

Bond Market Insight

Government bond auction results: Successful unscheduled auction

TUESDAY, 1 APRIL, 2014

The MoF sold no bonds over the last two weeks due to both high interest rates and minimal demand. However, the MoF held an unscheduled auction yesterday, per routine, which appears to have been supported by domestic QE.

What made this auction unusual is that the MoF offered a rarely issued 3-year bond instead of a 5-year bond. The bond attracted three bids at 14.25%, all of which were accepted, for UAH1.16bn of funds.

Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m)
UA4000180202	14.25	SA	15-Mar-17	1,150,000	1,004.55	1,155.23	1,150.00	14.80	1,150.00
Total				1,150,000		1,155.23	1,150.00		1,150.00

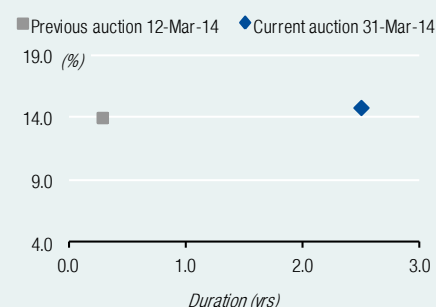
Note: Note: [1] payment frequency abbreviations: Q - quarterly, SA - semi-annually; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate 1; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

These proceeds most likely were needed to cover state budget needs, possibly to refinance last week's debt repayments which were not refinanced, particularly as revenues from last week's tax payments were insufficient.

It appears that the MoF financed the state budget. Considering the low coupon rate of this offering versus the most recent KyivPrime 1M interest rate of 23.00%, yesterday's demand was most likely supported by domestic QE. There is a high probability that this auction was not the last unscheduled auction either this week or even this month.

RESEARCH INSIGHT

Term structure of yields



Auction results

Auction	Last 31-Mar-14	Previous 12-Mar-14	Change
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Breakdown by yields (%)

3-month		
6-month		14.00
9-month		
1-year		
2-year		
3-year	14.80	
5-year		

Breakdown by proceeds (UAHm)

3-month		
6-month		684.52
9-month		
1-year		
2-year		
3-year	1,155.23	
5-year		
Total	1,155.23	684.52

Effective yield and duration at the auction

Yield-to-maturity (%)	14.80	14.71	9bp
Duration (years)	2.50	0.29	770.23%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	96.42	99.04	-2.65%
WA life ² (years)	3.83	3.75	2.27%

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.

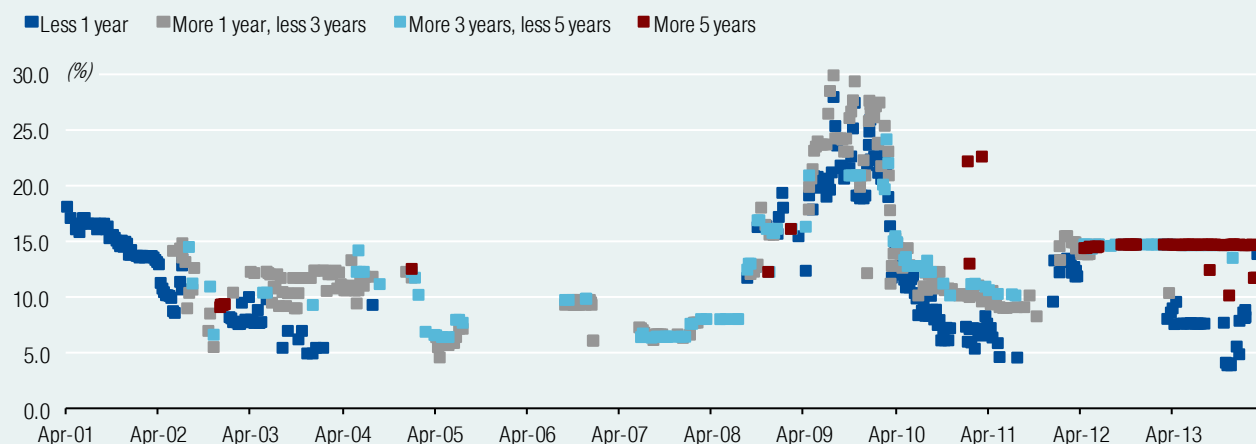
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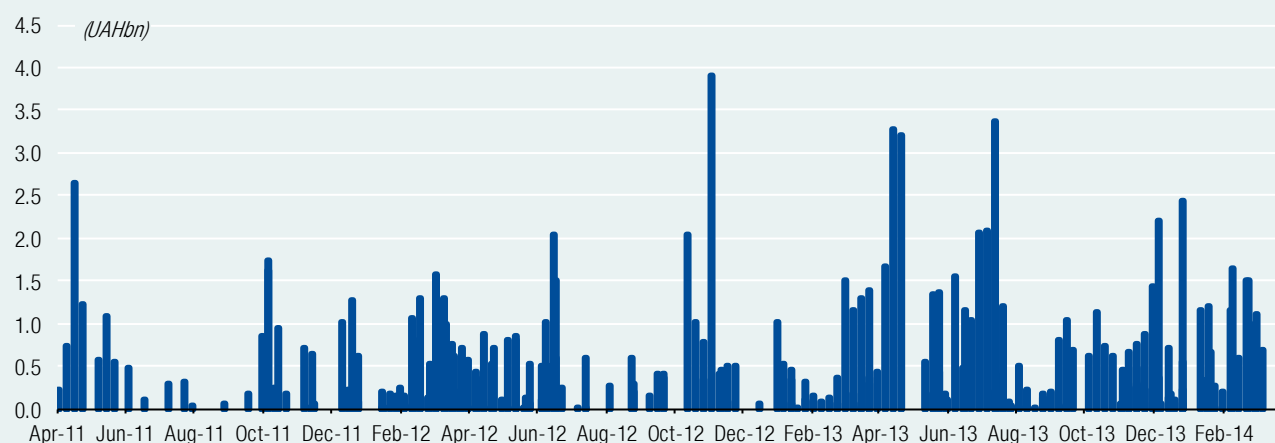
Appendix: Auctions history and schedule for 2014

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



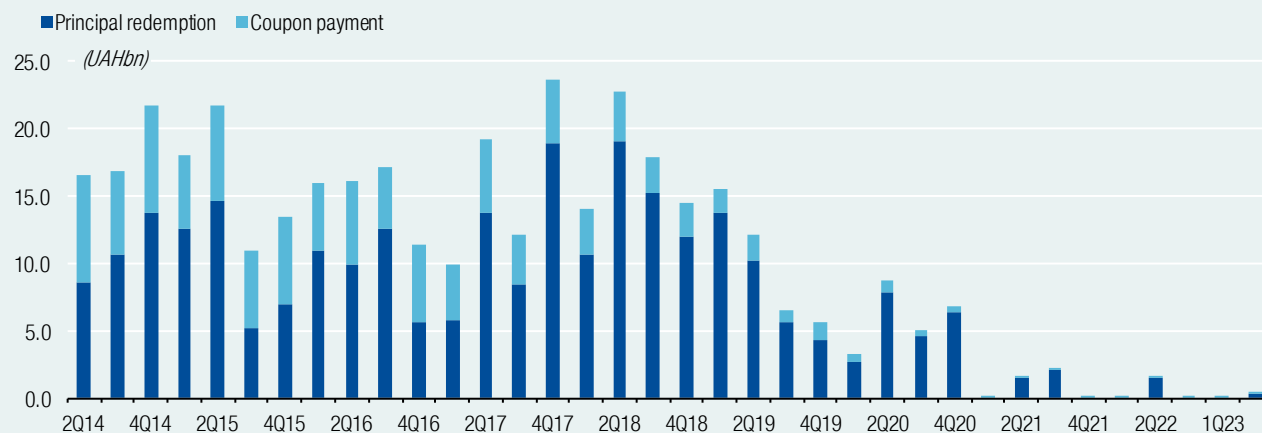
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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 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-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	0.00	0.00	0.00	
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	1,943,179,710.19	2,160,738,772.50
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	425,755,763.00	1,632,546,298.50	3,393,051,402.35	754,490,844.31	
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	486,495,063.13	1,998,275,948.75	896,239,502.25	1,145,033,547.66	
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	1,136,839,094.06	520,166,962.47	3,864,629,153.00	1,962,273,654.38
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	414,845,739.06	533,351,353.59	1,734,844,148.50	1,115,987,539.45	
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	2,090,669,058.25	778,316,837.97	2,112,767,779.00	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	774,828,570.19	1,805,498,850.63	
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	1,625,855,763.00	2,152,816,298.50	2,139,271,947.85	1,891,990,844.31	
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	739,164,063.13	2,881,466,335.00	2,494,509,502.25	1,561,751,672.66	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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