



Focus  
**Ukraine**

Scope  
**Bonds**

Analyst  
**Taras Kotovych**

# Bond Market Insight

## Insufficient demand

WEDNESDAY, 2 MARCH 2016

### Government bond auction results

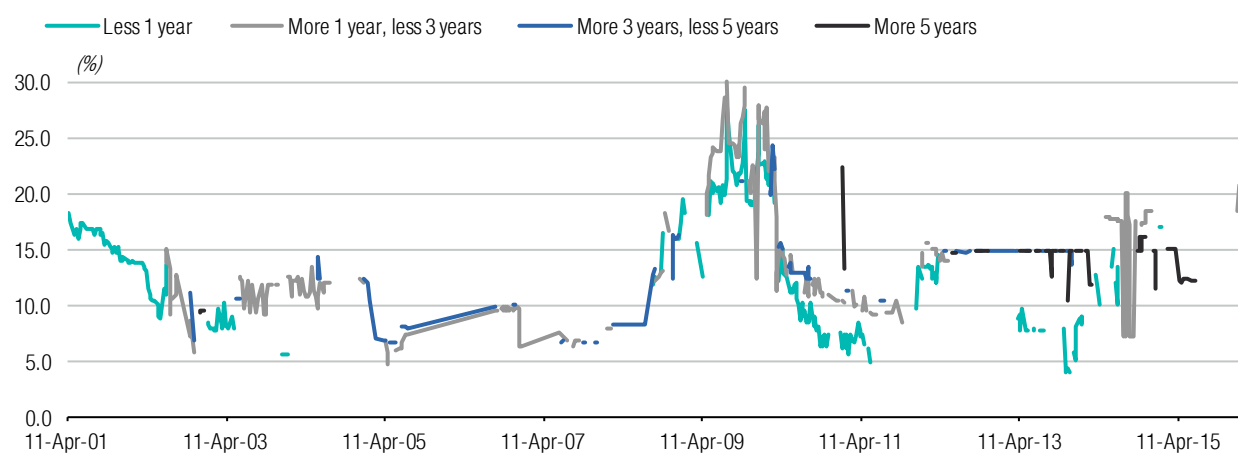
The second time this year, the MoF cancelled the auction, rejecting low demand. Of the five bonds offered, the MoF received only three bids for the 6-month and 12-month bonds at low amounts at interest rates above the MoF's yield curve. The 6-month bonds received only one bid at 20.10% for UAH5.5m while the 12-month bond received two bids for a total of UAH56.0m at 19.0% and 20.10%. As the MoF accepted bids earlier this year at 18.5% for these maturities, They decided yet again to not increase interest rates.

Currently, budget performance is not problematic at the MoF has UAH16.83bn at its treasury account as of yesterday morning. While the balance rose little during February, particularly versus the same period last year, funds sufficiently cover current needs without new financing.

Over the next few weeks, auctions are not expected to be very active. Banks will try to force the MoF to move the yield curve up closer to the NBU's yield curve for CDs while the MoF continues its policy to maintain or lower rates and decrease the debt burden by repaying principal without refinancing. As an example, this year the MoF repaid UAH2.73bn in local currency debt and received only UAH1.35bn in budget proceeds from primary auctions. Through the end of March, the MoF is scheduled to repay UAH1.31bn in bonds in local currency. However, because of the current market situation, these repayments most likely will be refinanced.

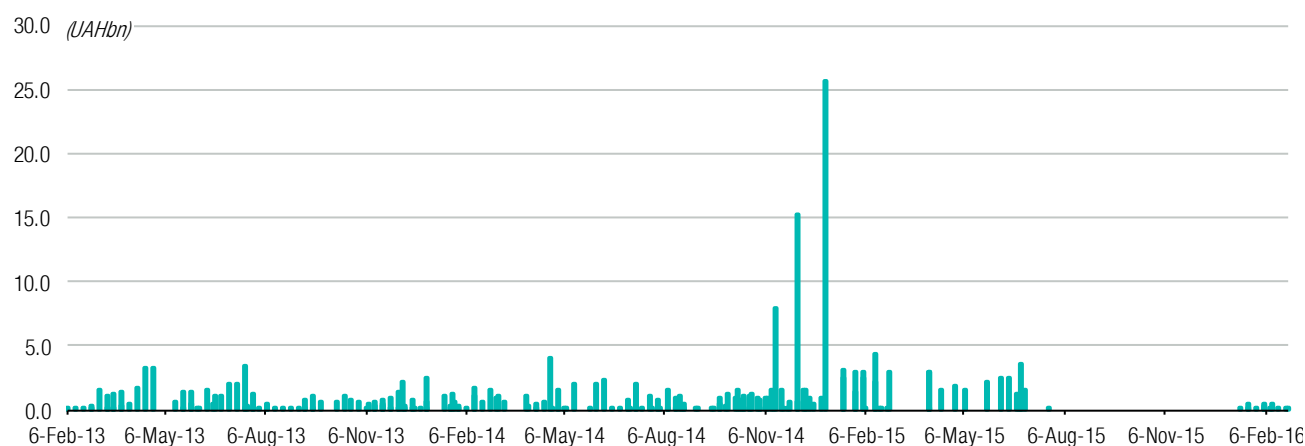
## Appendix: Auctions history and schedule for 2016

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



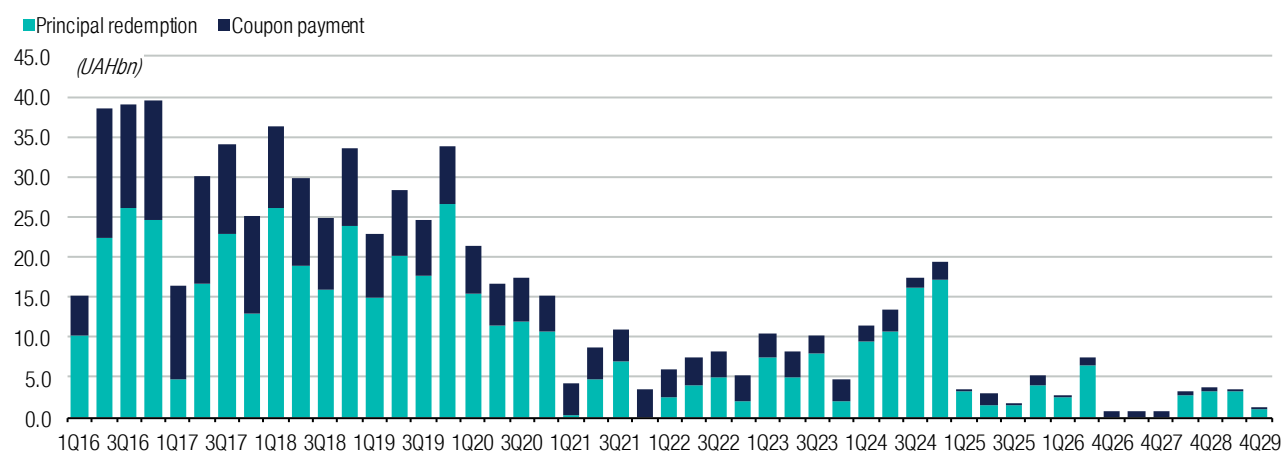
Sources: Ministry of Finance of Ukraine, ICU.

**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 1. 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 | 0.00                    | 0.00                    | 0.00                    | <b>829,181,572.50</b>   |                         |
| 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 | <b>1,083,750,000.00</b> | <b>1,537,113,199.50</b> | <b>9,609,692,452.50</b> | <b>1,374,755,815.00</b> | <b>714,523,137.00</b>   |
| 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 | <b>1,234,578,150.00</b> | <b>5,024,719,358.50</b> | <b>1,758,992,238.00</b> | <b>4,419,411,601.00</b> |                         |
| 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 | <b>1,027,057,389.15</b> | <b>5,016,490,636.00</b> | <b>1,235,936,967.50</b> | <b>3,059,967,856.75</b> | <b>3,472,526,108.55</b> |
| 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 | <b>3,374,654,460.00</b> | <b>1,223,630,979.60</b> | <b>5,465,469,464.25</b> | <b>2,231,967,890.00</b> |                         |
| 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 | <b>3,898,444,092.15</b> | <b>3,711,656,460.75</b> | <b>6,983,379,533.93</b> | <b>1,042,028,613.75</b> |                         |
| 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 | <b>1,709,874,349.10</b> | <b>8,288,754,114.13</b> | <b>1,169,987,129.25</b> | <b>2,579,181,572.50</b> | <b>1,083,750,000.00</b> |
| 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 | 444,858,199.50          | <b>4,984,637,452.50</b> | <b>565,104,479.00</b>   | <b>2,653,927,895.50</b> |                         |
| 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 | <b>1,234,578,150.00</b> | <b>939,031,858.50</b>   | <b>3,553,215,472.00</b> | <b>9,140,214,263.00</b> |                         |
| 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 | <b>1,969,036,389.15</b> | <b>3,470,520,636.00</b> | <b>3,099,806,967.50</b> | <b>1,958,571,936.75</b> | <b>4,157,717,748.55</b> |
| 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 | <b>4,172,611,960.00</b> | <b>3,703,137,002.10</b> | <b>1,501,083,539.25</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.

This page is intentionally left blank

# Disclosures

## ANALYST CERTIFICATION

This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

## EQUITY RATING DEFINITIONS

**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.

## DEBT RATING DEFINITIONS

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

**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



11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kiev, 01030 Ukraine  
Phone/Fax +38 044 2200120

**WEB** [www.icu.ua](http://www.icu.ua)



@ICU\_UA

## CORPORATE FINANCE

**Makar Paseniuk, CFA**, Managing Director  
[makar.paseniuk@icu.ua](mailto:makar.paseniuk@icu.ua)

**Ivan Shvydanenko**, Director  
[ivan.shvydanenko@icu.ua](mailto:ivan.shvydanenko@icu.ua)

**Roman Nikitov, ACCA** Director  
[roman.nikitov@icu.ua](mailto:roman.nikitov@icu.ua)

**Yuriy Kamarytskyi**, Vice President  
[yuriy.kamarytskyi@icu.ua](mailto:yuriy.kamarytskyi@icu.ua)

**Ruslan Kilmukhametov**, Director  
[ruslan.kilmukhametov@icu.ua](mailto:ruslan.kilmukhametov@icu.ua)

**Ruslan Patlavsky**, Director  
[ruslan.patlavsky@icu.ua](mailto:ruslan.patlavsky@icu.ua)

## STRATEGY AND CORPORATE DEVELOPMENT

**Vlad Sinani**, Director  
[vlad.sinani@icu.ua](mailto:vlad.sinani@icu.ua)

## SALES AND TRADING

**Konstantin Stetsenko**   
Managing Director  
[konstantin.stetsenko@icu.ua](mailto:konstantin.stetsenko@icu.ua)

**Liliya Kubytovych**   
Asset Management Product Sales  
[liliya.kubytovych@icu.ua](mailto:liliya.kubytovych@icu.ua)

**Sergiy Byelyayev**  
Fixed-Income Trading  
[sergiy.byelyayev@icu.ua](mailto:sergiy.byelyayev@icu.ua)

**Yevgeniya Gryshchenko**  
Fixed-Income Sales  
[yevgeniya.gryshchenko@icu.ua](mailto:yevgeniya.gryshchenko@icu.ua)

**Vitaliy Sivach**   
Fixed-Income & FX Trading  
[vitaliy.sivach@icu.ua](mailto:vitaliy.sivach@icu.ua)

## RESEARCH DEPARTMENT

**Alexander Valchyshen**   
Head of Research  
[alexander.valchyshen@icu.ua](mailto:alexander.valchyshen@icu.ua)

**Alexander Martynenko**   
Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Bogdan Vorotilin**   
Financial analyst (Food & Agribusiness)  
[bogdan.vorotilin@icu.ua](mailto:bogdan.vorotilin@icu.ua)

**Taras Kotovych**   
Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Mykhaylo Demkiv**   
Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Lee Daniels, Rolfe Haas**  
Editors

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

## DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.



**Additional information is available upon request.**