

# Bond Market Insight

## Government bond auction results: Low demand with usual yields

WEDNESDAY, 2 JULY, 2014

Similar to the auctions held in June, yesterday's auction offered the routine set of bonds (with slight changes) and raised low proceeds. As a matter of fact, the last two weeks of June attracted UAH200.0m, while the first two weeks in June raised over UAH2.0bn.

While the MoF had no debut offerings or significant repayments scheduled yesterday, it offered five bonds with maturities ranging from two weeks to five years, only the 3-month bond was sold. Although there were bids for the 2-week bond, they were rejected because of low volume at a high interest rate.

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

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Out-standing (m)
UA4000180210	0.00		1-Oct-14	350,000	970.95	339.83	350.00	12.00	760.00
<b>Total</b>				<b>350,000</b>		<b>339.83</b>	<b>350.00</b>		<b>760.00</b>

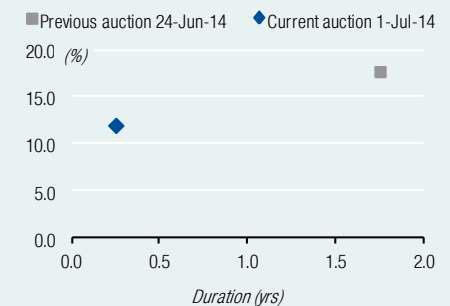
Note: Note: [1] payment frequency abbreviations: Q - quarterly, SA - semi-annually; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate 1; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry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

Both bids submitted for the 3-month bond at 12% were accepted as the rate was unchanged from the last auction at which it was sold. The bid for the 6-month bond was rejected, however, despite its interest rate at 15.00% also being unchanged, but because of its low volume of UAH20.0m and shorter maturity. The 2-week bond was rejected because of its high interest rate of 8.00% and small amount of UAH15.00m.

As a result, the MoF refinanced about 20% of today's UAH1.50bn in debt repayments, and the remainder should come from other budget revenues. If state budget revenues are insufficient, an additional unscheduled primary auction could be held this week, likely utilizing support from domestic QE.

### RESEARCH INSIGHT

#### Term structure of yields



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

#### Auction results

Auction	Last 1-Jul-14	Previous 24-Jun-14	Change
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#### Breakdown by yields (%)

3-month	12.00
6-month	
9-month	
1-year	
2-year	17.72
3-year	
5-year	

#### Breakdown by proceeds (UAHm)

3-month	339.83
6-month	
9-month	
1-year	
2-year	55.17
3-year	
5-year	
<b>Total</b>	<b>339.83</b>
	<b>55.17</b>
	<b>6.16x</b>

#### Effective yield and duration at the auction

Yield-to-maturity (%)	12.41	17.69	-528bp
Duration (years)	0.25	1.76	-85.65%

#### Local currency government bonds outstanding (eop)

Volume <sup>1</sup> (UAHbn)	105.75	106.11	-0.34%
WA life <sup>2</sup> (years)	3.54	3.54	-0.17%

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.

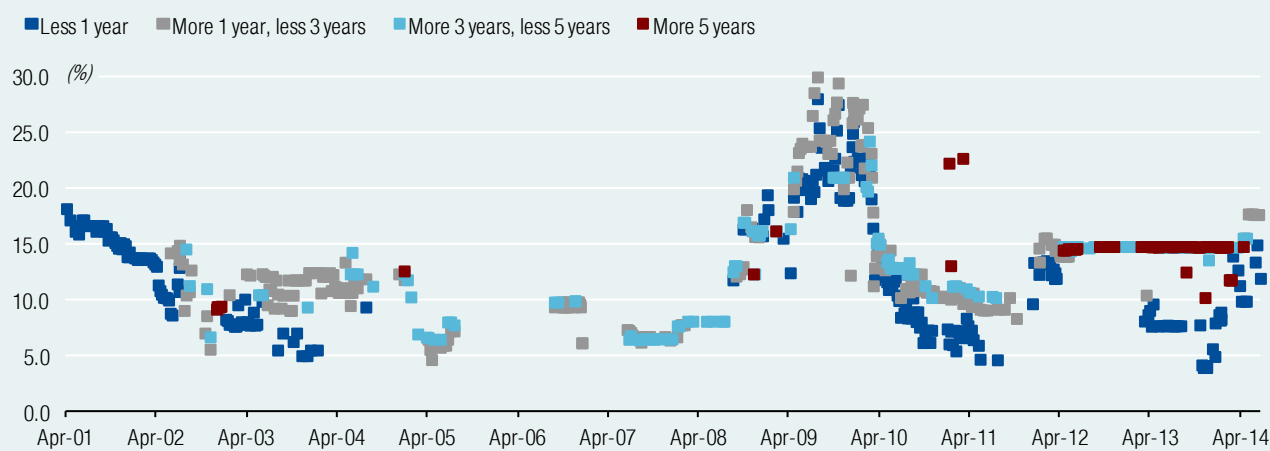
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

#### Research team

**Alexander Valchysheh**  
**Taras Kotovych**  
 Kiev, +38 (044) 2200120 extn.242

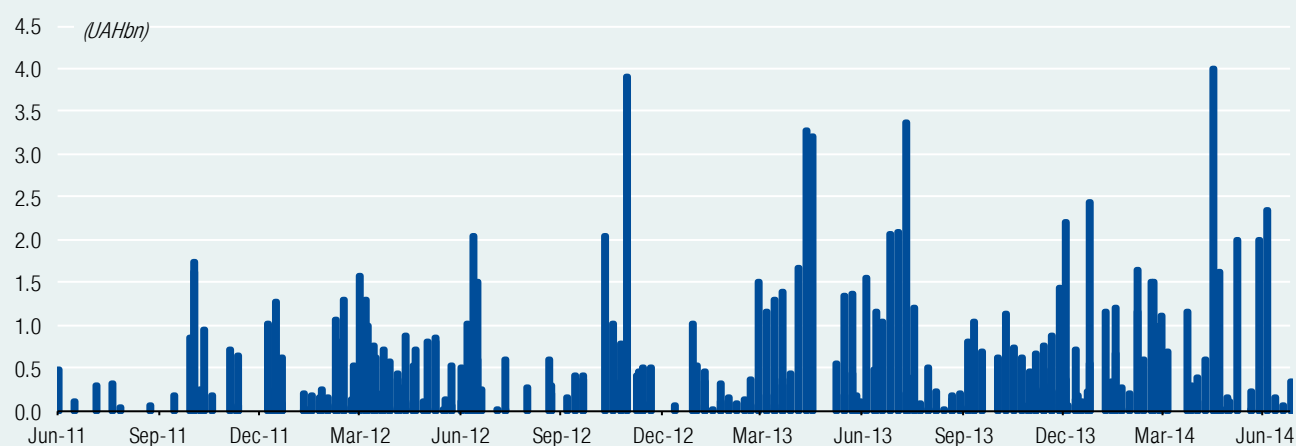
## Appendix: Auctions history and schedule for 2014

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



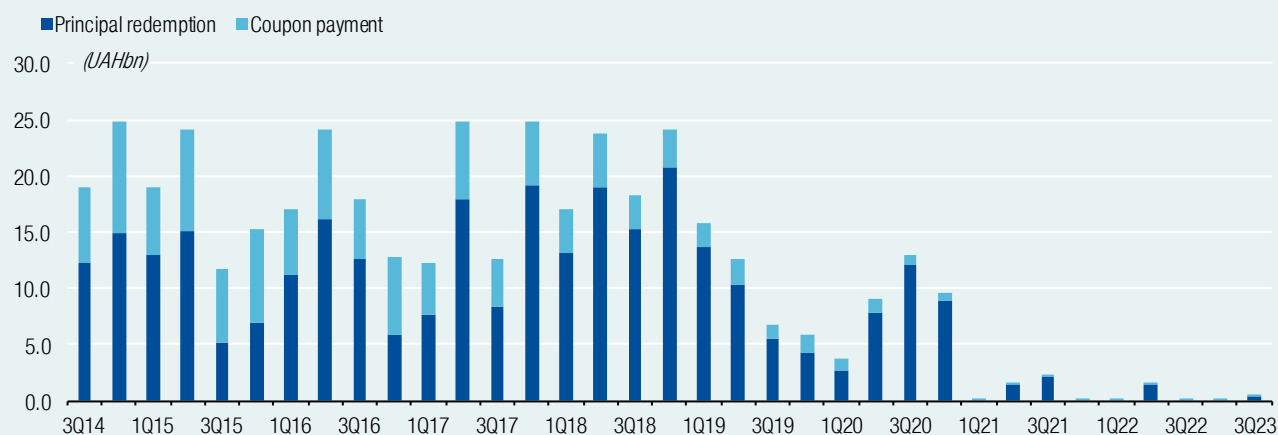
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

**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
<b>January</b>	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	
<b>February</b>	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	
<b>March</b>	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	
<b>April</b>	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	0.00	0.00	0.00	0.00	0.00
<b>May</b>	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	0.00	0.00	0.00	0.00	
<b>June</b>	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	0.00	0.00	0.00	0.00	
<b>July</b>	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	<b>1,496,093,818.00</b>	<b>1,139,699,643.94</b>	<b>522,518,006.03</b>	<b>4,156,826,308.00</b>	<b>2,138,248,923.13</b>
<b>August</b>	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	481,786,130.94	<b>541,773,781.41</b>	<b>1,735,746,398.50</b>	<b>1,116,879,251.17</b>	
<b>September</b>	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	313,825,000.00	<b>2,461,400,620.75</b>	<b>786,900,440.03</b>	<b>2,118,852,859.00</b>	<b>1,230,580,000.00</b>
<b>October</b>	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	<b>2,293,208,150.00</b>	<b>758,769,154.50</b>	<b>1,223,857,579.81</b>	<b>2,011,169,353.58</b>	
<b>November</b>	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	<b>1,638,497,253.30</b>	<b>2,152,816,298.50</b>	<b>2,203,644,847.71</b>	<b>1,946,670,668.09</b>	
<b>December</b>	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	<b>1,090,988,715.88</b>	<b>3,478,873,085.00</b>	<b>2,507,511,655.25</b>	<b>1,795,318,222.34</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.

# Disclosures

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**INVESTMENT CAPITAL UKRAINE**  
INVESTMENT BANKING

Office 44, 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

**Volodymyr Demchyshyn**, Director  
volodymyr.demchyshyn@icu.ua

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

**Alexander Zhyvotovsky**, Director  
alexander.zhyvotovsky@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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