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# USD-indexed Sovereign Bonds

We see at least 100-200 bps premium to Eurobonds

Ukraine's Finance Ministry plans to offer USD-indexed local sovereign bonds for the first time today at its weekly primary bond auction. According to a ministry announcement, three series of index bonds will be offered, with 3Y, 5Y and 10Y maturities and a volume of UAH 5.0 bln for each series. Par value at maturity is indexed to the previous month's average interbank USD/UAH exchange rate. In the event of USD depreciation versus the UAH, the bonds would be redeemed at nominal face value. Coupon payments are to be paid semi-annually.

**Our view:** We think the new instruments could be interesting in light of increased devaluation expectations, but market capacity is considerably restrained by the lack of UAH liquidity due to monetary tightening. Local banks are a potential consumer of these bonds as an instrument for regulating their currency position.

We do not expect considerable demand from non-residents given increased external market anxiety, recent growth in Ukraine's CDS (now at ~900 bps) and that the bonds are not fully hedged against FX risk.

We believe the new index bonds should trade at least at a 100-200 bps premium over Sovereign Eurobonds given (1) decreased liquidity on the local Ukrainian market, (2) the bonds' par value is still partially exposed to FX risk, and (3) the coupon payment is not hedged against FX risk at all.

## USD-indexed bonds primary placement profile

	3Y series	5Y series	10Y series
Auction date	04.10.11	04.10.11	04.10.11
Days in circulation	1 085	1 820	3 633
Bonds amount (UAH mln)	5 000	5 000	5 000
Maturity date	24.09.14	28.09.16	15.09.21
Coupon payments day	28.03.12	04.04.12	28.03.12
	26.09.12	03.10.12	26.09.12
	27.03.13	03.04.13	27.03.13
	25.09.14	02.10.13	25.09.13
	24.09.14	02.04.14*	26.03.14*

\*Every 6 months thereafter

Source: Ministry of Finance

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## Appendices

### **Analyst certification**

I, Svetlana Rekrut, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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