



Bond Market Insight

Both offerings attract demand

Government bond auction results

At yesterday's primary auction, the MoF offered two bonds, one of which was an EUR-denominated bond that has not been offered in more than a year. Last year, the MoF sold EUR-denominated bonds twice. While last December the bonds with a 6-day maturity were sold just prior to receiving the debut tranche of Russian financing, the bonds offered last September 2013 had to be refinanced. Only EUR40.0m of bonds at a significantly higher interest rate of 7.50%, amounting to two-thirds of the EUR60.0m of bonds at 4.80% sold last September 2013, were redeemed yesterday. Only one bid was submitted for these bonds, likely from the investor who held the bonds. The MoF still needs additional refinancing.

The MoF also sold UAH895.06m of 2-year local currency bonds, receiving three bids at interest rates in the range of 16.30-16.50%. The cut-off interest rate was set at 16.50%, and the weighted interest rate was 16.49%. Similar bonds were sold in September and October 2014 at similar interest rates of 16.50% but at significantly lower volumes.

Yesterday's primary auction allows the MoF to refinance all local currency repayments and a majority of the EUR-denominated repayments. While the EUR-denominated bonds were the most likely purchased by the investor whose bonds were redeemed, demand for local currency bonds could be mostly supported by domestic QE with some market demand.

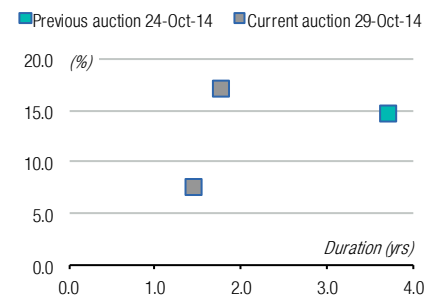
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000187298	7.50	ПГ	27-Апр-16	40,000	1,000.40	657.13	656.86	7.65	656.86
UA4000187280	16.49	ПГ	19-Окт-16	895,060	1,003.00	897.74	895.06	17.22	895.06
Total				935,060		1,554.87	1,551.92		1,551.92

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.

THURSDAY, 30 OCTOBER 2014

Term structure of yields



Sources: Ministry of Finance of Ukraine, ICU.

Auction results

Auction	Last 29-Окт-14	Previous 24-Окт-14	Change

Breakdown by yields (%)

3-month	
6-month	
9-month	
1-year	
2-year	7.65
3-year	
5-year	14.80

Breakdown by proceeds (UAHm)

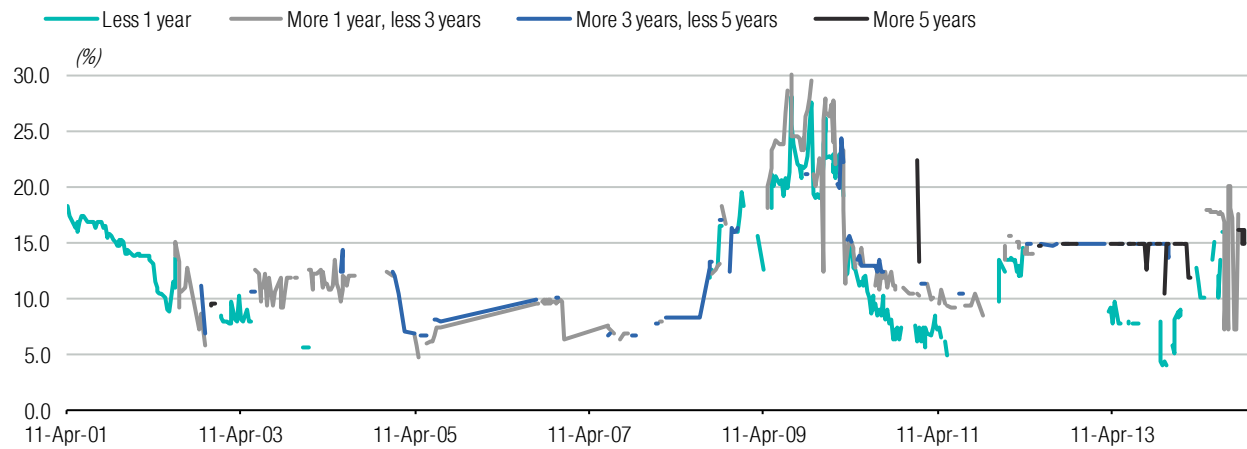
3-month	
6-month	
9-month	
1-year	
2-year	1,554.87
3-year	
5-year	1,304.43
Total	1,554.87 1,304.43 19.20%

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.

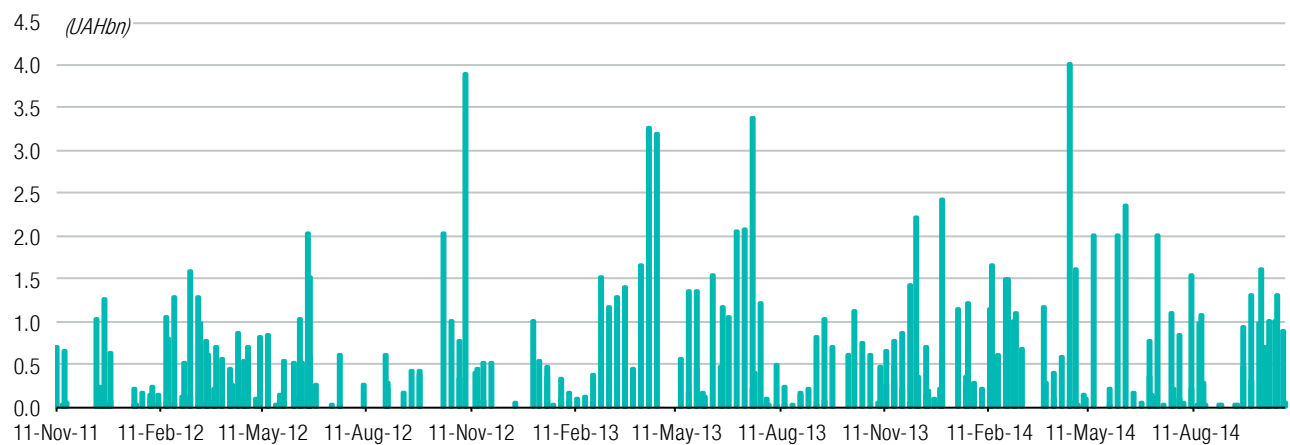
Appendix: Auctions history and schedule for 2014

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



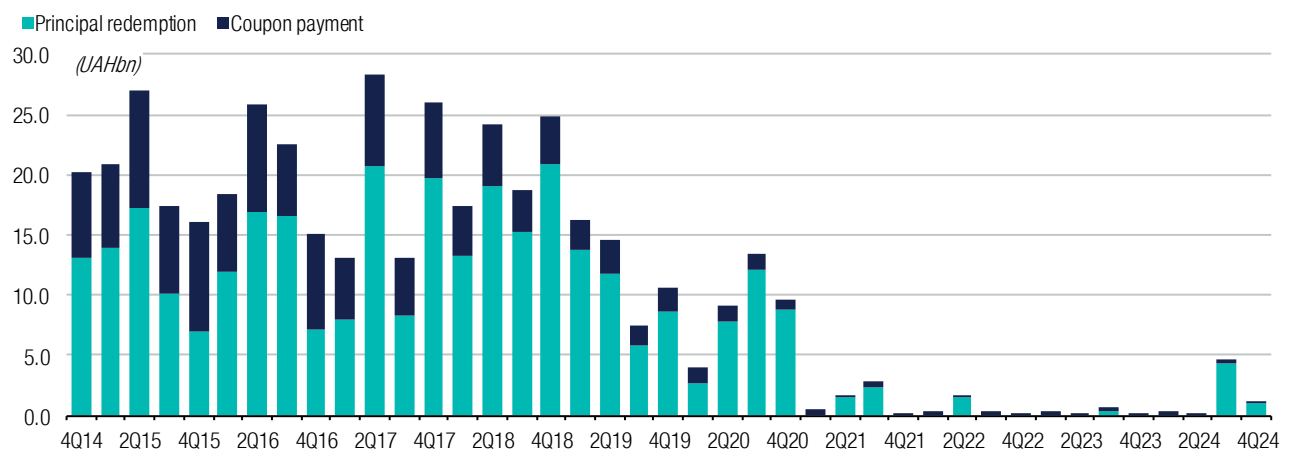
Sources: Ministry of Finance of Ukraine, ICU.

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 2014

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	7 января 2014	14 января 2014	21 января 2014	28 января 2014	
	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	4 февраля 2014	11 февраля 2014	18 февраля 2014	25 февраля 2014	
	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	4 марта 2014	11 марта 2014	18 марта 2014	25 марта 2014	
	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	
April	Auction date	1 апреля 2014	8 апреля 2014	15 апреля 2014	22 апреля 2014	29 апреля 2014
	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
May	Auction date	6 мая 2014	13 мая 2014	20 мая 2014	27 мая 2014	
	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	
June	Auction date	3 июня 2014	10 июня 2014	17 июня 2014	24 июня 2014	
	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	1 июля 2014	8 июля 2014	15 июля 2014	22 июля 2014	29 июля 2014
	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
August	Auction date	5 августа 2014	12 августа 2014	19 августа 2014	26 августа 2014	
	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	
September	Auction date	2 сентября 2014	9 сентября 2014	16 сентября 2014	23 сентября 2014	30 сентября 2014
	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
October	Auction date	7 октября 2014	14 октября 2014	21 октября 2014	28 октября 2014	
	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	2,039,885,884.50	
November	Auction date	4 ноября 2014	11 ноября 2014	18 ноября 2014	25 ноября 2014	
	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	1,650,872,219.75	2,152,816,298.50	2,367,290,752.90	2,089,445,763.50	
December	Auction date	2 декабря 2014	9 декабря 2014	16 декабря 2014	23 декабря 2014	30 декабря 2014
	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	1,101,171,142.50	3,793,664,460.00	2,525,158,693.50	1,940,082,268.75	514,467,890.00

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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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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