



Bond Market Insight

Yield curve moves toward acceptable

WEDNESDAY, 24 FEBRUARY 2016

Government bond auction results

Yesterday's primary auction results were very similar to last week's when the MoF sold a small volume of bonds at acceptable interest rates: the MoF sold UAH 544,000 of 1.5-year bonds (receiving UAH 533,819 of proceeds), slightly less than the UAH 590,000 in bonds sold last Tuesday (par value).

On a positive note, while last week's total demand was much bigger, there were only two bids (including a large bid for the 3-month bond and a small one for the 1.5-year bond) versus six bids for five of the offered bonds bids except for the 9-month bond. Moreover, despite lower total demand, submitted interest rate bids were down compared with other auctions this year, moving the market yield curve toward levels acceptable for the MoF.

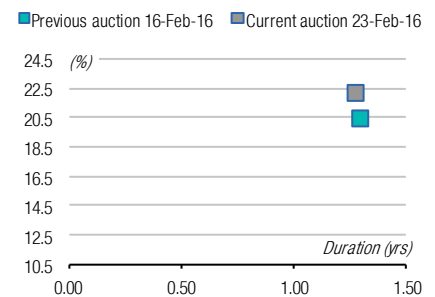
This development is quite positive, but the spread between the yield curves remains significant with an insufficient amount of demand (UAH72.02m yesterday) to force the MoF to increase rates. As a result, today and the next few weeks, we do not anticipate that the MoF will sell zero-coupon bonds. Moreover, demand for mid-term bonds should be insignificant due high short-term liquidity in the banking system.

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	554	999.67	0.55	0.55	22.25	213.14
Total				554		0.55	0.55		213.14

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 23-Feb-16	Previous 16-Feb-16	Change
3-month			
6-month			
9-month			
1-year			
2-year	22.25	20.51	1746n
3-year			
5-year			

Breakdown by yields (%)

3-month			
6-month			
9-month			
1-year			
2-year	22.25	20.51	1746n
3-year			
5-year			

Breakdown by proceeds (UAHm)

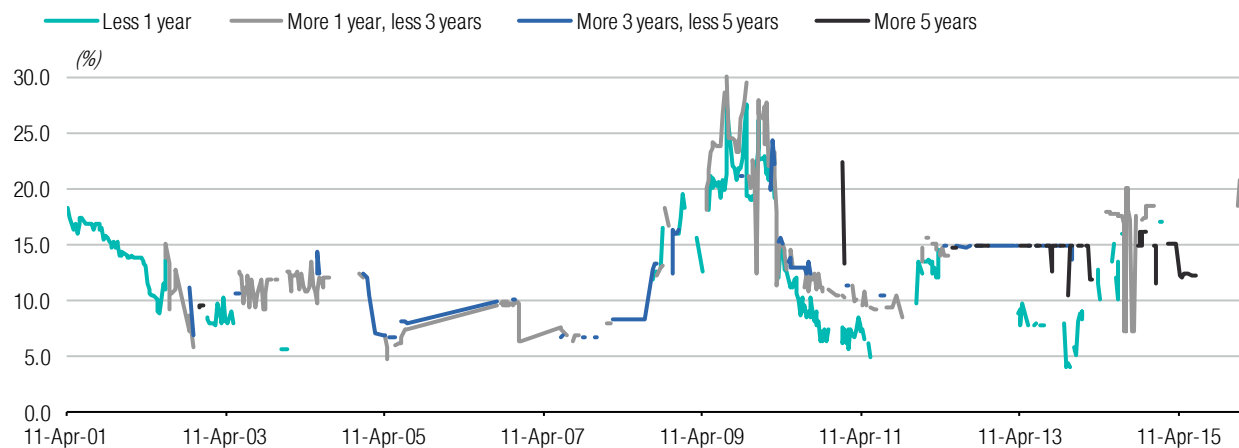
3-month			
6-month			
9-month			
1-year			
2-year	0.55	0.60	-7.47%
3-year			
5-year			
Total	0.55	0.60	-7.47%

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.

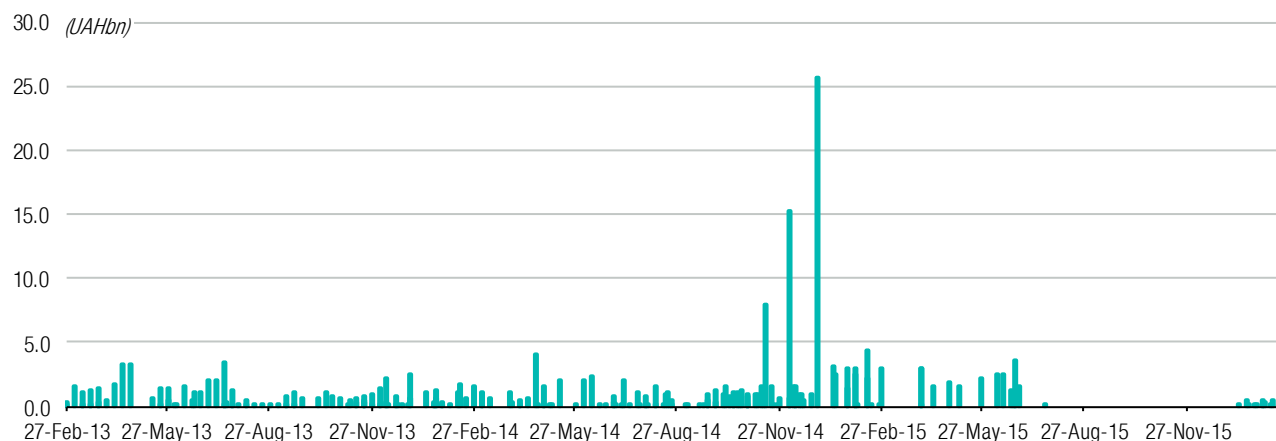
Appendix: Auctions history and schedule for 2014

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



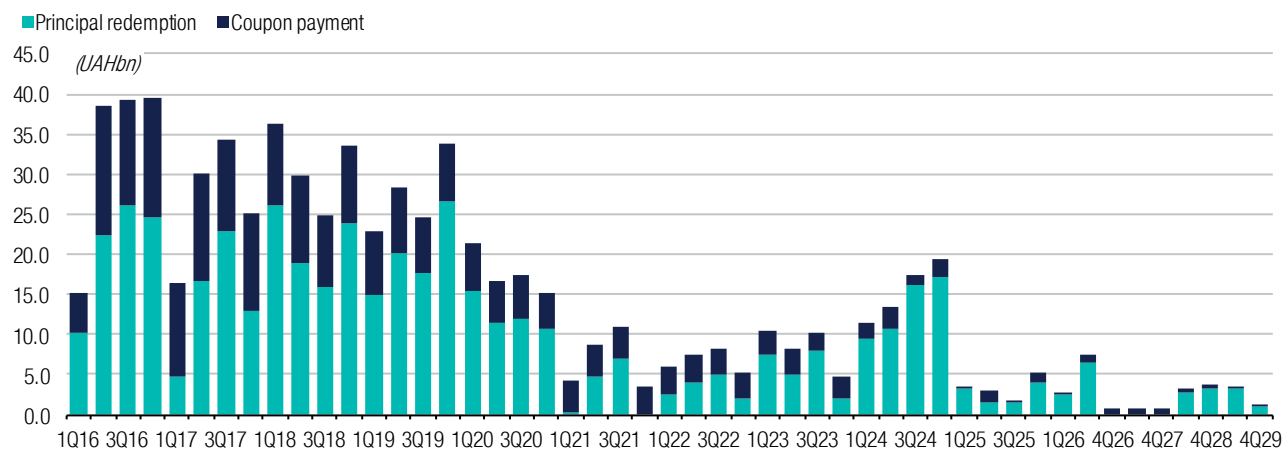
Sources: Ministry of Finance of Ukraine, ICU.

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 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	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	0.00	0.00	0.00	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	1,537,148,839.50	9,643,929,952.50	1,378,037,379.00	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	4,442,834,499.25	
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	1,236,733,835.00	3,069,309,594.38	3,472,738,918.13
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	1,224,056,513.50	5,483,095,226.25	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	3,900,488,010.24	3,711,656,460.75	7,006,937,257.44	1,037,028,613.75	
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	1,711,736,188.94	8,314,677,284.06	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	445,773,839.50	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	9,174,321,619.25	
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	3,100,603,835.00	1,959,396,594.38	4,163,422,418.13
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	3,714,544,056.00	1,502,642,481.25	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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