

Bond Market Insight

Government bond auction results: Failed to attract bids

FRIDAY, 7 FEBRUARY, 2014

Yesterday's unscheduled auction of two local currency bonds failed to provide proceeds. Neither the 2.5-month or 5-year bonds received any bids.

On Wednesday, banks' correspondent accounts with the NBU fell UAH3.07bn to the lowest level of this year to UAH20.79bn. The MoF repaid UAH3.24bn in local currency in debt principal and interest repayments. While the NBU had in its portfolio bonds which were redeemed on Wednesday, the liquidity outflow was about UAH4.0bn, part of which was compensated by the MoF.

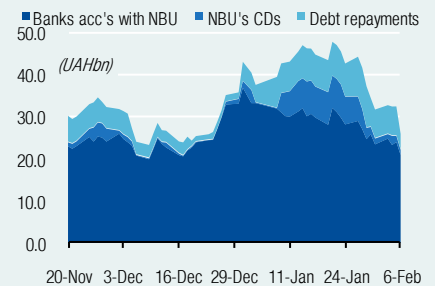
The significant outflow of liquidity was reflected in the secondary bond market as yields increased and money market fund rates rose. The MoF attracted no demand despite the availability of support from domestic QE.

Unscheduled primary auctions could indicate significant problems with the budget's performance, and the MoF is currently able to meet budget expenditures despite the failed auctions. Ahead of next week's scheduled quarterly tax payments, we could see another attempt to attracting financing at the auction.

RESEARCH INSIGHT

Historical breakdown of local financial market liquidity (UAHbn)

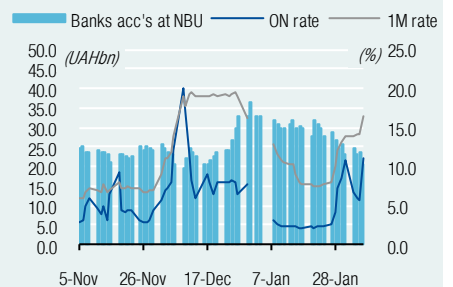
Last 3-month period



Sources: MoF, NBU, Investment Capital Ukraine LLC.

Banks' acc' with the NBU and KyivPrime rates.

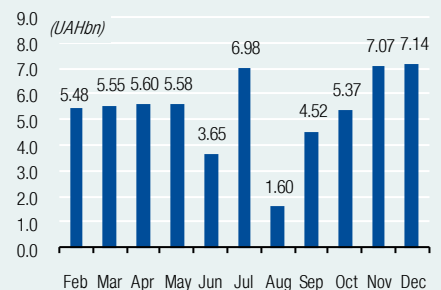
Last 3-month period



Sources: NBU, Bloomberg, Investment Capital Ukraine LLC.

UAH state debt payback (UAHbn)

Until the end of 2014



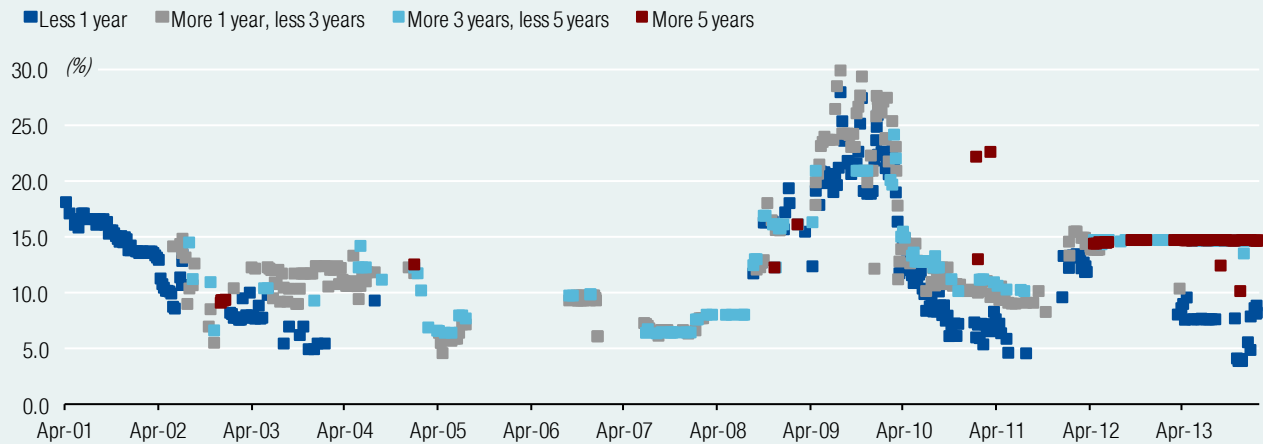
Sources: MoF, Investment Capital Ukraine LLC.

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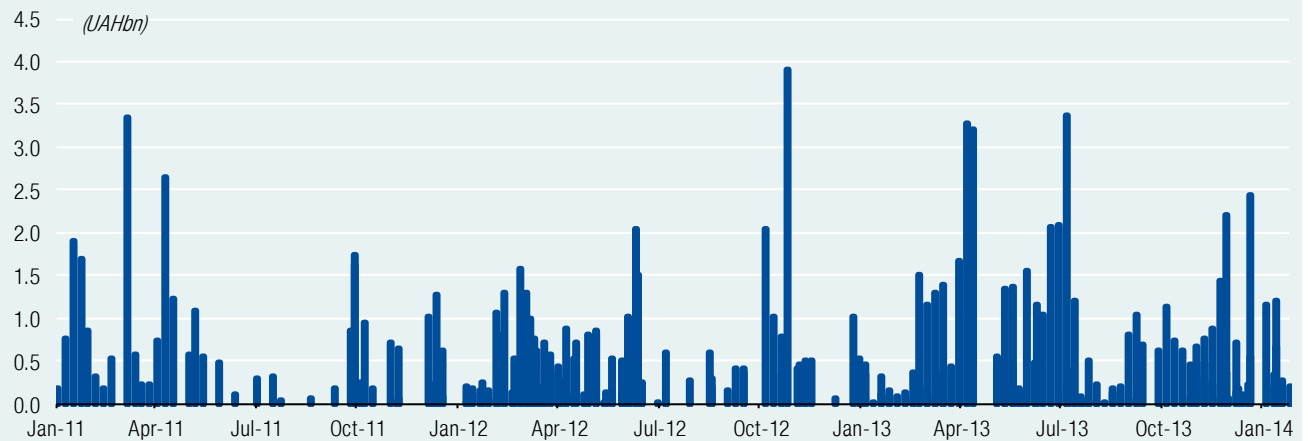
Appendix: Auctions history and schedule for 2013

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



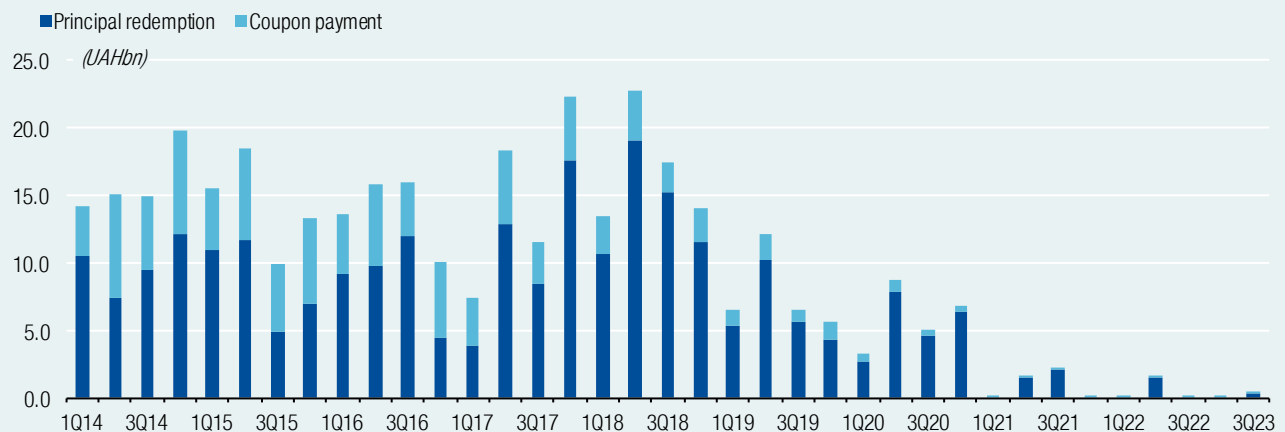
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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 1. 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	2,809,612,027.84	1,622,748,940.50	1,041,339,612.57	
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	2,234,289,808.25	1,145,311,166.42	2,075,660,081.00	
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	1,830,457,256.29	2,129,727,929.70
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	396,239,112.20	1,632,546,298.50	2,899,461,253.21	700,283,831.17	
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	464,657,007.73	1,975,936,148.75	876,568,407.45	372,553,069.41	
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	1,120,820,014.76	507,001,118.52	3,094,225,085.00	1,847,230,899.38
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	296,357,044.56	486,185,757.84	1,600,641,548.50	1,024,743,953.82	
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	1,694,572,308.25	648,311,166.42	2,078,691,331.00	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	737,706,116.29	1,553,428,034.43	
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	1,596,339,112.20	2,152,816,298.50	1,788,303,708.63	1,585,783,831.17	
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	717,326,007.73	2,292,126,535.00	2,474,838,407.45	1,251,278,994.41	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.

Disclosures

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