



Focus  
Ukraine

Scope  
Bonds

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# Bond Market Insight

## MoF sells 6-month bonds

### Government bond auction results

At yesterday's auction, the MoF sold 6-month bonds for the first time this year since resuming holding primary auctions. The MoF extended its yield curve, setting the interest rate for 6-month bonds at 18.00%, the same as for ON CDs sold by the NBU. The MoF sold 6-month bonds at UAH40.0m (par value), providing UAH36.82m of proceeds, and also sold 9-month and 1.5-year bonds at the same interest rates as before, 18.50% and 19.50% respectively, raising UAH35.14m and UAH10.29m of proceeds, respectively. Total budget proceeds raised amounted to UAH82.25m.

Demand at the auction rose significantly to UAH341.5m from lows of around UAH100.0m seen during recent prior weeks. Yesterday's demand was mostly concentrated at short-term maturities, but at interest rates up to 20.50%, most of which the MoF rejected.

Although the yield curve at the primary market arose from the 6-month maturity, low demand still indicates that current interest rates are still generally unattractive to potential investors that instead invest in NBU CDs at higher rates with shorter maturities. Although the successful sale of 6-month bonds is positive, the market still remains tepid in the near future.

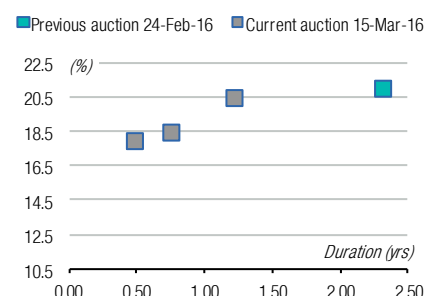
**Table 1. Details of last government bond auction**

| ISIN         | Coupon rate (%) | Payment freq <sup>1</sup> | Maturity  | Qty of bonds sold | Price (UAH) | Proceeds <sup>2</sup> (UAHm) | Volume <sup>2</sup> (UAHm) | YTM <sup>3</sup> (%) | Outstanding (m) |
|--------------|-----------------|---------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|-----------------|
| UA4000193189 | 18.00           |                           | 7-Sep-16  | 40,000            | 920.55      | 36.82                        | 40.00                      | 18.00                | 40.00           |
| UA4000193197 | 18.50           |                           | 14-Dec-16 | 40,000            | 878.45      | 35.14                        | 40.00                      | 18.50                | 40.00           |
| UA4000192652 | 19.50           | SA                        | 19-Jul-17 | 10,000            | 1,029.00    | 10.29                        | 10.00                      | 20.52                | 223.14          |
| <b>Total</b> |                 |                           |           | <b>90,000</b>     |             | <b>82.25</b>                 | <b>90.00</b>               |                      | <b>303.14</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, 16 MARCH 2016

### Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

### Auction results

| Auction | Last 15-Mar-16 | Previous 24-Feb-16 | Change |
|---------|----------------|--------------------|--------|
|---------|----------------|--------------------|--------|

### Breakdown by yields (%)

|         |       |
|---------|-------|
| 3-month |       |
| 6-month | 18.00 |
| 9-month | 18.50 |
| 1-year  |       |
| 2-year  | 20.52 |
| 3-year  | 21.06 |
| 5-year  |       |

### Breakdown by proceeds (UAHm)

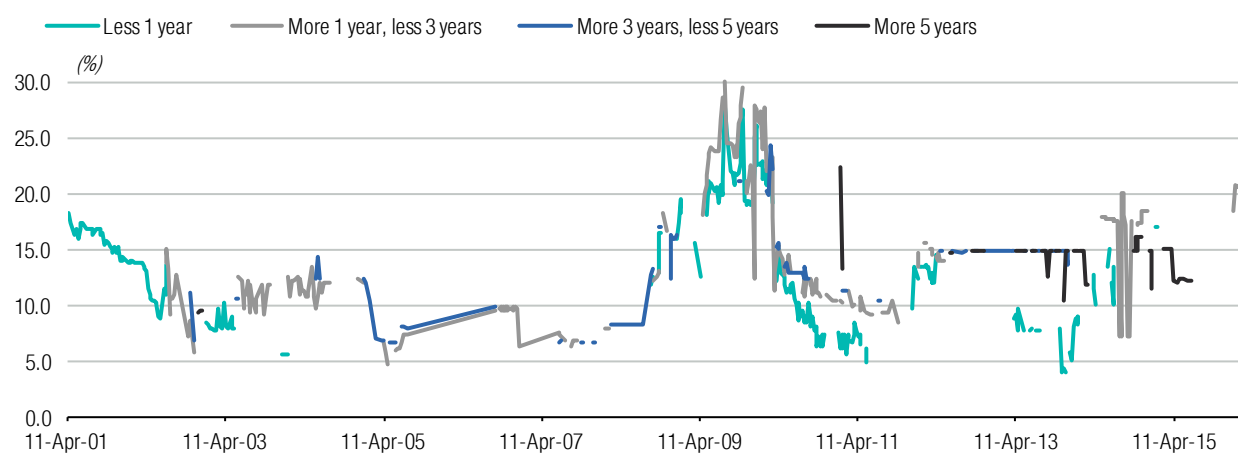
|              |              |
|--------------|--------------|
| 3-month      |              |
| 6-month      | 36.82        |
| 9-month      | 35.14        |
| 1-year       |              |
| 2-year       | 10.29        |
| 3-year       | 50.77        |
| 5-year       |              |
| <b>Total</b> | <b>82.25</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.

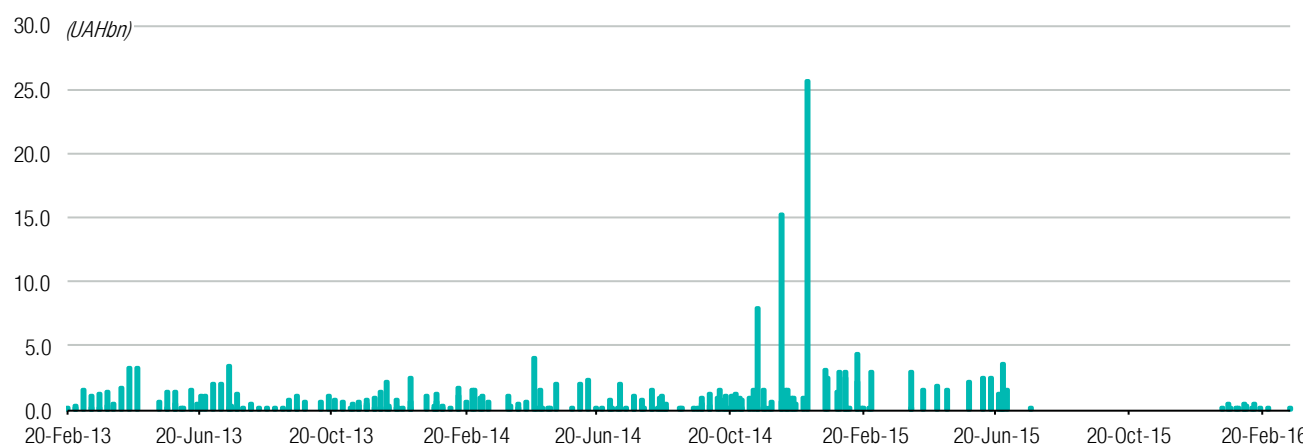
## Appendix: Auctions history and schedule for 2016

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



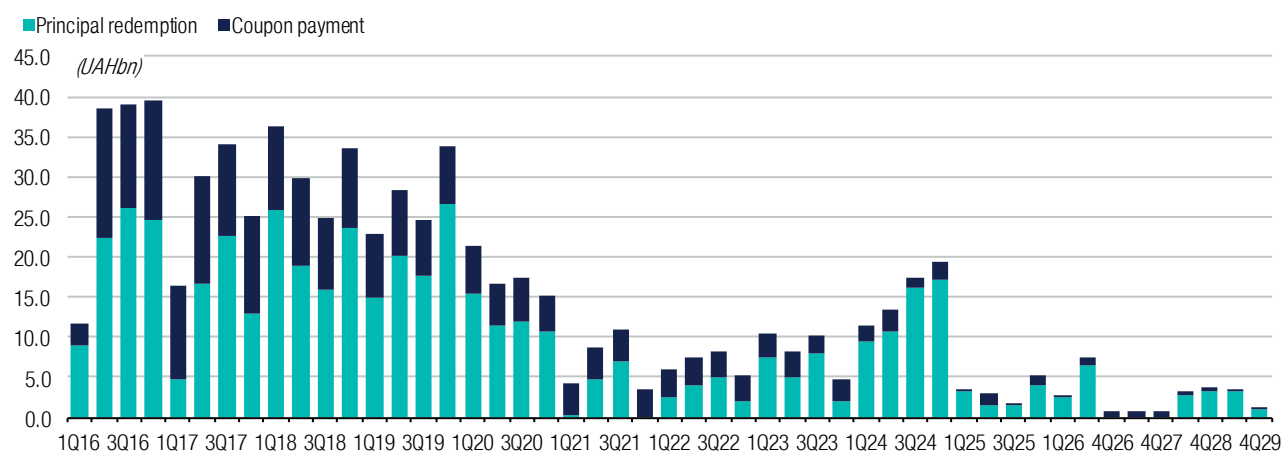
Sources: Ministry of Finance of Ukraine, ICU.

**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                    | 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                    | 0.00                    | <b>9,542,773,702.50</b> | <b>1,368,341,849.00</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>4,434,156,788.63</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>1,234,379,453.75</b> | <b>3,041,709,005.94</b> | <b>3,472,110,162.56</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>1,222,799,254.25</b> | <b>5,431,019,111.25</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>3,894,449,161.33</b> | <b>3,711,656,460.75</b> | <b>6,938,309,892.54</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>1,706,235,298.49</b> | <b>8,238,086,100.16</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 | 483,068,539.50          | <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>9,073,549,884.88</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>3,098,249,453.75</b> | <b>1,956,960,105.94</b> | <b>4,146,567,712.56</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>3,720,841,396.75</b> | <b>1,498,036,516.25</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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