



Bond Market Insight

Yield curve steady

Government bond auction results

At Tuesday's auction, the local currency yield curve remained steady. The shortest 3-month bonds were sold at the same level as at the end of April, at 16.20%, while the 12-month and 5-year bonds were sold at 16.85% and 16.75%, respectively, unchanged from last week's auction.

Demand for local currency bonds amounted to UAH2.39bn (par value) and was combined from eight bids, while only UAH0.05bn of demand was rejected due to high yields, as the MoF sold UAH2.33bn of bonds to receive UAH2.25bn of proceeds today.

FX bonds were offered on a limited basis enabling the MoF to decrease interest rates slightly as it accepted only 39% of demand. The last time the MoF sold 2-year USD-denominated bonds was in April, and yesterday the cut-off interest rate slid 40bp to 7.45% while the weighted average interest rate declined 46bp to 7.39%. With these interest rates, the MoF rejected UAH78.34m of demand and concentrated in four bids.

Next week, with no auctions scheduled, the NBU could revise its key interest rate or keep it at the same level. With a likely anticipation of no change, demand should be quite sensitive until this decision.

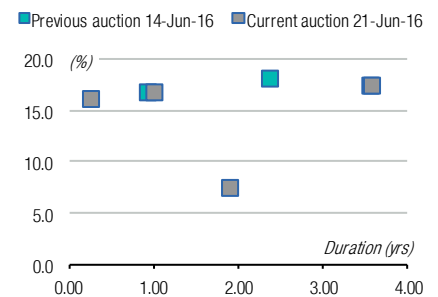
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000194435	16.20		21-Sep-16	416,000	961.18	399.85	416.00	16.20	416.00
UA4000194450	16.85		21-Jun-17	400,000	856.14	342.46	400.00	16.85	400.00
UA4000194476	7.39	SA	20-Jun-18	50,000	1,000.26	1,244.57	1,244.25	7.53	1,244.25
UA4000194468	16.75	SA	16-Jun-21	1,510,000	1,000.00	1,510.00	1,510.00	17.50	1,510.00
Total				2,376,000		3,496.88	3,570.25		3,570.25

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 1; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

WEDNESDAY, 22 JUNE 2016

Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

Auction results

Auction	Last 21-Jun-16	Previous 14-Jun-16	Change
3-month	16.20		
6-month			
9-month			
1-year	16.85	16.85	0bp
2-year	7.53		
3-year		18.19	
5-year	17.50	17.50	0bp

Breakdown by yields (%)

3-month	16.20		
6-month			
9-month			
1-year	16.85	16.85	0bp
2-year	7.53		
3-year		18.19	
5-year	17.50	17.50	0bp

Breakdown by proceeds (UAHm)

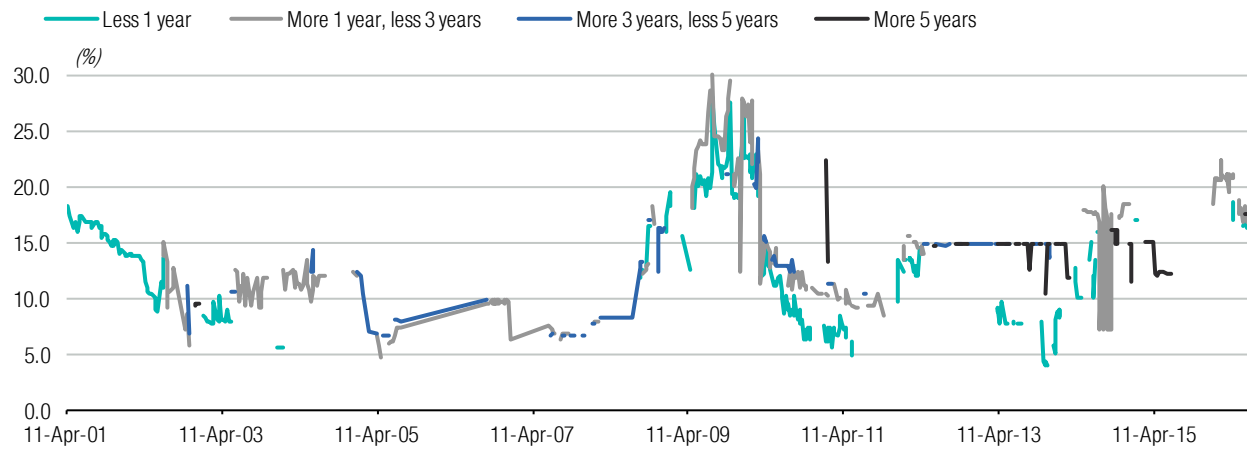
3-month	399.85		
6-month			
9-month			
1-year	342.46	156.70	2.19x
2-year	1,244.57		
3-year		501.50	
5-year	1,510.00	2,818.71	-46.43%
Total	3,496.88	3,476.90	0.57%

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.

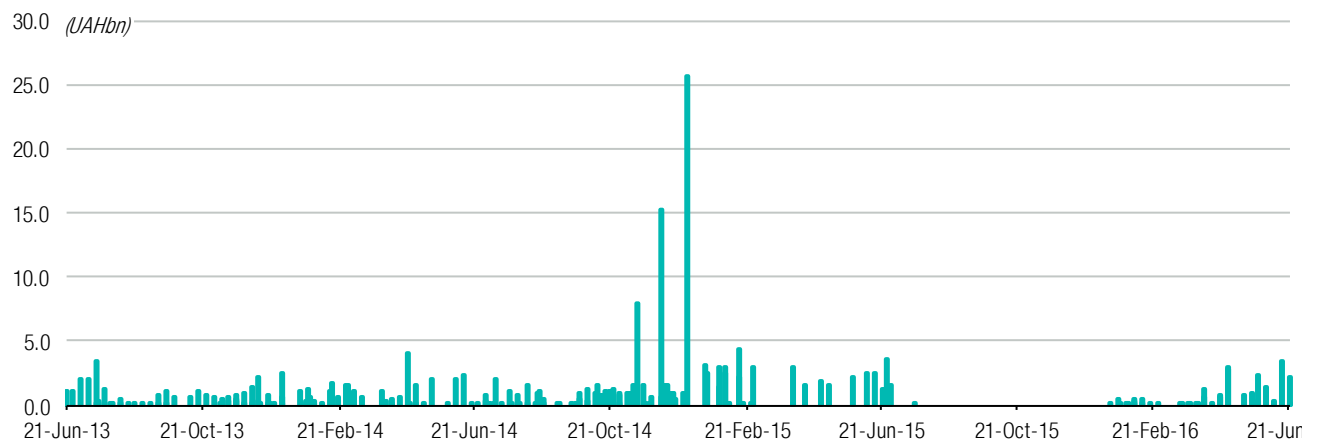
Appendix: Auctions history and schedule for 2016

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



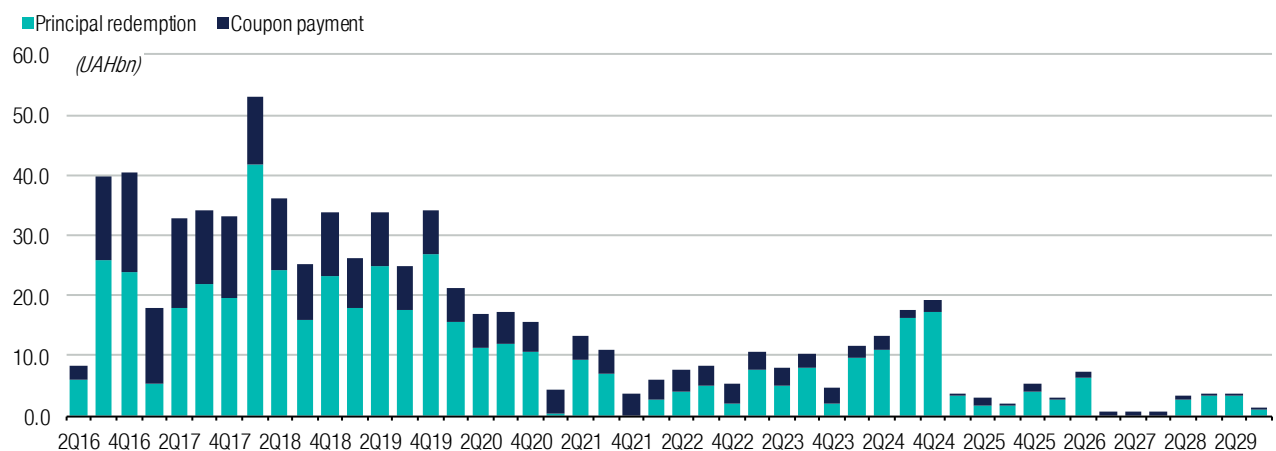
Sources: Ministry of Finance of Ukraine, ICU.

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	0.00	0.00
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	0.00	0.00	5,104,141,343.25	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	3,856,543,771.29	3,763,694,010.75	6,808,176,197.13	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	1,671,706,632.32	7,757,329,130.41	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	466,087,579.50	4,984,637,452.50	981,104,479.00	3,288,801,574.32	
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	8,696,688,859.88	
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	3,257,292,007.25	2,455,906,829.82	4,040,772,022.26
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	4,421,367,312.50	3,509,292,397.15	1,641,562,765.75	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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