

Bond Market Insight

Borrowings down

Comment on government bond placement

February's debut auction provided the state budget with a lower amount of funds than the previous two auctions. But, in any case, budget proceeds were sufficient, amounting to UAH6.7bn, most of it in local currency.

Demand for FX-denominated bills was insufficient, just US\$11m for both offered maturities. There appear to be two main reasons for low demand: the long maturities, five and 12 months, and lack of debt repayments in FX this week. Most of the available funds were invested last week.

At the same time, demand for local-currency bills, although still quite high, was nearly two times larger than today's debt repayments. Total bids amounted to UAH6.6bn, and most were at levels acceptable to the MoF. Most bids were fully accepted, while only six bids amounting to UAH0.2bn were rejected.

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
UA4000180426	14.30	SA	10-Apr-19	2,901,406	1,037.54	3,010.32	2,901.41	20.51	6,382.10
UA4000203301	0.00	@Mty	7-Aug-19	961,697	913.78	878.78	961.70	18.92	961.70
UA4000195580	15.75	SA	4-Sep-19	1,801,000	1,049.16	1,889.54	1,801.00	19.96	2,214.50
UA4000203319	0.00	@Mty	20-Nov-19	11,831	873.01	10.33	11.83	18.50	11.83
UA4000203244	0.00	@Mty	29-Jan-20	331,960	846.99	281.17	331.96	18.47	539.53
UA4000200174	15.70	SA	20-Jan-21	224,719	969.18	217.79	224.72	18.86	1,456.37
UA4000203236	17.25	SA	5-Jan-22	105,000	1,012.81	106.35	105.00	18.05	116.00
Total UAH				6,337,613		6,394.27	6,337.61		11,682.02
UA4000202576	0.00	@Mty	18-Jul-19	2,562	971.29	67.51	69.50	6.66	6,966.62
UA4000202535	7.50	SA	30-Jan-20	7,388	1,003.74	201.18	200.43	7.38	4,487.84
Total USD				9,950		268.69	269.93		11,454.46

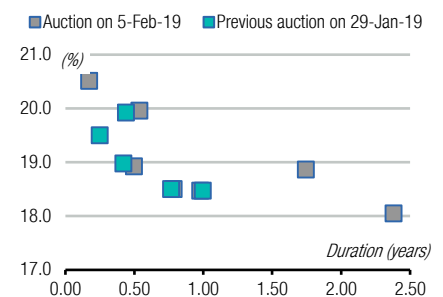
Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 27.13/USD, 31.84/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

Traditionally, demand is concentrated at the short-term end of the yield curve, especially as this week the MoF offered two-month bills. But, demand for two-year and three-year bills continues to hold. The amount of borrowing in these maturities rose compared with two weeks ago. Also demand for 12-month bills was at the same level as last week.

Generally, it looks like most demand was submitted last week, as investors

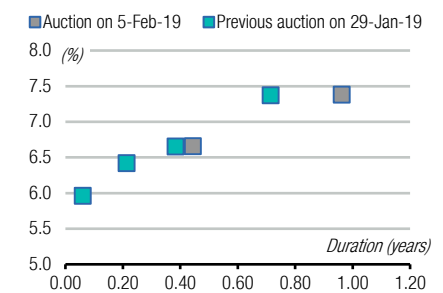
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UAH-denominated domestic gov't bonds: yield curve in past two auctions



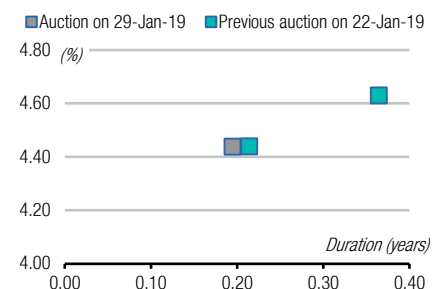
Source: Ministry of Finance of Ukraine, ICU.

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



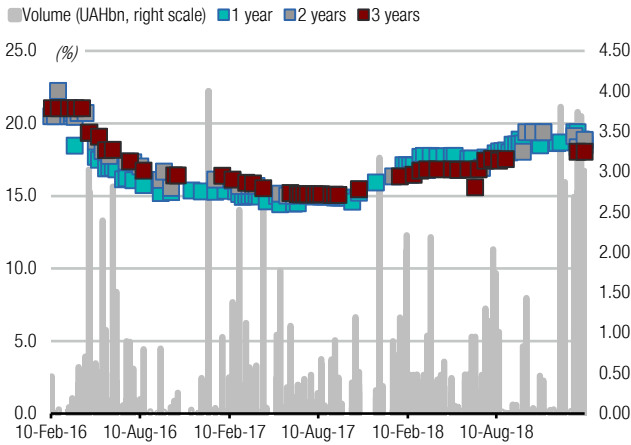
Source: Ministry of Finance of Ukraine, ICU.

anticipated that the NBU would decrease the key rate on Thursday. That meant a lack of additional free funds. However, total demand remained sufficient, and was not just to cover reinvestment of debt repayments. It's possible that foreign investors new portion of domestic debt, albeit in lower amounts than they were last year. Nevertheless, the MoF can continue with a large amount of borrowings in the next weeks, as with a steady key policy rate, the yield curve should be unchanged, supporting demand for new bills.

Appendix: Yields-to-maturity, repayments

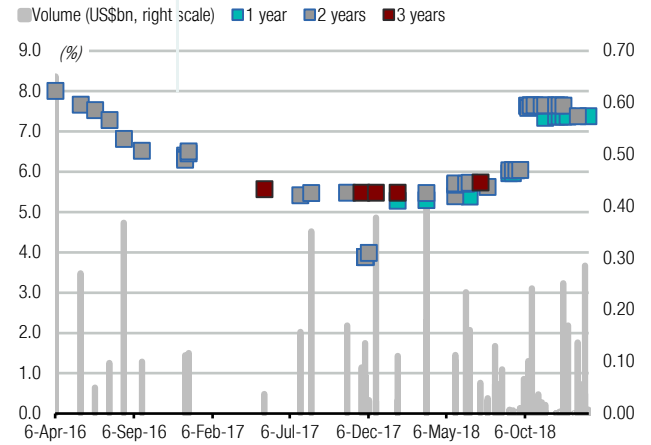
Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

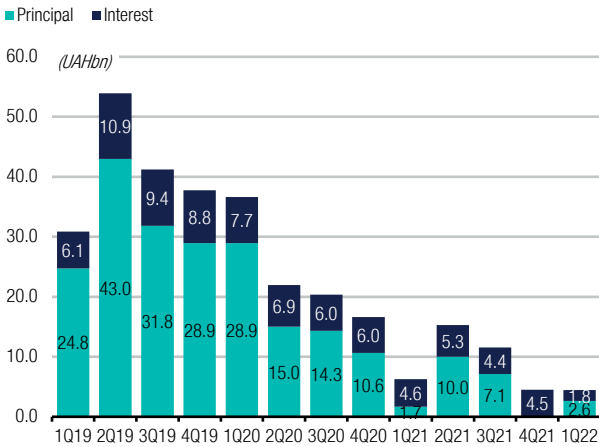
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

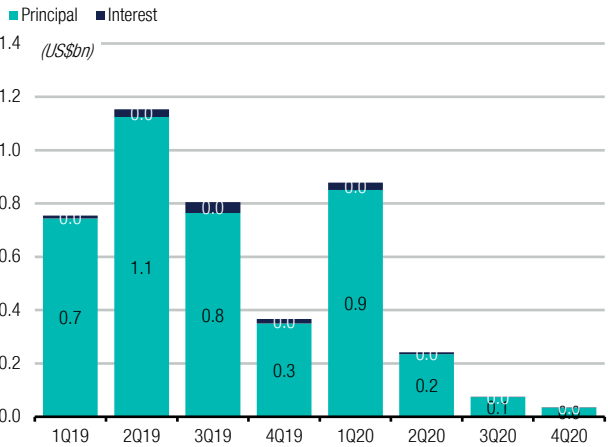
Chart 2. Future repayments on domestic government bonds (in billions of currency)

UAH-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

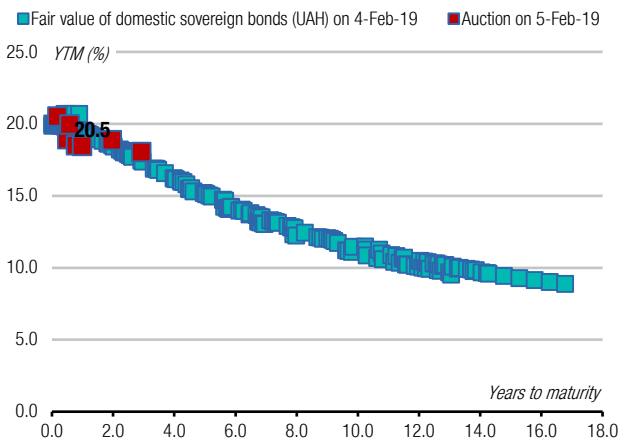
USD-denominated domestic government bonds



Source: Ministry of Finance of Ukraine, ICU.

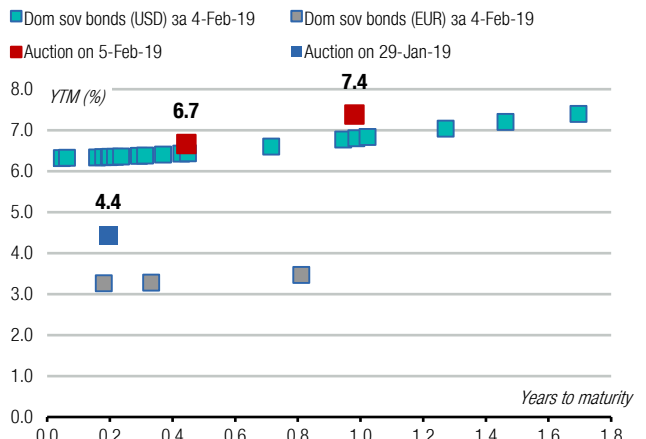
Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions

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.

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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.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

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