



Bond Market Insight

Government bond auction results: Failed auction

WEDNESDAY, 29 JANUARY, 2014

Despite the high volume of redemptions scheduled this week, yesterday's auction attracted only 10% of the refinancing needed for today's debt repayments.

Of the three offered bonds, the 5-year bond received one non-competitive bid for UAH273.0m while the 7-year bond attracted one small bid for a mere UAH10.0m at the standard interest rate of 14.30%.

Table 1. Details of last government bond auction

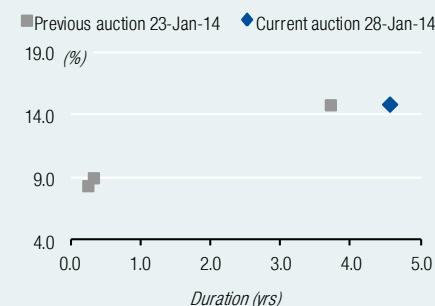
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m)
UA4000179170	14.30	SA	23-Dec-20	10,000	1,010.68	10.11	10.00	14.85	10.00
Total				10,000		10.11	10.00		10.00

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.

The MoF accepted the bid for the 7-year bond and announced a new auction today offering the 5-year bond again.

As yesterday's demand was insufficient to refinance today's repayments, the MoF will have to use other sources, such as budget revenues from month-end tax payments and/or any available FX reserves. If the NBU uses domestic QE to support liquidity, as it significantly declined over the past last few days, we expect liquidity to decline further due to the record-high daily FX market trading volume seen over the past two sessions.

RESEARCH INSIGHT

Term structure of yields

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

Auction results

Auction	Last 28-Jan-14	Previous 23-Jan-14	Change
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Breakdown by yields (%)

3-month	8.34
6-month	8.97
9-month	
1-year	
2-year	
3-year	
5-year	14.80

Breakdown by proceeds (UAHm)

3-month	674.33		
6-month	505.34		
9-month			
1-year			
2-year			
3-year			
5-year	702.12		
Total	10.11	1,881.79	-99.46%

Effective yield and duration at the auction

Yield-to-maturity (%)	14.85	14.03	81bp
Duration (years)	4.56	1.48	207.48%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	95.55	95.54	0.01%
WA life ² (years)	3.53	3.54	-0.38%

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.

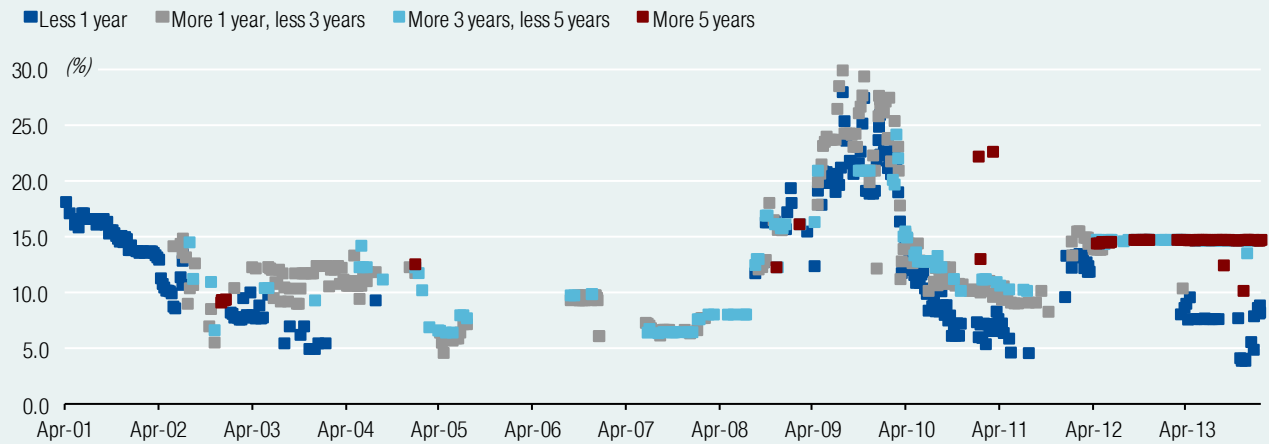
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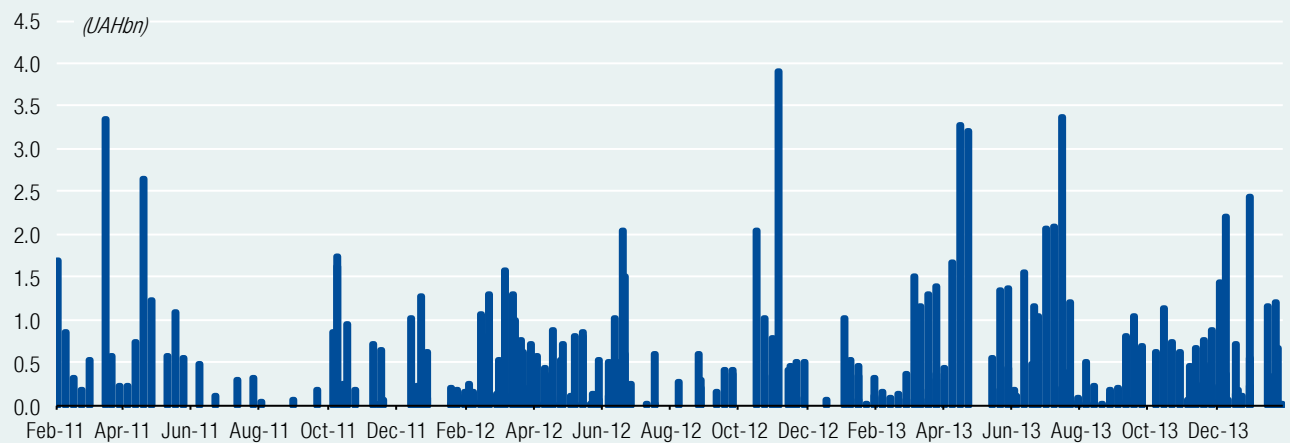
Appendix: Auctions history and schedule for 2013

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



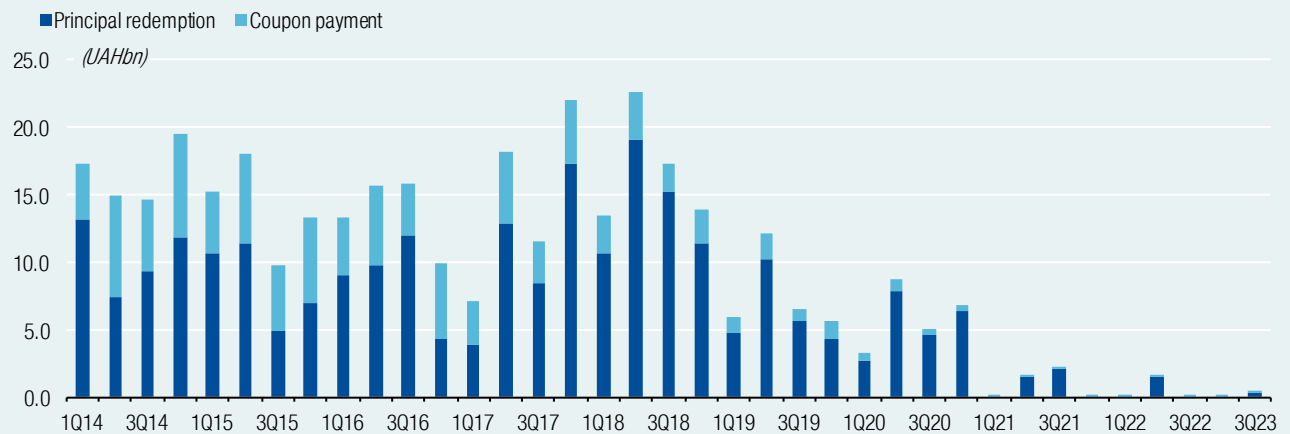
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	3,144,726,886.88	
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	3,233,991,055.69	2,728,585,540.53	1,622,007,090.50	1,040,606,427.38	
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	2,232,187,745.75	1,138,253,538.06	2,070,656,793.00	
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	1,813,906,737.26	2,125,316,768.94
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	391,999,997.26	1,632,546,298.50	2,826,989,683.70	692,324,864.96	
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	461,450,626.57	1,972,656,098.75	873,680,191.15	363,684,745.22	
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	1,118,468,007.09	505,068,038.26	2,981,110,202.00	1,807,995,136.88
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	296,221,055.69	479,260,650.53	1,599,899,698.50	1,024,010,768.63	
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	1,636,415,245.75	641,253,538.06	2,073,688,043.00	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	732,255,597.26	1,522,477,094.51	
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	1,592,099,997.26	2,152,816,298.50	1,736,772,657.64	1,540,824,864.96	
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	714,119,626.58	2,205,596,485.00	2,471,950,191.15	1,205,693,720.22	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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