

# Bond Market Insight

## Government bond auction results: MoF unwilling to pay higher interest rates

WEDNESDAY, 15 JANUARY, 2014

The debut primary auction of 2014 was characterized by partial market demand. Under the impact of high banking sector liquidity, investors decided to focus on short-term primary market bonds, of which the MoF only accepted one bid, and that being at the lowest interest rate.

The MoF offered three bonds, including the routine 5-year and 7-year bonds, also in addition to a 9-month zero-coupon bond last offered in May.

The 7-year bond received no bids while the 5-year bond received five bids totaling UAH1.13bn in demand, most likely supported by the NBU under its domestic QE program, which the MoF accepted.

The 9-month bond received 14 bids for total demand of UAH435.0m at interest rates ranging from 8.75% to 11.75%, of which the MoF accepted only one bid for UAH25.0m (par value) at the lowest interest rate of 8.75% (unchanged from similar bonds last sold in April 2013).

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

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m)
UA4000178883	0.00		15-Oct-14	25,000	938.57	23.46	25.00	8.75	25.00
UA4000178891	14.25	SA	9-Jan-19	1,127,263	1,000.00	1,127.26	1,127.26	14.80	1,127.26
<b>Total</b>				<b>1,152,263</b>		<b>1,150.73</b>	<b>1,152.26</b>		<b>1,152.26</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.

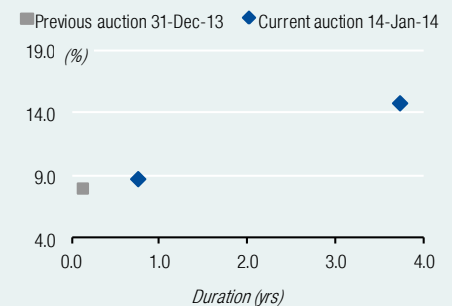
The MoF appeared unwilling to pay higher interest rates for borrowings, most likely in light of Parliament not having yet approved the state budget for this year and its being limited only to refinancing all new borrowings maturing debt principal repayments.

Although a mere UAH342m in interest repayments is scheduled for today, the next principal repayment is scheduled for next week. For the entire month of January, the MoF has to repay UAH5.99bn in principal repayments, including UAH4.59bn of domestic debt due for redemption.

Next week's primary auction could be more active than yesterday's as the MoF is scheduled to offer the same bonds next week at the interest rates established yesterday in addition to a 2-year USD-denominated bond.

### RESEARCH INSIGHT

#### Term structure of yields



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

#### Auction results

Auction	Last 14-Jan-14	Previous 31-Dec-13	Change
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#### Breakdown by yields (%)

3-month	8.00
6-month	
9-month	8.75
1-year	
2-year	
3-year	
5-year	14.80

#### Breakdown by proceeds (UAHm)

3-month	544.86
6-month	
9-month	23.46
1-year	
2-year	
3-year	
5-year	1,127.26
<b>Total</b>	<b>1,150.73</b>
	<b>544.86</b>
	<b>2.11x</b>

#### Effective yield and duration at the auction

Yield-to-maturity (%)	13.85	8.29	556bp
Duration (years)	2.35	0.12	1,893.63%

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

Volume <sup>1</sup> (UAHbn)	93.36	92.21	1.25%
WA life <sup>2</sup> (years)	3.60	3.62	-0.61%

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.

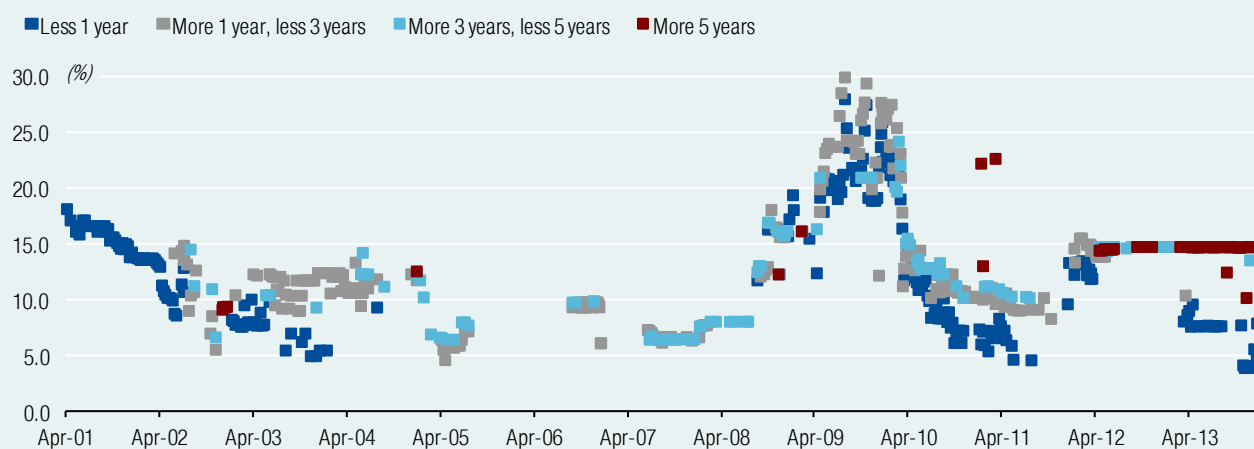
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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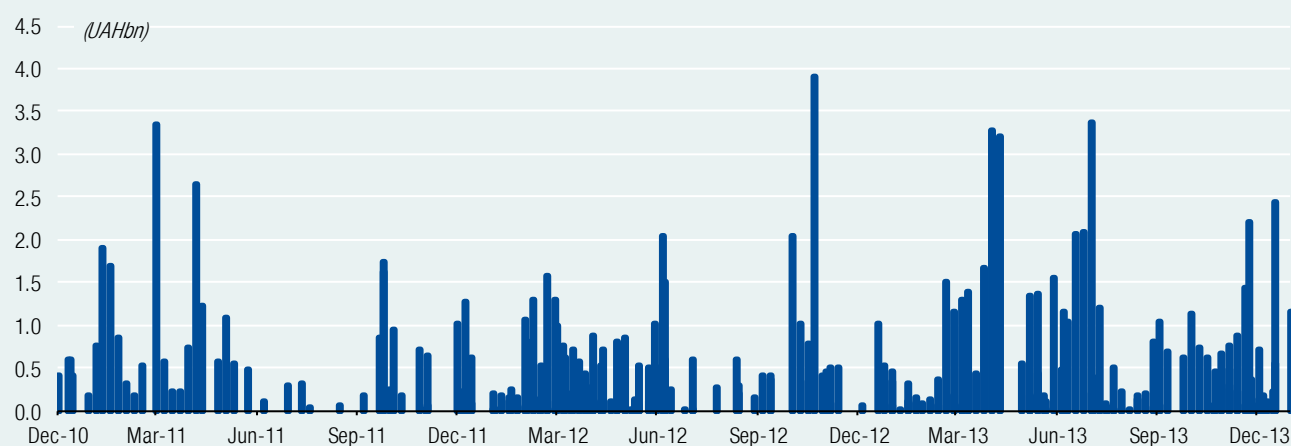
## Appendix: Auctions history and schedule for 2014

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



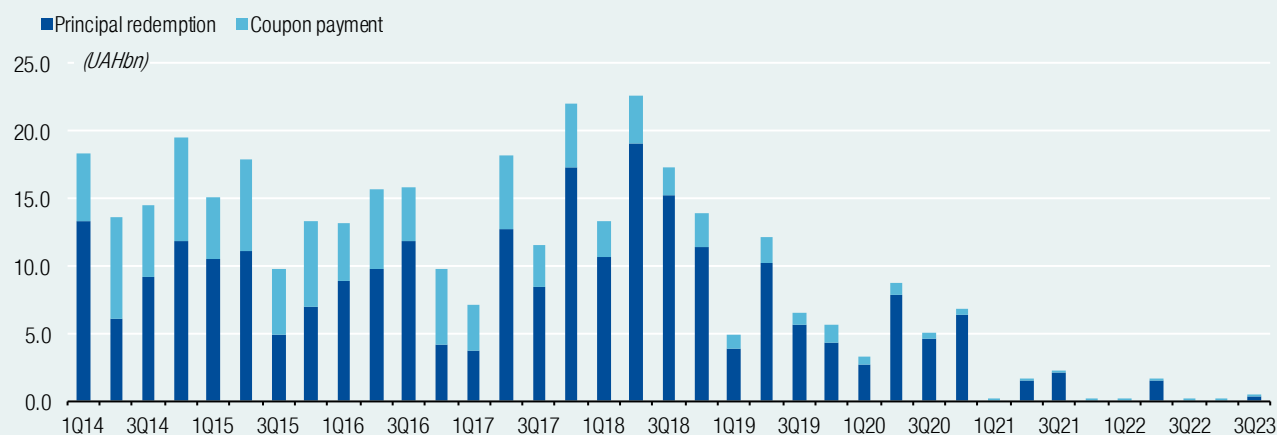
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

**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
<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	356,193,163.39	<b>2,367,442,182.15</b>	<b>3,142,516,037.44</b>	
<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	<b>3,233,929,860.69</b>	<b>1,026,144,352.24</b>	<b>1,621,673,258.00</b>	<b>1,040,276,494.04</b>	
<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	98,800,000.00	<b>2,231,241,817.63</b>	<b>1,135,077,605.29</b>	<b>2,068,405,313.40</b>	
<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	350,580,000.00	<b>664,558,150.00</b>	<b>728,425,745.00</b>	<b>1,118,407,003.70</b>	<b>2,123,294,851.39</b>
<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	390,067,798.73	<b>1,632,546,298.50</b>	<b>2,184,377,477.42</b>	<b>688,743,330.16</b>	
<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	460,007,755.06	<b>1,971,180,076.25</b>	<b>872,380,493.82</b>	359,693,999.33	
<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	437,771,890.00	<b>1,117,409,603.63</b>	436,510,652.14	<b>2,930,208,504.65</b>	<b>1,805,784,287.44</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	296,159,860.69	476,144,352.24	<b>1,599,565,866.00</b>	<b>1,023,680,835.29</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	98,800,000.00	<b>1,610,244,567.63</b>	<b>638,077,605.29</b>	<b>2,071,436,563.40</b>	350,580,000.00
<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>2,164,558,150.00</b>	<b>753,425,745.00</b>	<b>729,802,863.70</b>	<b>1,506,974,975.84</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>1,590,167,798.73</b>	<b>2,152,816,298.50</b>	<b>1,713,583,684.69</b>	<b>1,520,593,330.16</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>712,676,755.06</b>	<b>2,166,657,962.50</b>	<b>2,470,650,493.82</b>	<b>1,185,180,346.83</b>	437,771,890.00

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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