

Bond Market Insight

Government bond auction results: Compensation of budget sources

THURSDAY, 13 MARCH, 2014

After Tuesday's failed primary auction, at which the MoF received no bids even with the routine support of domestic QE, yesterday's unscheduled auction was expected.

Most notably, the MoF broke its routine of offering long-term bonds at a low interest rate and instead sold 3.5-month bonds at an abnormally high interest rate of 14.0%. Earlier this year, the MoF sold zero-coupon bonds at interest rates below 9.0%.

The new interest rate is quite different from the going money market interest rates. Yesterday's KyivPrime interest rates were at 11.5% and 23.25% for ON and 1M funds, respectively. However, the MoF took this step to improve budget financing, ultimately raising UAH684.52m of funds from yesterday's two attempts that received a total of three bids.

Interest rates at the primary bond market and money market should re-align more closely if the MoF increases its rates and money market interest rates decline. However, we do not anticipate that the MoF will increase interest rates significantly.

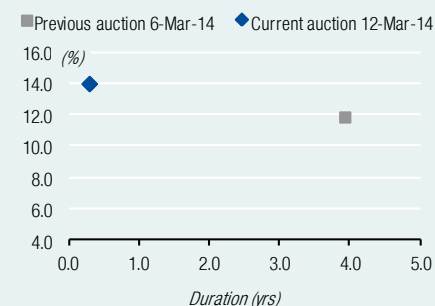
Although the MoF allocated to the state budget part of funds spent on yesterday's debt repayments which were needed for other budget expenditures, some of the new bonds were could have been purchased by banks that received bond redemptions earlier in the day yesterday.

Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000179865	14.00		25-Jun-14	300,000	961.29	288.39	300.00	14.00	712.08
UA4000179865	14.00		25-Jun-14	412,080	961.29	396.13	412.08	14.00	712.08
Total				712,080		684.52	712.08		1,424.16

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.

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Term structure of yields


Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Auction results

Auction	Last 12-Mar-14	Previous 6-Mar-14	Change
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Breakdown by yields (%)

3-month	
6-month	14.00
9-month	
1-year	
2-year	
3-year	
5-year	11.86

Breakdown by proceeds (UAHm)

3-month	
6-month	684.52
9-month	
1-year	
2-year	
3-year	
5-year	1,100.34
Total	684.52 1,100.34 -37.79%

Effective yield and duration at the auction

Yield-to-maturity (%)	14.71	11.86	285bp
Duration (years)	0.29	3.92	-92.67%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	99.04	98.33	0.72%
WA life ² (years)	3.75	3.79	-1.10%

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.

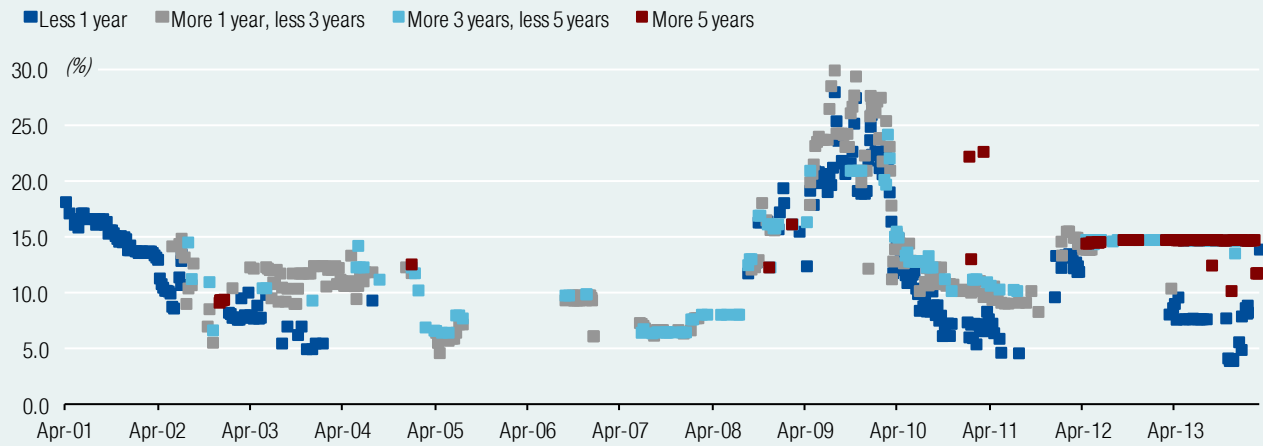
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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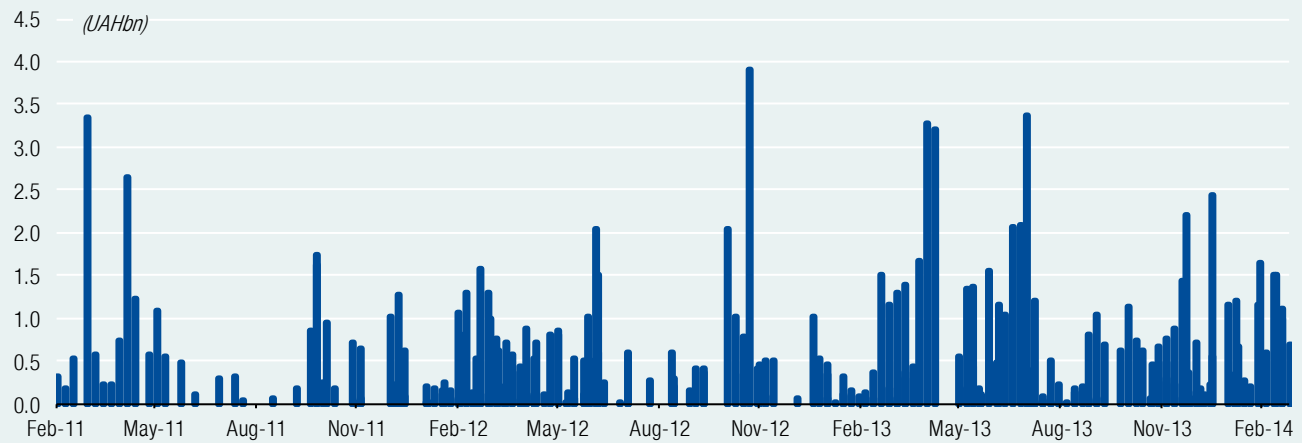
Appendix: Auctions history and schedule for 2013

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



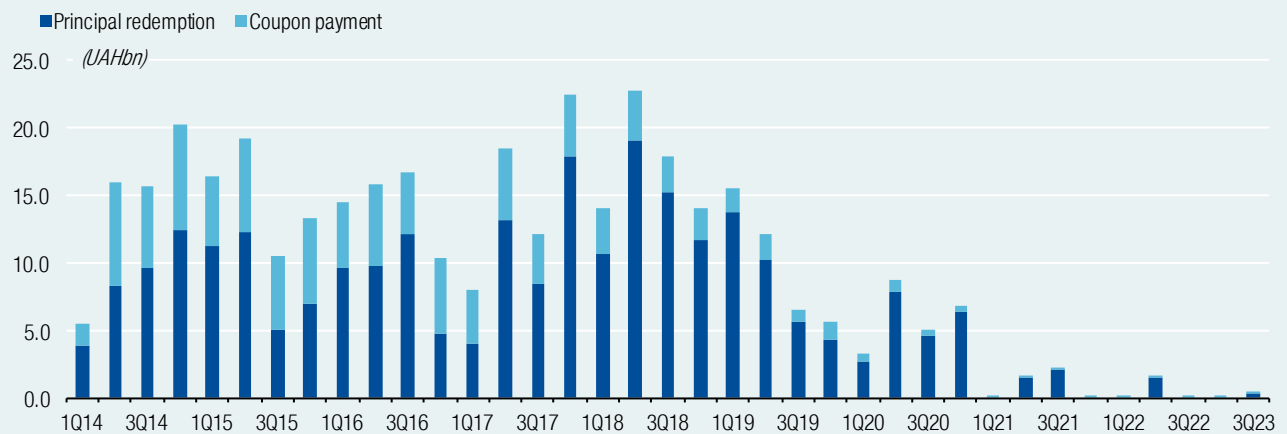
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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, Investment Capital Ukraine LLC.

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, Investment Capital Ukraine LLC.

Table 2. Schedule of government bond auctions in 2013

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-Jan-14	14-Jan-14	21-Jan-14	28-Jan-14	
	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-Feb-14	11-Feb-14	18-Feb-14	25-Feb-14	
	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-Mar-14	11-Mar-14	18-Mar-14	25-Mar-14	
	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	2,237,158,839.50	1,154,943,875.40	2,082,488,893.00	
April	Auction date	1-Apr-14	8-Apr-14	15-Apr-14	22-Apr-14	29-Apr-14
	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	350,580,000.00	664,558,150.00	728,425,745.00	1,853,046,478.20	2,136,305,521.32
May	Auction date	6-May-14	13-May-14	20-May-14	27-May-14	
	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	402,396,233.43	1,632,546,298.50	2,998,375,152.15	711,146,744.52	
June	Auction date	3-Jun-14	10-Jun-14	17-Jun-14	24-Jun-14	
	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	469,033,284.70	1,980,412,973.75	880,510,432.40	1,096,737,133.50	
July	Auction date	1-Jul-14	8-Jul-14	15-Jul-14	22-Jul-14	29-Jul-14
	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	438,486,890.00	1,124,030,187.40	509,639,511.85	3,248,611,614.50	1,935,517,728.75
August	Auction date	5-Aug-14	12-Aug-14	19-Aug-14	26-Aug-14	
	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	414,105,151.00	495,637,593.50	1,730,804,073.50	1,111,994,652.53	
September	Auction date	2-Sep-14	9-Sep-14	16-Sep-14	23-Sep-14	30-Sep-14
	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	219,550,000.00	1,773,948,839.50	657,943,875.40	2,085,520,143.00	350,580,000.00
October	Auction date	7-Oct-14	14-Oct-14	21-Oct-14	28-Oct-14	
	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	2,164,558,150.00	753,425,745.00	745,145,338.20	1,619,435,225.02	
November	Auction date	4-Nov-14	11-Nov-14	18-Nov-14	25-Nov-14	
	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	1,602,496,233.43	2,152,816,298.50	1,858,636,629.59	1,647,146,744.52	
December	Auction date	2-Dec-14	9-Dec-14	16-Dec-14	23-Dec-14	30-Dec-14
	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	721,702,284.70	2,410,228,360.00	2,478,780,432.40	1,313,496,733.50	438,486,890.00

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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