



Focus  
**Ukraine**

Scope  
**Bonds**

Analyst  
**Taras Kotovych**

# Bond Market Insight

## Demand rejected

WEDNESDAY, 18 JANUARY 2017

### Government bond auction results

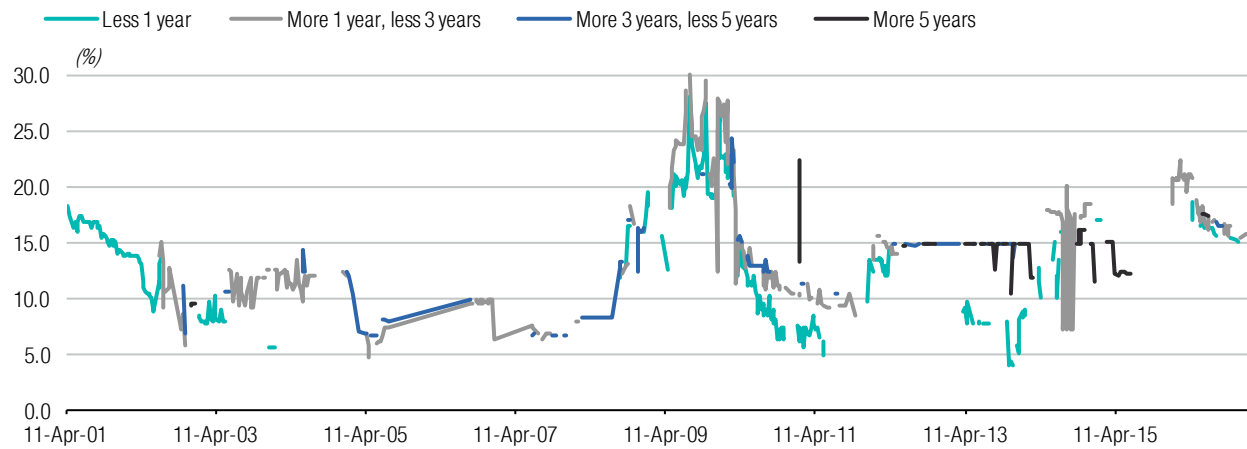
After months of low demand, only one bid was submitted at 16.00% for UAH50m of each bond with three- to nine-month maturities while the 12-month bond rate was at 16.50%.

The MoF rejected these bids, as anticipated, in light of the NBU's forecast for inflation to decrease. Actual secondary market quotes are at around 16%. Bids for bonds maturing this year are at 16.0-16.4%, and next year at and above 16.70%.

The next auction should be very important for the primary market as both the MoF and traders will have to determine a meeting ground. Most likely, the MoF will attempt to cut interest rates, but also be very careful with increasing rates as this will give a negative message to the market. On the other hand, market players will be forced to purchase new bonds and additional bonds in portfolios over buying smaller portions of bonds at higher rates. The next auction could move interest rates to levels routinely seen in recent months in the range of 15-16%, providing the state budget with larger proceeds.

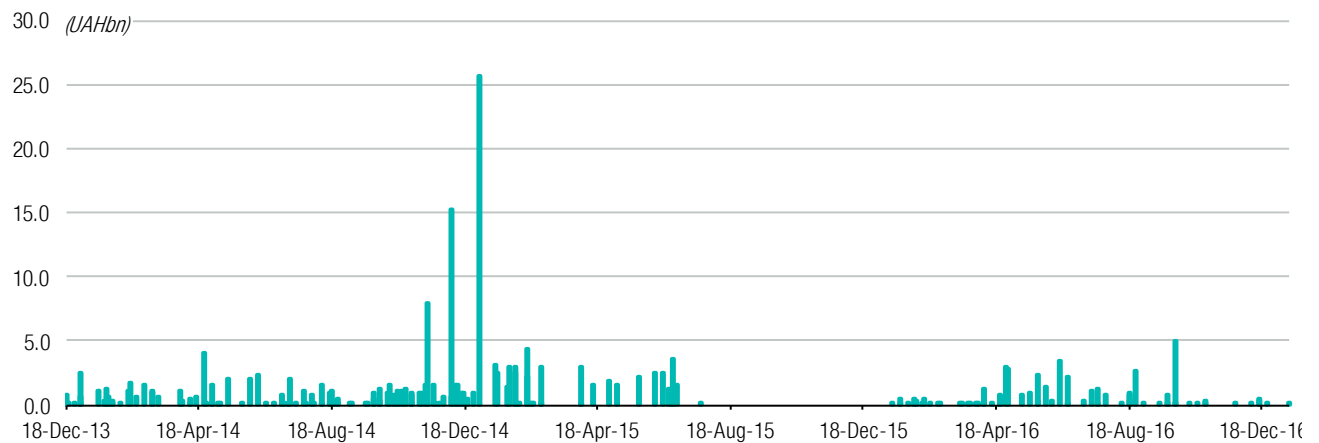
## Appendix: Auctions history and schedule for 2017

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



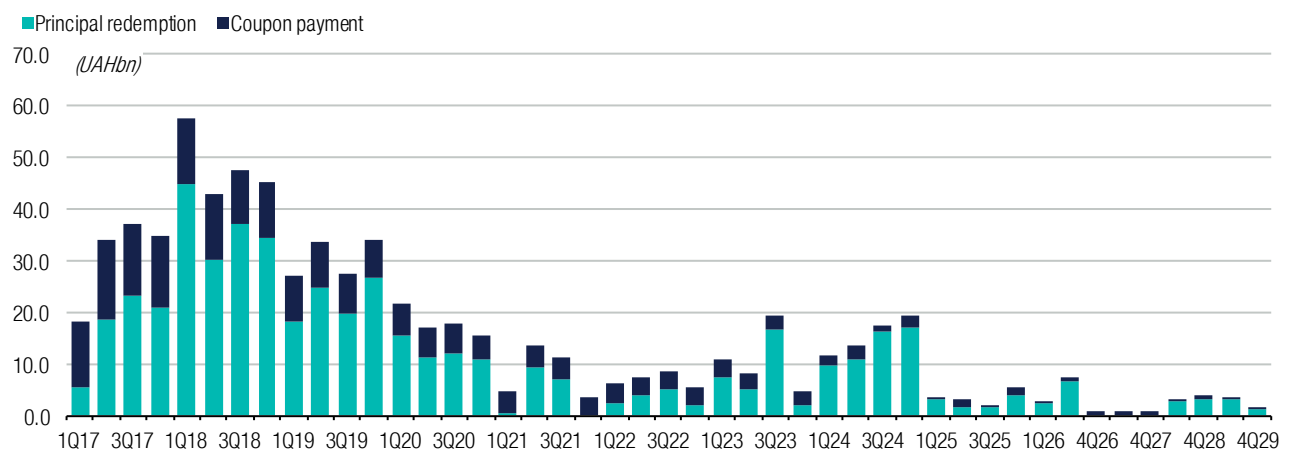
Sources: Ministry of Finance of Ukraine, ICU.

**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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### EQUITY RATING DEFINITIONS

**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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