



# Bond Market Insight

## Interest rates to decline slowly

**WEDNESDAY, 13 JULY 2016**

### Government bond auction results

Similar to the last auction, market player demand for bonds has been less competitive to decrease interest rates, as they instead prefer non-competitive bids, thus causing rates to decline much more slowly. Demand for new bonds was not very significant yesterday, slightly above UAH1.2bn, down from that during April through June when demand was as high as UAH4.0bn per auction.

Interest rates for 9-month bonds slid 20bp to 16.30%, on top of the 25bp decline a week ago, while for 12-month bond, the interest rate remains at the recent cut-off rate for this maturity, at 16.15%, or 60bp lower than it was in June. The largest decline yesterday was seen for 2-year bonds in their first placement after the last NBU key monetary interest rate cut. The MoF sold the 2-year bond at a 16.62% weighted average interest rate, or 37bp lower than the last cut-off rate at 16.70% and 30bp lower than in June.

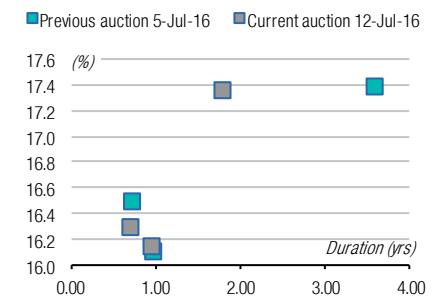
Actually, in July, the interest rate decline has been slower than it was in May and June, remaining very close to the NBU key monetary interest rate, while in the previous two months the decline was quite rapid and interest rates were significantly below the NBU's rate. Under this situation, the positive note is that the MoF was within the market rate, accepting some market demand at each auction as it rejected the highest interest rates, but ultimately fulfilling the majority of demand.

**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	0.00		22-Mar-17	100,000	898.85	89.89	100.00	16.30	329.00
UA4000194450	0.00		21-Jun-17	201,070	868.23	174.58	201.07	16.15	711.07
UA4000194591	16.62	SA	11-Jul-18	900,400	999.95	900.35	900.40	17.37	900.40
<b>Total</b>				<b>1,201,470</b>		<b>1,164.81</b>	<b>1,201.47</b>		<b>1,940.47</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.

### Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

### Auction results

Auction	Last 12-Jul-16	Previous 5-Jul-16	Change
3-month			
6-month			
9-month	16.30	16.50	-20bp
1-year	16.15	16.11	4bp
2-year	17.37		
3-year			
5-year		17.39	

### Breakdown by yields (%)

3-month			
6-month			
9-month	16.30	16.50	-20bp
1-year	16.15	16.11	4bp
2-year	17.37		
3-year			
5-year		17.39	

### Breakdown by proceeds (UAHm)

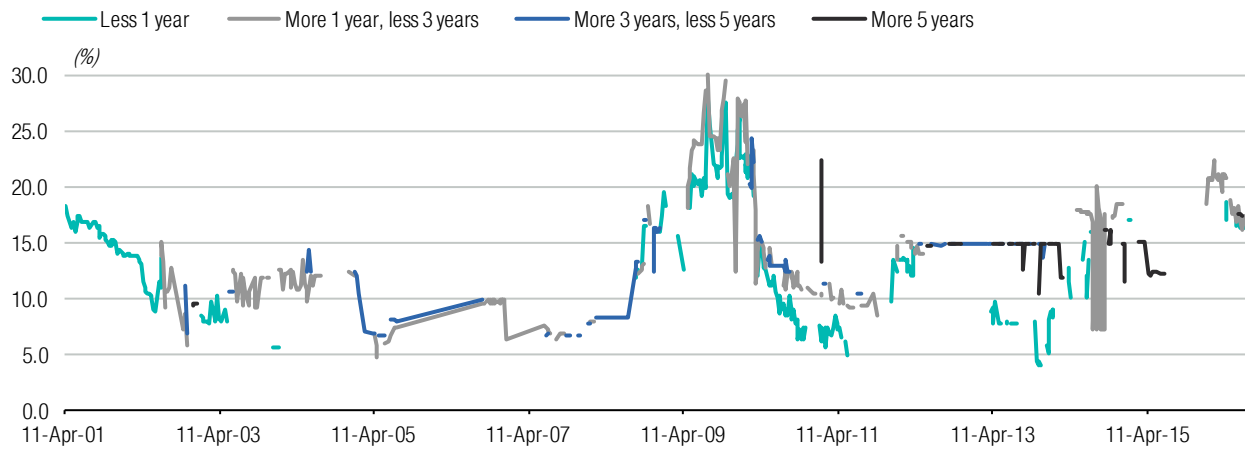
3-month			
6-month			
9-month	89.89	70.72	27.10%
1-year	174.58	95.28	83.22%
2-year	900.35		
3-year			
5-year		104.85	
<b>Total</b>	<b>1,164.81</b>	<b>270.85</b>	<b>4.30x</b>

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.

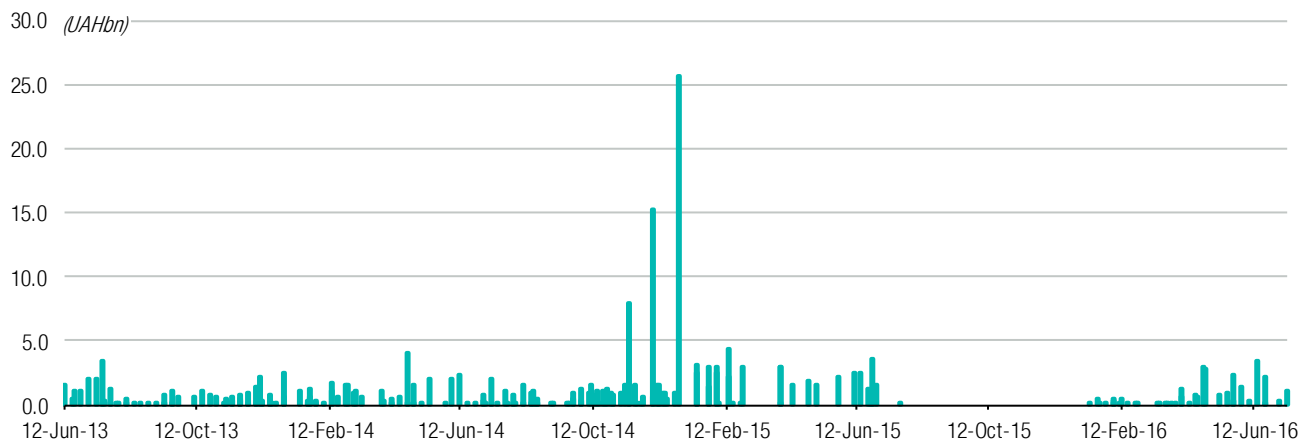
## Appendix: Auctions history and schedule for 2016

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



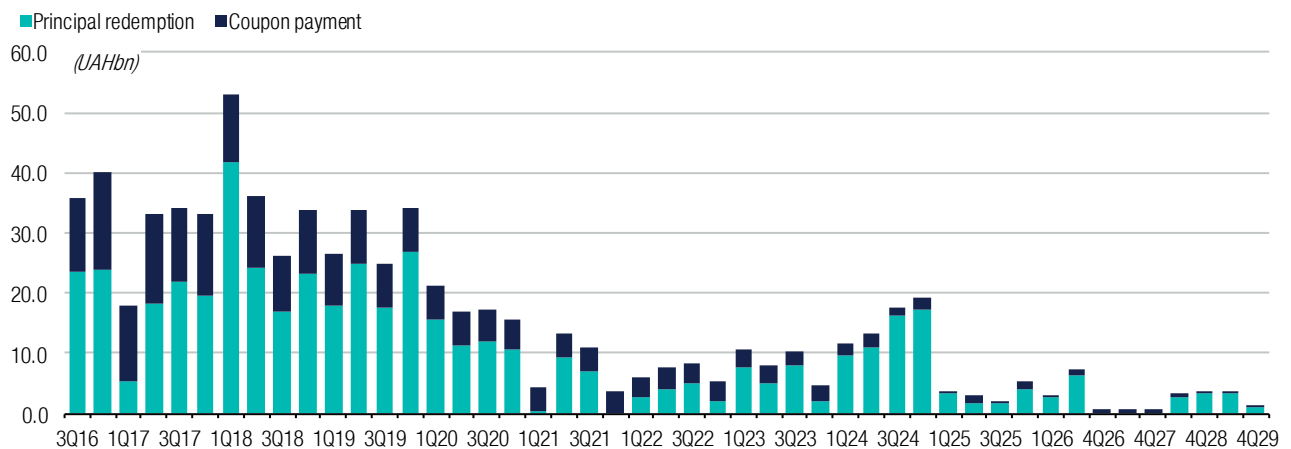
Sources: Ministry of Finance of Ukraine, ICU.

**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
<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	0.00	<b>3,763,694,010.75</b>	<b>6,796,932,738.19</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>1,670,818,026.94</b>	<b>7,744,956,708.39</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	465,650,569.50	<b>4,984,637,452.50</b>	<b>981,104,479.00</b>	<b>3,287,462,178.37</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>8,680,410,348.94</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>3,256,911,684.13</b>	<b>2,454,978,279.35</b>	<b>4,038,049,339.06</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>3,503,848,121.43</b>	<b>1,640,721,731.50</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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**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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