



Focus
Ukraine

Scope
Bonds

Analyst
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Bond Market Insight

No demand for new local currency bonds

Government bond auction results

Yesterday, the MoF offered only one local currency bond with a 2-year maturity which successfully raised a total of UAH42.50m earlier this year. Most likely because of the recently adopted new NBU regulations, the bonds attracted no market demand.

Although these bonds previously sold at 16.70%, the NBU increased its interest rate to 30%, nearly double this bond's rate. Also, as the NBU will strictly limit its bond portfolio to adhere to the IMF agreements, domestic QE is essentially cut off from providing primary bond market support.

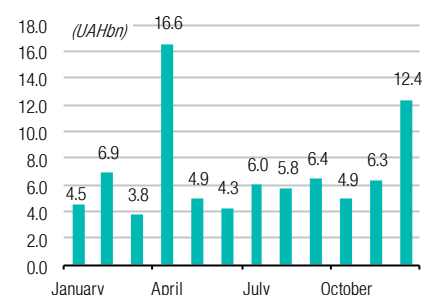
In addition, the NBU increased bank reserve requirements, which increases demand more for bonds in the secondary market than in the primary market. As the primary market will depend on MoF needs for low interest rates to decrease its debt servicing cost, we anticipate a large spread between the market cost of funds and interest rates at primary auctions.

However, as the MoF has minimal local currency debt repayments scheduled this month, we anticipate no market demand at the primary auctions for new budget financing using local currency denominated bonds.

WEDNESDAY, 4 MARCH 2015

UAH state debt payback (UAHbn)

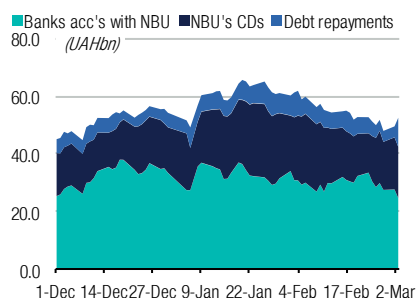
Until the end of 2015



Sources: Ministry of Finance of Ukraine, ICU.

Historical breakdown of local financial market liquidity (UAHbn)

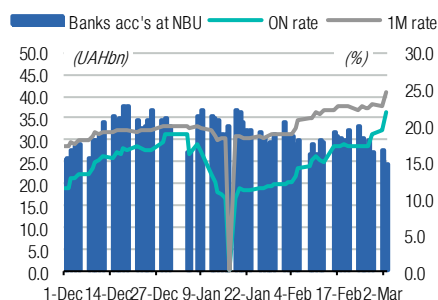
Last 3-month period



Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Banks' acc' with the NBU and KyivPrime rates.

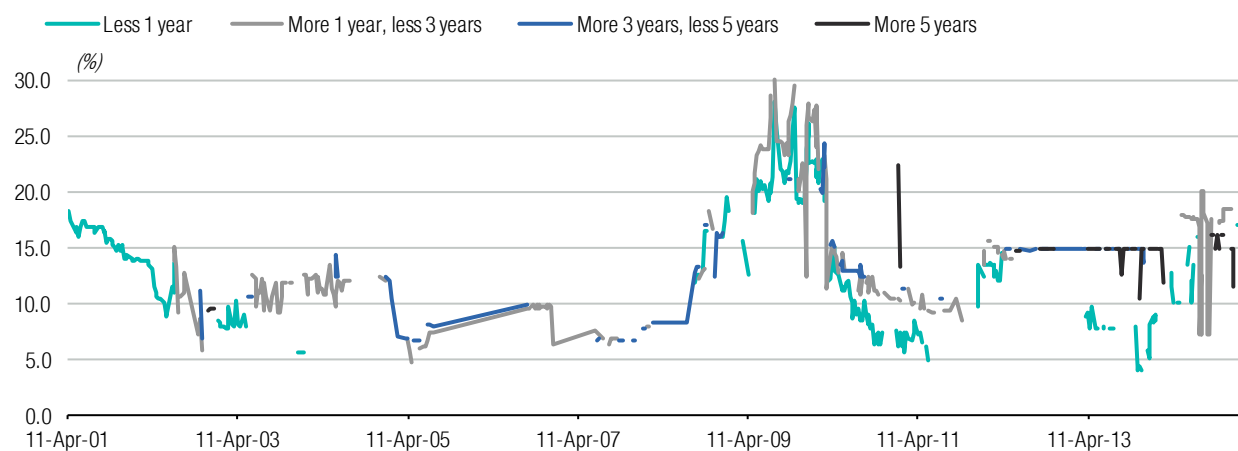
Last 3-month period



Sources: National Bank of Ukraine, Bloomberg, ICU.

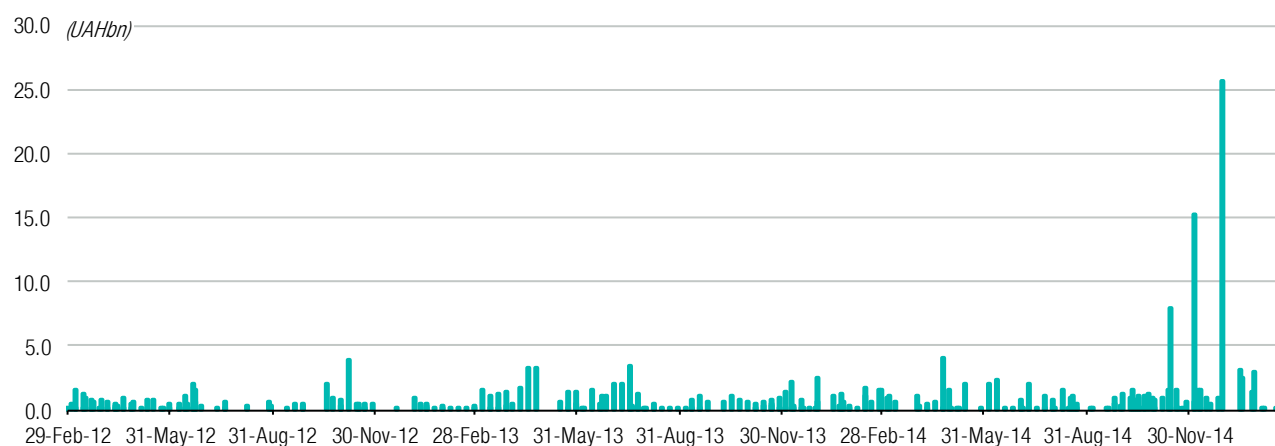
Appendix: Auctions history and schedule for 2015

Chart 1. History of yields at government bond auctions: breakdown by tenor of bonds sold (last 3-year period)



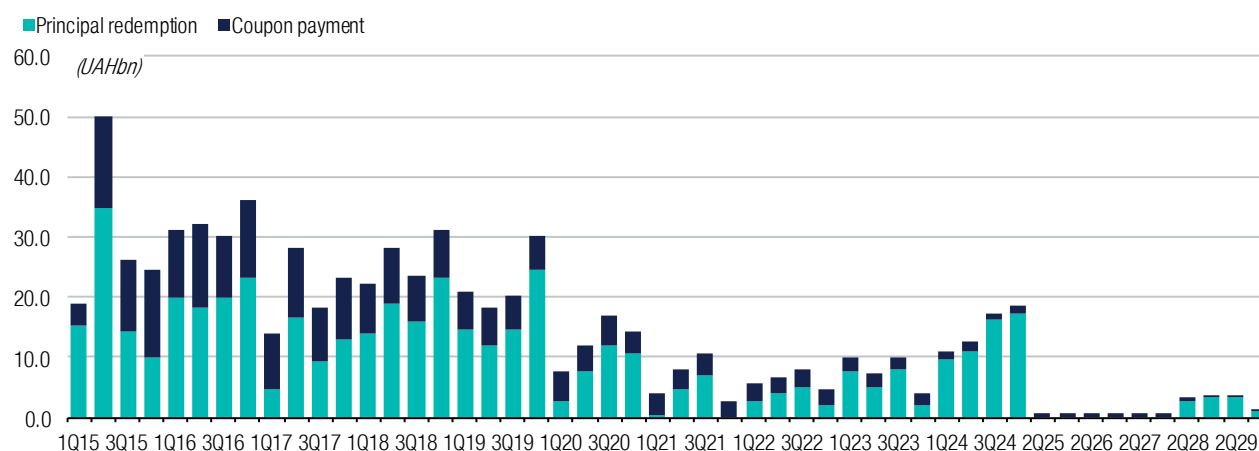
Sources: Ministry of Finance of Ukraine, ICU.

Chart 2. History of proceeds at government bond auctions: breakdown by tenor of bonds sold (last 3-year period)



Sources: Ministry of Finance of Ukraine, ICU.

Chart 3. Schedule of redemptions of the local-currency government bonds*



Note: the chart depicts data on bonds, which were placed via the auctions, i.e. it does not contain data on recapitalisation bonds.

Sources: Ministry of Finance of Ukraine, ICU.

Table 1. Schedule of government bond auctions in 2015

Action dates, tenors of bonds to be offered and volume (in hryvnia) of government's refinancing needs for the next 7-day period as of auction date

Month	Auction details	1st Tuesday	2nd Tuesday	3rd Tuesday	4th Tuesday	5th Tuesday
January	Auction date	6 January 2015	13 January 2015	20 January 2015	27 January 2015	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	0.00	0.00	0.00	0.00	
February	Auction date	3 February 2015	10 February 2015	17 February 2015	24 February 2015	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	0.00	0.00	0.00	2,532,433,942.09	
March	Auction date	3 March 2015	10 March 2015	17 March 2015	24 March 2015	31 March 2015
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	1,632,385,000.00	310,589,339.50	10,223,630,480.31	4,279,047,679.00	6,268,800,820.90
April	Auction date	7 April 2015	14 April 2015	21 April 2015	28 April 2015	
	Short-term bonds	N/A	N/A	N/A	N/A	N/A
	Medium-term bonds	N/A	N/A	N/A	N/A	N/A
	Next 7 days refinancing needs	1,576,593,150.00	1,984,719,358.50	14,010,734,107.13	1,134,622,824.25	
May	Auction date	5 May 2015	12 May 2015	19 May 2015	26 May 2015	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	7,580,899,512.15	1,984,840,636.00	1,486,020,850.60	4,857,908,607.88	
June	Auction date	2 June 2015	9 June 2015	16 June 2015	23 June 2015	30 June 2015
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	5,786,828,731.95	1,084,156,960.00	1,269,406,043.50	1,125,446,213.10	514,467,890.00
July	Auction date	7 July 2015	14 July 2015	21 July 2015	28 July 2015	
	Short-term bonds	N/A	N/A	N/A	N/A	N/A
	Medium-term bonds	N/A	N/A	N/A	N/A	N/A
	Next 7 days refinancing needs	1,484,765,333.88	3,979,422,973.88	6,219,967,264.50	1,479,213,537.50	
August	Auction date	4 August 2015	11 August 2015	18 August 2015	25 August 2015	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	1,099,920,466.88	1,244,246,990.31	2,273,641,506.75	1,239,005,731.25	
September	Auction date	1 September 2015	8 September 2015	15 September 2015	22 September 2015	29 September 2015
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	1,916,000,000.00	835,589,339.50	1,375,179,952.50	2,066,944,929.00	562,928,473.50
October	Auction date	6 October 2015	13 October 2015	20 October 2015	27 October 2015	
	Short-term bonds	N/A	N/A	N/A	N/A	N/A
	Medium-term bonds	N/A	N/A	N/A	N/A	N/A
	Next 7 days refinancing needs	1,087,078,150.00	1,139,719,358.50	1,628,141,378.00	1,463,622,824.25	
November	Auction date	3 November 2015	10 November 2015	17 November 2015	24 November 2015	
	Short-term bonds	N/A	N/A	N/A	N/A	
	Medium-term bonds	N/A	N/A	N/A	N/A	
	Next 7 days refinancing needs	879,682,389.15	1,622,990,636.00	3,290,001,085.00	1,009,122,431.88	
December	Auction date	1 December 2015	8 December 2015	15 December 2015	22 December 2015	29 December 2015
	Short-term bonds	N/A	N/A	N/A	N/A	N/A
	Medium-term bonds	N/A	N/A	N/A	N/A	N/A
	Next 7 days refinancing needs	1,307,435,020.63	4,236,656,960.00	5,276,801,043.50	1,140,192,046.25	514,467,890.00

Notes: 1) highlighted data in the rows of "Next 7 days refinancing needs" indicates critical volume of refinancing needs (i.e. above UAH0.5bn) for the government in the next 7-day period; 2) the volume of refinancing needs include principal redemptions and coupon payments.

Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

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