

Bond Market Insight

Demand remains moderate

Comment on government bond placement

Yesterday's regular primary auction held by the MoF was quite successful, providing the state budget with nearly UAH3bn of proceeds, which were nearly equally divided between local and FX currency instruments. These proceeds allowed the MoF to refinance about half of this week's debt repayments, which is a good result from the auction.

Demand for hryvnia-denominated paper exceeded UAH2.1bn, and was close to the record high of 2Q18, which was UAH2.4bn. This demand was concentrated in short-term, zero-coupon bills with maturities in October 2018, and January 2019.

For the shortest maturities, the MoF set limits at UAH0.5bn, and rejected more than half of the demand for three-month bills. However, it did accept all 25 bids, although most of them partially. Similarly, there were 13 bids for six-month bills and all were accepted. The cut-off rates for these issues were set 5bp above recent auctions.

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
UA4000200778	0.00	@Mty	3-Oct-18	500,000	961.53	480.76	500.00	17.39	2,363.13
UA4000201735	0.00	@Mty	30-Jan-19	500,000	912.30	456.15	500.00	17.29	500.00
UA4000201727	16.25	SA	19-Feb-20	102,135	1,061.93	108.46	102.14	16.96	102.14
UA4000198006	14.64	SA	10-Jun-20	300,689	985.18	296.23	300.69	16.96	3,492.91
Total UAH				1,402,824	1,341.60	1,402.82			6,458.17
UA4000201743	5.65	SA	22-Jul-20	57,860	1,026.21	1,555.93	1,516.19	5.74	1,516.19
Total USD				57,860	1,555.93	1,516.19			1,516.19

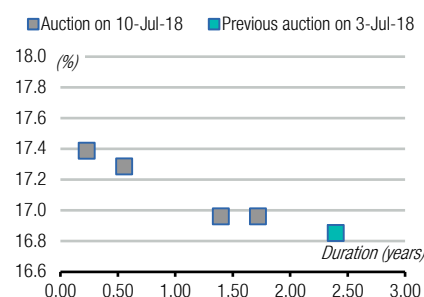
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.2/USD, 30.47/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Also, the cut-off rates for mid-term maturities rose. The 1.5-year bill has not been sold for more than two years, so we will use the two-year maturity as a basis for comparison. These two issues were sold yesterday with cut-off rates at 16.25% or 10bp above the auction in May, when two-year bills were sold the last time. Only two bids were rejected, one for each maturity, as they were bid with a 17.5% interest rate.

Only the USD-denominated instrument's cut-off rate remained unchanged at 5.65%, the same level as was seen last month. The MoF rejected only one bid, which

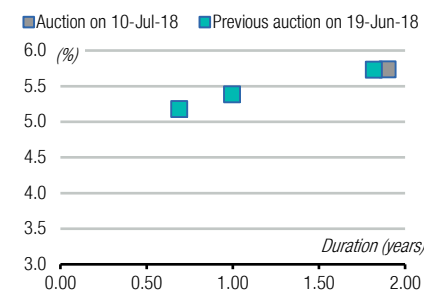
WEDNESDAY, 11 JULY 2018

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.

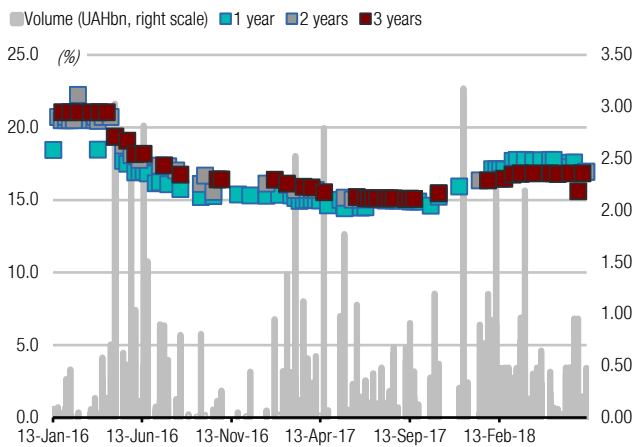
amounted to US\$5m with a 5.7% interest rate.

So, demand for hryvnia-denominated debt slightly rose, but due to low demand for FX-denominated instruments, total demand remained moderate. Offerings of FX-denominated debt did not attract the usual large demand, and yesterday, the MoF refinanced only US\$59m out of US\$115m of repayments in FX, and half of the repayments in local currency. This low level of proceeds should not cause any problems with budget execution, as domestic financing is ahead of schedule. Debt repayments in FX scheduled for July amount to US\$230m, and in two weeks, the MoF should be able to refinance the difference and increase the amount of FX in its accounts prior to August, when FX debt repayments will be a bit more difficult.

Appendix: Yields-to-maturity, repayments

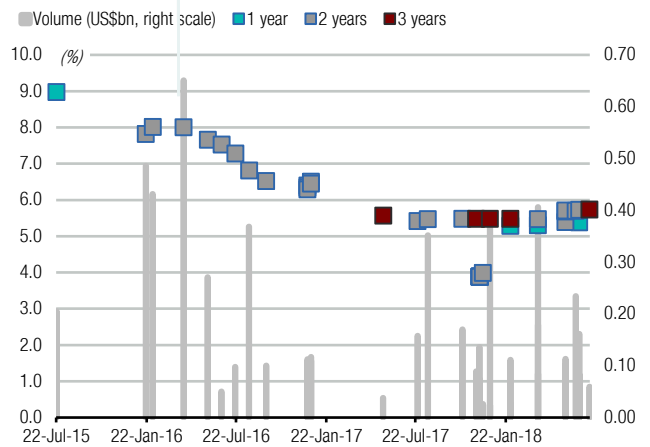
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

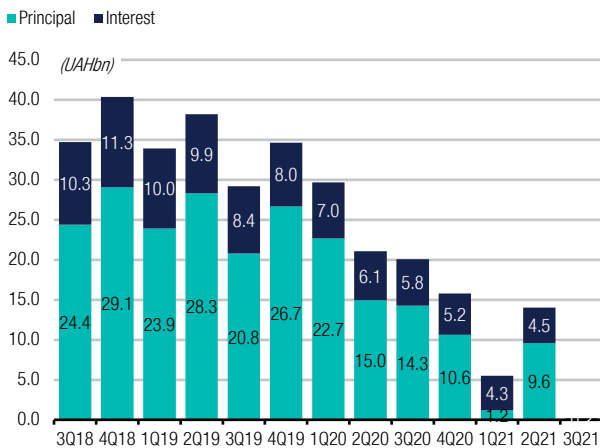
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

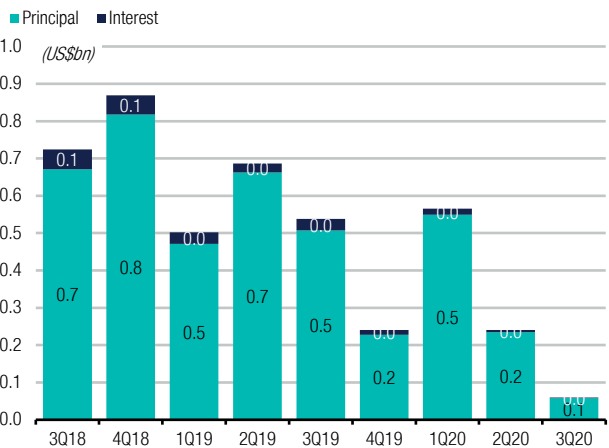
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

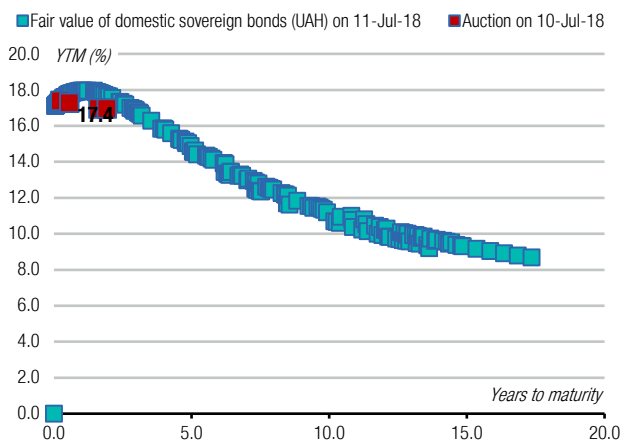
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

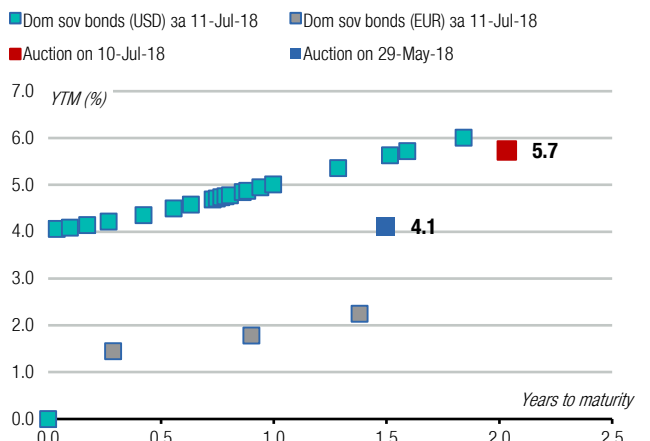
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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

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.

