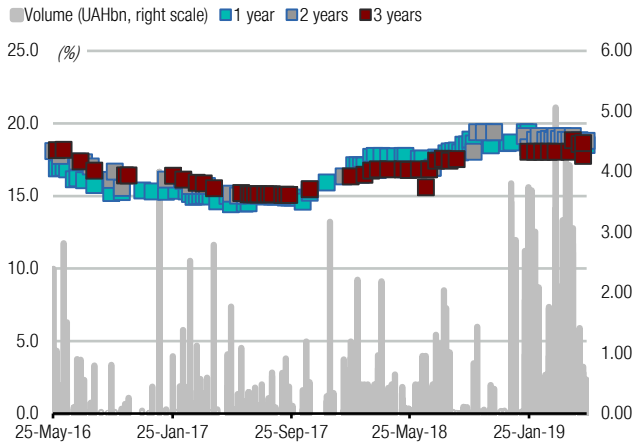
At the same time, demand for FX-denominated bills continued to increase. This week, US\$113m of demand was fully accepted, which provided the budget with US\$112.5m of proceeds. These borrowings fully cover US\$74.4m of FX-denominated debt repayments scheduled for this week.

This week, demand for new bills rose slightly due to the increase in demand for FX-denominated bills. UAH-denominated bills did not receive large demand, including low demand from foreign investors. With low debt repayments in local currency next week, this level of demand is enough to refinance them fully. At the same time, if demand for FX-denominated bills next week is the same as it was yesterday, the Ministry will be able to refinance all FX-debt repayments.

Appendix: Yields-to-maturity, repayments

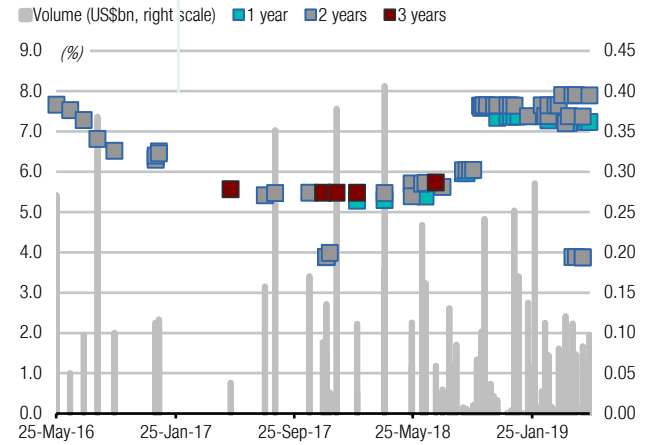
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

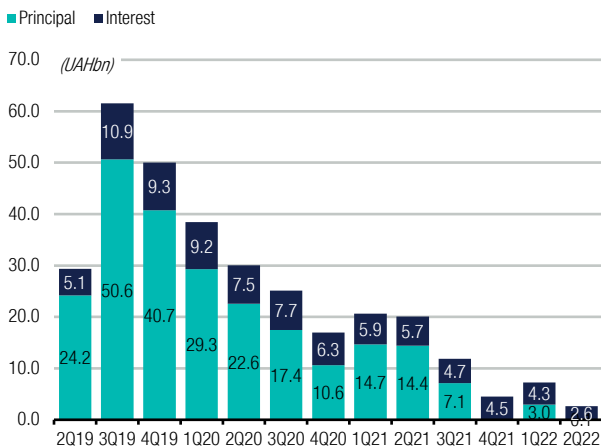
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

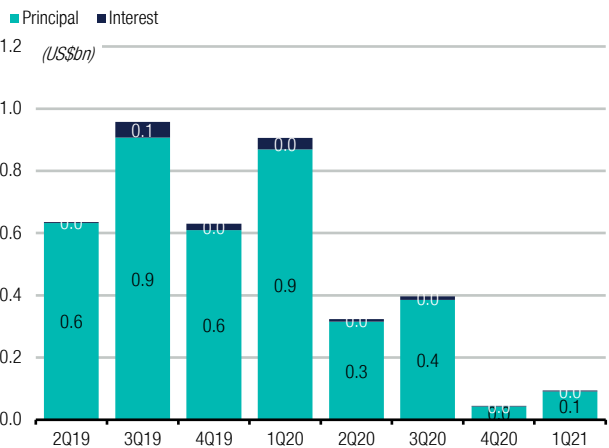
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

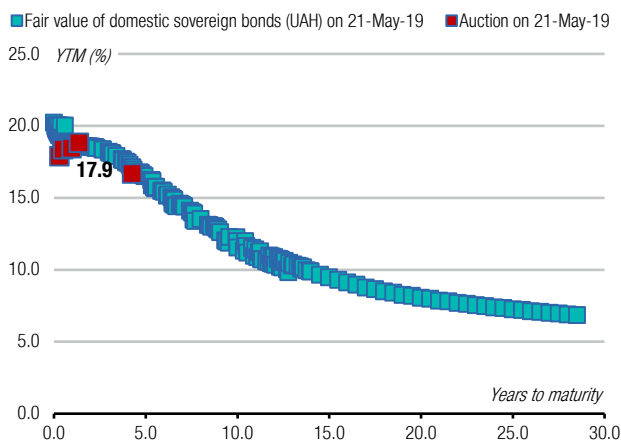
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

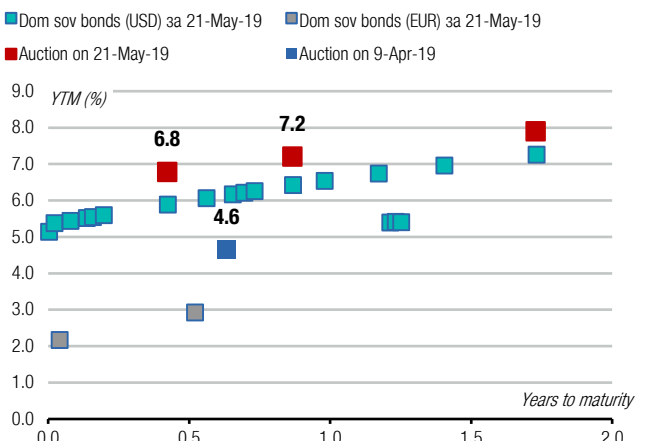
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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

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

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

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

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