



Bond Market Insight

Government bond auction results: Unscheduled auction raises significant funds

FRIDAY, 24 JANUARY, 2014

The MoF held an unscheduled auction of four bonds yesterday, including 3-month, 4-month and 9-month zero-coupon bonds and a 5-year coupon bearing bond, all denominated in local currency.

Of the offered bonds, only the 9-month bond received no bids. The 5-year bond received only one bid for UAH700.00m at the standard interest rate of 14.25%. The 3-month and 4-month bonds received 10 bids for a total of UAH1.26bn (par value), for which the MoF was forced to increase accepted interest rates.

For the 3-month bond, the MoF increased the interest rate by 50bp from a previous 3-month issue placed last July, setting the cut-off interest rate at 8.25%. Only one bid for UAH50.0m submitted at 8.75% was rejected. While the 4-month bonds sold this past Tuesday had a cut-off interest rate of 8.25%, at yesterday's auction the cut-off interest rate was 9.0%, and the weighted average interest rate was 8.98%. Compared to Tuesday's auction, demand was up two-fold and proceeds were up tenfold.

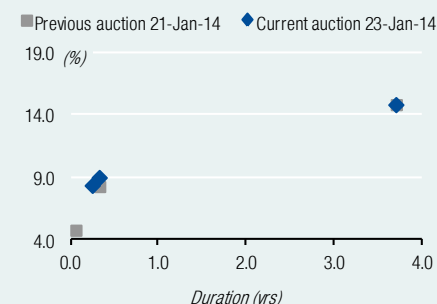
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000176085	0.00		23-Apr-14	688,052	980.06	674.33	688.05	8.34	1,002.05
UA4000179048	0.00		21-May-14	520,000	971.80	505.34	520.00	8.97	610.00
UA4000178891	14.25	SA	9-Jan-19	700,000	1,003.03	702.12	700.00	14.80	2,077.26
Total				1,908,052		1,881.79	1,908.05		3,689.32

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.

While banking sector liquidity has hit record highs in January, putting some pressure on the FX market, this absorption was anticipated to absorb some excess liquidity. If yesterday's proceeds are to be used for budget expenditures, funds from this auction will be insufficient. Quite possibly, an unexpected shortfall in month-end tax payments for the beginning of 2014 could have triggered this additional auction. Fortunately, the approved state budget which took effect this week canceled the restriction on attracting financing prior to which could not exceed the scheduled debt redemption.

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Term structure of yields


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

Auction results

Auction	Last 23-Jan-14	Previous 21-Jan-14	Change
3-month	8.34	4.76	359bp
6-month	8.97	8.25	72bp
9-month			
1-year			
2-year			
3-year			
5-year	14.80	14.80	0bp

Breakdown by yields (%)

3-month	8.34	4.76	359bp
6-month	8.97	8.25	72bp
9-month			
1-year			
2-year			
3-year			
5-year	14.80	14.80	0bp

Breakdown by proceeds (UAHm)

3-month	674.33	1,673.51	-59.71%
6-month	505.34	87.62	5.77x
9-month			
1-year			
2-year			
3-year			
5-year	702.12	250.58	2.80x
Total	1,881.79	2,011.72	-6.46%

Effective yield and duration at the auction

Yield-to-maturity (%)	14.03	14.15	-12bp
Duration (years)	1.48	1.41	5.14%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	95.54	93.90	1.74%
WA life ² (years)	3.54	3.57	-0.75%

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.

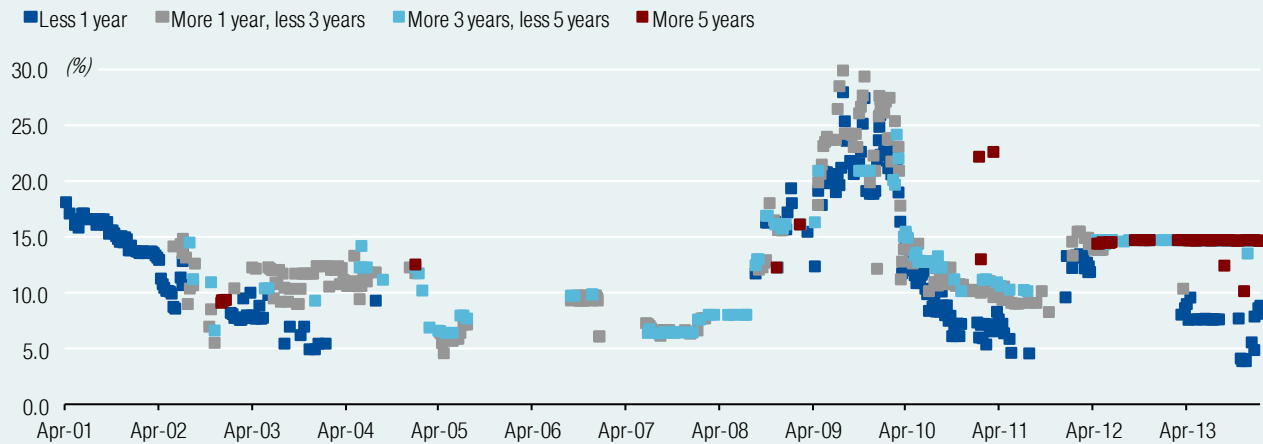
Research team

Alexander Valchysen
Taras Kotovych

Kiev, +38 (044) 2200120 extn.242

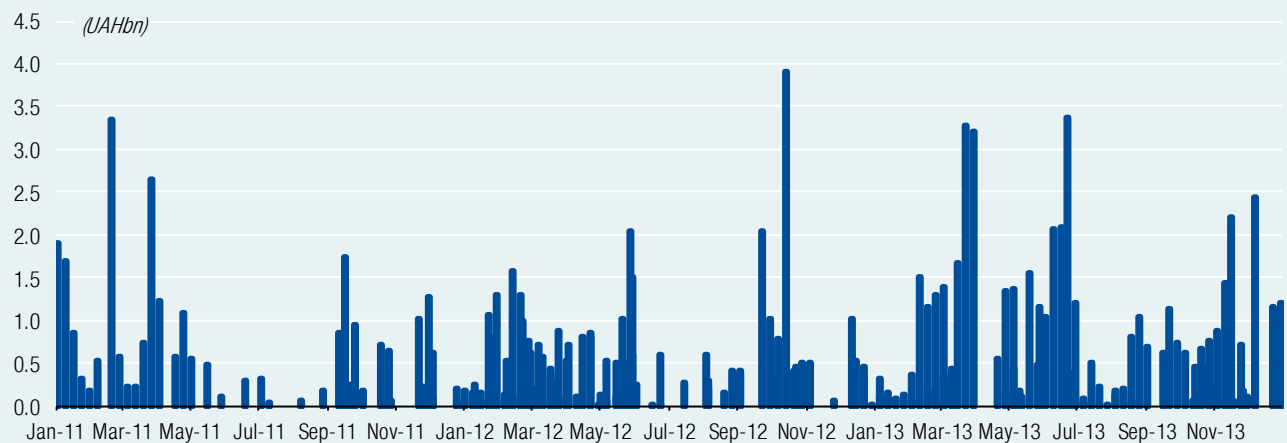
Appendix: Auctions history and schedule for 2013

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



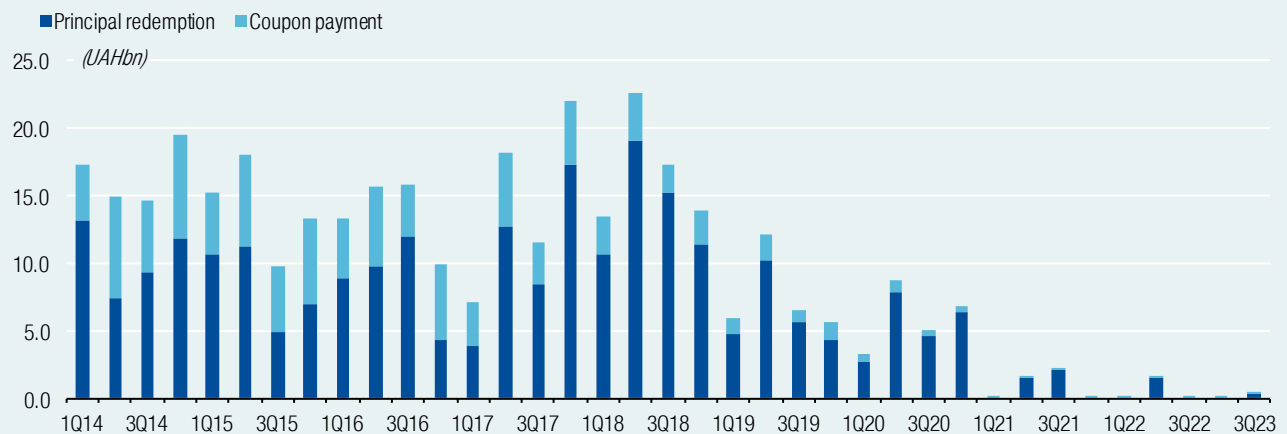
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	5,376,840.00	3,144,129,360.00	
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	3,233,974,516.50	2,718,730,967.75	1,621,916,865.50	1,040,517,256.20	
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	2,231,932,089.50	1,137,395,177.85	2,070,048,285.00	
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	1,811,893,836.30	2,124,798,098.76
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	391,496,310.79	1,632,546,298.50	2,818,175,573.89	691,356,882.58	
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	461,060,661.30	1,972,257,173.75	873,328,921.60	362,606,165.25	
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	1,118,181,952.10	504,832,933.90	2,967,352,986.50	1,807,397,610.00
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	296,204,516.50	478,418,407.75	1,599,809,473.50	1,023,921,597.45	
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	98,800,000.00	1,629,342,089.50	640,395,177.85	2,073,079,535.00	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	731,592,696.30	1,519,473,211.06	
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	1,591,596,310.79	2,152,816,298.50	1,730,505,367.65	1,535,356,882.58	
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	713,729,661.30	2,195,072,560.00	2,471,598,921.60	1,200,149,565.25	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.

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

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
sergiy.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
Senior equity analyst (Metals & Mining)
alexander.martynenko@icu.ua

Taras Kotovych, Fixed-income analyst
taras.kotovych@icu.ua

Lee Daniels, Rolfe Haas
Editors

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