



Focus
Ukraine

Scope
Bonds

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Bond Market Insight

Market prefers FX-denominated bonds

Government bond auction results

The NBU softened FX regulations will end at the beginning of March 2016, and the next auction of FX-denominated bonds is scheduled on 22 March 2016. As yesterday was the last chance to purchase these bonds at the primary market, demand was mostly concentrated on the 2-year USD-denominated bond offering. Out of 39 bids submitted at the auction, 32 bids were for USD-denominated bonds. For local currency bonds, no demand was seen for 6-month bonds while other bonds saw indicative bids or low demand. Only the 1.5-year local currency bond was sold at UAH100.0m par value.

As the MoF yesterday offered 2-year instead of the 1.5-year USD-denominated bonds sold two weeks ago, interest rates for submitted bids were higher than before. The maximum interest rate rose 70bp while the lowest interest rate was up 95bp. In contrast to last month, the MoF did not accept all demand and set the cut-off interest rate at 7.90, or 10bp lower. At the same time, the weighted average interest rate rose 18bp to 7.85%. As the weighted average interest rate is only 5bp below the cut-off level, demand was mostly submitted at interest rates very close to or at the cut-off level. At low levels, demand was insufficient.

Table 1. Details of last government bond auction

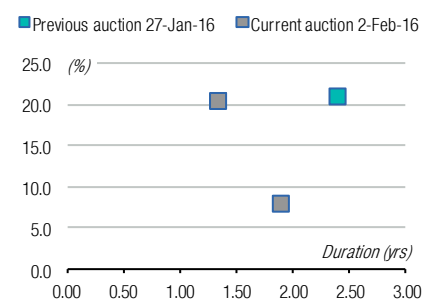
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m)
UA4000192652	19.50	SA	19-Jul-17	100,000	1,007.18	100.72	100.00	20.51	120.00
UA4000192744	7.85	SA	31-Jan-18	431,231	1,000.19	11,168.81	11,166.73	8.02	11,166.73
Total				531,231		11,269.53	11,266.73		11,286.73

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 25.895; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

At this auction, the MoF refinanced all of its FX-denominated domestic debt repayments scheduled for 1Q16 and a bit more than half of the repayments scheduled for the year. This will enable the MoF to wait for the new IMF tranche and other support, keeping FX reserves steady. On the other hand, market players renewed their portfolio of FX-denominated bonds, hedged FX risks, and lowered losses for any further weakening of the hryvnia.

WEDNESDAY, 3 FEBRUARY 2016

Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

Auction results

Auction	Last 2-Feb-16	Previous 27-Jan-16	Change
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Breakdown by yields (%)

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

Breakdown by proceeds (UAHm)

3-month	
6-month	
9-month	
1-year	
2-year	11,269.53
3-year	25.01
5-year	
Total	11,269.53 25.01 450.55x

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.

As there no FX-denominated bond offerings are schedule until March, the MoF will concentrate on the yield curve. As a result, we could see higher demand for 6-month and other local currency bonds.

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)

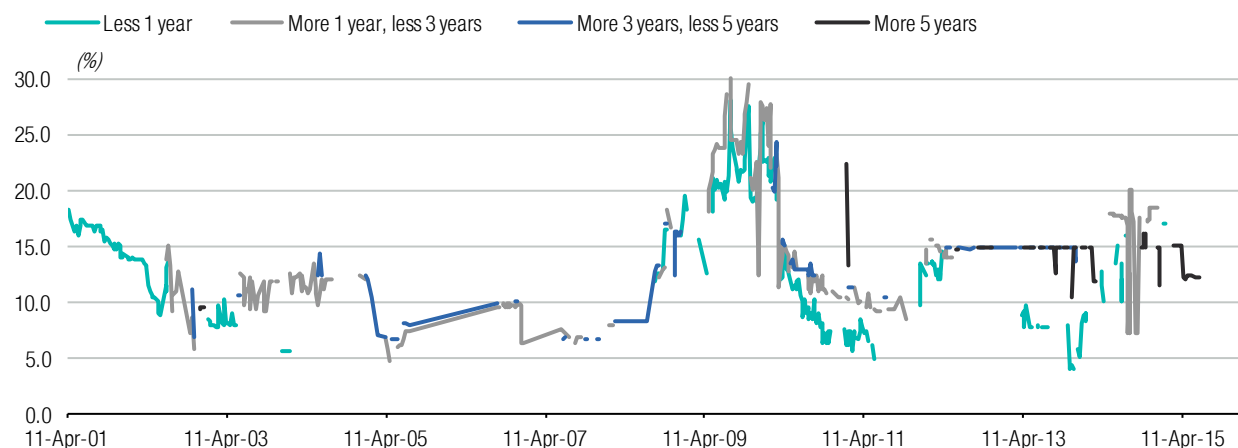


Chart 2. History of proceeds at government bond auctions: breakdown by tenor of bonds sold (last 3-year period)

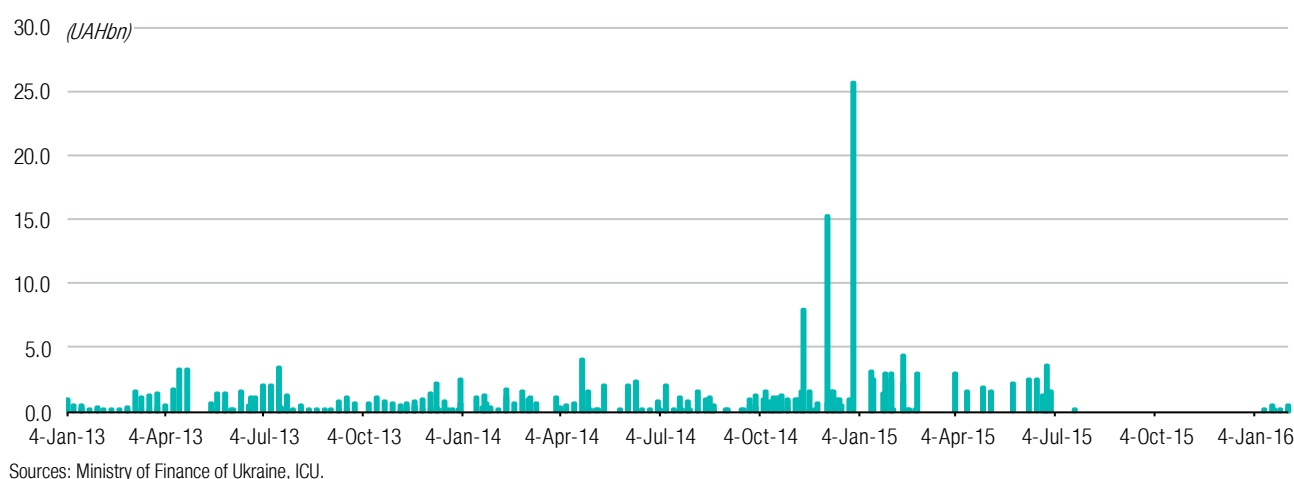


Chart 3. Schedule of redemptions of the local-currency government bonds*

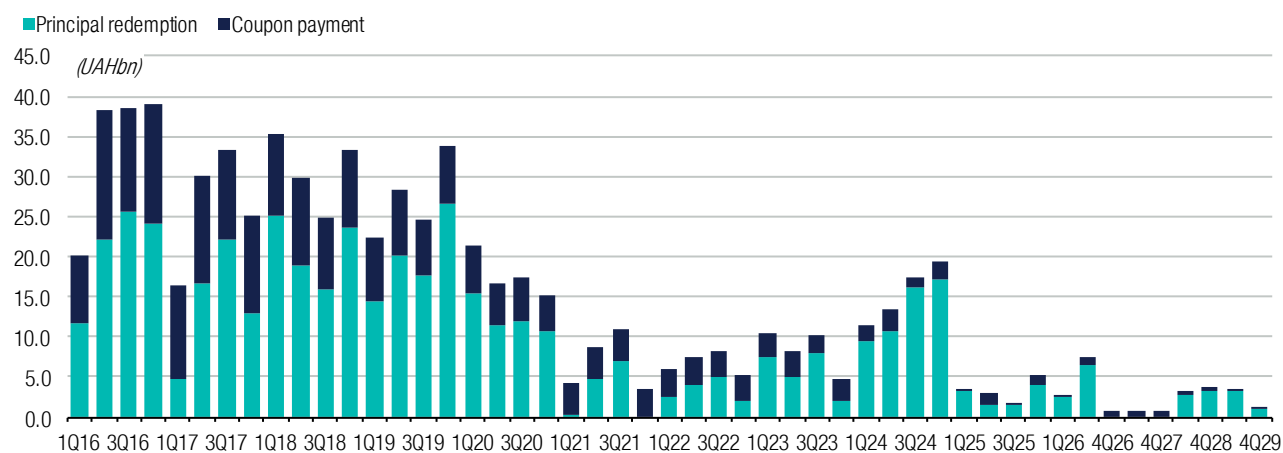


Table 2. Schedule of government bond auctions in 2016

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
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	0.00	0.00	0.00	
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	1,490,749,516.06	1,298,596,598.47	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	1,536,709,819.50	9,222,186,202.50	1,337,614,477.00	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	4,354,339,279.38	
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	1,226,917,876.25	2,954,236,371.81	3,470,117,491.09
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	1,218,814,709.55	5,265,977,885.25	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	3,875,310,655.58	3,675,523,705.75	6,707,667,396.11	991,028,613.75	
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	1,688,801,707.24	7,995,350,963.47	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	434,494,819.50	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	3,553,215,472.00	8,754,181,003.63	
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	3,090,787,876.25	1,949,238,311.81	4,093,151,261.09
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	3,574,029,892.05	1,483,439,150.25	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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Sell: Forecasted 12-month total return significantly less than that of relevant benchmark



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