

Bond Market Insight

FX accounts replenished

Comment on government bond placement

Yesterday, the MoF offered only FX-denominated bills. This week, the Ministry was able to borrow nearly US\$0.9bn, which improved the balance in its FX accounts and budget financing. Three-month USD-denominated and 13-month EUR-denominated bills were offered, and provided US\$801m and EUR75m of budget proceeds, respectively.

This was the fourth offering of FX-denominated bills this year, and the third time in March, as due to instability in global financial markets caused by spreading of COVID-19, demand for UAH-denominated bills fell to a very low level with a significant increase in likely cost for the budget.

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 |
|------------------|-----------------|---------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|------------------------------|
| UA4000208482 | 0.00 | @Mty | 18-Aug-20 | 807,140 | 993.14 | 22,159.92 | 22,312.98 | 1.73 | 22,312.98 |
| Total USD | | | | 807,140 | | 22,159.92 | 22,312.98 | | 22,312.98 |
| UA4000208490 | 2.22 | SA | 13-May-21 | 75,050 | 1,008.10 | 2,256.34 | 2,238.21 | 2.23 | 2,238.21 |
| Total EUR | | | | 75,050 | | 2,256.34 | 2,238.21 | | 2,238.21 |

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 27.64/USD, 29.82/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Yesterday, three-month USD-denominated paper was offered, which was last offered a year ago. Despite current conditions, this paper collected US\$812m of demand, most of it accepted. The MoF rejected just two bids amounting to US\$5m. In total, the budget will receive US\$801m of proceeds, which were received at 3% cut-off and weighted-average rates, lower than for the 10-month bills a week ago.

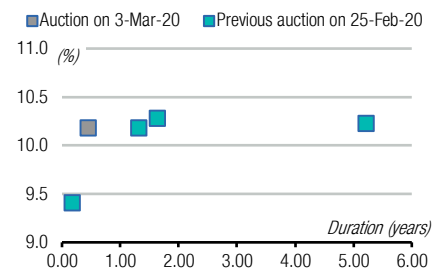
Last March, three-month USD-denominated bills were sold at 6.5%.

Demand for 13-month bills in euros was significantly lower. Just two bids amounting to EUR75m were submitted at a 2.22% rate, and both were accepted. Compared with the auction two weeks ago, the maturity of bills increased, while cut-off rate slid 3bp and weighted-average rate remained steady.

The amount of funds collected yesterday provided good support for the government to meet its debt repayments. To the extent that hard currency from government accounts were not exchanged in hryvnia in February and March, the current balance

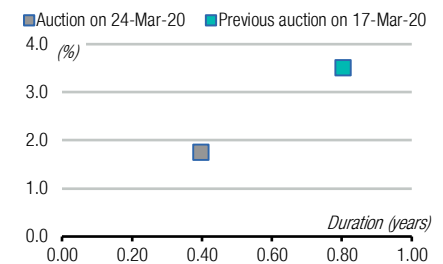
WEDNESDAY, 25 MARCH 2020

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



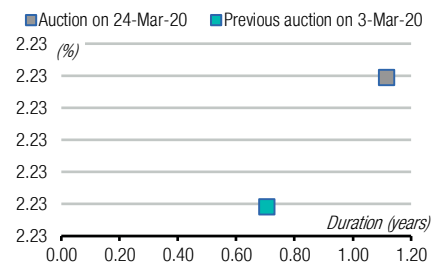
Source: Ministry of Finance of Ukraine, ICU.

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.

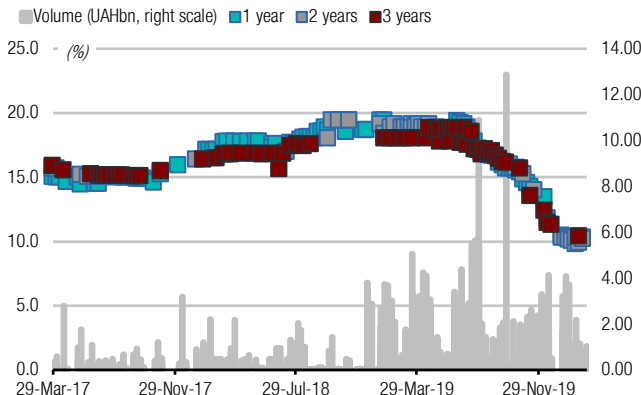
is enough to cover all FX debt repayments probably until the end of May. Only about US\$200m of additional funds are required in hard currency for this period of time.

As yesterday's borrowing mostly are short-term, there remains a need to borrow in FX, not only to support and replenish FX accounts, but also to finance the budget deficit, as potential demand for local-currency paper is not attractive to the government due to high interest rates.

Appendix: Yields-to-maturity, repayments

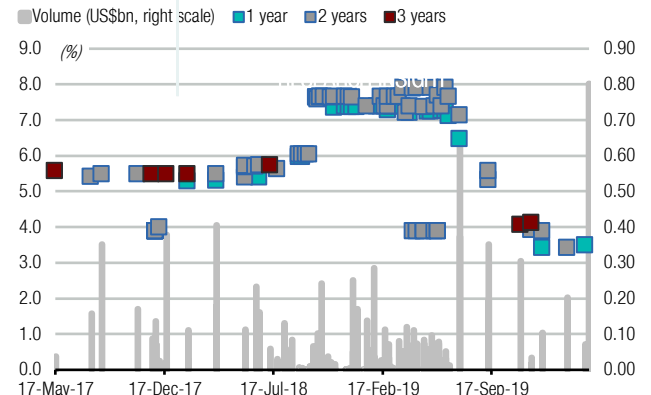
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

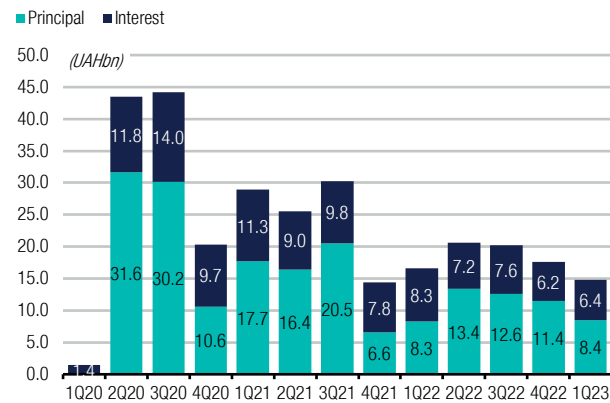
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

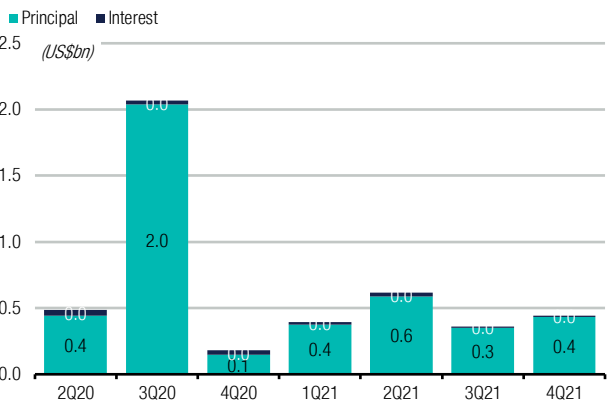
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

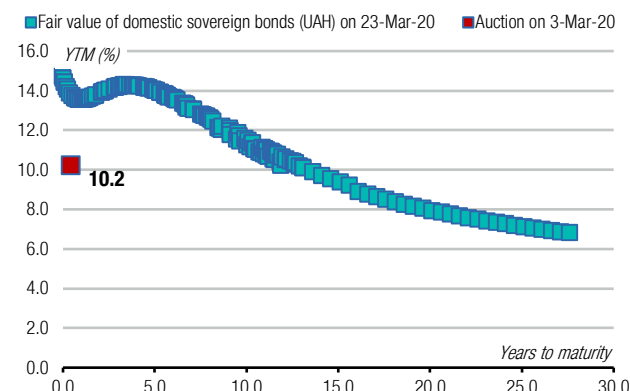
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

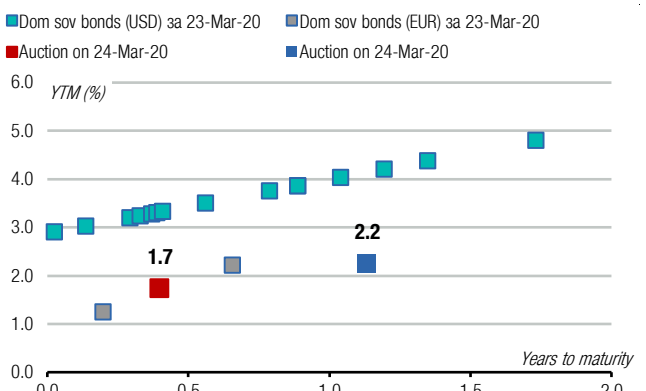
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

