



# Bond Market Insight

## Demand down slightly

### Government bond auction results

Even though demand at the primary auction continued to decline slightly yesterday, down to UAH0.85bn versus UAH1.45bn last week and UAH1.56bn two weeks ago, primary market interest rates also continued to slide for all bonds sold.

Out of UAH0.85bn of demand via 17 bids, the MoF rejected just two bids totalling UAH0.03bn due to interest rates higher than 16.60%. 6-month bonds were sold at 16.20%, only 5b.p. lower than at the end of May, while earlier this month demand at 16.50% was rejected. 12-month bonds also sold at 5b.p. lower than two weeks ago, but at a much lower volume.

The greatest demand is normally submitted for mid-term bonds, represented this week by a 2-year bond. The weighted-average interest rate was 16.59% with the cut-off interest rate at 16.60%, while the lowest rate was 16.50%. Competitive demand concentrated at the cut-off rate. Non-competitive bids, which usually command a significant portion of demand, were nearly 54% of accepted demand.

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

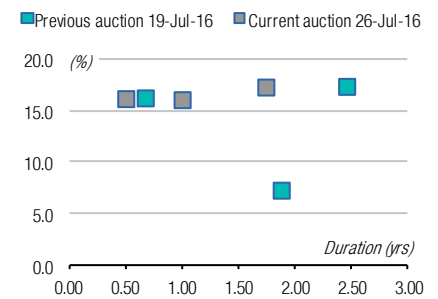
ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m)
UA4000194849	0.00		25-Jan-17	203,230	925.26	188.04	203.23	16.20	203.23
UA4000194856	0.00		26-Jul-17	63,500	861.65	54.71	63.50	16.10	63.50
UA4000194591	16.62	SA	11-Jul-18	553,450	1,006.65	557.13	553.45	17.33	1,453.85
<b>Total</b>				<b>820,180</b>		<b>799.89</b>	<b>820.18</b>		<b>1,720.58</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.

Next week, the MoF is scheduled to offer a 5-year bond which has attracted significant demand in the past, albeit with a limited number of bids. Similar demand could be seen next week as well, but at an even lower amount. But if the NBU cuts its key monetary rate once more this Thursday, demand for 5-year bonds could rise slightly. Interest rates should decline insufficiently, maintaining July's dynamic with a slight decline. Although this could push small investors to buy these bonds and fix their profitability at a normal level for a long time, demand at the next auction should not increase significantly.

### WEDNESDAY, 27 JULY 2016

#### Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

#### Auction results

Auction	Last 26-Jul-16	Previous 19-Jul-16	Change

#### Breakdown by yields (%)

3-month			
6-month	16.20		
9-month		16.28	
1-year	16.10		
2-year	17.33	7.29	1,004bn
3-year		17.39	
5-year			

#### Breakdown by proceeds (UAHm)

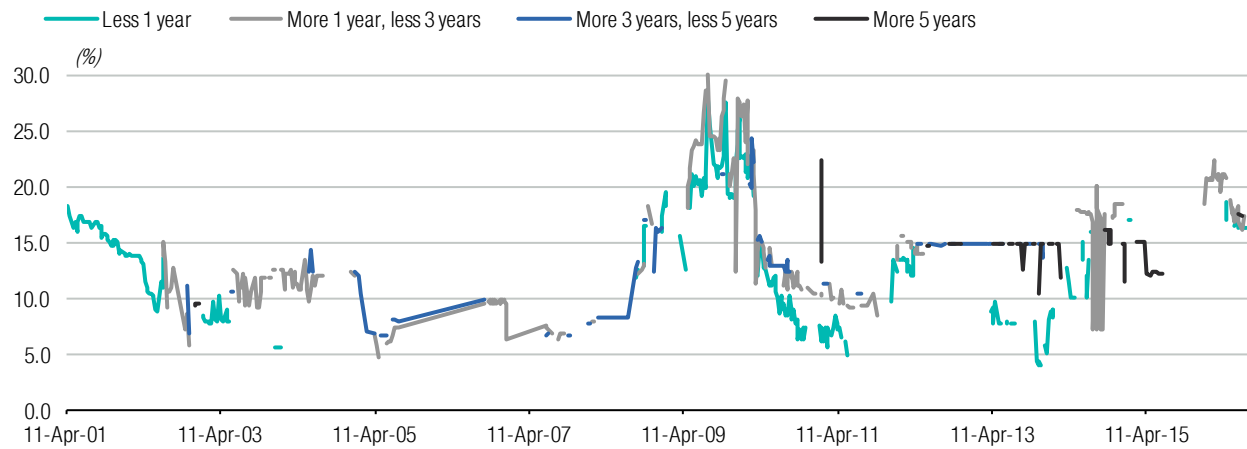
3-month			
6-month	188.04		
9-month		360.61	
1-year	54.71		
2-year	557.13	2,430.73	-77.08%
3-year		890.21	
5-year			
<b>Total</b>	<b>799.89</b>	<b>3,681.55</b>	<b>-78.27%</b>

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.

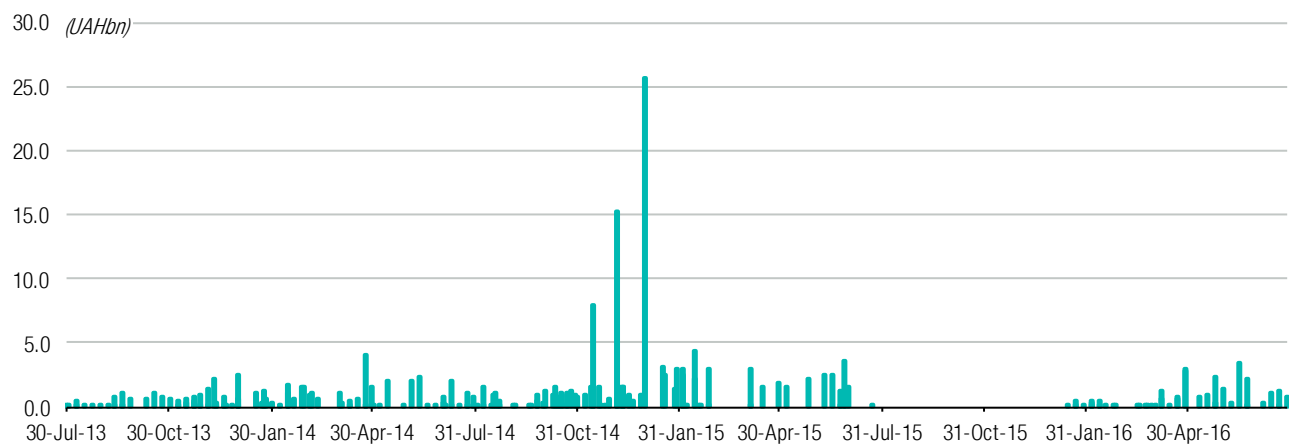
## Appendix: Auctions history and schedule for 2016

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



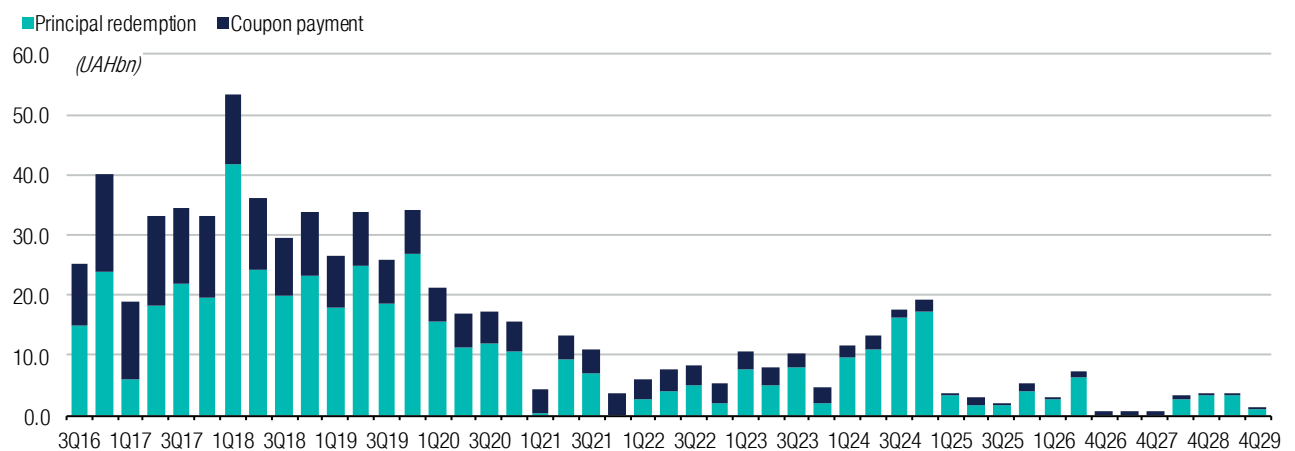
Sources: Ministry of Finance of Ukraine, ICU.

**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	0.00	0.00	<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>1,670,014,050.65</b>	<b>7,733,762,612.28</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	465,255,179.50	<b>4,984,637,452.50</b>	<b>981,104,479.00</b>	<b>3,286,250,343.94</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>8,665,682,172.38</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>3,256,567,582.25</b>	<b>2,454,138,162.27</b>	<b>4,035,585,959.01</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>3,498,922,348.15</b>	<b>1,639,960,795.75</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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**Buy:** Forecasted 12-month total return significantly greater than that of relevant benchmark

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**Sell:** Forecasted 12-month total return significantly less than that of relevant benchmark



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