



Focus  
**Ukraine**

Scope  
**Bonds**

Analyst  
**Taras Kotovych**

# Bond Market Insight

## Continuing attempts to shake the yield curve

THURSDAY, 10 MARCH 2016

### Government bond auction results

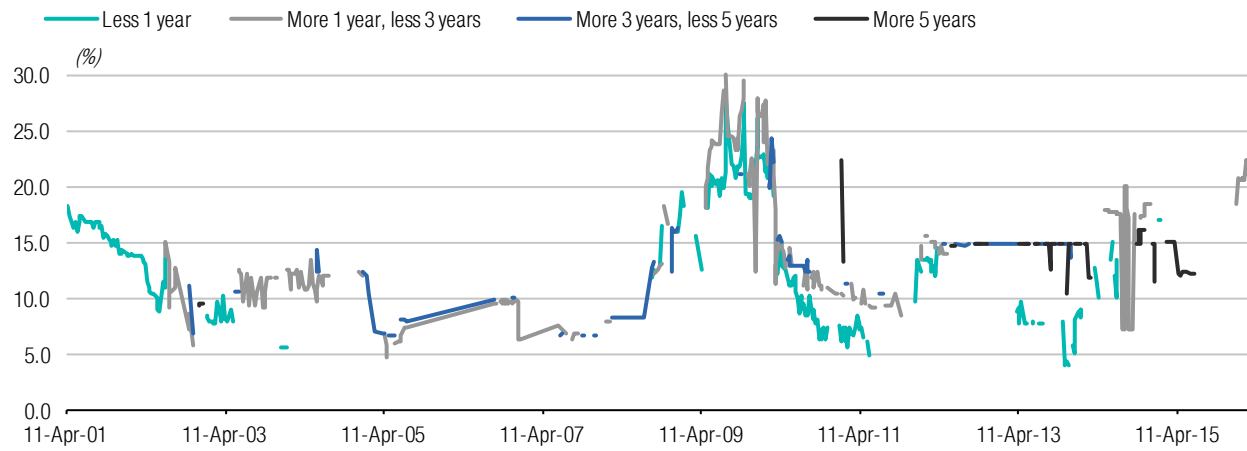
The MoF once more did not sell 2-year local currency bonds yesterday as it rejected demand at 19.80%, which was above its anticipated 19.70% bid submitted earlier this year. Yesterday's bid of UAH15.0m at 20.90% and UAH100.0m at 19.80% was similar to those submitted on February 17 when the MoF received two bids at 20.90% and 19.80% for a total of UAH115.0m.

Although the 10bp difference between the submitted interest rates is not very significant, it is critically important for both sides as the MoF refuses to adjust its yield curve as such a move would increase its cost of borrowings. Even though the slight increase would only amount to UAH150,000, this amount would have a significant impact on this year's debt servicing expenses, as the premium should be accounted for as decreasing the current year's debt servicing. Because of this, the MoF refuses to move the yield curve from levels set earlier this year.

Even though banks can purchase higher yielding certificates of deposit from the NBU, the MoF cannot increase the cost of borrowings for political and economic reasons, especially since the MoF has more than UAH16bn at its treasury account as of the beginning of the month. We expect that investors will continue to submit bids at higher rates as the MoF holds rates firm.

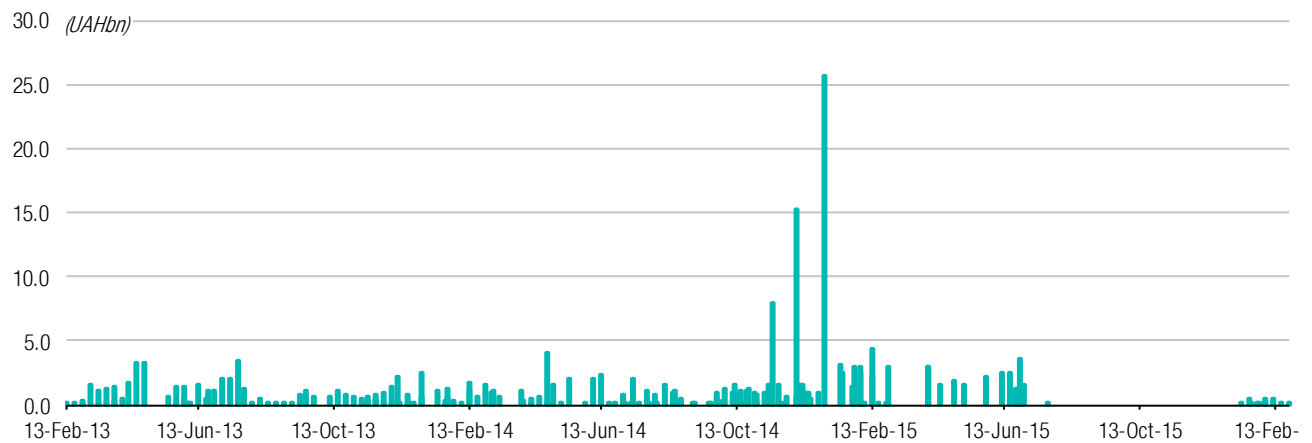
## Appendix: Auctions history and schedule for 2016

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



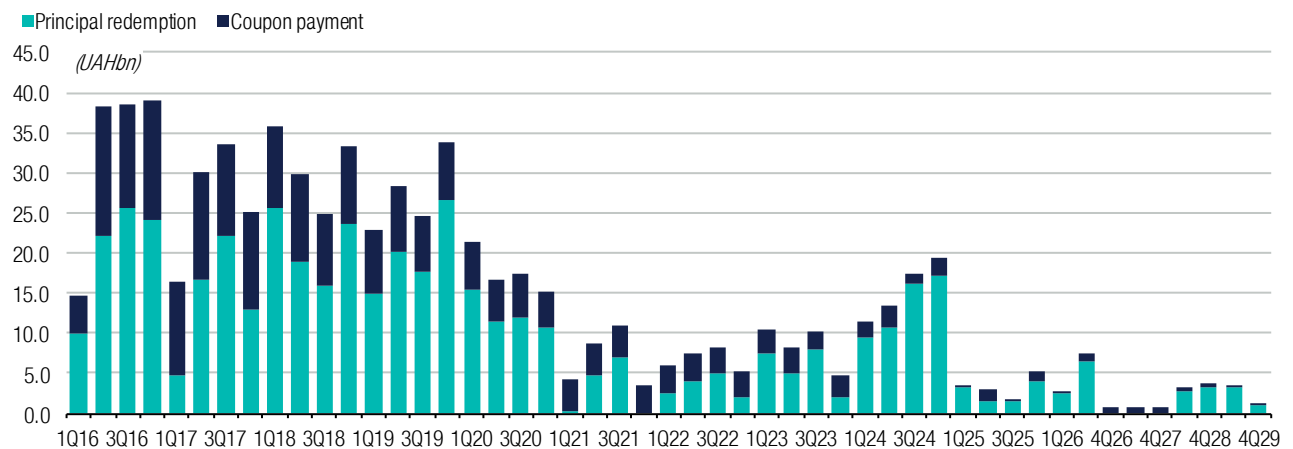
Sources: Ministry of Finance of Ukraine, ICU.

**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             |
|------------------|-------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <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                    | 0.00                    | 0.00                    | 0.00                    |                         |
| <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 | 0.00                    | <b>1,536,743,839.50</b> | <b>9,254,867,452.50</b> | <b>1,340,746,879.00</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>4,368,943,755.50</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>1,227,678,522.50</b> | <b>2,963,153,485.00</b> | <b>3,470,320,627.50</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>1,219,220,901.00</b> | <b>5,282,802,476.25</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>3,877,261,668.30</b> | <b>3,711,656,460.75</b> | <b>6,739,235,854.00</b> | <b>1,042,028,613.75</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>1,690,578,918.00</b> | <b>8,020,095,807.50</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 | 435,368,839.50          | <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>8,786,738,025.50</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>3,091,548,522.50</b> | <b>1,950,025,485.00</b> | <b>4,098,596,627.50</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>3,584,918,443.50</b> | <b>1,484,927,231.25</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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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](https://twitter.com/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)

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

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

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

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

**Lee Daniels, Rolfe Haas**  
Editors

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