

Bond Market Insight

Government bond auction results: Only the zero-coupon bonds sold

WEDNESDAY, 2 APRIL, 2014

At the debut auction of this month, the MoF offered a 2-year coupon-bearing bond (a one-time issuance in this month's schedule) in addition to the routinely scheduled 6-month zero-coupon bonds and 3-month USD-denominated bonds. The standard 5-year or 7-year bonds were not included in this month's scheduled offerings.

Of the bonds offered yesterday, only the 6-month bond collected UAH330.0m in demand from four bids at interest rates in the range of 12.75-23.50%. The largest bid was for UAH300.0m (par value) submitted at the lowest interest rate of 12.75%, which was accepted by the MoF, providing the state budget with UAH282.07m. These funds will cover a majority, but not all, of the UAH350.58m in scheduled interest repayments due today.

Table 1. Details of last government bond auction

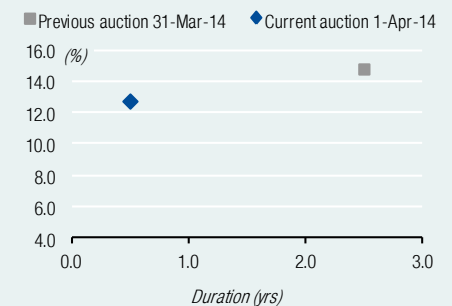
ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000180210	0.00		1-Oct-14	300,000	940.22	282.07	300.00	12.75	300.00
Total				300,000		282.07	300.00		300.00

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.

This debut auction appears to be the MoF's initiative to create a true market demand at the primary auctions, i.e. not pre-arranging bids with state-owned banks at below-market rates. However, in anticipation of external financing from the IMF later this month, rather than issue more expensive external debt at market rates, the MoF will probably continue to use domestic QE to support domestic borrowings at lower rates over the next several weeks.

RESEARCH INSIGHT

Term structure of yields



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

Auction results

Auction	Last 1-Apr-14	Previous 31-Mar-14	Change
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Breakdown by yields (%)

3-month	
6-month	12.75
9-month	
1-year	
2-year	
3-year	14.80
5-year	

Breakdown by proceeds (UAHm)

3-month	
6-month	282.07
9-month	
1-year	
2-year	
3-year	1,155.23
5-year	
Total	282.07 1,155.23 -75.58%

Effective yield and duration at the auction

Yield-to-maturity (%)	13.08	14.80	-172bp
Duration (years)	0.50	2.50	-79.97%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	96.72	96.42	0.31%
WA life ² (years)	3.82	3.83	-0.34%

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.

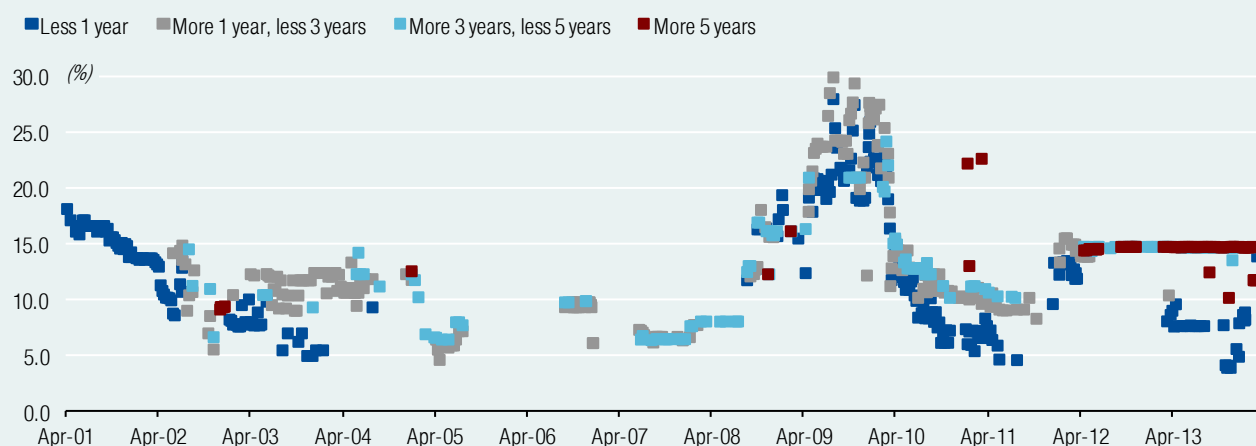
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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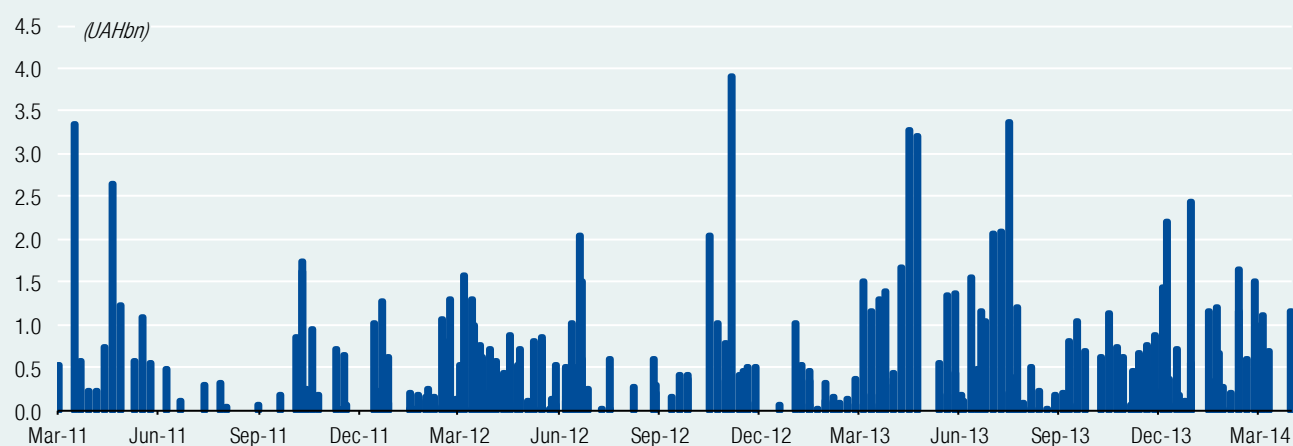
Appendix: Auctions history and schedule for 2013

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



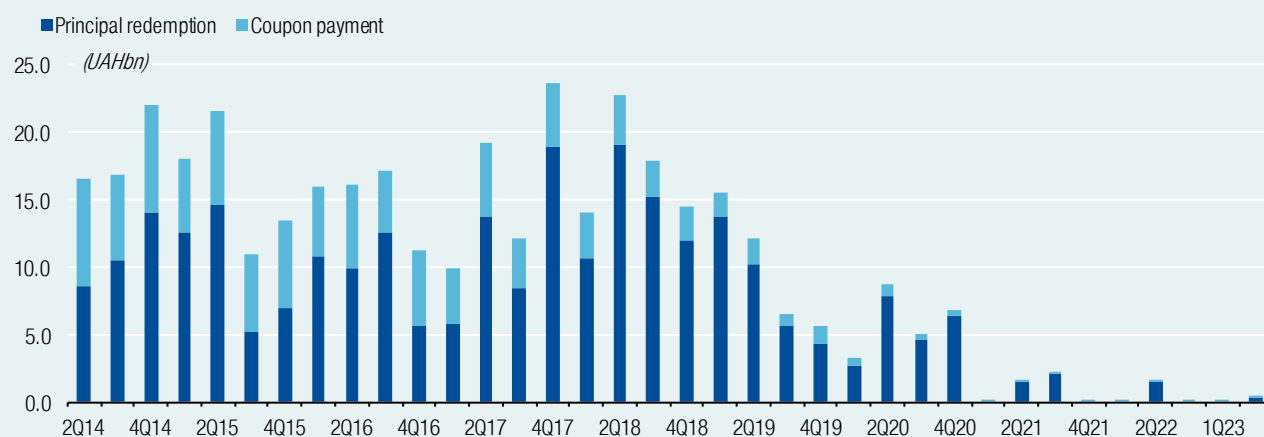
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	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	1,942,061,431.88	2,160,472,615.20
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	425,490,599.05	1,632,546,298.50	3,388,154,674.68	753,953,076.33	
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	486,278,415.75	1,998,054,323.75	896,044,352.50	1,144,434,336.56	
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	1,136,680,174.63	520,036,348.94	3,856,986,255.50	1,961,941,695.00
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	414,836,550.63	532,883,440.94	1,734,794,023.50	1,115,937,999.91	
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	2,086,739,527.00	777,839,971.19	2,112,429,719.00	650,580,000.00
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	774,460,291.88	1,804,768,385.95	
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	1,625,590,599.05	2,152,816,298.50	2,135,790,120.08	1,888,953,076.33	
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	738,947,415.75	2,875,619,710.00	2,494,314,352.50	1,558,671,586.56	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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