



Bond Market Insight

New achievements

Government bond auction results

2Q16 started with a very active primary auction and significant budget proceeds, allowing the MoF to increase budget proceeds significantly from one auction and achieve new levels of interest rates. While the MoF raised a total of UAH1.85bn (local currency) and US\$0.92bn (FX denominated) of budget proceeds for the entire 1Q16, yesterday's auction alone provided the state budget with UAH1.31bn and US\$0.65bn of respective funds.

In addition to the large amount of proceeds, the MoF extended the yield curve by adding 5-month and 3-month bonds. The rate on 5-month bonds was set at 17.90%, or just 10bp below the interest rate on 6-month bonds three weeks ago, While the 3-month bonds were sold at 16.20%.

The rate for the 2-year USD-denominated bond remained at the same 7.85% level set two months ago. The lowest interest rate in submitted bids was 7.75%, which was 5bp higher than in February, but demand was too low to have an impact.

Table 1. Details of last government bond auction

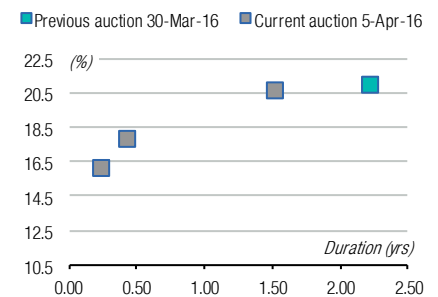
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000193775	16.20		29-Jun-16	600,000	964.06	578.44	600.00	16.20	1,000.00
UA4000193775	17.90		7-Sep-16	400,000	929.78	371.91	400.00	17.90	1,000.00
UA4000192637	19.70	SA	10-Jan-18	344,700	1,044.31	359.97	344.70	20.73	995.13
UA4000193783	7.85	SA	28-Mar-18	649,995	1,001.76	16,958.99	16,929.12	8.01	16,929.12
Total				1,994,695		18,269.31	18,273.82		19,924.25

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 26.045; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

The significant demand could have arisen from FX-denominated bonds that recently were very attractive for investors as they carry lower risk of local currency devaluation. As a result, all 15 bids were accepted of this highly concentrated demand.

WEDNESDAY, 6 APRIL 2016

Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

Auction results

Auction	Last 5-Apr-16	Previous 30-Mar-16	Change
3-month	16.20		
6-month	17.90		
9-month			
1-year			
2-year	20.73		
3-year		21.06	
5-year			

Breakdown by yields (%)

3-month	16.20
6-month	17.90
9-month	
1-year	
2-year	20.73
3-year	21.06
5-year	

Breakdown by proceeds (UAHm)

3-month	578.44
6-month	371.91
9-month	
1-year	
2-year	17,318.96
3-year	25.13
5-year	
Total	18,269.31
Previous	25.13
Change	727.05x

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.

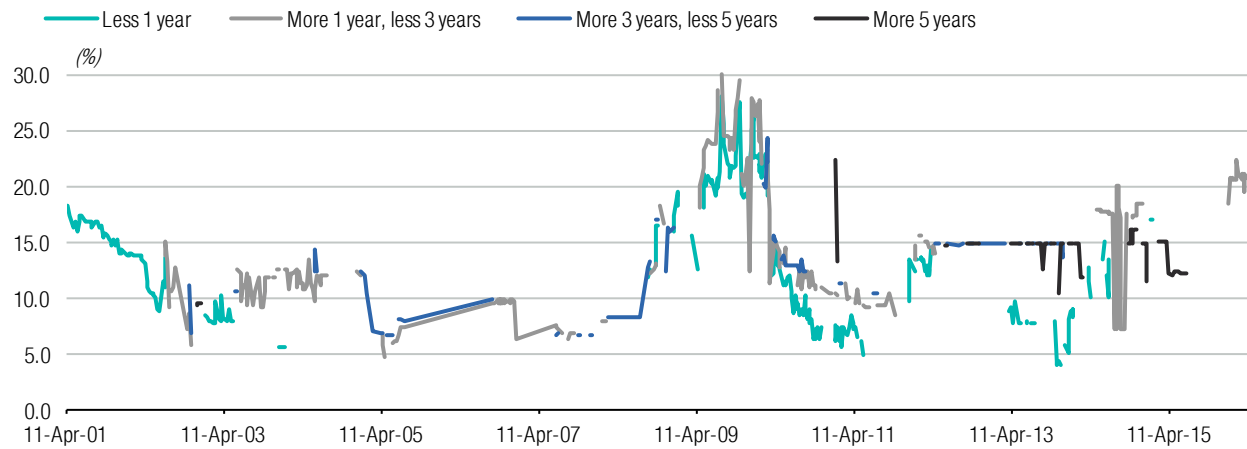
Sources: Ministry of Finance of Ukraine, ICU.

Demand for local currency bonds was mostly submitted by banks. While state-owned banks could generate a new portion of liquidity after yearly tax payments were paid in March, these investors focused on short-term bonds with a large amount of demand per bid.

On the other hand, some banks could submit large bids to purchase bonds in their portfolio to follow the recently established new requirements for banks to provide social payments and salaries. The deadline to follow these requirements is at the beginning of May.

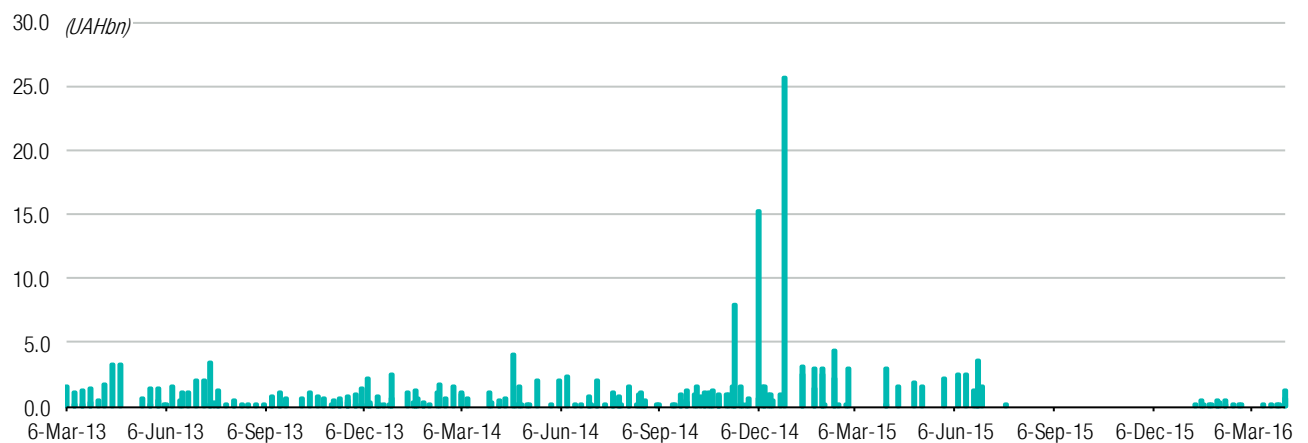
Appendix: Auctions history and schedule for 2014

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



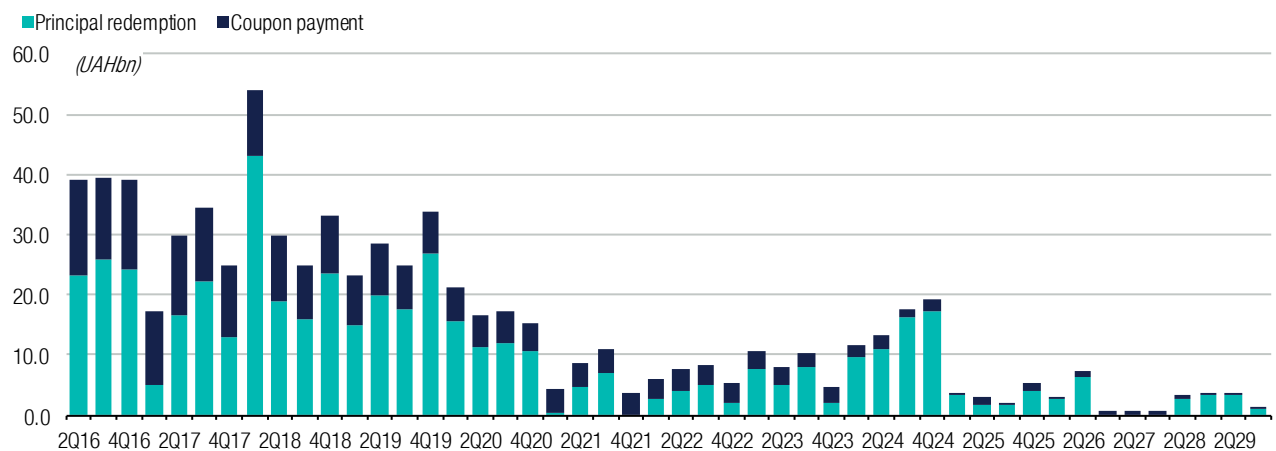
Sources: Ministry of Finance of Ukraine, ICU.

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	0.00	
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	0.00	0.00	0.00	0.00	0.00
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	4,413,131,726.88	
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	1,228,004,513.75	2,966,975,104.94	3,470,407,685.96
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	1,219,394,983.05	5,290,013,015.25	3,231,967,890.00	
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	3,878,097,816.61	3,763,694,010.75	6,756,603,099.52	1,052,458,613.75	
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	1,691,340,579.75	8,030,700,740.66	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	475,743,419.50	4,984,637,452.50	565,104,479.00	3,318,395,846.67	
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	8,800,691,034.88	
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	3,091,874,513.75	1,950,362,844.94	4,100,930,355.96
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	3,629,584,965.55	1,485,564,980.25	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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Sell: Forecasted 12-month total return significantly less than that of relevant benchmark



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