



Focus
Ukraine

Scope
Bonds

Analyst
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Bond Market Insight

Government bond auction results: Successful start

Government bond auction results

After nearly a six month break from holding primary auctions, the MoF returned to the market and scheduled weekly offerings each Tuesday, except for two weeks due to holidays (last week and the second week in March). Its return to the market could be deemed both timely and appropriate, particularly following substantial budget expenditures. While liquidity in the banking system rose significantly and has remained above UAH115bn, the balance at the treasury account fell to UAH9.02bn from UAH47.96bn at the beginning of December 2015. As the MoF must borrow funds, even though the banking system has sufficient available funds, a significant of its funds is invested in the NBU certificates of deposit with a maximum 3-month maturity.

Yesterday, the MoF offered 12-month T-bills and collected varied demand for a total of UAH191.4m from nine bids. Only the largest bid, one for UAH100m, was accepted at 18.50%, which has been set as the cut-off and weighted-average interest rate. Other bids were rejected due to the higher interest rates, up to 21%, and due to their smaller volume which totaled UAH91.40m.

Although most bids were rejected, the MoF did accept an offered interest rate, thus providing the market with direction. While the MoF demonstrated its readiness to borrow funds at 18.50%, which is close to but below the NBU quotes of short-term bonds, the market received an indicative yield for building the yield curve for the primary market which should be extended in the following few weeks. As a result, the next two auctions will indicate the MoF's readiness to borrow funds at market rates, enabling the government to build the yield curve back up to a 3-year maturity.

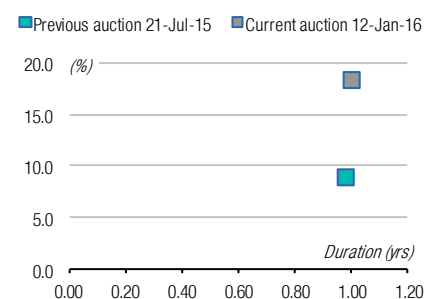
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000192520	0.00		11-Jan-17	100,000	844.60	84.46	100.00	18.45	100.00
Total				100,000		84.46	100.00		100.00

Note: Note: [1] payment frequency abbreviations: Q - quarterly, SA - semi-annually; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate 1; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

WEDNESDAY, 13 JANUARY 2016

Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

Auction results

Auction	Last 12-Jan-16	Previous 21-Jul-15	Change
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Breakdown by yields (%)

3-month			
6-month			
9-month			
1-year	18.45	8.98	9476n
2-year			
3-year			
5-year			

Breakdown by proceeds (UAHm)

3-month			
6-month			
9-month			
1-year	84.46	4,529.92	-98.14%
2-year			
3-year			
5-year			
Total	84.46	4,529.92	-98.14%

Notes: yields on coupon bearing bonds are effective yields to maturity; [1] only bonds that were placed via the auctions; [2] WA life – weighted average life or years to maturity.

Sources: Ministry of Finance of Ukraine, ICU.

Appendix: Auctions history and schedule for 2014

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

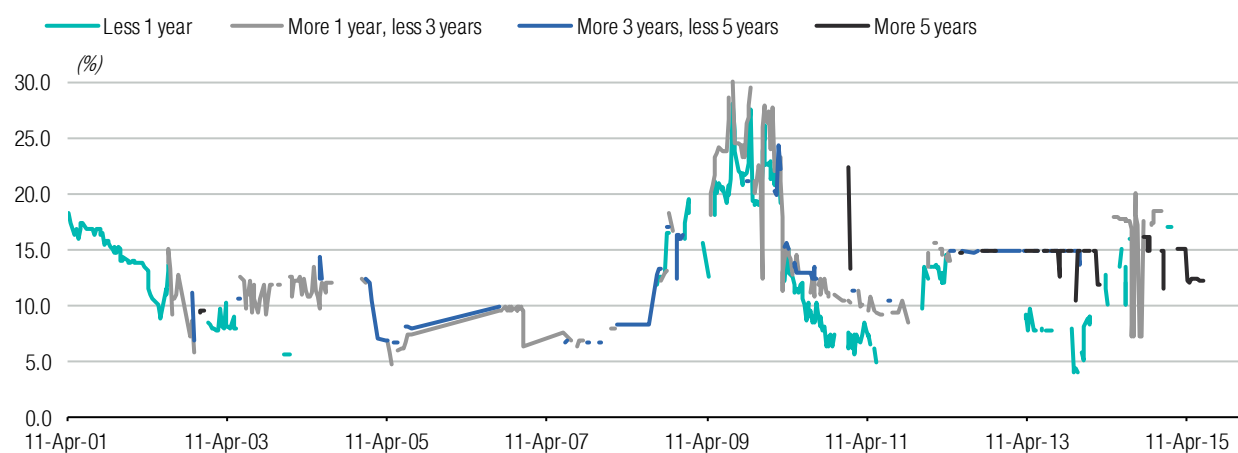


Chart 2. History of proceeds at government bond auctions: breakdown by tenor of bonds sold (last 3-year period)

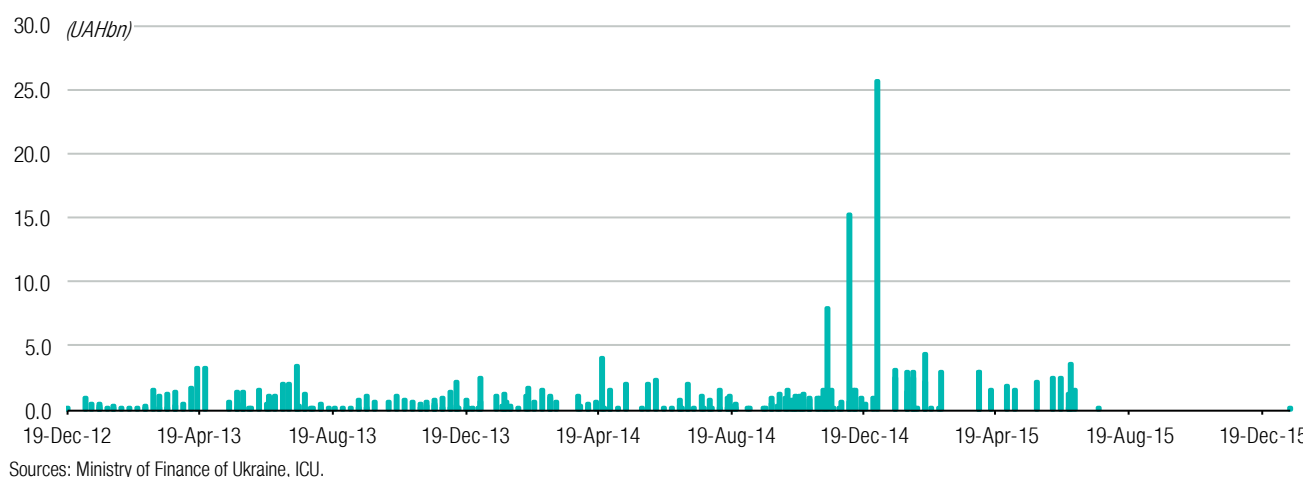


Chart 3. Schedule of redemptions of the local-currency government bonds*

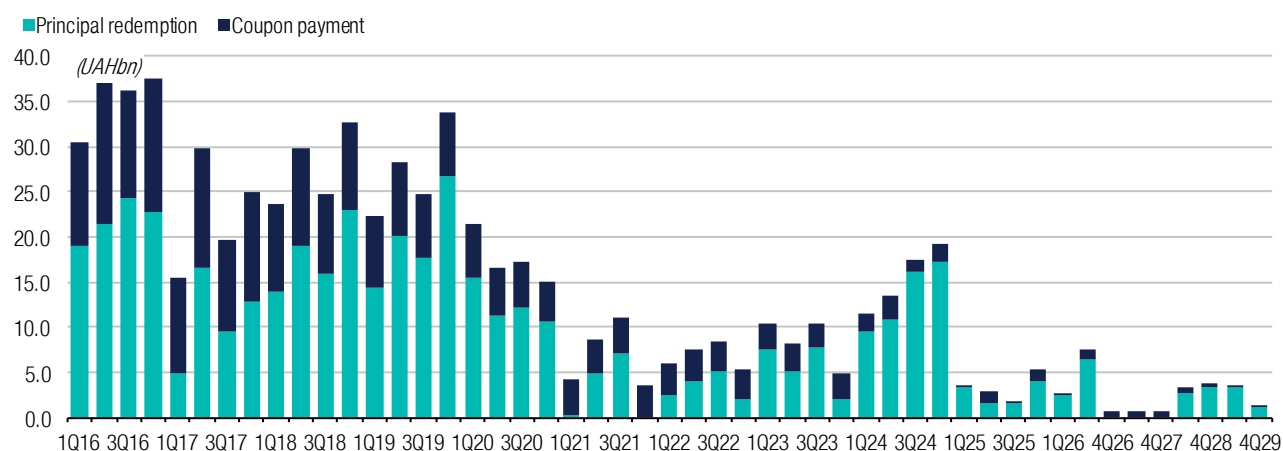


Table 2. Schedule of government bond auctions in 2014

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	5 January 2016	12 January 2016	19 January 2016	26 January 2016	
	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	1,272,945,855.75	1,370,027,039.37	8,672,986,373.13	
February	Auction date	2 February 2016	9 February 2016	16 February 2016	23 February 2016	
	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	1,465,978,490.94	1,272,221,854.53	2,705,367,472.00	829,181,572.50	
March	Auction date	1 March 2016	8 March 2016	15 March 2016	22 March 2016	29 March 2016
	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	1,083,750,000.00	1,535,844,739.50	8,391,148,702.50	1,257,961,969.00	714,523,137.00
April	Auction date	5 April 2016	12 April 2016	19 April 2016	26 April 2016	
	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	1,234,578,150.00	5,024,719,358.50	1,758,992,238.00	4,196,588,334.88	
May	Auction date	3 May 2016	10 May 2016	17 May 2016	24 May 2016	31 May 2016
	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	1,027,057,389.15	5,016,490,636.00	1,207,575,728.75	2,727,486,922.19	3,464,952,022.31
June	Auction date	7 June 2016	14 June 2016	21 June 2016	28 June 2016	
	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	3,374,654,460.00	1,208,485,841.25	4,838,152,571.25	2,231,967,890.00	
July	Auction date	5 July 2016	12 July 2016	19 July 2016	26 July 2016	
	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	3,394,153,756.00	3,665,673,705.75	6,124,157,198.37	988,528,613.75	
August	Auction date	2 August 2016	9 August 2016	16 August 2016	23 August 2016	30 August 2016
	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	1,250,507,682.50	7,366,124,929.53	1,169,987,129.25	2,579,181,572.50	1,083,750,000.00
September	Auction date	6 September 2016	13 September 2016	20 September 2016	27 September 2016	
	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	412,269,739.50	4,984,637,452.50	565,104,479.00	2,653,927,895.50	
October	Auction date	4 October 2016	11 October 2016	18 October 2016	25 October 2016	
	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	1,234,578,150.00	939,031,858.50	3,503,215,472.00	7,926,302,447.38	
November	Auction date	1 November 2016	8 November 2016	15 November 2016	22 November 2016	29 November 2016
	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	1,969,036,389.15	3,470,520,636.00	3,071,445,728.75	1,929,221,622.19	3,954,683,372.31
December	Auction date	6 December 2016	13 December 2016	20 December 2016	27 December 2016	
	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	4,172,611,960.00	3,297,149,583.75	1,445,599,376.25	660,717,890.00	

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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Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

Sell: Forecasted 12-month total return significantly less than that of relevant benchmark



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