



Focus  
Ukraine

Scope  
Bonds

Analyst  
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# Bond Market Insight

## Non-competitive bids dominate

### Government bond auction results

After the NBU decreased its key interest rate at the end of June, with even lower interest rates at the auction being uncertain, investor demand at yesterday's auction was tepid at best. It appears that bidders preferred to submit non-competitive bids, and almost 80% of their demand was fulfilled.

Actually, the MoF was forced to accept some competitive bids to adjust the weighted average interest rate to the level needed to accept non-competitive bids and receive funds for the state budget. As a result, 9-month bond interest rates declined 25bp to 16.50%, 12-month bond rates fell 74bp to 16.11%, and the 5-year bond rate slid only 10bp to 16.65% as demand for this bond appeared to be the most conservative.

However, total demand was paltry in contrast to that seen at previous auctions, particularly as state-owned banks appear to not participate in this auction. The MoF collected a total of 17 bids for a total of UAH514.85m, but accepted only 14 of them for a total of UAH293.85m, including UAH233.5m of non-competitive bids (all par value).

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

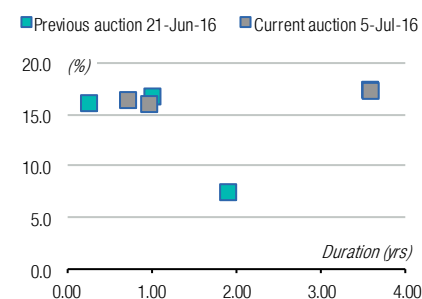
ISIN	Coupon rate (%)	Payment frequency <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m)
UA4000193684	18.50		22-Mar-17	79,000	895.19	70.72	79.00	16.50	229.00
UA4000194450	16.85		21-Jun-17	110,000	866.19	95.28	110.00	16.11	510.00
UA4000194567	16.65	SA	30-Jun-21	104,850	1,000.00	104.85	104.85	17.39	104.85
<b>Total</b>				<b>293,850</b>		<b>270.85</b>	<b>293.85</b>		<b>843.85</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.

Auctions scheduled for the rest of the month should become more active, taking into the account the results of yesterday's auction. However, demand could be mostly concentrated in non-competitive bids, enabling bidders to purchase bonds without risking being rejected while they avoid the downside of pushing interest rates down as the result of competitive bidding.

WEDNESDAY, 6 JULY 2016

### Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

### Auction results

Auction	Last 5-Jul-16	Previous 21-Jun-16	Change
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#### Breakdown by yields (%)

3-month	16.20		
6-month			
9-month	16.50		
1-year	16.11	16.85	-74bp
2-year	7.53		
3-year			
5-year	17.39	17.50	-11bp

#### Breakdown by proceeds (UAHm)

3-month		399.85	
6-month			
9-month	70.72		
1-year	95.28	342.46	-72.18%
2-year		1,245.07	
3-year			
5-year	104.85	1,510.00	-93.06%
<b>Total</b>	<b>270.85</b>	<b>3,497.38</b>	<b>-92.26%</b>

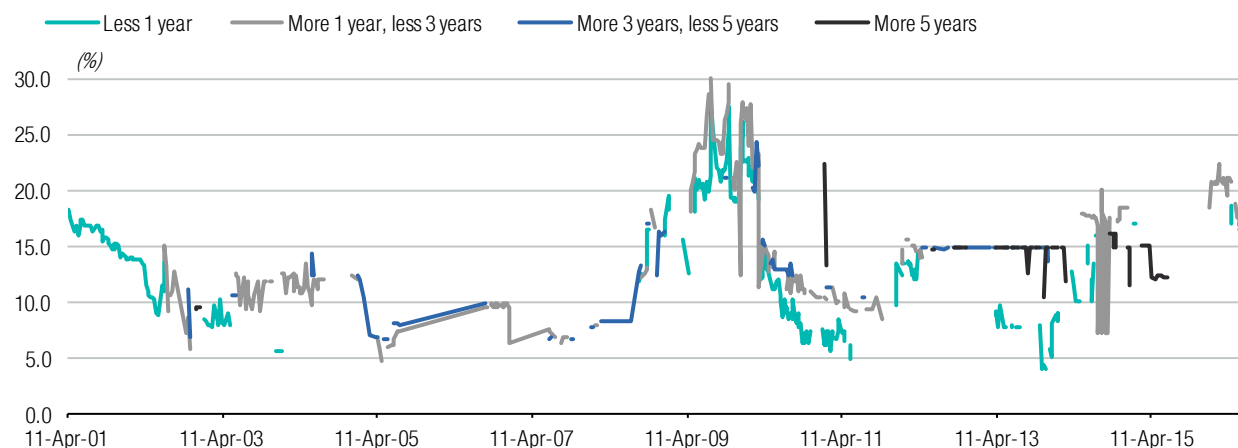
Notes: yields on coupon bearing bonds are effective yields to maturity; [1] only bonds that were placed via the auctions; [2] WA life – weighted average life or years to maturity.

Sources: Ministry of Finance of Ukraine, ICU.

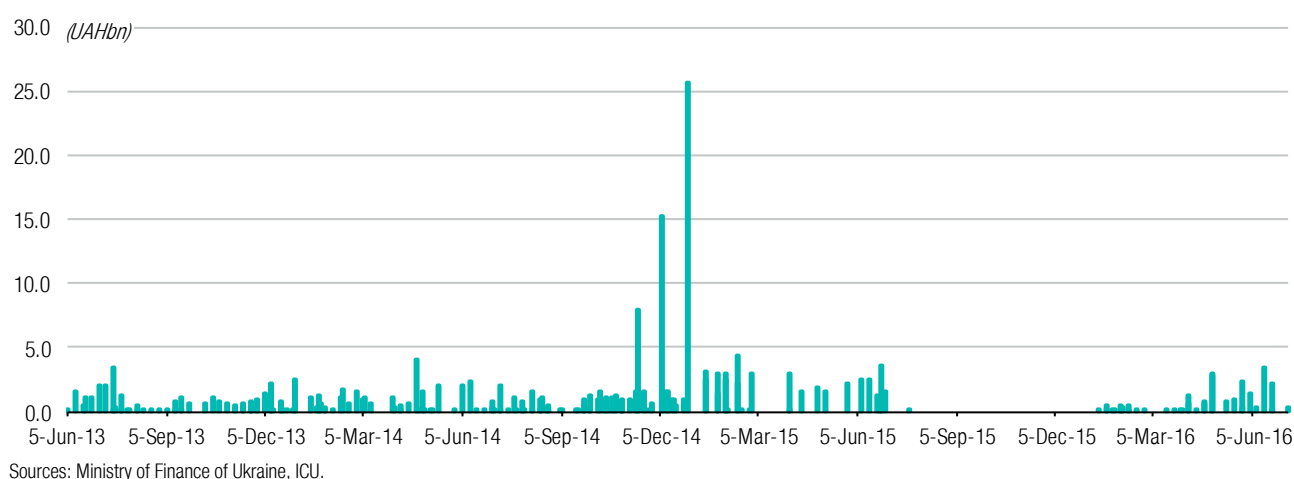
Finally, yesterday's cut-off interest rate for the 12-month bond could set the benchmark for the next auction, possibly with a slight decline, while interest rates for shorter term bonds could decline below 16% or not be sold. Because of this, further interest rate declines at the primary bond market could not only be slow, but could decline by 150bp as the key rate cut decision has been scheduled nearly to the end of the month on 28 July.

## Appendix: Auctions history and schedule for 2016

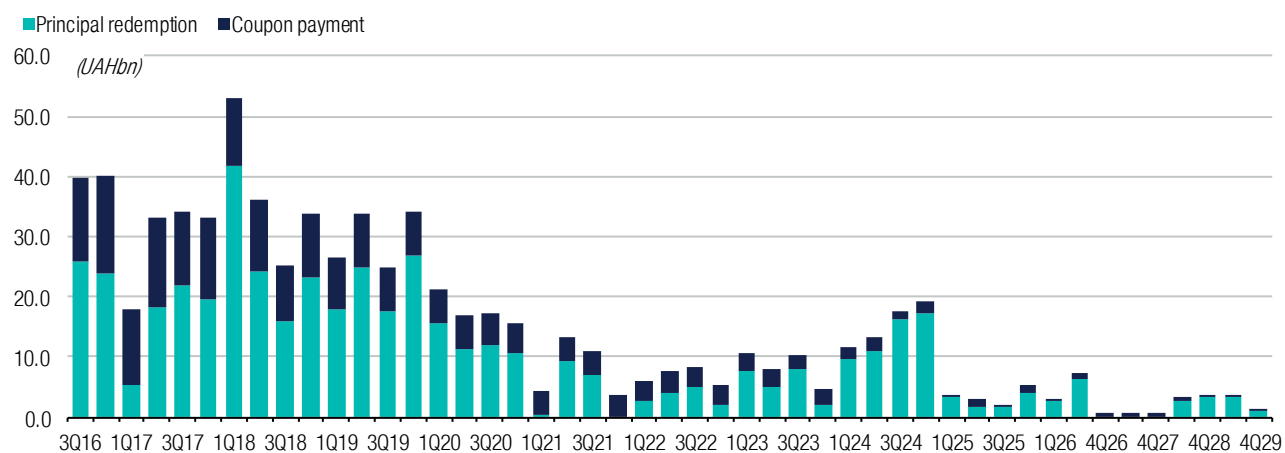
**Chart 1. History of yields at government bond auctions: breakdown by tenor of bonds sold (last 3-year period)**



**Chart 2. History of proceeds at government bond auctions: breakdown by tenor of bonds sold (last 3-year period)**



**Chart 3. Schedule of redemptions of the local-currency government bonds\***



**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	0.00	0.00	0.00
<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	0.00	0.00	0.00	0.00	
<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	0.00	0.00	0.00	0.00	0.00
<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	0.00	0.00	0.00	0.00	
<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>3,855,521,812.25</b>	<b>3,763,694,010.75</b>	<b>6,796,397,335.38</b>	<b>1,350,518,413.75</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>1,670,775,712.40</b>	<b>7,744,367,545.44</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	465,629,759.50	<b>4,984,637,452.50</b>	<b>981,104,479.00</b>	<b>3,287,398,397.61</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>1,239,031,858.50</b>	<b>3,681,932,317.00</b>	<b>8,679,635,181.75</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>3,256,893,573.50</b>	<b>2,454,934,062.67</b>	<b>4,037,919,687.47</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>4,421,367,312.50</b>	<b>3,503,588,870.20</b>	<b>1,640,681,682.25</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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**Hold:** Forecasted 12-month total return 0% to 20%

**Sell:** Forecasted 12-month total return less than 0%

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