

Bond Market Insight

In looking for a compromise

Comment on government bond placement

The regular primary auction resulted in unchanged yields that the MoF uses for the bids acceptance, and low budget proceeds. But this week, we also saw a decline in demand, which is not positive for the Ministry prior to large debt repayments.

The most interesting item from yesterday's auction was that probably the first time, the MoF used its right to set rates for non-competitive bids when there were no bids with interest rates. The Ministry used this procedure for six-month local-currency bills, setting the rate at the same level as short end of the yield curve. For euro-denominated bills, the MoF set the cut-off rate at the same level as this past May, the last time this issue was sold.

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
UA4000202055	0.00	@Mty	19-Dec-18	8,830	959.16	8.47	8.83	18.50	1,348.19
UA4000202287	0.00	@Mty	27-Mar-19	3,395	915.54	3.11	3.40	18.50	54.42
UA4000201768	0.00	@Mty	3-Jul-19	3,900	875.72	3.42	3.90	18.50	44.24
UA4000202295	0.00	@Mty	4-Sep-19	13,750	851.90	11.71	13.75	18.50	37.22
Total UAH				29,875		26.71	29.88		1,484.08
UA4000201453	0.00	@Mty	19-Jun-19	11,312	958.59	303.84	316.96	5.93	2,497.73
UA4000201743	5.65	SA	22-Jul-20	9,245	1,004.73	260.27	259.04	6.05	2,052.47
Total USD				20,557		564.11	576.01		4,550.20
UA4000200711	4.12	SA	27-Nov-19	1,247	1,014.10	41.69	41.12	4.11	8,892.48
Total EUR				1,247		41.69	41.12		8,892.48

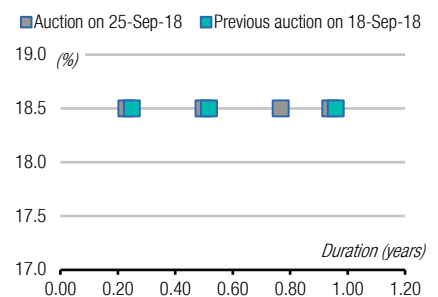
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 28.02/USD, 32.97/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

In total, demand for UAH-denominated bills fell tenfold to UAH150m. Only a fifth part of it was satisfied with just UAH26.7m of budget proceeds. This amount was sixfold lower than last week, and fivefold less than two weeks ago, although larger than it was at the beginning of September. During the month, total MoF borrowings were only UAH350m, when it repaid UAH4.7bn in local-currency debt principal and interest.

The situation was similar, but quite a bit better with FX-denominated bonds. The MoF repaid US\$103m in September, but received US\$47m and EUR1.3m, meaning nearly half the repayments were refinanced. Usually the MoF does not change rates, and yesterday they borrowed the above-mentioned EUR1.3m and US\$20.1m.

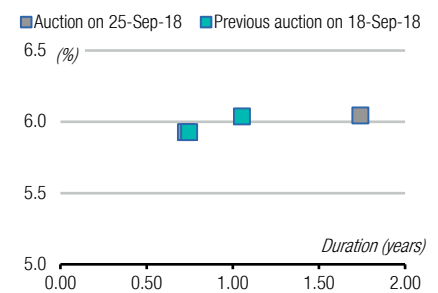
WEDNESDAY, 26 SEPTEMBER 2018

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



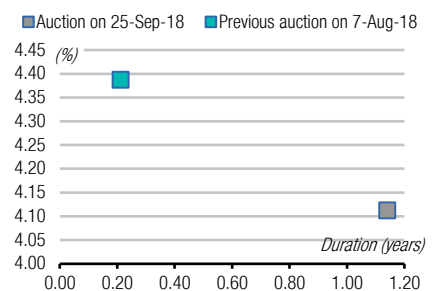
Source: Ministry of Finance of Ukraine, ICU.

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



Source: Ministry of Finance of Ukraine, ICU.

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



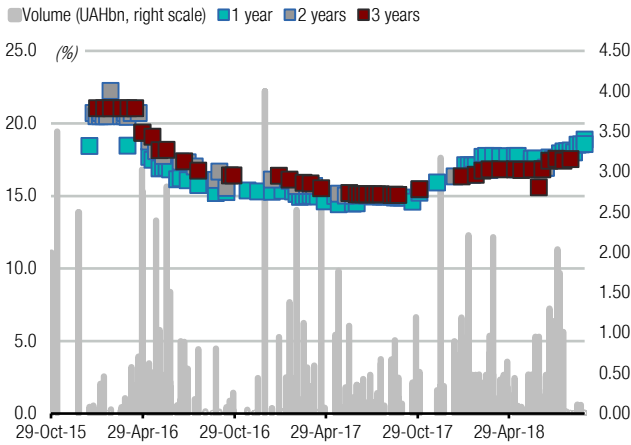
Source: Ministry of Finance of Ukraine, ICU.

Currently, it looks like market's expectations that the MoF will increase interest rates will not be met. Dealers purchased the amounts they needed for their clients or for their own portfolios, and did not submit bids with higher rates. As the result, for the next two weeks, the MoF has to use funds from its Treasury account to repay UAH8bn in hryvnia, and be prepared to repay US\$528mand EUR215m in second half of October. Due to low demand, the MoF should not count on refinancing these debt repayments.

Appendix: Yields-to-maturity, repayments

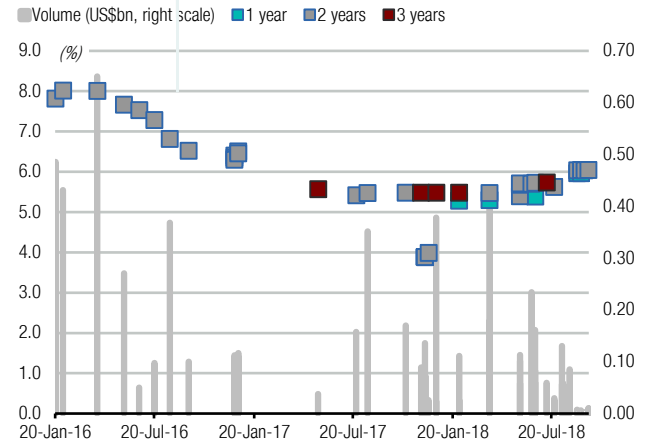
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

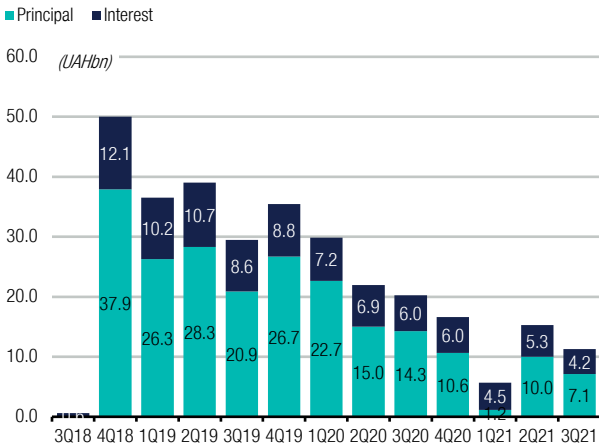
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

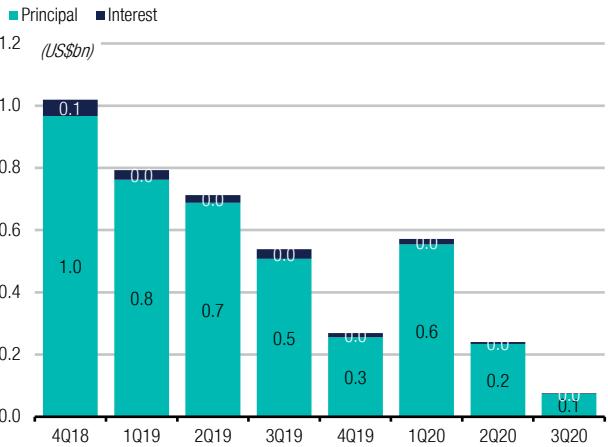
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

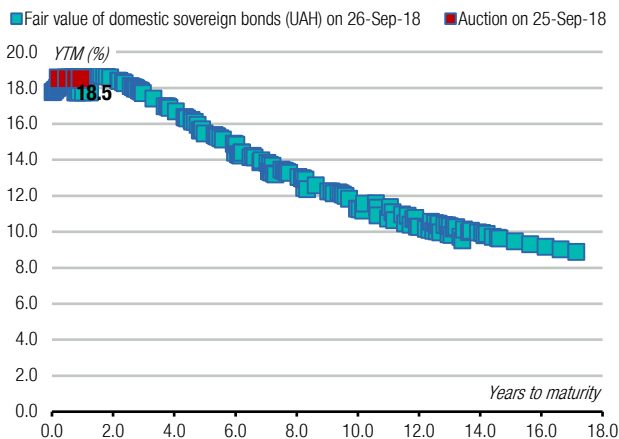
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

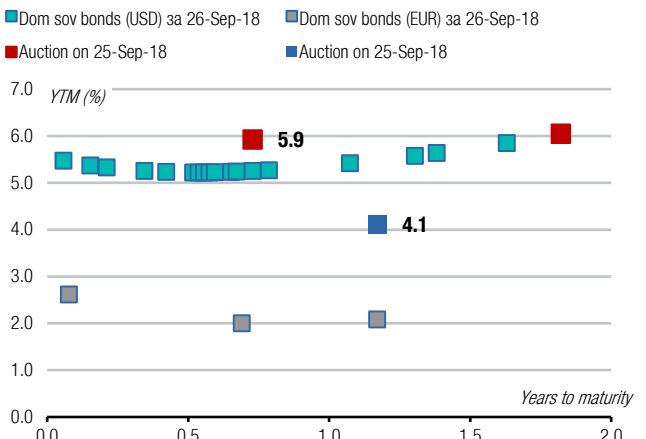
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

