



Focus
Ukraine

Scope
Bonds

Analyst
Taras Kotovych

Bond Market Insight

Auction of 2-year bonds fails

Government bond auction results

Yesterday's auction failed yet again as the MoF offered 2-year local currency bonds for the second consecutive week. Consequently, the MoF will have to use budget revenues to fulfil domestic debt repayments on time. With only UAH1.94bn in debt repayments scheduled in the first half of March, this situation does not appear to be problematic as IMF funding is expected this week.

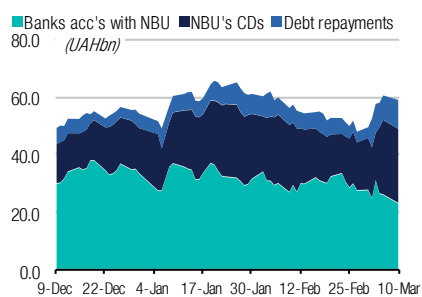
Upcoming auctions are expected to fail due to significant changes in the money market, the newly implemented reserve requirements, and the NBU Council's recently published recommendation to limit the NBU's government bond portfolio. Although higher interest rates for local currency bonds will increase the amount of money needed for repayments, the MoF will have extremely limited access to QE that has resulted in lower rates in the past.

The MoF could return to its old practice with offering zero-coupon short-term bonds in anticipation of declining money market interest rates. Because of this, we do not anticipate a successful primary auction until the end of March, particularly as the MoF scheduled to offer 2-year bonds. However, the MoF could change the schedule and replace the 2-year bonds with more attractive bonds for the market next week or at the end of the month.

WEDNESDAY, 11 MARCH 2015

Historical breakdown of local financial market liquidity (UAHbn)

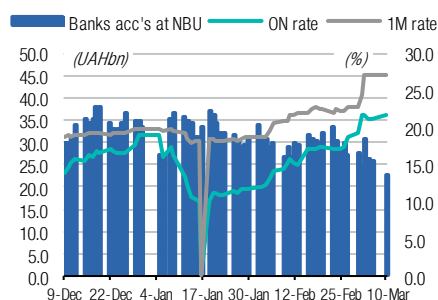
Last 3-month period



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

Banks' acc' with the NBU and KyivPrime rates.

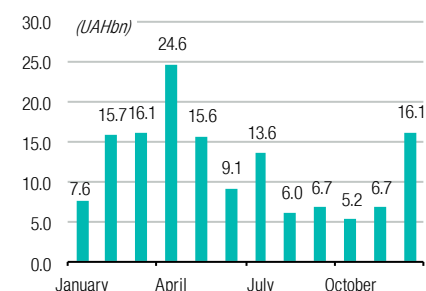
Last 3-month period



Sources: Bloomberg, National Bank of Ukraine, ICU.

UAH state debt payback (UAHbn)

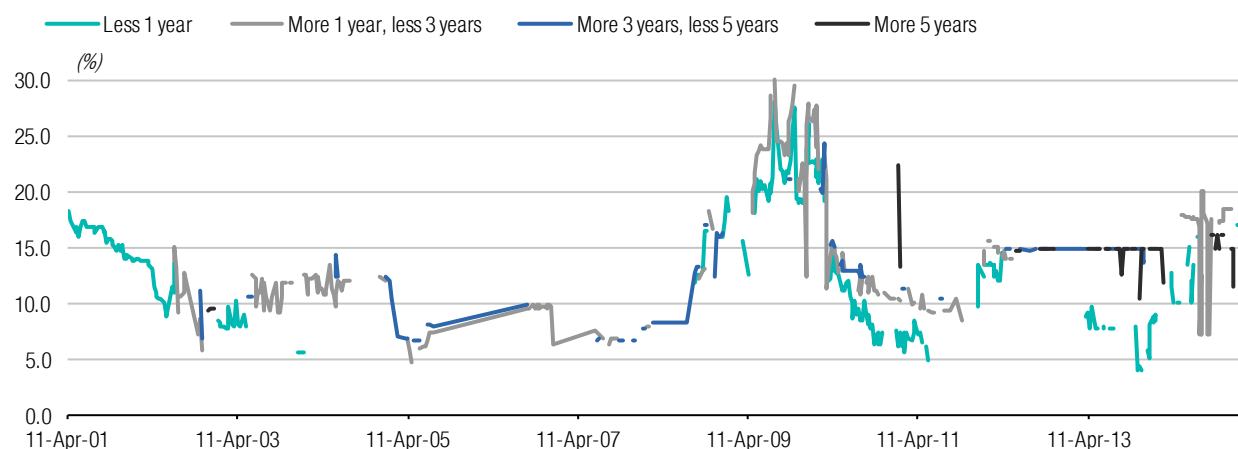
Until the end of 2015



Sources: Ministry of Finance of Ukraine, ICU.

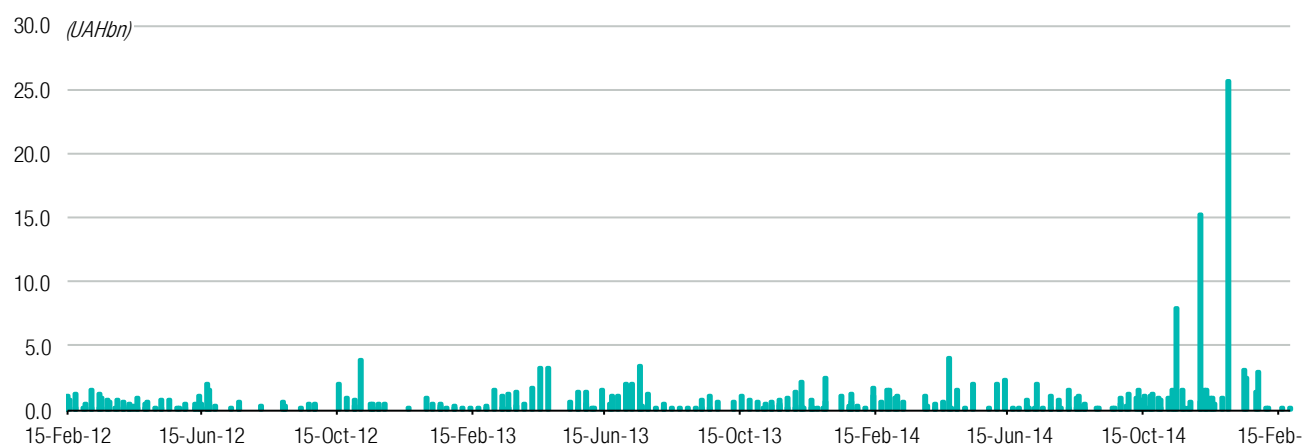
Appendix: Auctions history and schedule for 2015

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



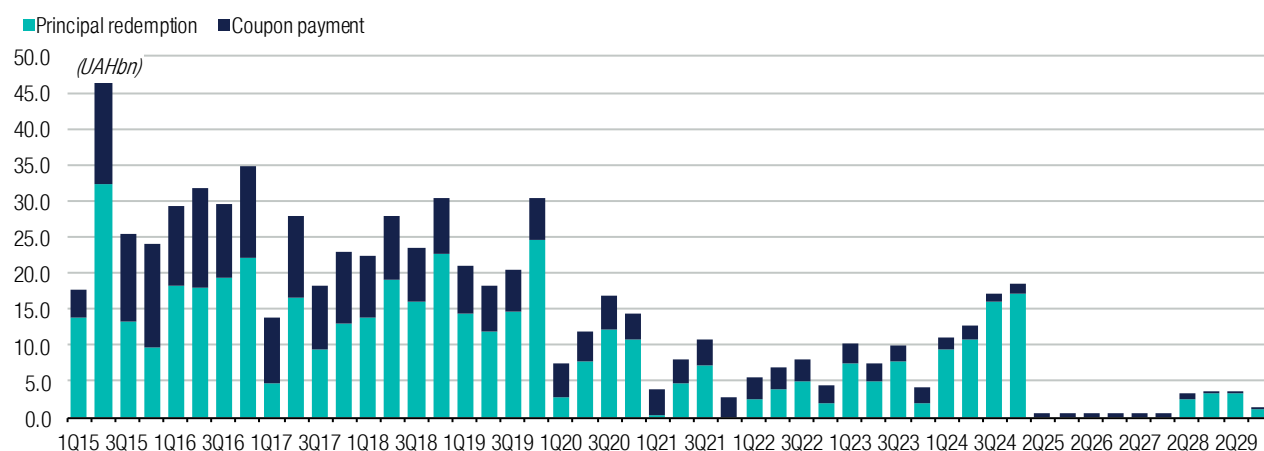
Sources: Ministry of Finance of Ukraine, ICU.

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	309,698,339.50	9,230,188,384.38	3,834,036,079.00	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	13,112,855,992.75	1,096,662,268.00	
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	6,819,339,949.65	1,984,840,636.00	1,466,099,163.10	4,392,642,379.25	
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	5,285,295,020.70	1,068,069,460.00	1,258,767,696.00	1,086,370,638.10	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	1,478,343,073.25	3,680,543,094.50	5,647,967,264.50	1,442,698,006.25	
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	1,098,909,738.75	1,217,081,991.88	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	834,698,339.50	1,344,242,452.50	2,063,789,579.00	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	1,425,662,268.00	
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	3,270,079,397.50	980,316,491.25	
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	1,302,114,781.25	3,863,069,460.00	5,266,162,696.00	1,101,116,471.25	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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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

CORPORATE FINANCE TEL. +38 044 2200120

Makar Paseniuk, Managing Director
makar.paseniuk@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

SALES AND TRADING TEL. +38 044 2201621

Konstantin Stetsenko, Managing Director
konstantin.stetsenko@icu.ua

Sergiy Byelyayev, Fixed-Income Trading
sergiy.byelyayev@icu.ua

Vitaliy Sivach, Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

Vlad Sinani, Director,
Strategy and Corporate Development
vlad.sinani@icu.ua

Julia Pecheritsa,
Ukraine and CIS International Sales
julia.pecheritsa@icu.ua

Yevgeniya Gryshchenko,
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

RESEARCH DEPARTMENT TEL. +38 044 2200120

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Bogdan Vorotilin
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Lee Daniels, Rolfe Haas
Editors

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