

Bond Market Insight

Government bond auction results: Investors were satisfied yesterday

THURSDAY, 30 JANUARY, 2014

Yesterday's additional auction, at which the MoF offered only a 5-year local currency bond, was announced on Tuesday evening. The main reason was that one non-competitive bid could not be accepted because there were no normal bids for the same bond.

After Tuesday's offering of this bond was cancelled and announced to be held yesterday, the MoF likely anticipated that the sole investor would submit his bid again. This anticipation was correct, and yesterday the MoF received two bids, one of them was the same non-competitive bid for UAH273.0m, while the second one was insufficient and was only a technical bid to set the coupon rate for the bond.

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)
UA4000179196	14.25	SA	23-Jan-19	273,010	1,000.00	273.01	273.01	14.80	273.01
Total				273,010		273.01	273.01		273.01

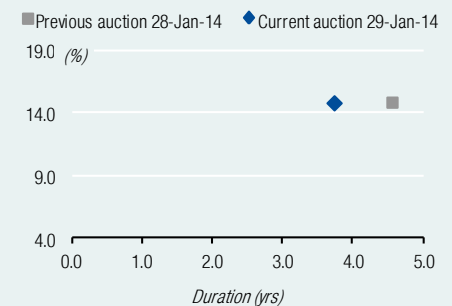
Note: Note: [1] payment frequency abbreviations: Q - quarterly, SA - semi-annually; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate 1; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry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

A new record of the FX market was the US\$5.10bn in daily trading on Tuesday, which continued its pressure on banking sector liquidity. Banks likely preferred to buy FX over long-term government bonds with low coupon rates.

As a result, the MoF refinanced only one-tenth of yesterday's repayments, using funds from last week's borrowings, budget revenues and selling proceeds from FX reserves. Debt repayments, domestic and external, scheduled for next week are significant, and if the MoF does not receive the second part of the promised financing from Russia, these repayments have to be refinanced using domestic sources. So, we could see a wide range of offered bonds next week and significant demand supported by the NBU under domestic QE.

RESEARCH INSIGHT

Term structure of yields



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

Auction results

Auction	Last 29-Jan-14	Previous 28-Jan-14	Change
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Breakdown by yields (%)

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

Breakdown by proceeds (UAHm)

3-month			
6-month			
9-month			
1-year			
2-year			
3-year			
5-year	273.01		
Total	273.01	10.11	27.01x

Effective yield and duration at the auction

Yield-to-maturity (%)	14.80	14.85	-4bp
Duration (years)	3.73	4.56	-18.15%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	95.83	95.55	0.29%
WA life ² (years)	3.53	3.53	0.04%

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.

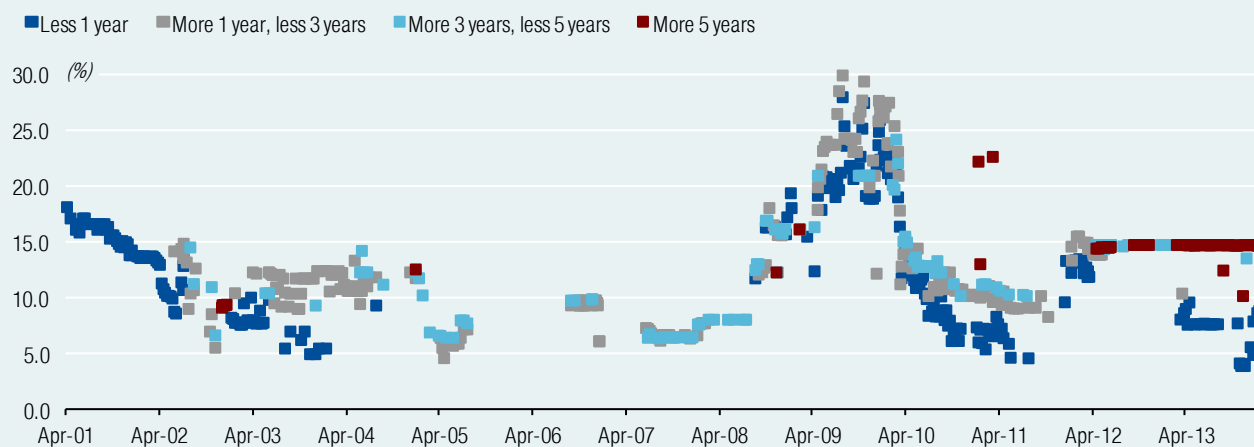
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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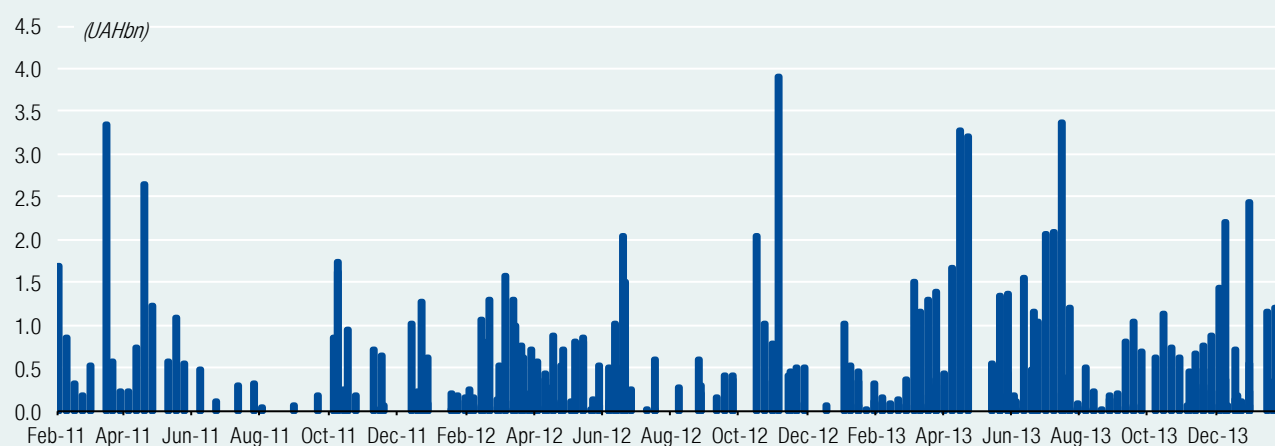
Appendix: Auctions history and schedule for 2013

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



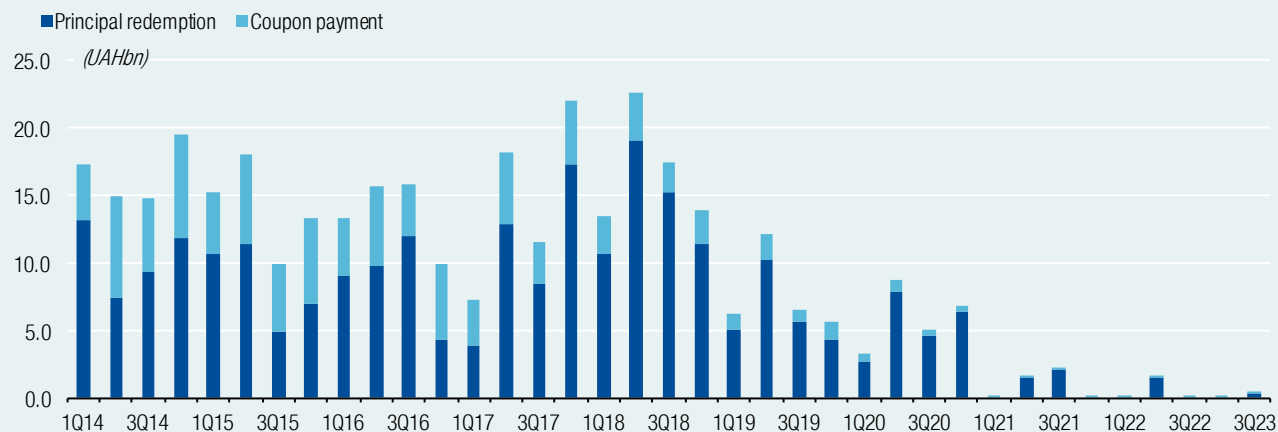
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	3,144,594,103.13	
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	3,233,987,380.31	2,726,395,635.47	1,621,987,040.50	1,040,586,611.56	
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	2,232,130,933.25	1,138,062,791.34	2,070,521,569.00	
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	1,813,459,425.94	2,125,184,993.70
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	391,877,056.80	1,632,546,298.50	2,825,030,992.63	692,109,757.76	
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	461,363,967.63	1,972,567,448.75	873,602,131.25	363,445,060.78	
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	1,118,404,439.31	505,015,792.84	2,978,053,043.00	1,827,314,315.63
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	296,217,380.31	479,073,485.47	1,599,879,648.50	1,023,990,952.81	
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	1,634,843,433.25	641,062,791.34	2,073,552,819.00	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	732,108,285.94	1,521,104,916.33	
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	1,591,977,056.80	2,152,816,298.50	1,735,379,926.53	1,539,609,757.76	
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	714,032,967.63	2,203,257,835.00	2,471,872,131.25	1,204,461,685.78	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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