

Bond Market Insight

MoF borrowed more than UAH7bn

Comment on government bond placement

At yesterday's auction, the Ministry of Finance borrowed about UAH7.4bn, refinancing current debt repayments. Most of the proceeds came from FX-denominated instruments, which enabled the MoF to receive nearly half of FX-denominated debt repayments scheduled for this month.

Demand for local-currency instruments was UAH2.4bn, the largest amount for 2Q18. However, the Ministry decided to satisfy only UAH1.3bn of it; budget proceeds from local-currency instruments were UAH1.25bn. At the same time, only one USD-denominated security offered received US\$240m of demand, just US\$31m less than at the end of May. Accepting 27 out of 30 received bids, the MoF sold US\$229.35m of bills for US\$234m of budget proceeds, or more than UAH6bn at the current exchange rate.

In line with its current policy for accepting demand for local-currency instruments, the Ministry kept the cut-off rate for two-month bills at 17.44%, and decreased the rate for six-month instrument by 25bp to 17.25%, the level seen at the end of May. At the same time, the MoF accepted only a fifth of the demand for nine-month bills, increasing the cut-off rate by 5bp to 17.30%. For the 12-month instrument, the cut-off rate was increased by 30bp to 17.30%, and two thirds of demand was accepted.

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

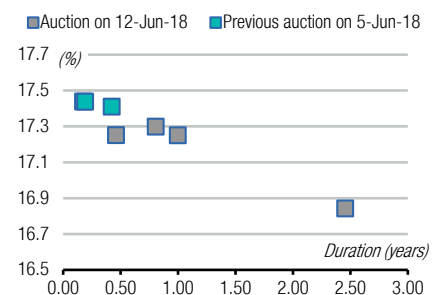
ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m) ⁴
UA4000200513	0.00	@Mty	15-Aug-18	500,000	970.78	485.39	500.00	17.44	2,118.94
UA4000200604	0.00	@Mty	28-Nov-18	500,000	926.44	463.22	500.00	17.25	4,253.27
UA4000201370	0.00	@Mty	3-Apr-19	75,850	877.71	66.57	75.85	17.30	75.85
UA4000201388	0.00	@Mty	12-Jun-19	105,000	853.22	89.59	105.00	17.25	105.00
UA4000194377	16.75	SA	2-Jun-21	141,916	1,017.09	144.34	141.92	16.84	2,951.92
Total UAH				1,322,766		1,249.11	1,322.77		9,504.98
UA4000201396	5.62	SA	15-Jan-20	229,035	1,022.81	6,112.75	5,976.44	5.70	5,976.44
Total USD				229,035		6,112.75	5,976.44		5,976.44

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 26.09/USD, 30.47/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

The Ministry rejected only one bid and kept cut-off rate for the three-year note at 16.15%, the same level as was seen in recent months.

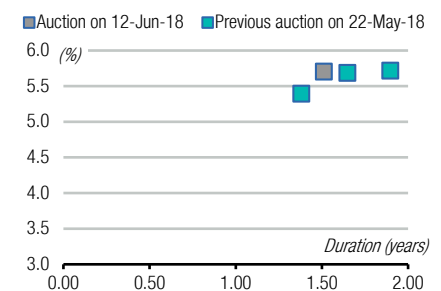
WEDNESDAY, 13 JUNE 2018

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.

For FX-denominated instruments, the MoF changed the cut-off rate insufficiently. At the end of May, the MoF sold paper with maturity in February 2020 at 5.60% cut-off rate, but yesterday the cut-off rate was set at 5.62% for bills maturing in January 2020. Demand came with rates up to 5.70%, but this demand was above the acceptable level for the MoF.

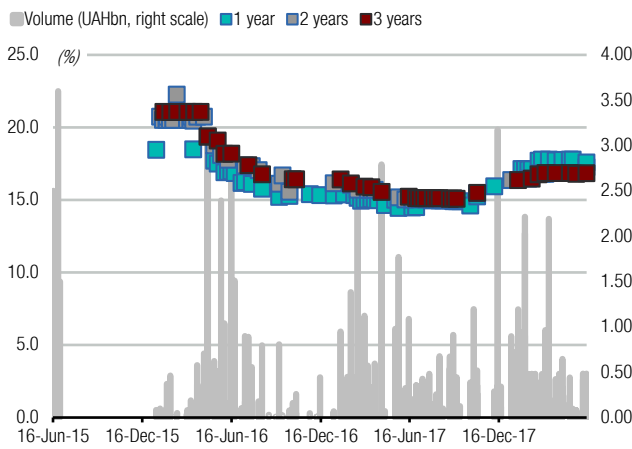
So, the MoF kept policy on track, keeping rates at the same level as before: above 17% for maturities up to one year, and slightly above 16% for longer maturities. This allowed the Ministry to keep the cost of budget financing steady by offering FX-denominated instruments to lower the cost of borrowing currently.

Next week, we could see slight movements of rates for short-term instruments by 25-30bp, while for two-year bills denominated in FX, the cut-off rate could be 5.65%, as it was in May, with possible movements of a few basis points.

Appendix: Yields-to-maturity, repayments

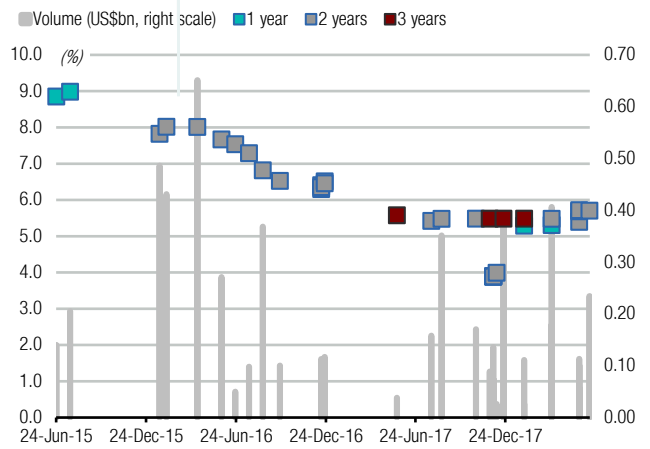
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

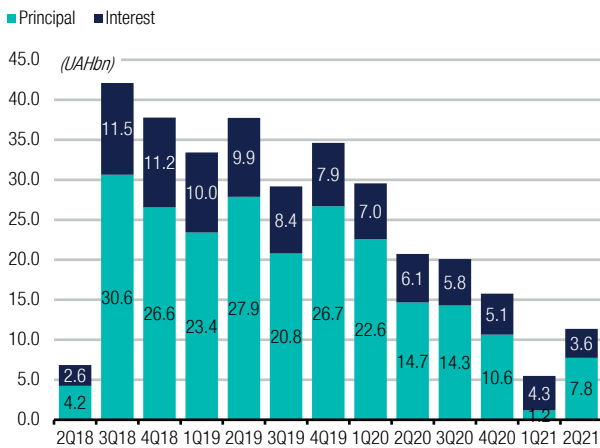
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

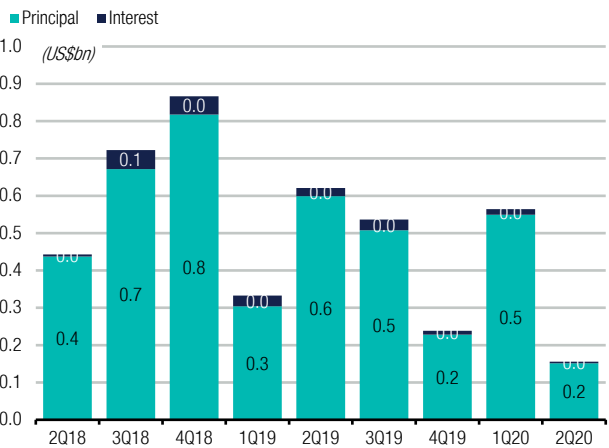
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

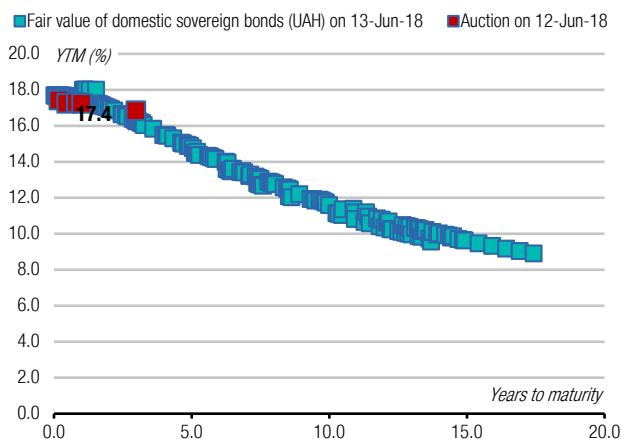
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

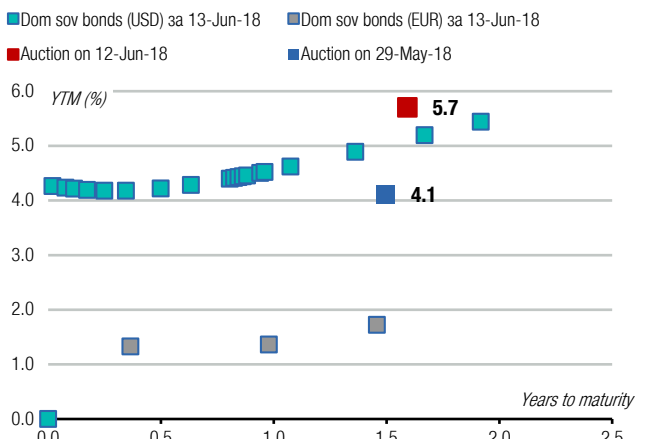
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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 2200120

WEB www.icu.ua    [@ICU_UA](https://twitter.com/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

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.

