



Focus  
Ukraine

Scope  
Bonds

Analyst  
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# Bond Market Insight

## Different views and anticipations

### Government bond auction results

Last week the NBU decided withdraw their scheduled 3-month CD offering to banks, possibly after consulting the MoF in regard to activating the primary market. However, although the MoF updated its auction schedule with a new 3-month bond offering, no bonds were sold as bid interest rates came in above the MoF's desired level.

In regard to zero-coupon bonds offerings this year, bids with interest rates acceptable to the MoF were placed only on two occasions. Short-term bonds were offered by the MoF 14 times and received 25 bids, but the MoF accepted only two bids for a total of UAH150m. Other bids were submitted in the 20.0-21.5% range, similar to interest rates for 3-month CDs. As 9-month and 12-month bonds sold at 18.5%, the MoF chose not to increase interest rates for shorter maturities.

As a result, yesterday the MoF rejected the sole two bids for the four zero-coupon bonds submitted at interest rates close to those bid recently for 3-month CDs. This could indicate a market change. Although the MoF received small indicative bids for most offered bonds at recent auctions, the two bonds offered yesterday received no demand. The MoF and market views are divergent.

Only the 1.5-year bond was sold yesterday, as the MoF received and accepted two bids at 19.5%, providing a YTM of 20.51%, at the market level and acceptable for the MoF. The amount of sold bonds, however, was insignificant.

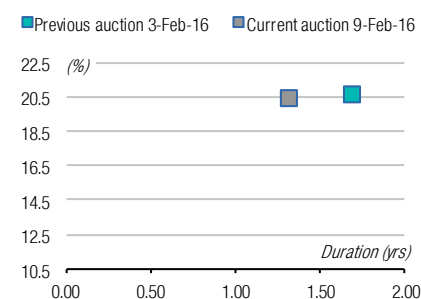
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Pay-ment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Out-standing (m)
UA4000192652	19.50	SA	19-Jul-17	92,000	1,010.79	92.99	92.00	20.51	212.00
<b>Total</b>				<b>92,000</b>		<b>92.99</b>	<b>92.00</b>		<b>212.00</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.

WEDNESDAY, 10 FEBRUARY 2016

### Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

### Auction results

Auction	Last 9-Feb-16	Previous 3-Feb-16	Change
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### Breakdown by yields (%)

3-month			
6-month			
9-month			
1-year			
2-year	20.51	20.73	-226m
3-year			
5-year			

### Breakdown by proceeds (UAHm)

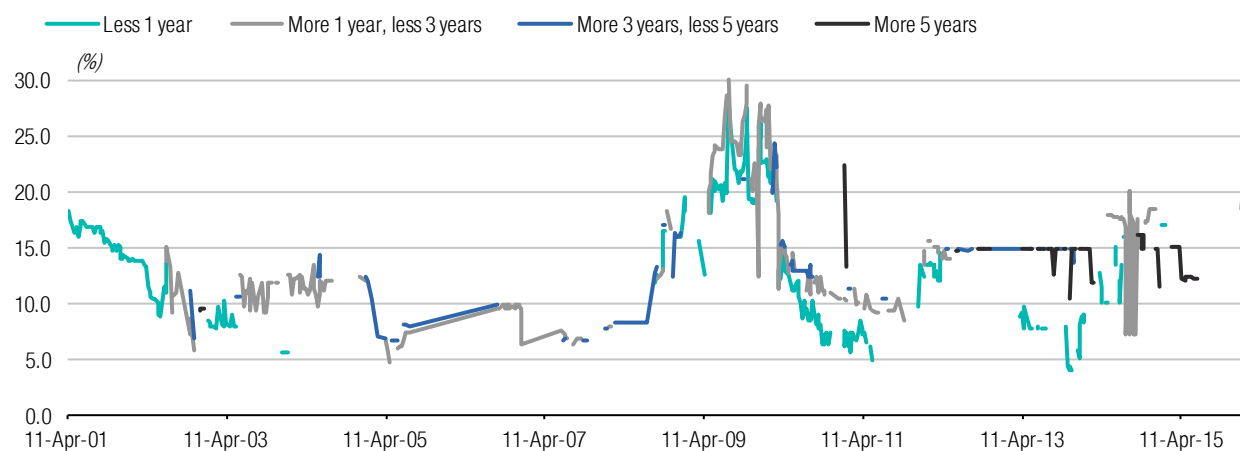
3-month			
6-month			
9-month			
1-year			
2-year	92.99	371.02	-74.94%
3-year			
5-year			
<b>Total</b>	<b>92.99</b>	<b>371.02</b>	<b>-74.94%</b>

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.

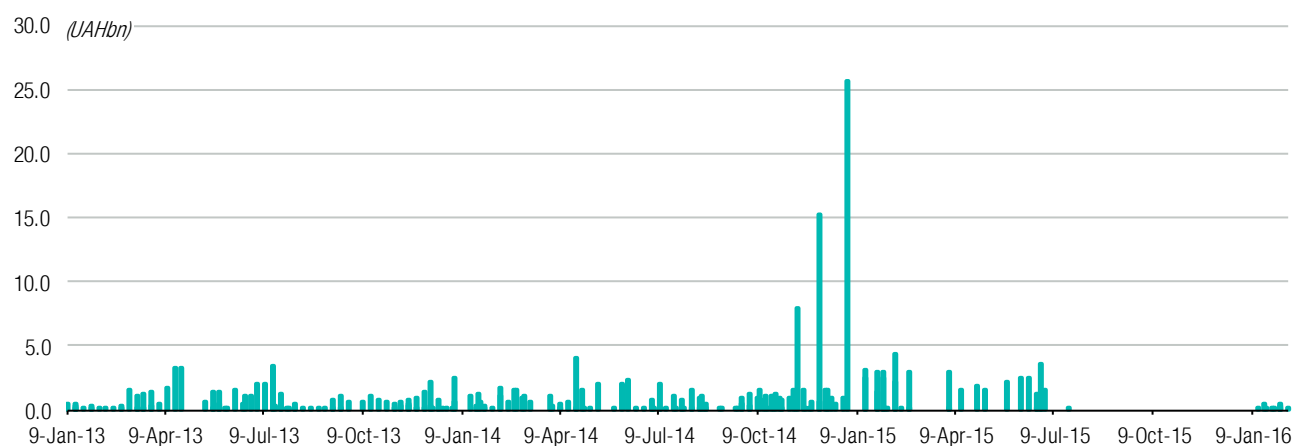
## Appendix: Auctions history and schedule for 2016

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



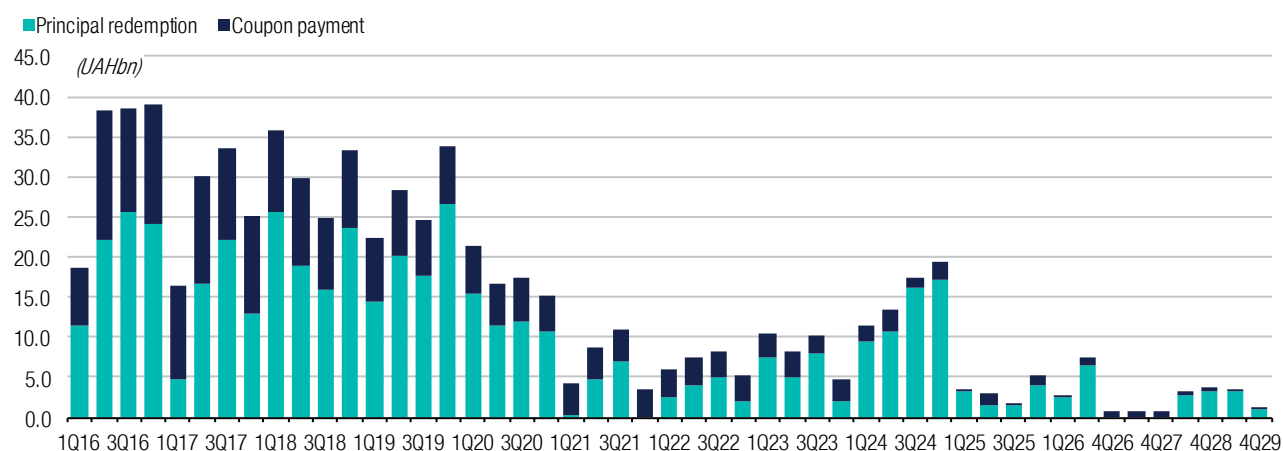
Sources: Ministry of Finance of Ukraine, ICU.

**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	0.00	
<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	0.00	<b>1,298,892,943.91</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>1,536,719,539.50</b>	<b>9,231,523,702.50</b>	<b>1,338,509,449.00</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>4,396,283,893.63</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>1,227,135,203.75</b>	<b>2,956,784,118.44</b>	<b>3,470,175,530.06</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>1,218,930,764.25</b>	<b>5,270,784,911.25</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>3,875,868,087.78</b>	<b>3,711,656,460.75</b>	<b>6,723,062,229.79</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>1,689,309,481.74</b>	<b>8,002,420,918.91</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	434,744,539.50	<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>8,763,483,009.88</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>3,091,005,203.75</b>	<b>1,949,463,218.44</b>	<b>4,094,707,080.06</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>3,577,140,906.75</b>	<b>1,483,864,316.25</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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