



Bond Market Insight

Yields decline

Government bond auction results

Demand at the primary auctions remained concentrated on longer-term bonds, leaving short term bonds with little to no demand, as the MoF sold mostly 12-month bonds with a combination of 2-year or 3-year bonds. Per recently set routine, one bid was submitted for the 12-month bonds while the 3-year bond attracted six bids. Total demand amounted to UAH1.53bn.

The sole bid for the 12-month bond was fully accepted, raising UAH600m par value at 17.50%, similar to a bid from one week ago that provided the budget with UAH510.85m in proceeds.

Talking about 3-year bonds, although demand was less significant, bidders once more submitted bids with lower interest rates, allowing the MoF to decrease the difference between interest rates for 2-year and 3-year bonds. At the end of April, the 3-year bond was sold at 18.45%, while last week the 2-year bond sold at 17.90%, but yesterday the MoF decreased the cut-off interest rate by 15bp to 18.30%. Because of this, the MoF sold only UAH410m of 3-year bonds to three bidders in the range 18.15%-18.30%, ultimately raising UAH410.01m of proceeds.

Auction results showed that the MoF pays attention to demand, accepts attractive bids, and successfully raises proceeds at low interest rates as it attempts to decrease the cut-off level. Decreasing of key interest rate by the NBU most likely supported demand for new bonds to become even more active, mostly due to the less significant decline in interest rates at primary auctions. It looks like yesterday's interest rate should be steady over the next few weeks if the NBU does not decide to decrease its key rate once more. If this happens, government bond rates should fall to below 18%.

Next week, the MoF has scheduled a FX-bond offering, so demand will be concentrated at this bond, while local currency bonds will see little demand.

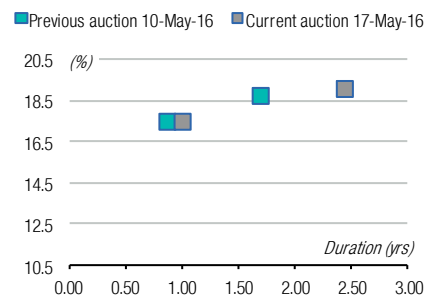
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000194120	17.50		17-May-17	600,000	851.41	510.85	600.00	17.50	600.00
UA4000194138	18.21	SA	15-May-19	410,000	1,000.03	410.01	410.00	19.09	410.00
Total				1,010,000		920.86	1,010.00		1,010.00

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, 18 MAY 2016

Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

Auction results

Auction	Last 17-May-16	Previous 10-May-16	Change
3-month			
6-month			
9-month			
1-year	17.50	17.50	0bp
2-year		18.76	
3-year	19.09		
5-year			

Breakdown by yields (%)

3-month			
6-month			
9-month			
1-year	17.50	17.50	0bp
2-year		18.76	
3-year	19.09		
5-year			

Breakdown by proceeds (UAHm)

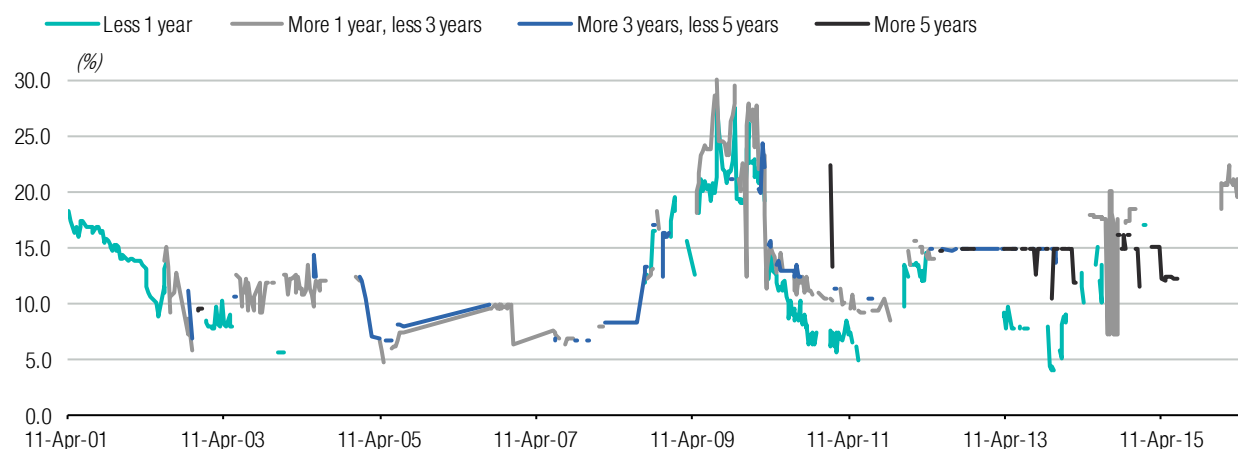
3-month			
6-month			
9-month			
1-year	510.85	86.88	5.88x
2-year		624.17	
3-year	410.01		
5-year			
Total	920.86	711.05	29.51%

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.

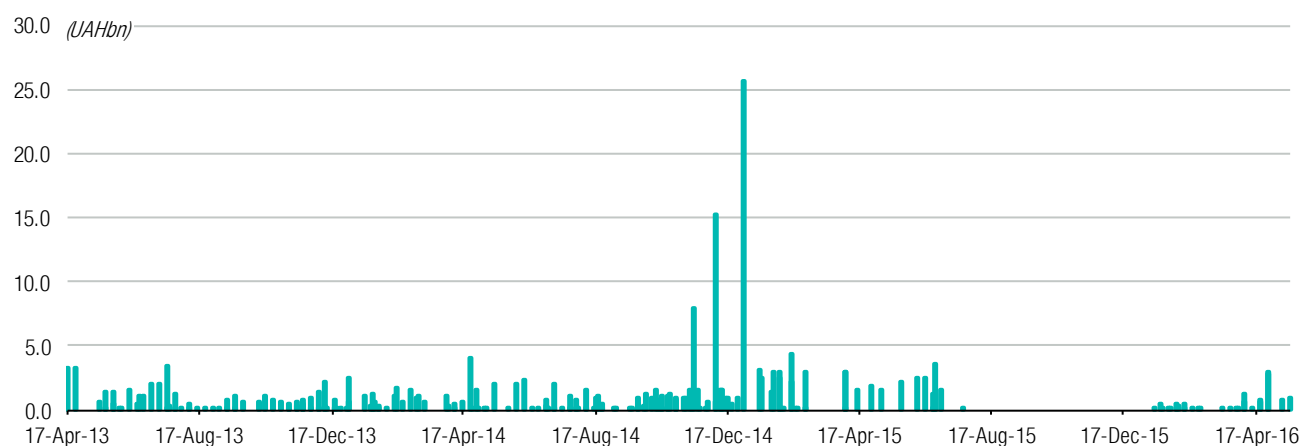
Appendix: Auctions history and schedule for 2016

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



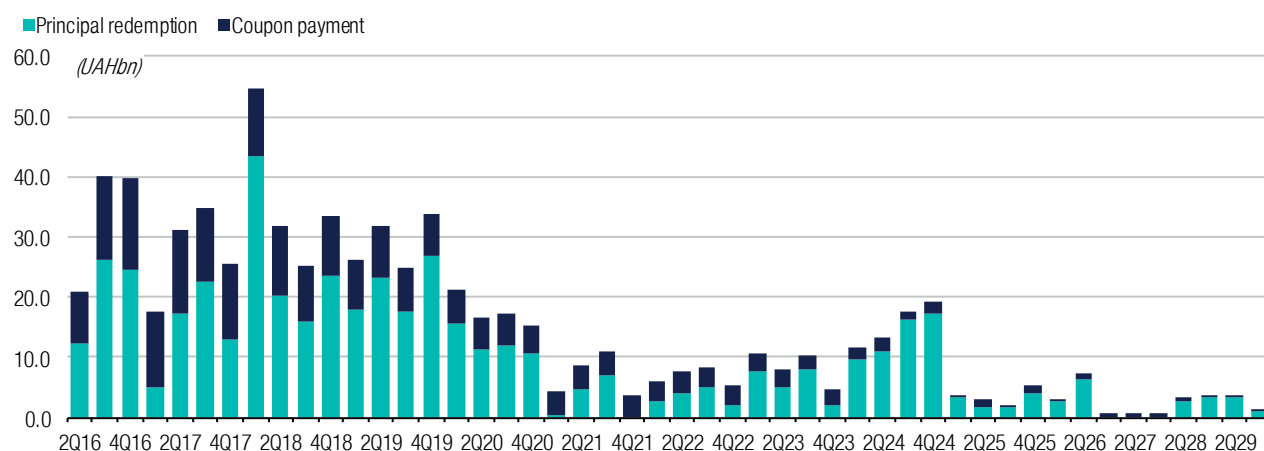
Sources: Ministry of Finance of Ukraine, ICU.

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
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	0.00	0.00	0.00	0.00	
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	0.00	0.00	1,229,670,691.25	2,986,507,829.06	3,470,852,651.44
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	1,220,284,735.75	5,326,866,881.25	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	3,882,371,463.53	3,763,694,010.75	7,105,860,157.76	1,350,518,413.75	
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	1,695,233,517.61	8,084,903,732.34	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	477,657,939.50	4,984,637,452.50	565,104,479.00	3,324,263,676.53	
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	1,239,031,858.50	3,681,932,317.00	9,127,681,816.13	
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	3,130,871,191.25	1,952,087,129.06	4,112,858,301.44
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	3,653,436,078.25	1,488,824,586.25	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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