



Bond Market Insight

Auction flattens yield curve

Government bond auction results

Yesterday, the MoF pushed the yield curve down after the recent NBU key rate cut, decreasing rates for yields up to 2-year maturities, keeping 16.00% for 5-year bonds steady. While the MoF rejected most of the longer term demand, it raised a paltry UAH0.11bn.

Totally demand amounted to only UAH0.16bn for the 9-month and 12-month zero-coupon bonds as well as the 2-year coupon-bearing bonds: one for the 9-month and one for 12-month bond, and two bids for the 2-year bonds. While 12-month bond demand was the same as two weeks ago, the interest rate for the 9-month bond was down 20bp to 15.30%.

2-year bonds saw one small bid for UAH1.5m at 15.50% and one for UAH40.0m at 16.0%. The MoF rejected the large bid, decreasing the cut-off interest rate to 15.50%.

As a result of the auction, the yield-curve flattened, maintaining the 16.0% rate only for 5-year bonds which were not sold last week due to insufficient demand at the same level. However, 3-year bonds scheduled over the next two weeks could be sold at around 15.70%, depending on demand.

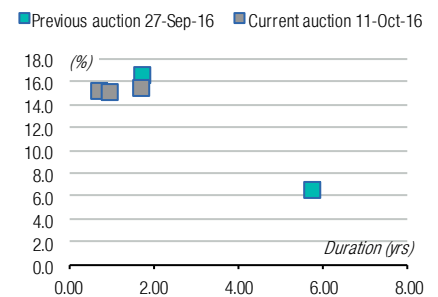
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000194450	16.85		21-Jun-17	30,000	904.46	27.13	30.00	15.30	741.07
UA4000195382	0.00		20-Sep-17	90,000	875.01	78.75	90.00	15.20	113.00
UA4000195390	16.00	SA	29-Aug-18	1,555	1,025.85	1.60	1.56	15.56	826.56
Total				121,555		107.48	121.56		1,680.63

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, 12 OCTOBER 2016

Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

Auction results

Auction	Last 11-Oct-16	Previous 27-Sep-16	Change
3-month			
6-month			
9-month	15.30		
1-year	15.20		
2-year	15.56	16.69	-1136m
3-year			
5-year			

Breakdown by yields (%)

3-month	
6-month	
9-month	15.30
1-year	15.20
2-year	15.56
3-year	
5-year	

Breakdown by proceeds (UAHm)

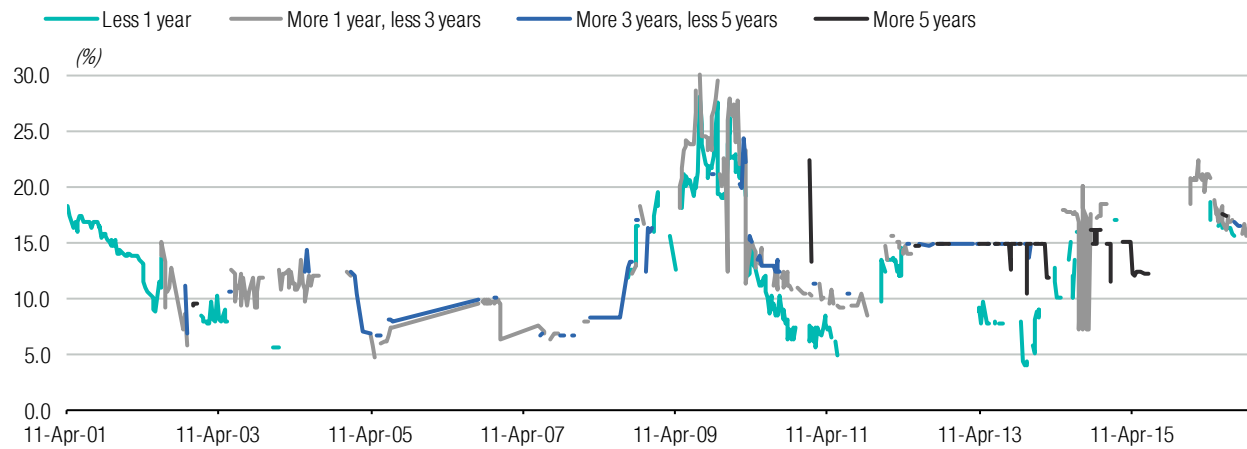
3-month			
6-month			
9-month	27.13		
1-year	78.75		
2-year	1.60	25.30	-93.69%
3-year			
5-year			
Total	107.48	5,025.30	-97.86%

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.

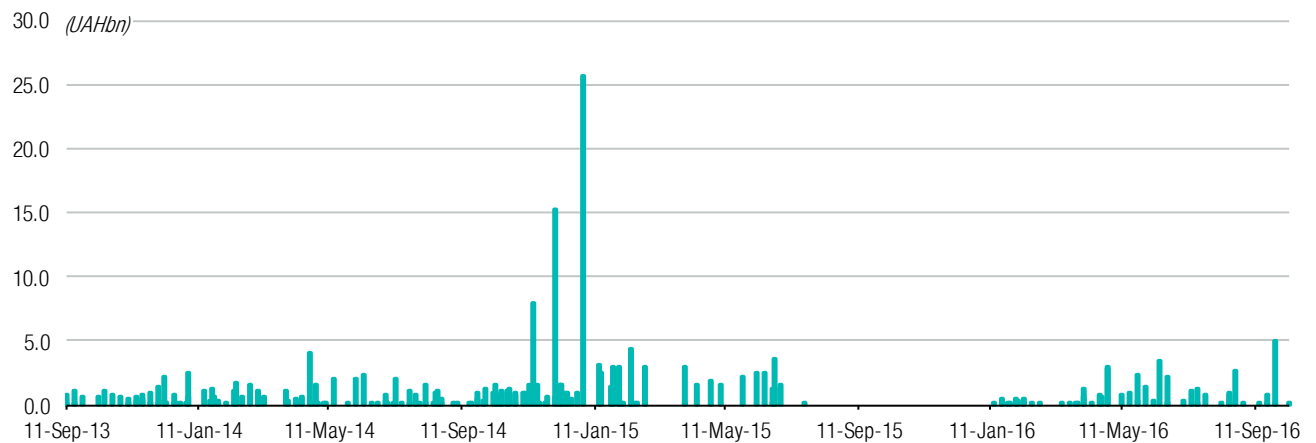
Appendix: Auctions history and schedule for 2016

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



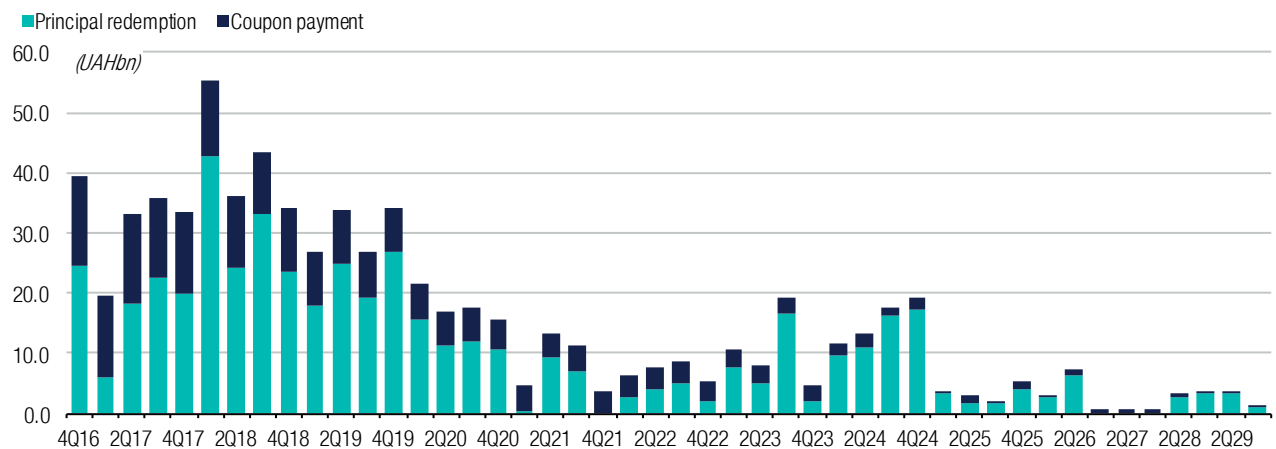
Sources: Ministry of Finance of Ukraine, ICU.

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	0.00	0.00	
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	0.00	0.00	0.00	0.00	
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	0.00	0.00	0.00	0.00	0.00
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	0.00	0.00	0.00	0.00	
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	0.00	1,239,031,858.50	3,681,932,317.00	8,980,400,050.50	
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	3,263,920,496.00	2,472,090,137.90	4,088,224,501.00
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	3,604,178,345.50	1,656,220,791.25	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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Sell: Forecasted 12-month total return significantly less than that of relevant benchmark



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