

Bond Market Insight

FX bills preferred over local currency

Comment on government bond placement

At yesterday's primary auction, the largest part of funds borrowed was in FX-denominated bills, which doesn't happen often. The preference of FX-denominated bills likely was caused by the refinancing of repayments, and low demand from foreign investors.

Monday was the first day that investors in Ukrainian securities could settle their trades via Clearstream, a major convenience for foreign investors. The announcement came just last week, so some investors may delay investments in local-currency debt until they can use this infrastructure for Ukrainian market. At the same time, demand from locals is low also.

Taking into the account maturity dates of offered bills and amounts raised in UAH-denominated paper, we assume that part of demand was from foreigners. However, they had low impact on the total amount of yesterday's borrowings in local currency, as the MoF received just UAH1.2bn, and increased the cut-off rate for three-month bills by 11bp.

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

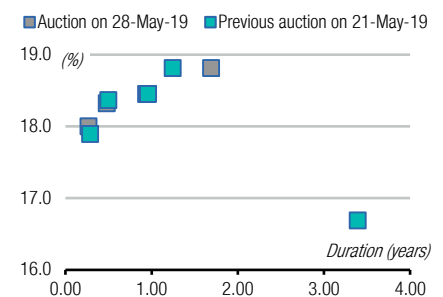
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000202295	0.00	@Mty	4-Sep-19	32,943	953.90	31.42	32.94	18.00	3,534.74
UA4000203319	0.00	@Mty	20-Nov-19	500,000	919.24	459.62	500.00	18.32	1,498.96
UA4000203921	0.00	@Mty	6-May-20	836,830	852.24	713.18	836.83	18.45	3,506.56
UA4000194468	16.75	SA	16-Jun-21	29,050	1,053.80	30.61	29.05	18.81	3,266.31
Total UAH				1,398,823	1,234.84	1,398.82			11,806.57
UA4000202535	7.50	SA	30-Jan-20	12,877	1,025.98	350.17	341.30	7.37	4,841.72
UA4000203939	3.85	SA	6-Aug-20	73,000	1,011.80	1,957.70	1,934.87	3.89	3,869.73
UA4000202568	7.50	SA	15-Oct-20	3,861	1,011.77	103.54	102.34	7.39	1,236.17
Total USD				89,738	2,411.41	2,378.51			9,947.62

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

Most of the debt repayments due in FX were refinanced. Proceeds in FX amounted to US\$90m, while the MoF repaid US\$107m. These borrowings were supported by offering of puttable bills. A similar instrument was redeemed last week, and those investors could reinvest received funds in new puttable bills.

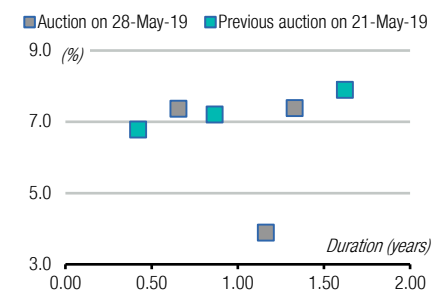
WEDNESDAY, 29 MAY 2019

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



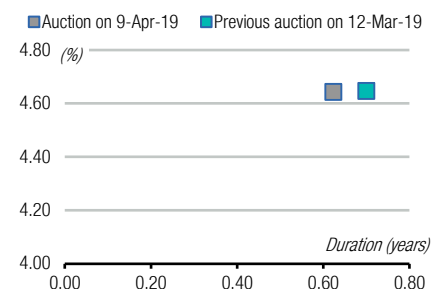
Source: Ministry of Finance of Ukraine, ICU.

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



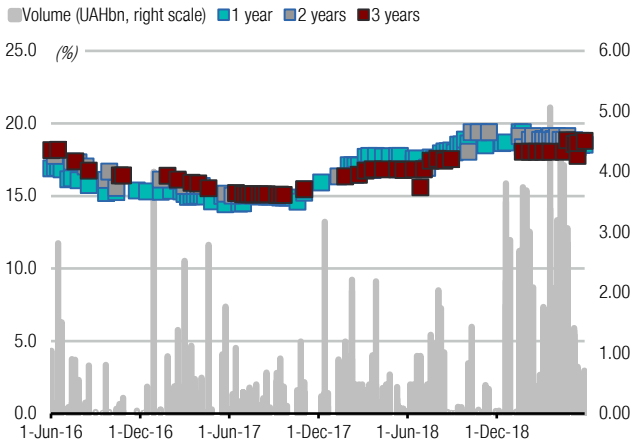
Source: Ministry of Finance of Ukraine, ICU.

So, foreign-investors' activity remains subdued, as does the amount raised by the MoF in recent auctions. Next week will be important. Debt repayments in local currency are low, so if the auction sees large demand, it will be an indicator that investors expect the NBU to reduce the key policy rate and keep the exchange rate steady. At the same time, over the next two weeks, the MoF has to pay about US\$800m in FX so it will be looking to issue bills in FX. Likely most of these proceeds will be reinvested in new FX-denominated bills.

Appendix: Yields-to-maturity, repayments

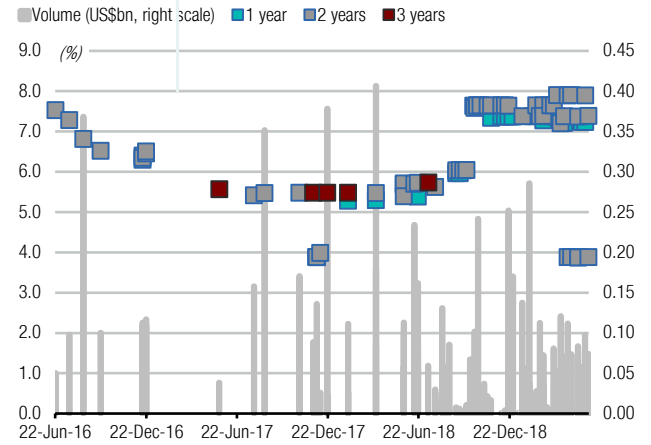
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

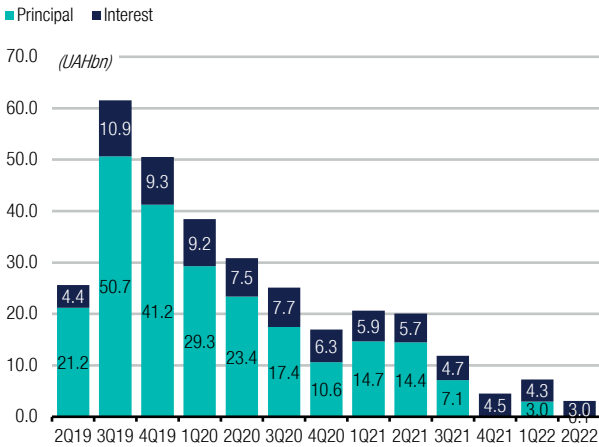
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

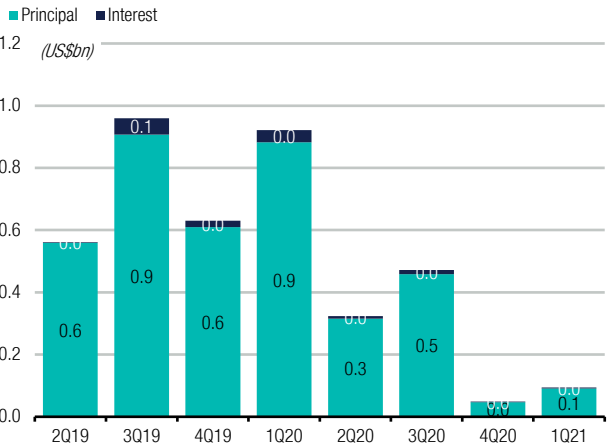
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

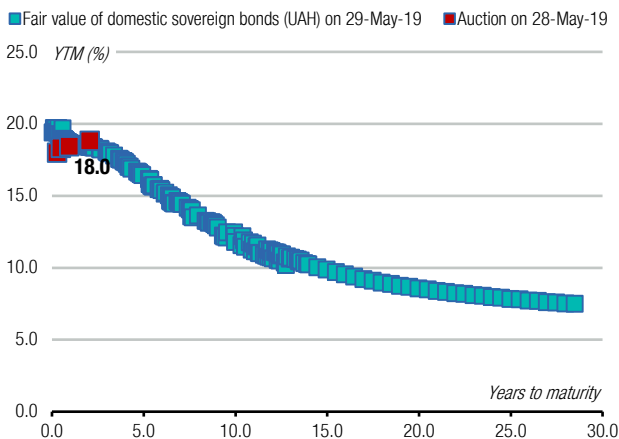
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

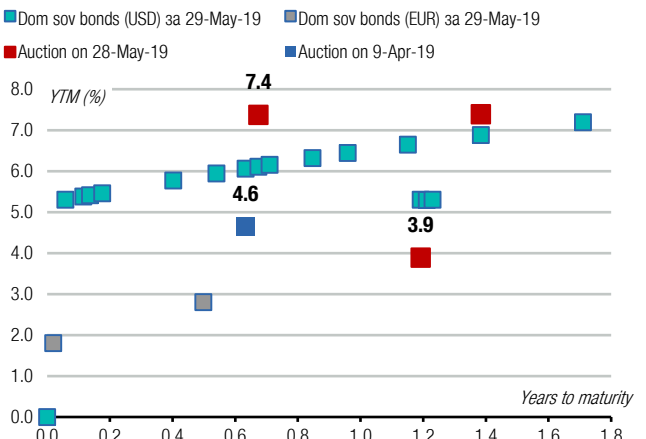
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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 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

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.

