

Bond Market Insight

Government bond auction results: Insufficient demand

WEDNESDAY, 5 FEBRUARY, 2014

Despite the significant volume of repayments, the unstable FX market and record low banking sector liquidity resulted in insufficient refinancing of debt repayments.

Of six offered bonds, only one 5-year bond received two bids, one of which was non-competitive. The market ignored yesterday's offerings of short-term zero-coupon bonds as well as the 3-year USD-denominated 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	208,713	1,002.65	209.27	208.71	14.80	481.72
Total				208,713		209.27	208.71		481.72

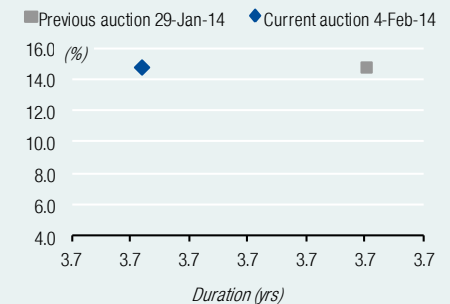
Note: Note: [1] payment frequency abbreviations: Q - quarterly, SA - semi-annually; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate 1; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry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

Demand for 5-year bond amounted only to UAH208.71m at the standard 14.25% rate, most likely supported by domestic QE.

The MoF refinanced only 7.6% of today's principal repayments, receiving just UAH209.27m. Such low proceeds for the second consecutive week could indicate that the MOF has sufficient funds to fulfill current debt repayments.

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Term structure of yields



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

Auction results

Auction	Last 4-Feb-14	Previous 29-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	14.80	0bp

Breakdown by proceeds (UAHm)

3-month			
6-month			
9-month			
1-year			
2-year			
3-year			
5-year	209.27	273.01	-23.35%
Total	209.27	273.01	-23.35%

Effective yield and duration at the auction

Yield-to-maturity (%)	14.79	14.80	-1bp
Duration (years)	3.71	3.73	-0.43%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	93.33	95.83	-2.61%
WA life ² (years)	3.62	3.53	2.53%

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.

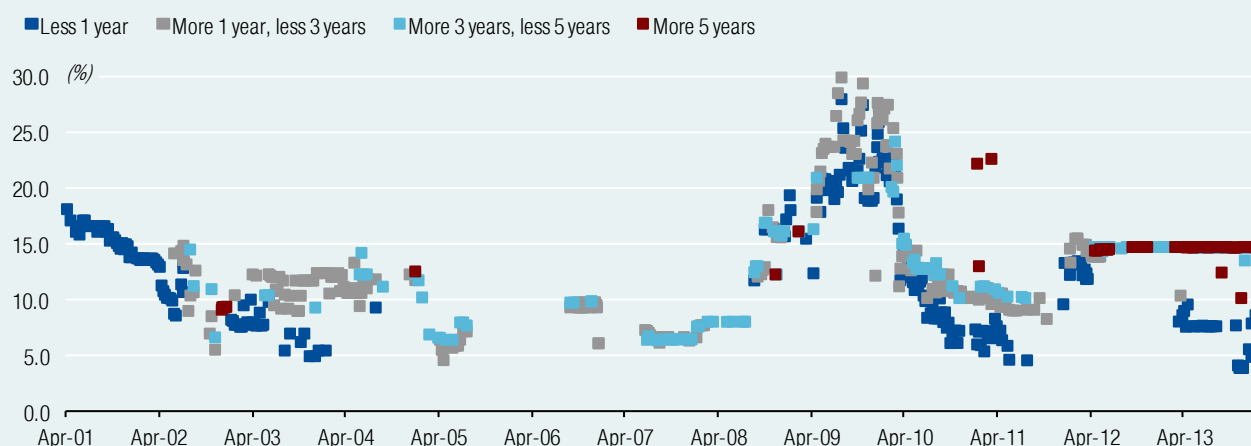
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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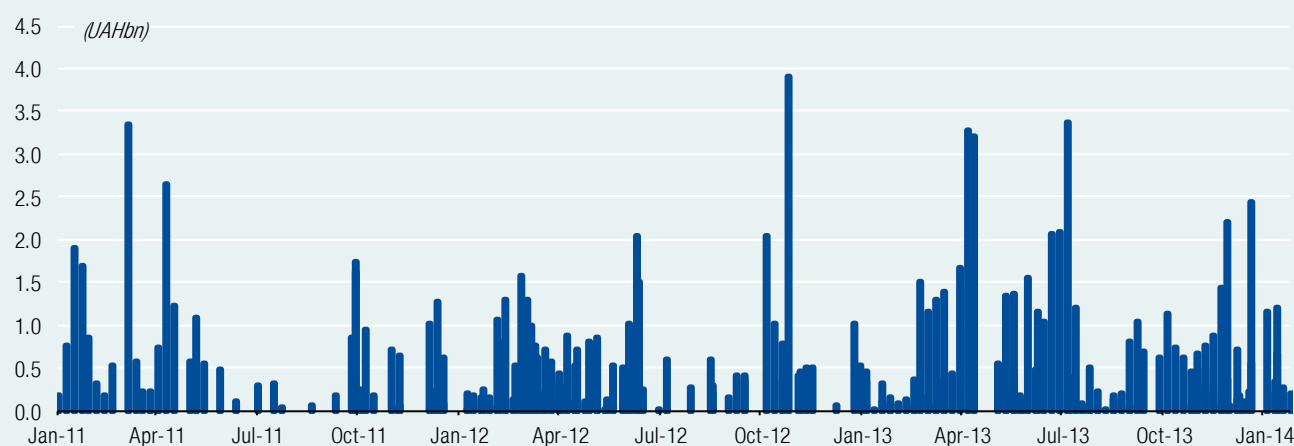
Appendix: Auctions history and schedule for 2013

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



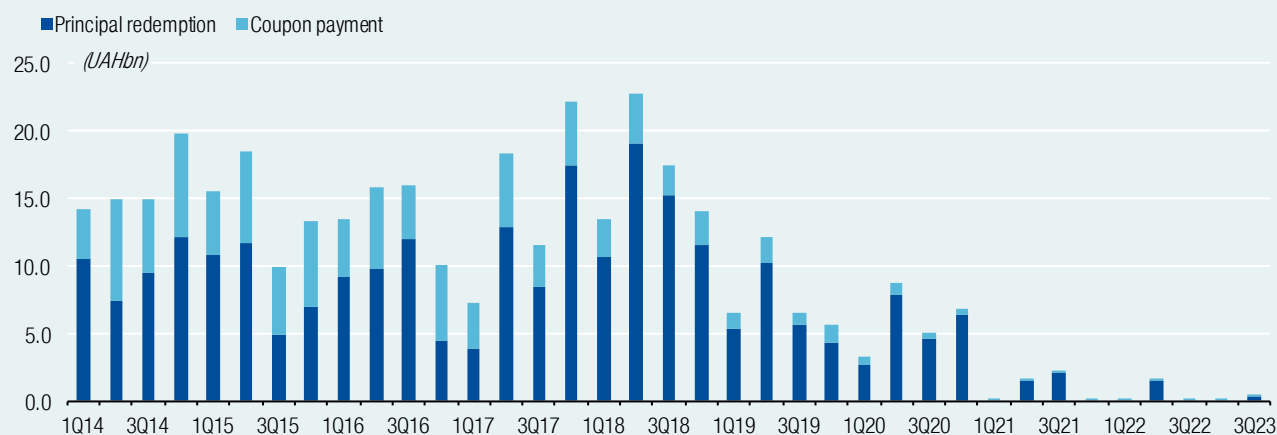
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	0.00	
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	3,234,097,641.56	2,792,092,787.34	1,622,588,540.50	1,041,181,086.04	
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	2,233,835,308.25	1,143,785,192.72	2,074,578,289.00	
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	1,826,878,765.69	2,128,663,050.90
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	395,248,470.60	1,632,546,298.50	2,883,791,724.67	698,562,973.61	
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	463,963,736.13	1,975,226,948.75	875,943,928.25	370,635,593.91	
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	1,120,311,472.56	506,583,155.22	3,069,767,813.00	1,846,168,629.38
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	296,327,641.56	484,688,437.34	1,600,481,148.50	1,024,585,427.29	
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	1,681,997,808.25	646,785,192.72	2,077,609,539.00	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	736,527,625.69	1,541,995,062.03	
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	1,595,348,470.60	2,152,816,298.50	1,777,161,859.77	1,576,062,973.61	
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	716,632,736.13	2,273,417,335.00	2,474,213,928.25	1,241,422,718.91	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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