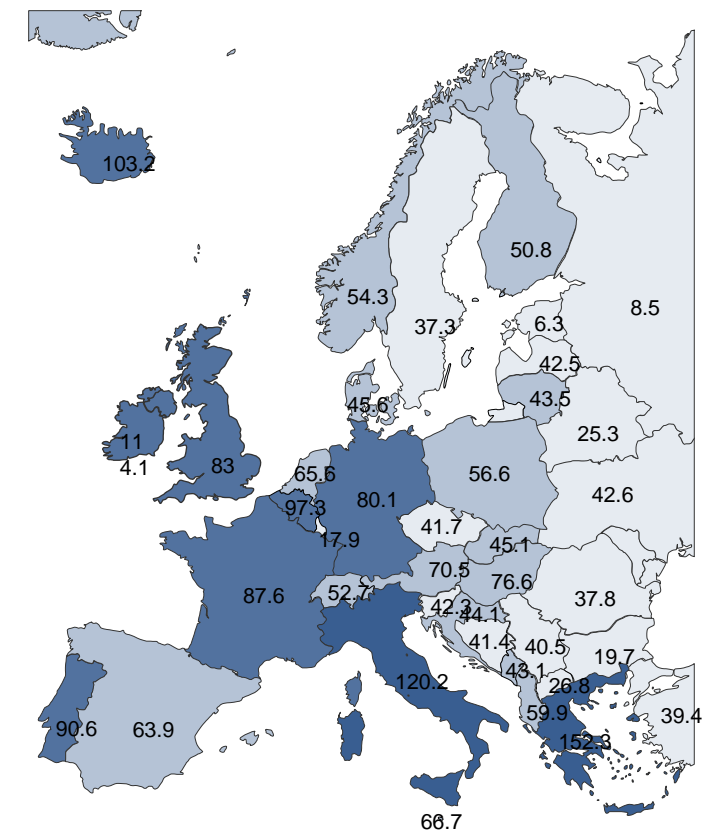


# Ukrainian Government Bonds

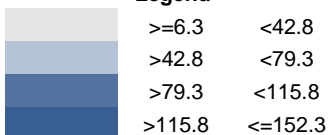
September 16, 2011

# Budget deficit and public debt

Public debt, % of GDP, 2011F

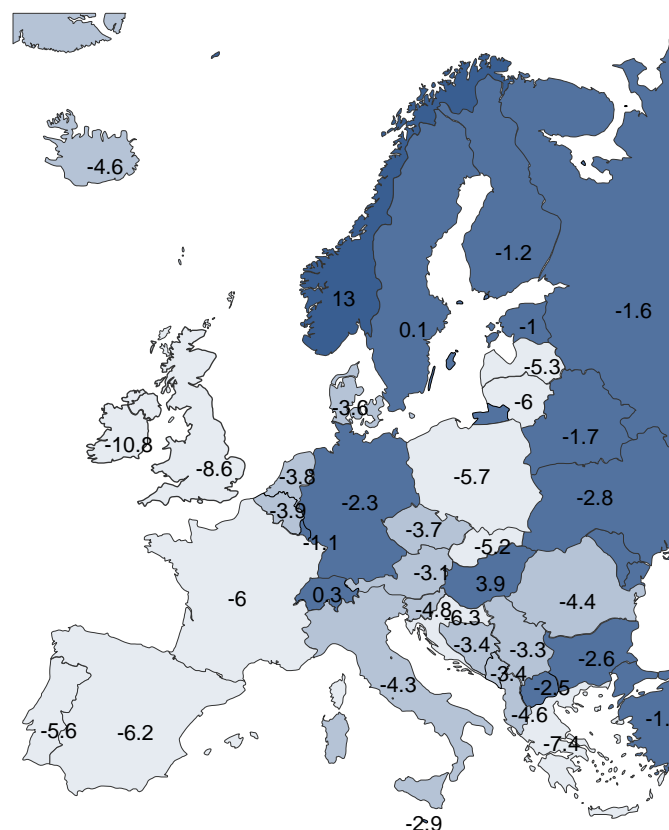


Legend

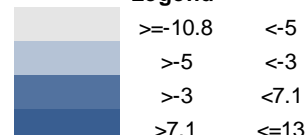


Source: IMF

Budget deficit, % of GDP, 2011F

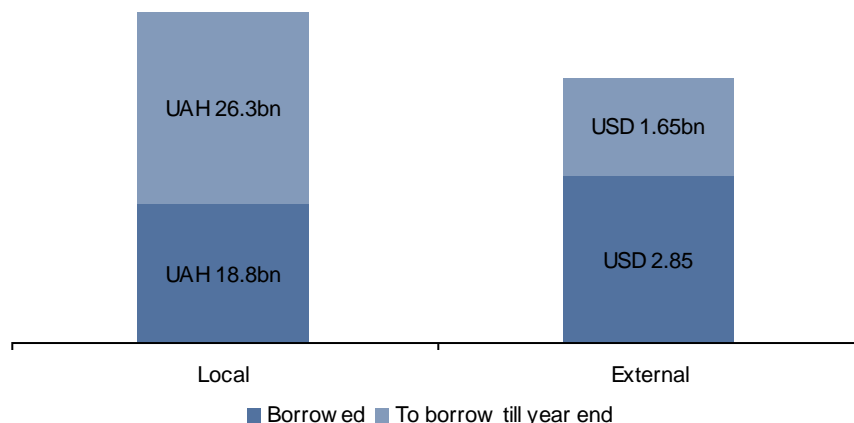


Legend



# Financing the deficit

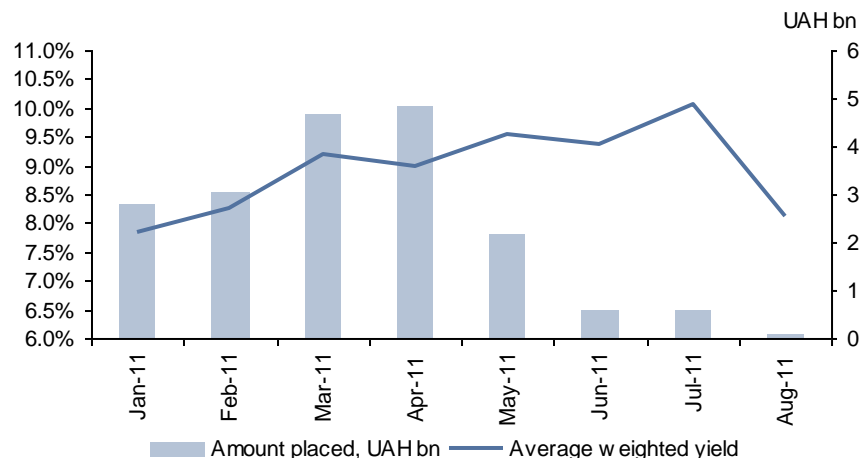
## Actual and remaining borrowings



Source: Erste Group Research

- Government still has not done even half of planned borrowings this year
- Banks have lost their ability to buy government bonds since June due to liquidity crunch
- Balance of payments turned negative which cause liquidity outflows

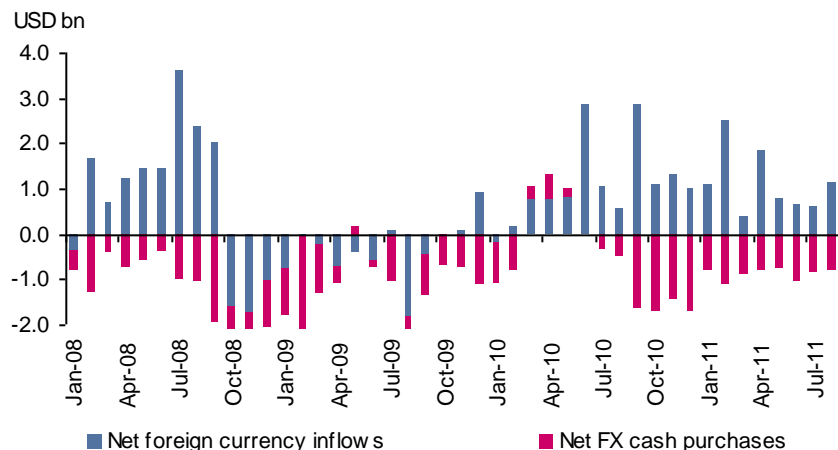
## Primary auctions placements



Source: NBU

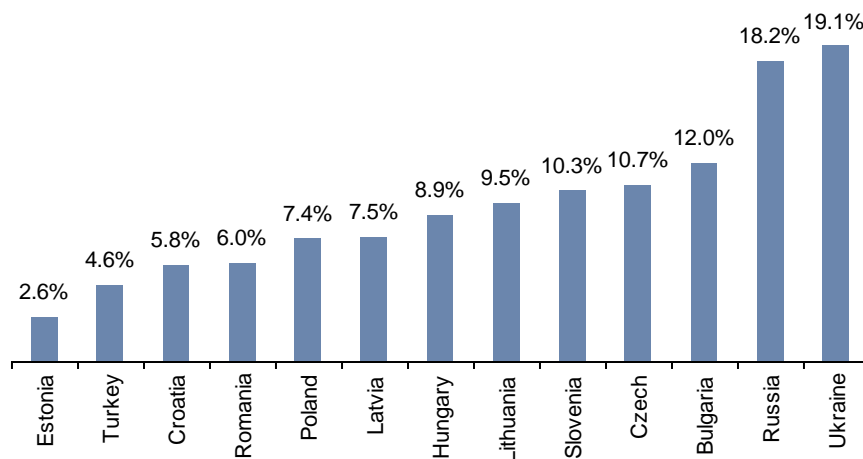
# FX cash demand caused liquidity crunch

## Balance of payments



Source: NBU

## Local currency cash in circulation, % of GDP

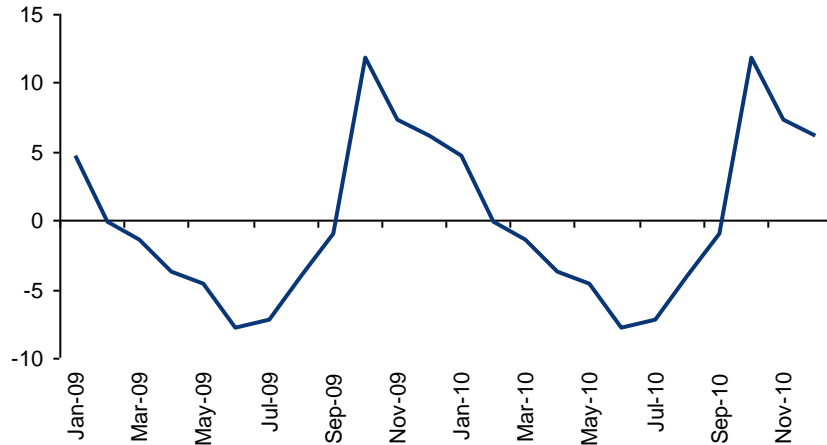


Source: NBU, IMF

- Balance of payments is stable from economical point of view, but all positive inflows are 'consumed' by population savings
- Hryvnia cash in circulation is a constant 'barrel of powder' for exchange rate if sentiment deteriorates
- Hryvnia unlikely to depeg from USD, NBU will keep rate fixed just to avoid run for FX cash

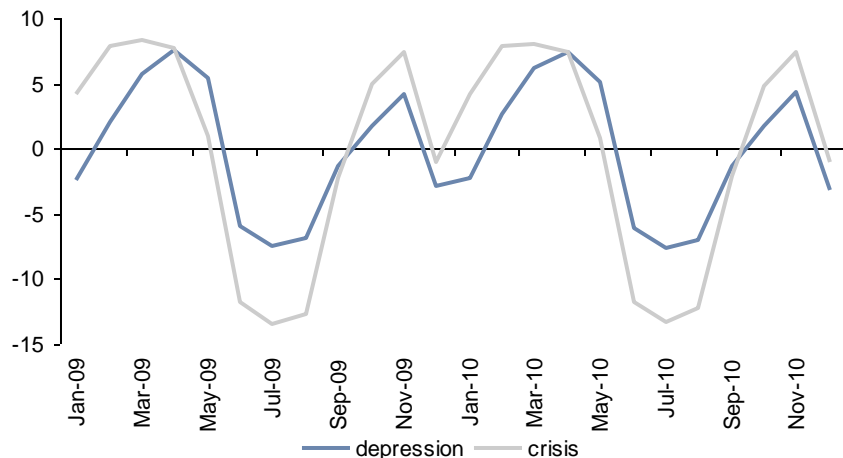
# Seasonal crisis fears

## Seasonal factor\* of google search for 'кризис' (eng. crisis) in Ukraine

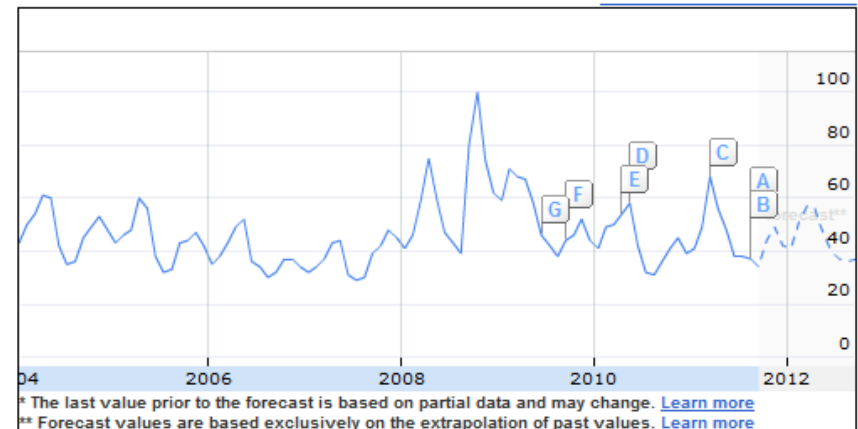


- Autumn is a period of seasonal loss of consumer confidence
- This is also the case for US and any other country of the Northern Hemisphere
- Colder weather results in higher depression and overall pessimism

## Seasonal factors\* of google search for 'crisis' and 'depression' in United States

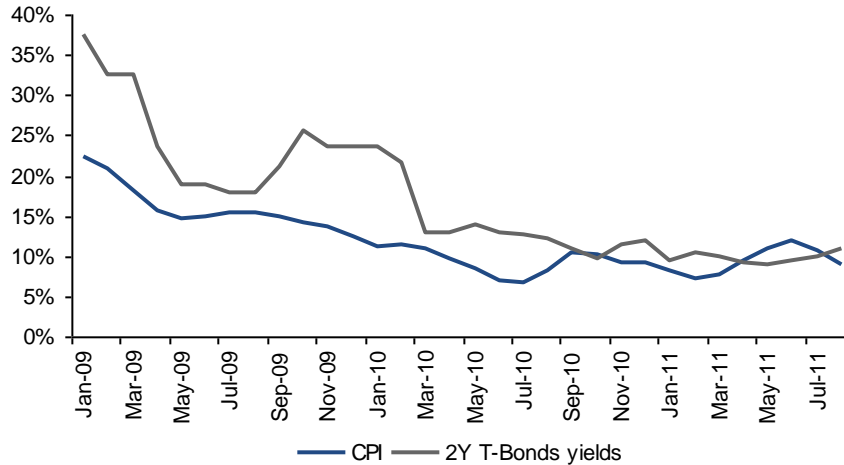


## Google search for 'crisis' in United States



# Inflation and bond yields

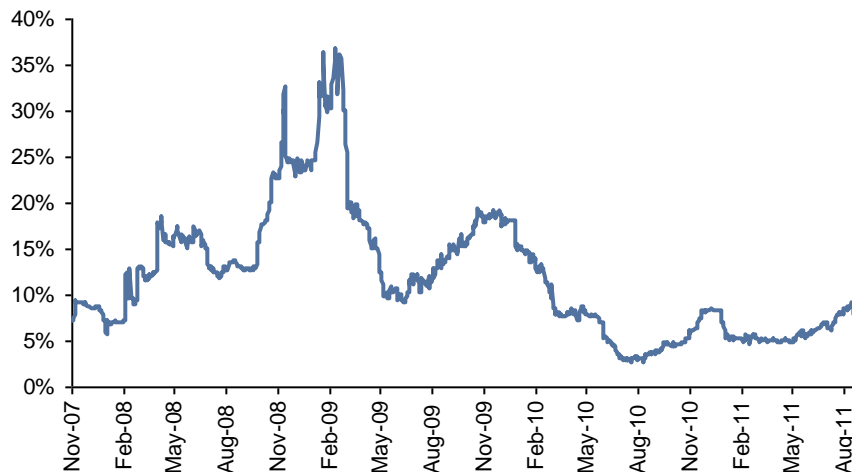
## Yields and inflation



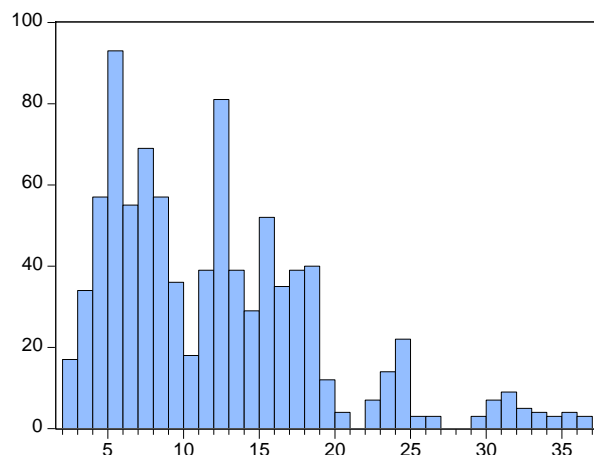
- Government bonds yields started to detach from inflation
- Yields will remain elevated during September, October on seasonal spike of crisis fears
- After the seasonal decline in consumer sentiment, liquidity will return to banks and yields will decline

# New bonds with Bermuda options

## 3M rate



## Distribution of 3M rate



Series: RATE  
Sample 1 1000  
Observations 893

Mean	12.04202
Median	11.38000
Maximum	36.75000
Minimum	2.690000
Std. Dev.	7.016281
Skewness	1.128044
Kurtosis	4.213099
Jarque-Bera	244.1438
Probability	0.000000

- Government introduced bonds with Bermuda options – 5Y bonds with quarterly payments, put options starting from 6<sup>th</sup> coupon payment till maturity (in 1.5 years from placement)
- **Market has priced Bermuda bond only as regular 1.5 year in maturity without the options value and MoF accepted bids!**

Bond specification	
ISIN	UA4000106181
Currency	UAH
Issue date	18-Jan-11
Maturity	13-Jul-16
Volume issued	UAH 680mn
Coupon rate	9.5%, fixed
Option type	Bermudan, put option every quarter since 18-Jul-2012

Scheduled placements on primary auctions:  
18-Oct-11  
8-Nov-11  
20-Dec-11

# Summary

- After a seasonal decline in consumer confidence and rise in yields during Autumn, yields should start to decline
- Should there be no significant global crisis events hryvnia will remain fixed towards the USD, thus Ukrainian government bonds should provide a high yielding USD investment while EU dependant countries currencies loose in value
- New type of instruments, especially bonds with Bermudan put options are especially attractive instrument as both MoF and market failed to put a proper price on the bond