

Bond Market Insight

Decline in demand

Comment on government bond placement

Yesterday's demand at the primary auction was lower than the offered amount, which did not prevent the rejection of some bids and a decrease in cut-off rates. Offered was UAH500m (US\$20m) of six-month and 11-month bills each, and UAH2bn (US\$79m) of two-year bills; demand was UAH2.3bn (US\$90m). As a result, budget proceeds amounted to UAH1.96bn (US\$78m), the main part coming from two-year paper.

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 (%)	Outstanding (m) ⁴
UA4000157671	14.30	SA	12-Feb-20	88,181	989.98	87.30	88.18	17.20	1,851.49
UA4000171094	14.30	SA	8-Jul-20	463,044	998.27	462.24	463.04	16.86	7,062.81
UA4000204556	16.42	SA	17-Nov-21	1,364,768	1,036.86	1,415.08	1,364.77	17.16	6,599.06
Total UAH				1,915,993	1,964.62	1,915.99			15,513.36

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 25.89/USD, 29.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Six-month bills received UAH391m of demand, but most bids were for small amounts. One bid with the highest rate of 16.7% was rejected. The MoF rejected 77.5% of demand for this tenor. The cut off rate slid a mere 2bp to 16.5%, while the weighted-average rate rose 6bp to 16.47%.

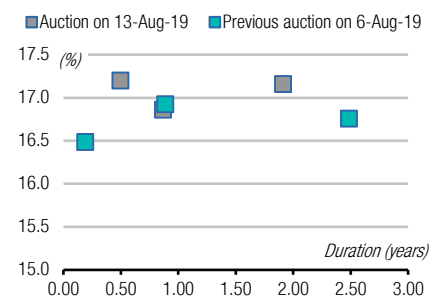
Most of the demand for 11-month bills was accepted, where most of the demand was small bids. Out of 18 bids, the MoF rejected two, which amounted to UAH35m (US\$1.4m) or only 7% of demand. The cut-off rate declined 10bp to 16.18%. The weighted-average rate declined by 6bp to 16.16%. Proceeds from these bills amounted to UAH462.2m (US\$18.3m).

For the two-year bills, demand was lower than the offered amount. However, the Ministry decided not to accept the entire demand, rejecting one bid for UAH50m (US\$2m), which was 4.5% of the demand. They set the cut-off rate at 16.52%, down 23bp, and the weighted-average rate at 16.43%, which was 1bp higher than two weeks ago.

Currently, the situation at primary market does not appear to be attractive for foreign investors in UAH-denominated bills due to a very strong hryvnia. For domestic investors, the current level of interest rates is very low, so they, too, are less active. Therefore, we do not expect high activity at the primary auction next week when

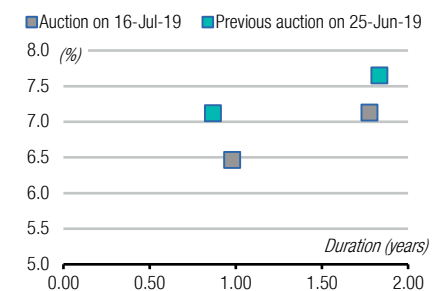
WEDNESDAY, 14 AUGUST 2019

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



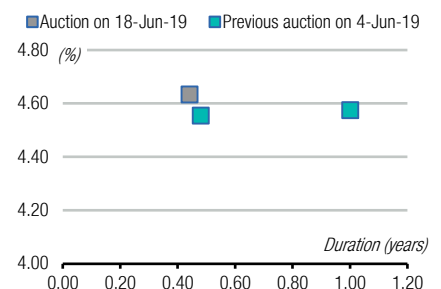
Source: Ministry of Finance of Ukraine, ICU.

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



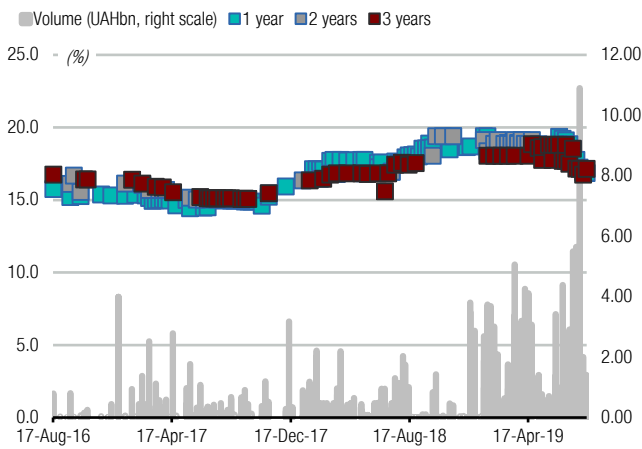
Source: Ministry of Finance of Ukraine, ICU.

the MoF will offer limited amounts of instruments with maturities up to three years. Foreigners may increase activity at the end of August when a five-year note offering is planned, but should the hryvnia weaken and the Ministry will not cap this offering.

Appendix: Yields-to-maturity, repayments

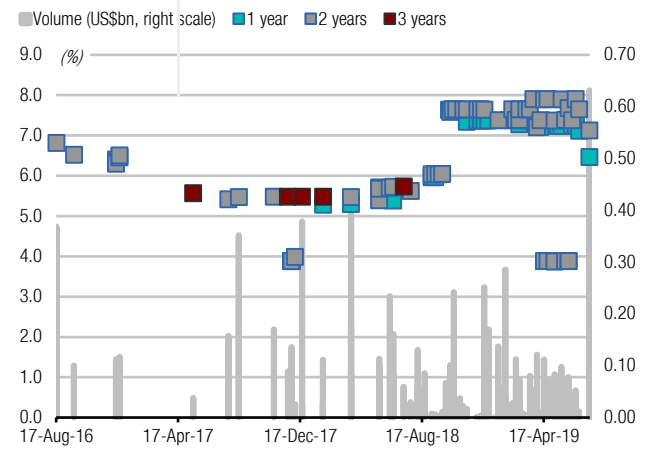
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

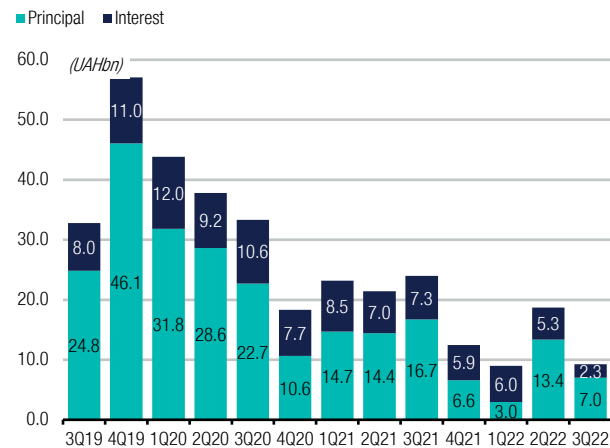
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

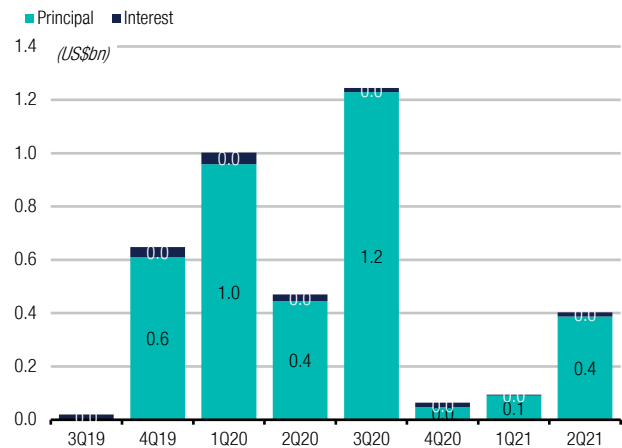
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

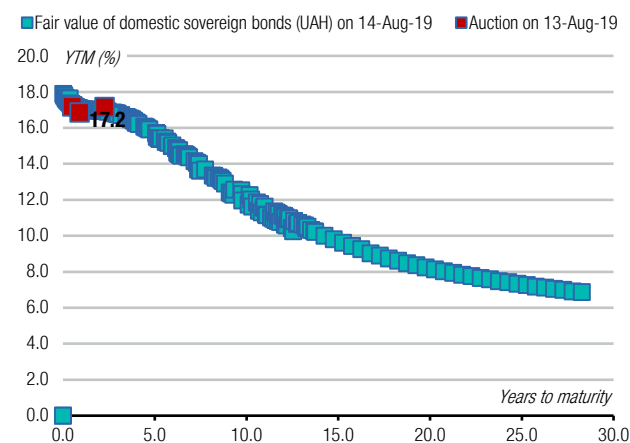
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

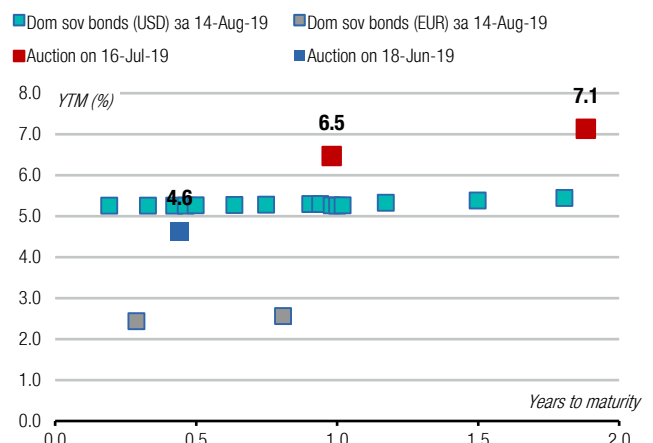
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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



RESEARCH

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

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

Taras Kotovych

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

Dmitriy Dyachenko

Junior financial analyst
dmitriy.dyachenko@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.

