



Bond Market Insight

Yields continue to decline

Government bond auction results

The domestic bond market remains concentrated on longer maturities and FX-denominated bonds, mostly ignoring shorter maturities of local currency denominated bonds. Yesterday's auction was very similar to other auctions this year with demand mostly submitted for 2-year local currency and 1.5-year USD-denominated bonds. The MoF accepted nearly two-thirds of demand in local currency and neatly all of the demand for USD-denominated bonds, rejecting only one small bid. Interest rates declined further, most likely in anticipation of an additional key interest rate by the NBU this Thursday.

2-year local currency bonds were sold at 17.30% at UAH2.40bn par value, below what the MoF sold 3-year bonds at the end of April, but this was the record amount for 2-year bonds this year. Demand for this bond amounted to UAH3.01bn, but not all interest rates were acceptable for the MoF. The two bids for 6-month and 12-month bonds were rejected.

The MoF used the chance to decrease interest rates for FX-denominated bonds as the cut-off interest rate was decreased by 40bp to 7.60% while the weighted average interest rate slid 15bp to 17.52%. USD-denominated bonds were sold at US\$271.05m par value, providing the MoF with US\$271.07m of proceeds, covering all FX-denominated repayments scheduled for the rest of 2Q16. Only one bid for US\$1.0m was rejected, because of its higher interest rate and low volume.

Both bonds were sold mostly at competitive bids, but a portion of accepted demand for each bond was submitted using non-competitive bids, being purchased at weighted average interest rates.

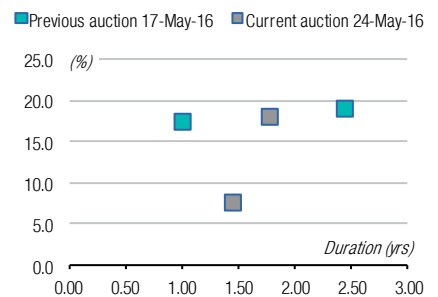
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000194179	7.52	SA	22-Nov-17	271,005	1,000.23	6,811.90	6,810.36	7.67	6,810.36
UA4000194161	17.30	SA	23-May-18	2,395,000	1,000.00	2,395.00	2,395.00	18.10	2,395.00
Total				2,666,005		9,206.90	9,205.36		9,205.36

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, 25 MAY 2016

Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

Auction results

Auction	Last 24-May-16	Previous 17-May-16	Change
3-month			
6-month			
9-month			
1-year		17.50	
2-year	7.67		
3-year		19.09	
5-year			

Breakdown by yields (%)

3-month	
6-month	
9-month	
1-year	17.50
2-year	7.67
3-year	19.09
5-year	

Breakdown by proceeds (UAHm)

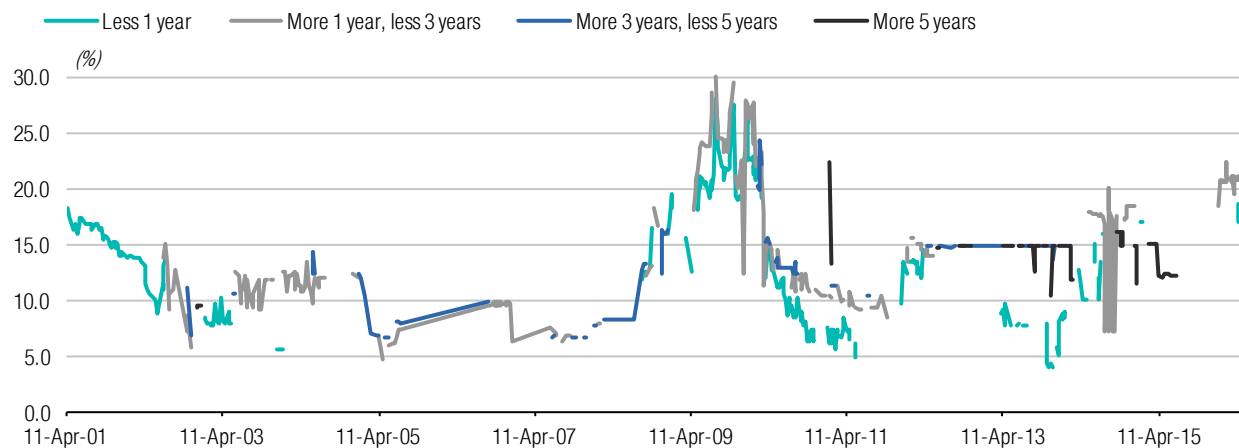
3-month			
6-month			
9-month			
1-year		510.85	
2-year	9,206.90		
3-year		410.01	
5-year			
Total	9,206.90	920.86	10.00x

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.

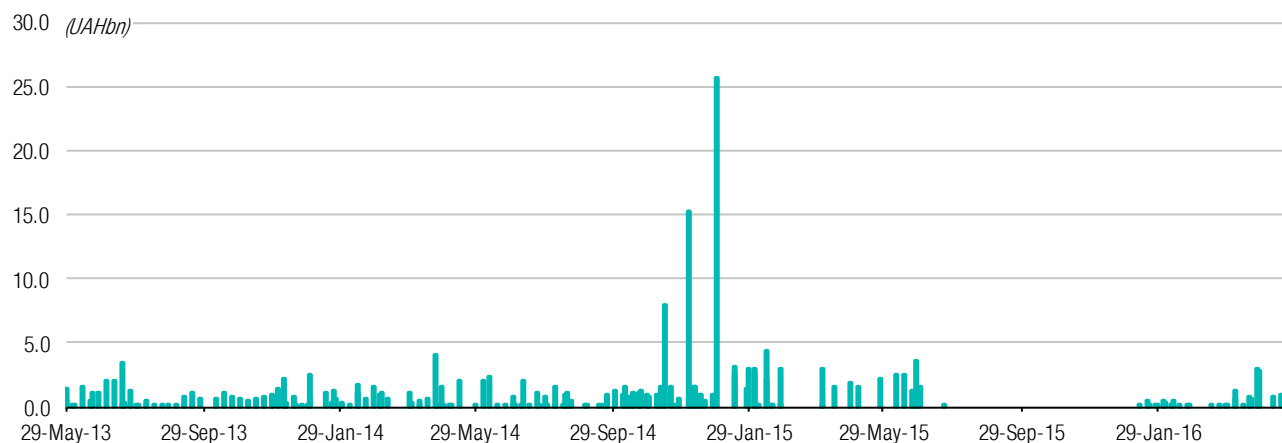
Appendix: Auctions history and schedule for 2016

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



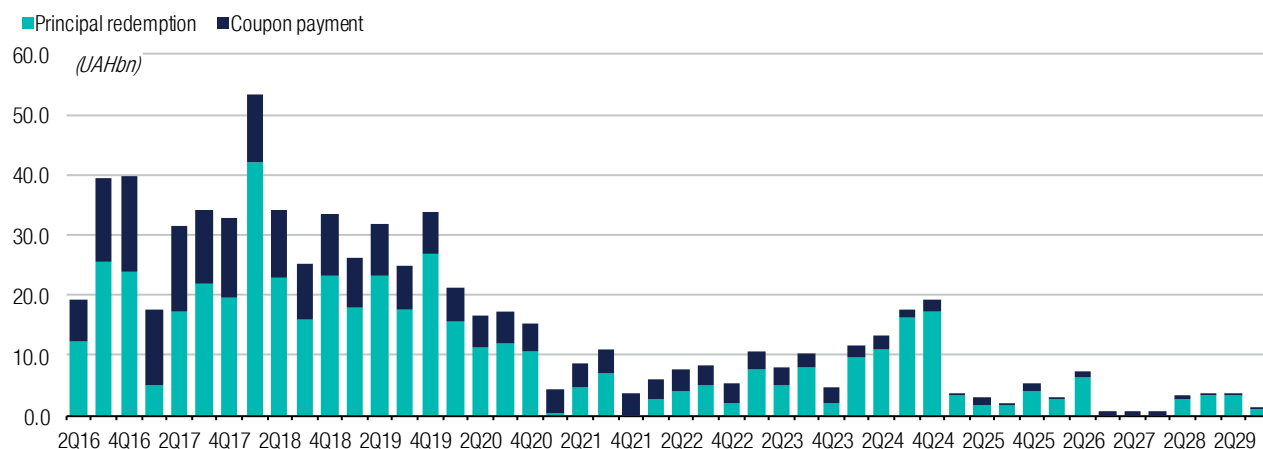
Sources: Ministry of Finance of Ukraine, ICU.

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	0.00	2,889,268,832.88	3,468,637,497.22
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	1,215,855,314.70	5,143,398,722.25	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	3,861,096,134.31	3,763,694,010.75	6,860,645,672.21	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	1,675,853,457.43	7,815,067,099.81	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	468,126,959.50	4,984,637,452.50	565,104,479.00	3,295,052,088.74	
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	8,772,655,244.25	
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	3,122,576,525.00	2,406,740,065.32	4,053,477,877.23
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	3,534,699,017.20	1,472,597,417.25	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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