



Bond Market Insight

Government bond auction results: Redemption refinanced but risks increase further

WEDNESDAY, 22 JANUARY, 2014

Despite significant support of banking sector liquidity from the NBU, which purchased UAH2.5bn of government bonds from the banks' portfolio this Monday, providing a significant increase in banks' correspondent accounts with the NBU yesterday, the MoF should have attracted significant demand at the primary auction.

Having UAH2.38bn of debt repayments scheduled for today, of which UAH1.95bn is to be repaid in US dollars, the MoF collected only UAH0.33bn of demand, including only UAH0.06bn (US\$7.06m) of bids for FX-denominated bonds.

In addition to the five bonds offered originally, the MoF announced offerings of 3-week USD-denominated and 4-month local currency zero-coupon bonds. Although these additional offerings attracted 300% more demand, the volume was insufficient to refinance all of today's debt repayments. As a result, the 3-week USD-denominated bond was canceled and then re-offered, finally collecting demand sufficient to cover the majority of today's FX needs.

Table 1. Details of last government bond auction

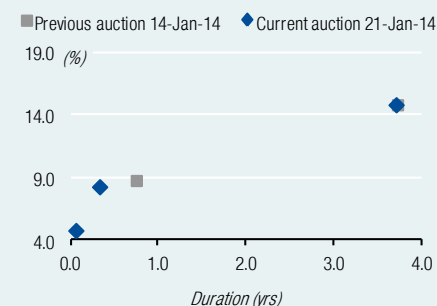
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000179055	0.00		12-Feb-14	200,274	997.27	1,678.71	1,683.30	4.76	1,683.30
UA4000179048	0.00		21-May-14	90,000	973.59	87.62	90.00	8.25	90.00
UA4000178891	14.25	SA	9-Jan-19	250,000	1,002.31	250.58	250.00	14.80	1,377.26
Total				540,274		2,016.91	2,023.30		3,150.57

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.

At the close, the MoF attracted 17 bids for a total of UAH3.08bn of demand, but accepted only seven bids for a total of UAH2.02bn, including UAH1.68bn in FX (US\$199.73m), which was UAH0.33bn short of all repayments yet covered all principal repayments. At the same time, the MoF will receive fewer funds in FX than it needs today.

We expect that the MoF will refinance mostly principal repayments and only partially interest repayments going forward. This policy is very positive, especially at the beginning of the year, but the fact that repayments were refinanced using short-term bonds will not improve situation and will only increase needs in FX funds in mid-February, creating a more significant debt burden at that time.

RESEARCH INSIGHT

Term structure of yields


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

Auction results

Auction	Last 21-Jan-14	Previous 14-Jan-14	Change
3-month	4.76		
6-month	8.25		
9-month		8.75	
1-year			
2-year			
3-year			
5-year	14.80	14.80	0bp

Breakdown by yields (%)

3-month	4.76
6-month	8.25
9-month	8.75
1-year	
2-year	
3-year	
5-year	14.80

Breakdown by proceeds (UAHm)

3-month	1,678.71		
6-month	87.62		
9-month	23.46		
1-year			
2-year			
3-year			
5-year	250.58	1,127.26	-77.77%
Total	2,016.91	1,150.73	75.27%

Effective yield and duration at the auction

Yield-to-maturity (%)	14.15	13.85	30bp
Duration (years)	1.41	2.35	-39.98%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	93.90	93.36	0.58%
WA life ² (years)	3.57	3.60	-0.73%

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.

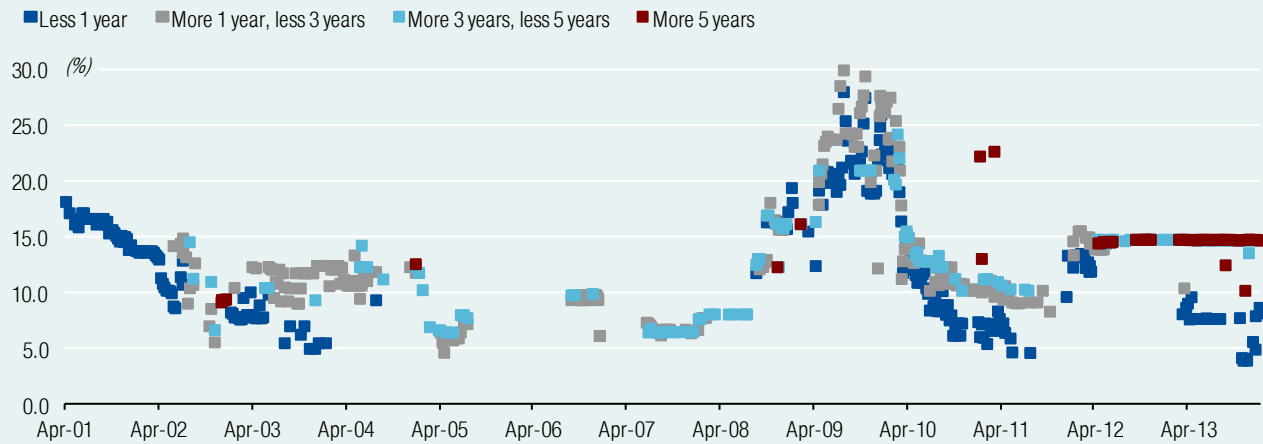
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

Research team
Alexander Valchysen
Taras Kotovych

Kiev, +38 (044) 2200120 extn.242

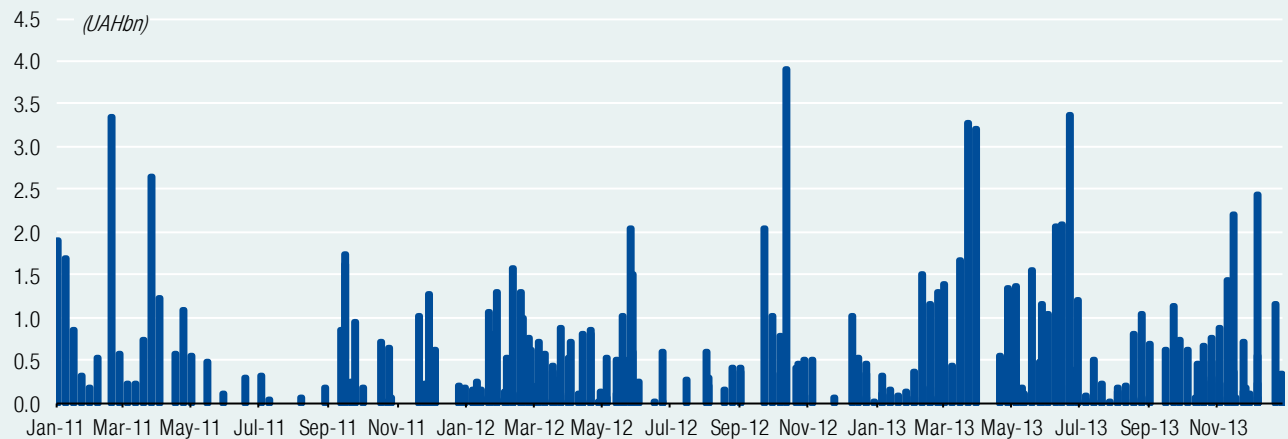
Appendix: Auctions history and schedule for 2013

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



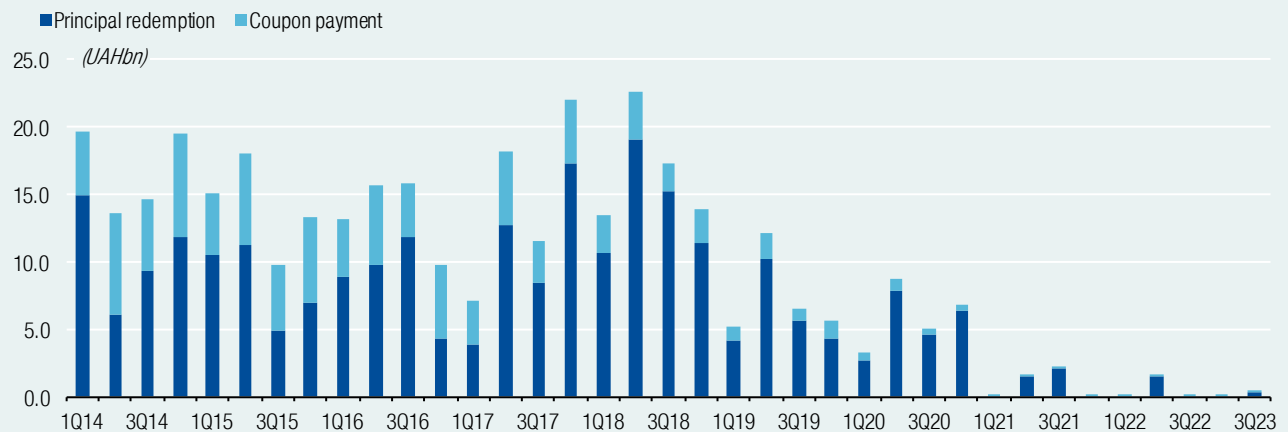
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	2,387,512,855.00	3,143,664,616.88	
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	3,233,961,652.69	2,711,066,300.03	1,621,846,690.50	1,040,447,900.85	
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	98,800,000.00	2,231,733,245.75	1,136,727,564.36	2,069,575,001.00	
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	1,122,276,246.66	2,124,207,537.42
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	390,979,787.18	1,632,546,298.50	2,291,320,155.15	690,604,007.40	
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	460,757,354.98	1,971,946,898.75	873,055,711.95	361,767,269.72	
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	437,771,890.00	1,117,959,464.89	454,775,074.96	2,956,652,930.00	1,806,932,866.88
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	296,191,652.69	477,763,330.03	1,599,739,298.50	1,023,852,242.10	
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	98,800,000.00	1,623,840,745.75	639,727,564.36	2,072,606,251.00	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	731,077,106.66	1,509,151,739.40	
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	1,591,079,787.18	2,152,816,298.50	1,725,630,808.77	1,531,104,007.40	
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	713,426,354.98	2,186,887,285.00	2,471,325,711.95	1,195,837,444.72	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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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

CHAIRMAN OF THE BOARD OF DIRECTORS

Valeria Gontareva
valeria.gontareva@icu.ua

CORPORATE FINANCE TEL. +38 044 2200120

Makar Paseniuk, Managing Director
makar.paseniuk@icu.ua

Volodymyr Demchyshyn, Director
volodymyr.demchyshyn@icu.ua

Ruslan Kilmukhametov, Vice-president
ruslan.kilmukhametov@icu.ua

FIXED-INCOME SALES AND TRADING TEL. +38 044 2201621

Konstantin Stetsenko, Managing Director
konstantin.stetsenko@icu.ua

Sergiy Byelyayev, Fixed-Income Trading
sergij.byelyayev@icu.ua

Vitaliy Sivach, Fixed-Income Trading
vitaliy.sivach@icu.ua

EQUITY SALES AND TRADING TEL. +38 044 2201621

Vlad Sinani, Director, Equities
vlad.sinani@icu.ua

Julia Pecheritsa, International Equity Sales
julia.pecheritsa@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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