



# Bond Market Insight

## Yield curve extends to 3-year maturity

THURSDAY, 28 JANUARY 2016

### Government bond auction results

At the last auction scheduled for January, the MoF mostly finalized the development of the primary market yield curve, achieving quite possibly its main goal for 1Q16. The yield curve was built for a range from 9-month to 3-year maturities. Next month, the MoF could focus on finding the acceptable level of interest rates for 6-month bonds and maintain the validity of the newly set yield curve.

Yesterday's auction attracted UAH200m in total demand for the 3-year bind, only UAH35m less than was collected for the 2-year bond a week ago. Per routine, the MoF accepted only one bid at the lowest interest rate, which was 20%, and sold UAH25m of the new bond (at par value).

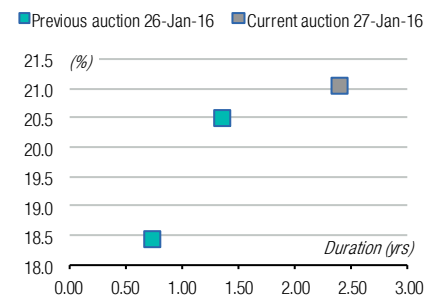
As a result, the interest rates of accepted bids allow the MoF to set the yield curve in a very tight range of 18.5-20.0%. This will allow the MoF and market participants to have a benchmark for bond offerings later in 1Q16. At the same time, we expect to see real demand for local currency bonds in two weeks at the auction scheduled for 9 February, as next week demand will be focused on the scheduled FX-denominated bond offering. Demand for FX-denominated bonds should be supported by yesterday's US\$321.9m redemption of 3-year bonds.

Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m)
UA4000192660	20.00	SA	23-Jan-19	25,000	1,000.52	25.01	25.00	21.06	25.00
<b>Total</b>				<b>25,000</b>		<b>25.01</b>	<b>25.00</b>		<b>25.00</b>

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.

### Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

### Auction results

Auction	Last 27-Jan-16	Previous 26-Jan-16	Change
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### Breakdown by yields (%)

3-month			
6-month			
9-month		18.45	
1-year			
2-year		20.51	
3-year	21.06		
5-year			

### Breakdown by proceeds (UAHm)

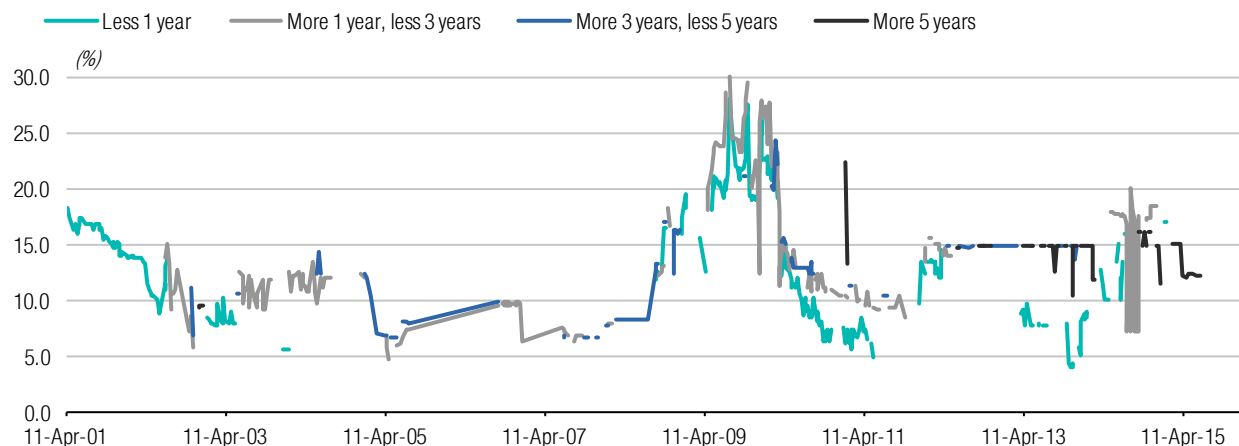
3-month			
6-month			
9-month		44.07	
1-year			
2-year		20.07	
3-year	25.01		
5-year			
<b>Total</b>	<b>25.01</b>	<b>64.15</b>	<b>-61.01%</b>

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.

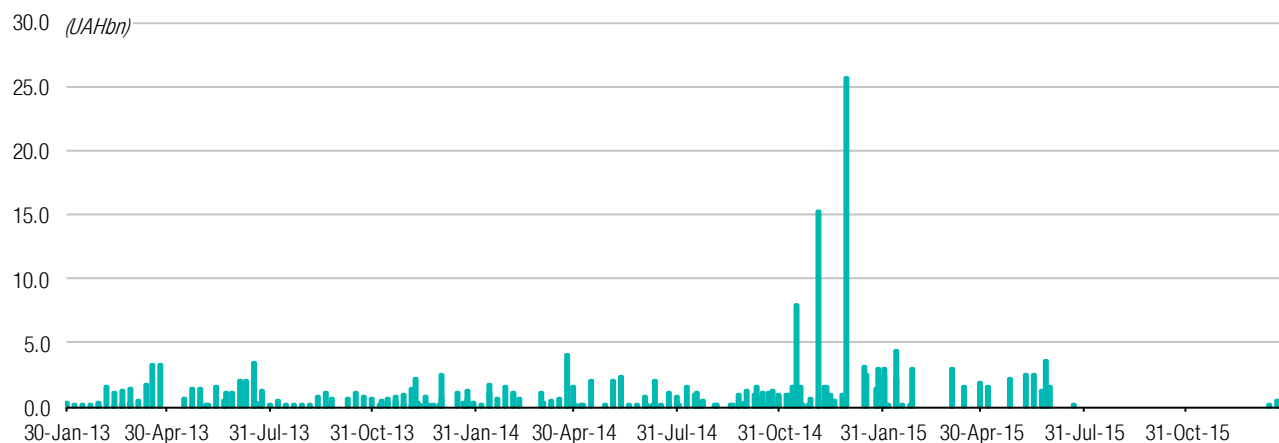
## Appendix: Auctions history and schedule for 2016

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



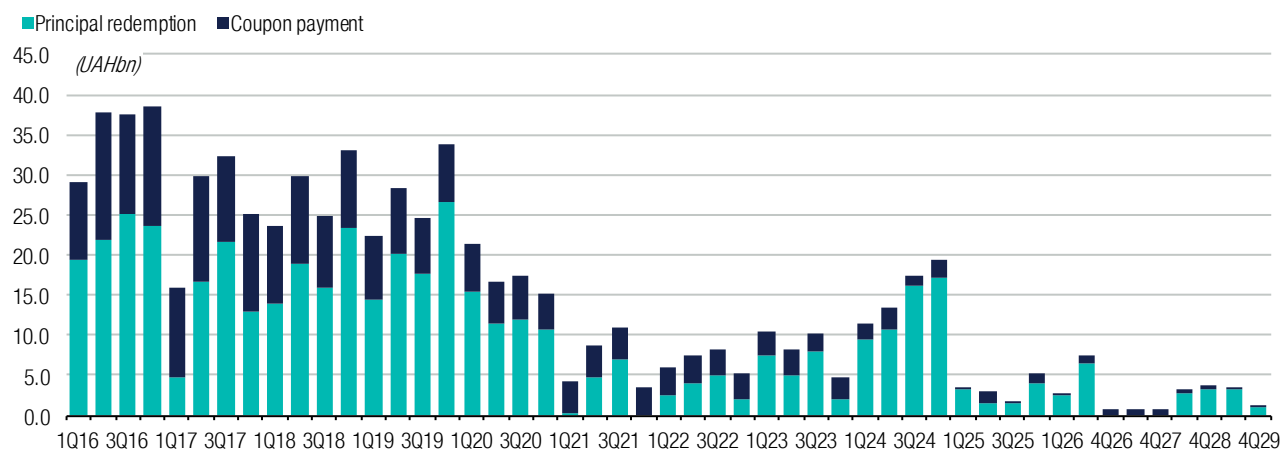
Sources: Ministry of Finance of Ukraine, ICU.

**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 2. Schedule of government bond auctions in 2016**

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
<b>January</b>	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	0.00	0.00	<b>9,251,169,070.00</b>	
<b>February</b>	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	<b>1,481,982,243.13</b>	<b>1,289,261,717.19</b>	<b>2,705,367,472.00</b>	<b>829,181,572.50</b>	
<b>March</b>	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	<b>1,083,750,000.00</b>	<b>1,536,403,639.50</b>	<b>8,928,054,952.50</b>	<b>1,309,422,859.00</b>	<b>714,523,137.00</b>
<b>April</b>	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	<b>1,234,578,150.00</b>	<b>5,024,719,358.50</b>	<b>1,758,992,238.00</b>	<b>4,297,894,889.25</b>	
<b>May</b>	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	<b>1,027,057,389.15</b>	<b>5,016,490,636.00</b>	<b>1,220,072,060.00</b>	<b>2,873,982,353.13</b>	<b>3,468,289,263.38</b>
<b>June</b>	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	<b>3,374,654,460.00</b>	<b>1,215,158,986.50</b>	<b>5,114,556,566.25</b>	<b>2,231,967,890.00</b>	
<b>July</b>	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	<b>3,857,751,541.07</b>	<b>3,675,523,705.75</b>	<b>6,495,535,135.11</b>	<b>991,028,613.75</b>	
<b>August</b>	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	<b>1,250,507,682.50</b>	<b>7,772,647,367.19</b>	<b>1,169,987,129.25</b>	<b>2,579,181,572.50</b>	<b>1,083,750,000.00</b>
<b>September</b>	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	426,628,639.50	<b>4,984,637,452.50</b>	<b>565,104,479.00</b>	<b>2,653,927,895.50</b>	
<b>October</b>	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	<b>1,234,578,150.00</b>	<b>939,031,858.50</b>	<b>3,553,215,472.00</b>	<b>8,461,167,806.75</b>	
<b>November</b>	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	<b>1,969,036,389.15</b>	<b>3,470,520,636.00</b>	<b>3,083,942,060.00</b>	<b>1,942,153,753.13</b>	<b>4,044,142,963.38</b>
<b>December</b>	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	<b>4,172,611,960.00</b>	<b>3,476,032,929.00</b>	<b>1,470,046,421.25</b>	<b>660,717,890.00</b>	

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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**Buy:** Forecasted 12-month total return significantly greater than that of relevant benchmark

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