



Bond Market Insight

Insufficient proceeds

Government bond auction results

At yesterday's primary auction, the MoF received only UAH129.58m of proceeds from the sales of only 1-year and 2-year bonds, keeping interest rates at the usual levels. Of the UAH440m in total volume in bids, the MoF satisfied only UAH140m (par value), accepting only two bids. Demand and the actual amount of bonds sold was insignificant compared with the most active auctions seen last year.

Demand was submitted for four of the five bonds offered, but the MoF rejected the bids for the 3-month and 9-month bonds because the interest rates were higher than recent previously accepted bids. As a result, the MoF sold UAH80m (par value) of 12-month bonds and UAH60m of 2-year bonds, maintaining routine conditions, with low proceeds to the budget.

Over the next few weeks, auctions should remain the same, as demand should continue to be insignificant. The next large redemptions are scheduled in March when the MoF will have to redeem bonds issued in 2014 and 2016.

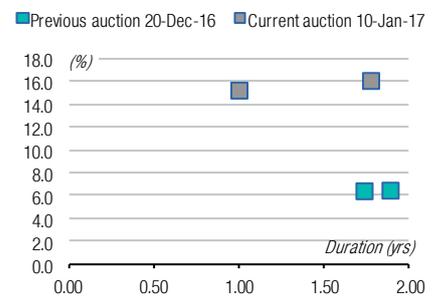
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000196554	0.00		10-Jan-18	80,000	867.62	69.41	80.00	15.30	80.00
UA4000196562	15.50	SA	2-Jan-19	60,000	1,002.88	60.17	60.00	16.15	60.00
Total				140,000		129.58	140.00		140.00

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, 11 JANUARY 2017

Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

Auction results

Auction	Last 10-Jan-17	Previous 20-Dec-16	Change
3-month			
6-month			
9-month			
1-year	15.30		
2-year	16.15	6.46	96.96%
3-year			
5-year			

Breakdown by yields (%)

3-month			
6-month			
9-month			
1-year	15.30		
2-year	16.15	6.46	96.96%
3-year			
5-year			

Breakdown by proceeds (UAHm)

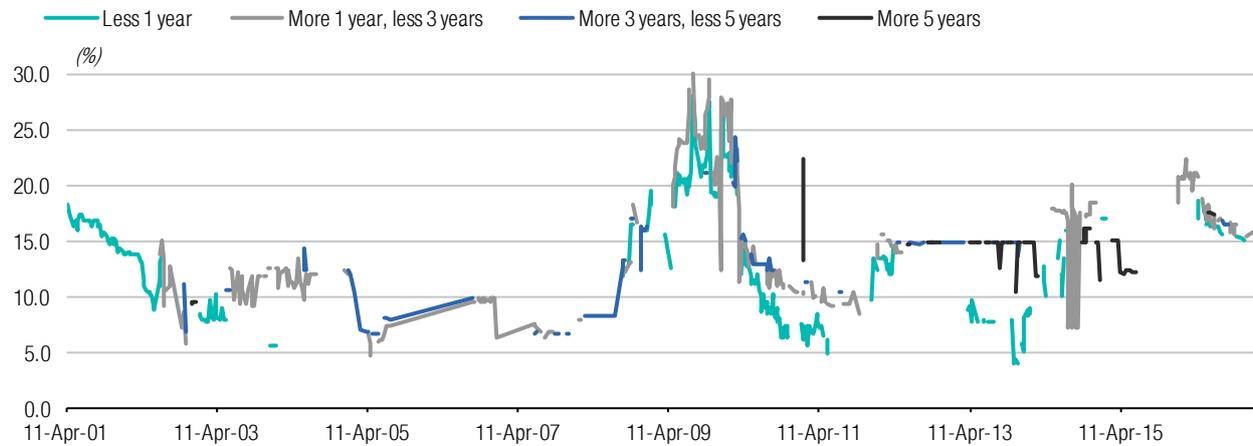
3-month			
6-month			
9-month			
1-year	69.41		
2-year	60.17	5,981.87	-98.99%
3-year			
5-year			
Total	129.58	5,981.87	-97.83%

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.

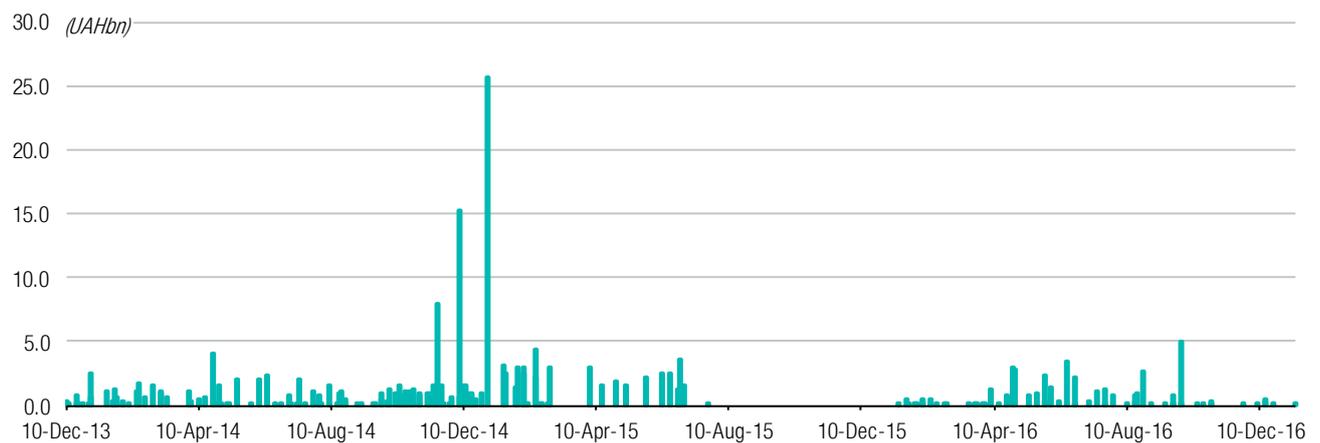
Appendix: Auctions history and schedule for 2017

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



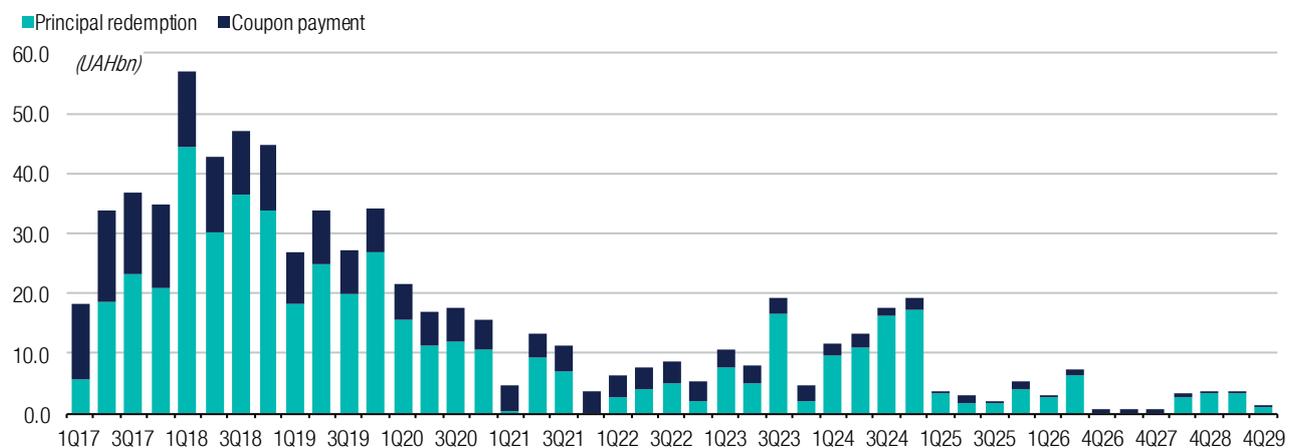
Sources: Ministry of Finance of Ukraine, ICU.

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.

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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.

DEBT RATING DEFINITIONS

Buy: Forecasted 12-month total return significantly greater than that of relevant benchmark

Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

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



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