



# Bond Market Insight

## FX bonds sold after hiatus

### Government bond auction results

After a three month hiatus of auctions, the MoF yesterday offered a 12-month USD-denominated bond with semi-annual coupon payments and raised US\$140.03m in proceeds at a weighted average interest rate of 8.66%.

Of the total of six bids at rates between 8.50% to 12.00%, the MoF accepted only three at rates no higher than 8.75% and accepted most of the demand volume, rejecting only US\$20.0m in bids, or one-eighth of demand.

Demand was quite sufficient as only primary dealers could participate in the auction as purchasing criteria were quite restrictive. While bonds could be sold in the secondary market with payments in local currency, primary dealers were required to purchase FX at the market. Moreover, dealers could not purchase FX prior to the auction to maintain FX-market regulations or NBU administrative regulations.

These restrictions forced many market players out of the auction even though their demand could have been very competitive with dealers' bids, possibly to the extent that it could decrease the coupon rate on this bond. However, because only primary dealers were allowed to participate in this auction, most of the bids were probably from state-owned banks which received large repayments in FX during May and the first three weeks of June.

This auction appears to be the first step of fulfilling the EFF program to have the MoF refinance all FX-denominated debt repayments in the local bond market. The MoF has not had to refinance many repayments since the program's approval even though large repayments were made from the beginning of the program through yesterday.

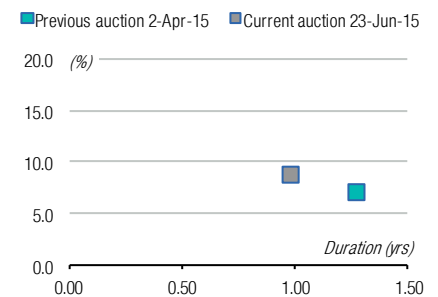
**Table 1. Details of last government bond auction**

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)
UA4000190292	8.66	SA	22-Jun-16	140,000	1,000.23	3,028.19	3,027.50	8.85	3,027.50
<b>Total</b>				<b>140,000</b>		<b>3,028.19</b>	<b>3,027.50</b>		<b>3,027.50</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 21.625; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

**WEDNESDAY, 24 JUNE 2015**

### Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

### Auction results

Auction	Last 23-Jun-15	Previous 2-Apr-15	Change
3-month			
6-month			
9-month			
1-year	8.85		
2-year		7.14	
3-year			
5-year			

### Breakdown by yields (%)

3-month	
6-month	
9-month	
1-year	8.85
2-year	7.14
3-year	
5-year	

### Breakdown by proceeds (UAHm)

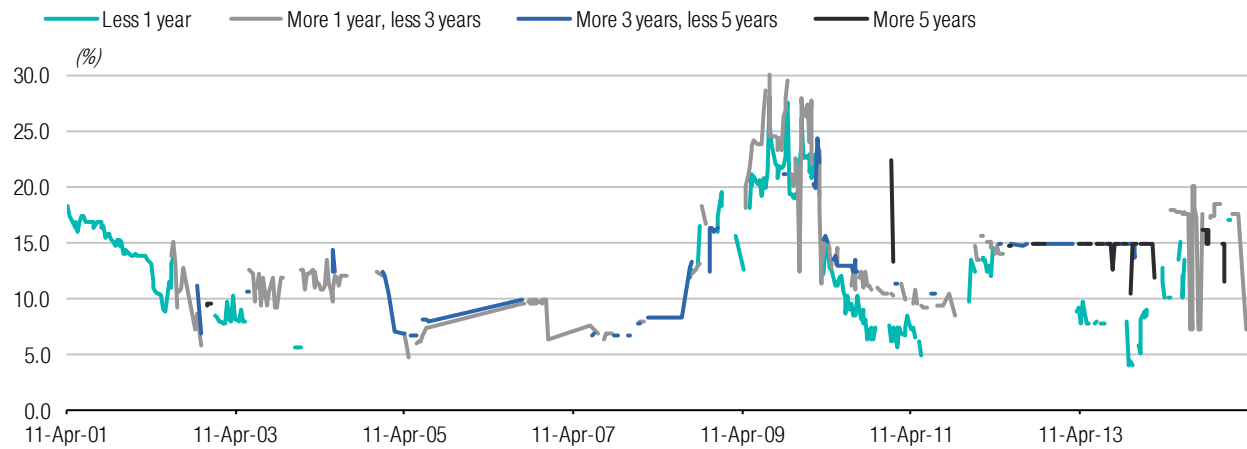
3-month	
6-month	
9-month	
1-year	3,028.19
2-year	0.16
3-year	
5-year	
<b>Total</b>	<b>3,028.19</b>

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.

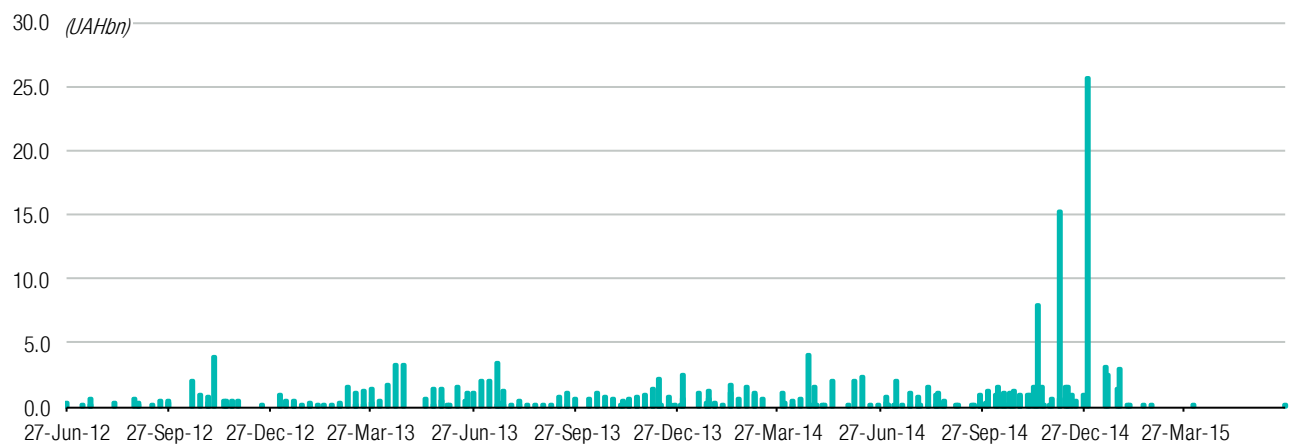
## Appendix: Auctions history and schedule for 2015

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



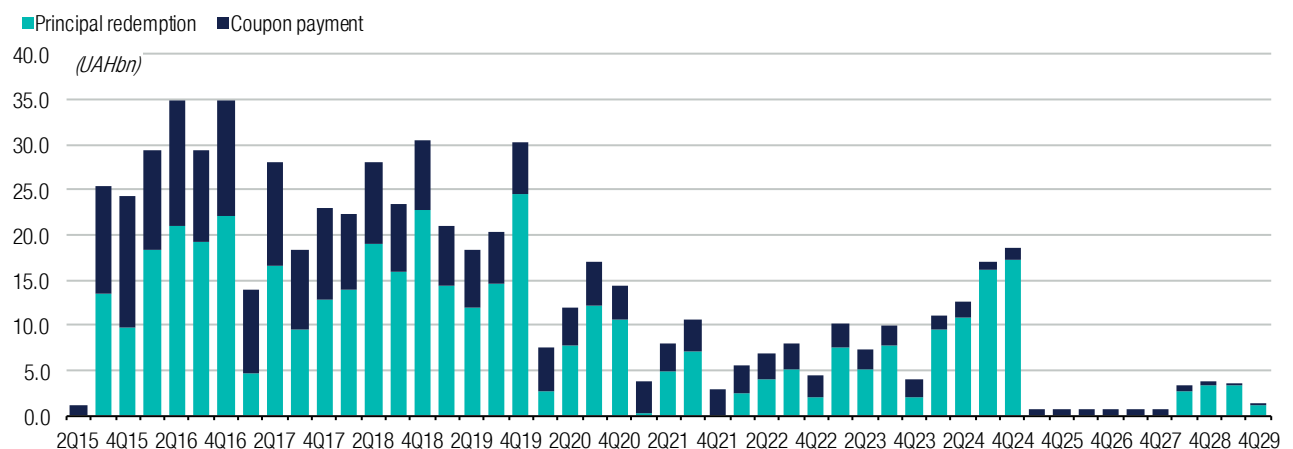
Sources: Ministry of Finance of Ukraine, ICU.

**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 2015**

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	6 January 2015	13 January 2015	20 January 2015	27 January 2015	
	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	3 February 2015	10 February 2015	17 February 2015	24 February 2015	
	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	3 March 2015	10 March 2015	17 March 2015	24 March 2015	31 March 2015
	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	0.00
<b>April</b>	Auction date	7 April 2015	14 April 2015	21 April 2015	28 April 2015	
	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	5 May 2015	12 May 2015	19 May 2015	26 May 2015	
	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>June</b>	Auction date	2 June 2015	9 June 2015	16 June 2015	23 June 2015	30 June 2015
	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	<b>1,088,146,800.60</b>	<b>514,467,890.00</b>
<b>July</b>	Auction date	7 July 2015	14 July 2015	21 July 2015	28 July 2015	
	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>1,478,634,994.19</b>	<b>3,694,128,543.56</b>	<b>5,673,967,264.50</b>	<b>1,444,363,473.13</b>	
<b>August</b>	Auction date	4 August 2015	11 August 2015	18 August 2015	25 August 2015	
	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>1,098,955,680.94</b>	<b>1,218,316,764.53</b>	<b>2,273,641,506.75</b>	<b>1,239,005,731.25</b>	
<b>September</b>	Auction date	1 September 2015	8 September 2015	15 September 2015	22 September 2015	29 September 2015
	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>1,916,000,000.00</b>	<b>834,738,839.50</b>	<b>1,345,648,702.50</b>	<b>2,063,933,004.00</b>	<b>562,928,473.50</b>
<b>October</b>	Auction date	6 October 2015	13 October 2015	20 October 2015	27 October 2015	
	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>1,087,078,150.00</b>	<b>1,139,719,358.50</b>	<b>1,628,141,378.00</b>	<b>1,428,830,033.63</b>	
<b>November</b>	Auction date	3 November 2015	10 November 2015	17 November 2015	24 November 2015	
	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>879,682,389.15</b>	<b>1,622,990,636.00</b>	<b>3,270,984,928.75</b>	<b>981,625,852.19</b>	
<b>December</b>	Auction date	1 December 2015	8 December 2015	15 December 2015	22 December 2015	29 December 2015
	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>1,302,356,610.31</b>	<b>3,880,050,710.00</b>	<b>5,266,646,257.25</b>	<b>1,233,983,383.75</b>	<b>514,467,890.00</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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**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



11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kiev, 01030 Ukraine  
Phone/Fax +38 044 2200120

CORPORATE FINANCE TEL. +38 044 2200120

**Makar Paseniuk**, Managing Director  
makar.paseniuk@icu.ua

**Ruslan Kilmukhametov**, Director  
ruslan.kilmukhametov@icu.ua

SALES AND TRADING TEL. +38 044 2201621

**Konstantin Stetsenko**, Managing Director  
konstantin.stetsenko@icu.ua

**Sergiy Byelyayev**, Fixed-Income Trading  
sergiy.byelyayev@icu.ua

**Vitaliy Sivach**, Fixed-Income & FX Trading  
vitaliy.sivach@icu.ua

**Vlad Sinani**, Director,  
Strategy and Corporate Development  
vlad.sinani@icu.ua

**Julia Pecheritsa**,  
Ukraine and CIS International Sales  
julia.pecheritsa@icu.ua

**Yevgeniya Gryshchenko**,  
Fixed-Income Sales  
yevgeniya.gryshchenko@icu.ua

RESEARCH DEPARTMENT TEL. +38 044 2200120

**Alexander Valchyshen**  
Head of Research  
alexander.valchyshen@icu.ua

**Alexander Martynenko**  
Head of corporate research  
alexander.martynenko@icu.ua

**Bogdan Vorotilin**  
Financial analyst (Food & Agribusiness)  
bogdan.vorotilin@icu.ua

**Taras Kotovych**  
Senior financial analyst (Sovereign debt)  
taras.kotovych@icu.ua

**Mykhaylo Demkiv**  
Financial analyst (Banks)  
mykhaylo.demkiv@icu.ua

**Lee Daniels, Rolfe Haas**  
Editors

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