



Bond Market Insight

Government bond auction results: Only one bond attracts two bids

WEDNESDAY, 12 FEBRUARY, 2014

Despite large debt repayments scheduled today, mostly of FX-denominated bonds, and despite the MoF's willingness to refinance them, yesterday's auction was typical of what we have seen over the last several weeks. Although the MoF offered bonds with a wide range of maturities to attract the most demand possible, only two bids for the 5-year bonds at the standard rate were submitted.

The lack of demand for local currency bonds could be the result of low banking sector liquidity and the high cost of funds at the money market which pushed secondary market bond yields higher. With secondary market yields above 20.0%, the MoF as a rule has refused bids at market rates which it deems too high. No bids were submitted for FX-denominated bonds as banks probably anticipated the new regulation of FX market taking effect.

Table 1. Details of last government bond auction

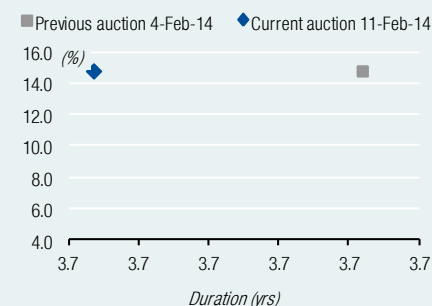
ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Out-standing (m)
UA4000179196	14.25	SA	23-Jan-19	1,145,000	1,005.31	1,151.08	1,145.00	14.80	1,626.72
Total				1,145,000		1,151.08	1,145.00		1,626.72

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.

Because of this, yesterday's demand for the 5-year local currency bonds could have been supported by domestic QE, a program through which banks receive support from the NBU.

The MoF so far this year has attracted only UAH6.69bn of funds against UAH9.58bn in scheduled repayments to date. Of this amount, UAH2.23bn in principal repayments is scheduled to be repaid today. With UAH2.72bn in principal and interest repayments due today, the MoF, unable to refinance debt repayments for the third consecutive week, will likely tap its reserves, including funds from FX accounts, budget revenues, and excess NBU funds.

RESEARCH INSIGHT

Term structure of yields


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

Auction results

Auction	Last 11-Feb-14	Previous 4-Feb-14	Change
3-month			
6-month			
9-month			
1-year			
2-year			
3-year			
5-year	14.80	14.80	0bp

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	1,151.08	209.27	5.50x
Total	1,151.08	209.27	5.50x

Effective yield and duration at the auction

Yield-to-maturity (%)	14.79	14.79	0bp
Duration (years)	3.69	3.71	-0.52%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	91.73	93.33	-1.71%
WA life ² (years)	3.73	3.62	2.93%

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.

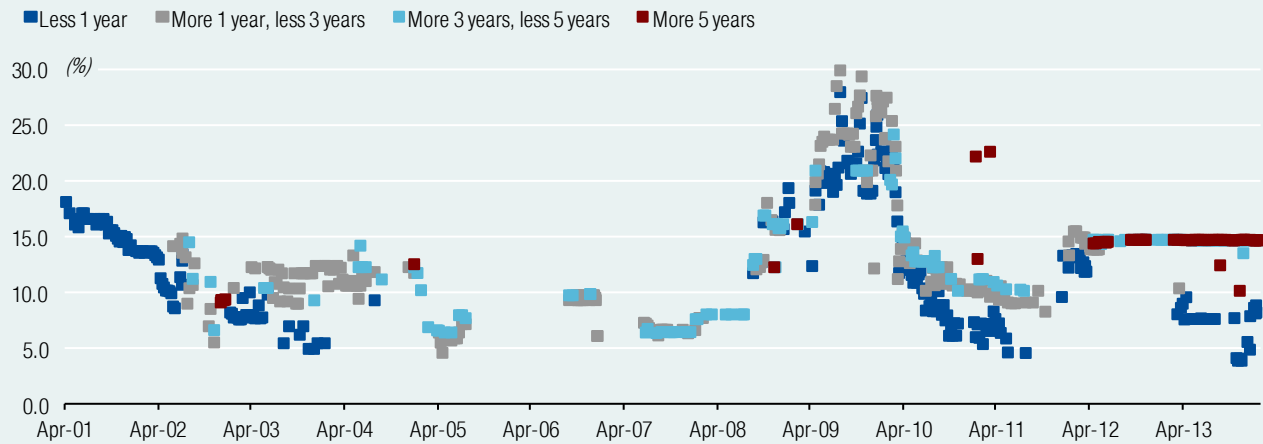
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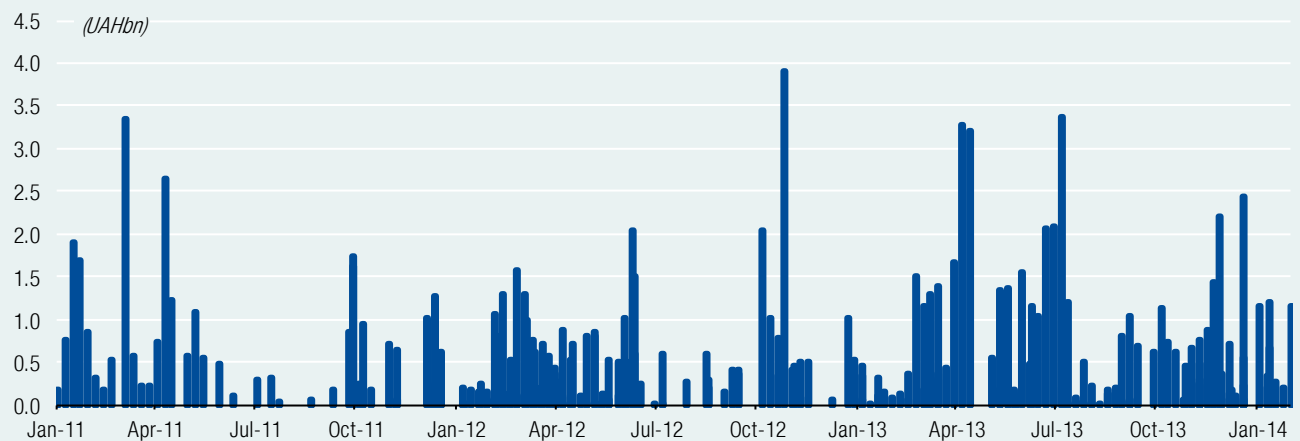
Appendix: Auctions history and schedule for 2013

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



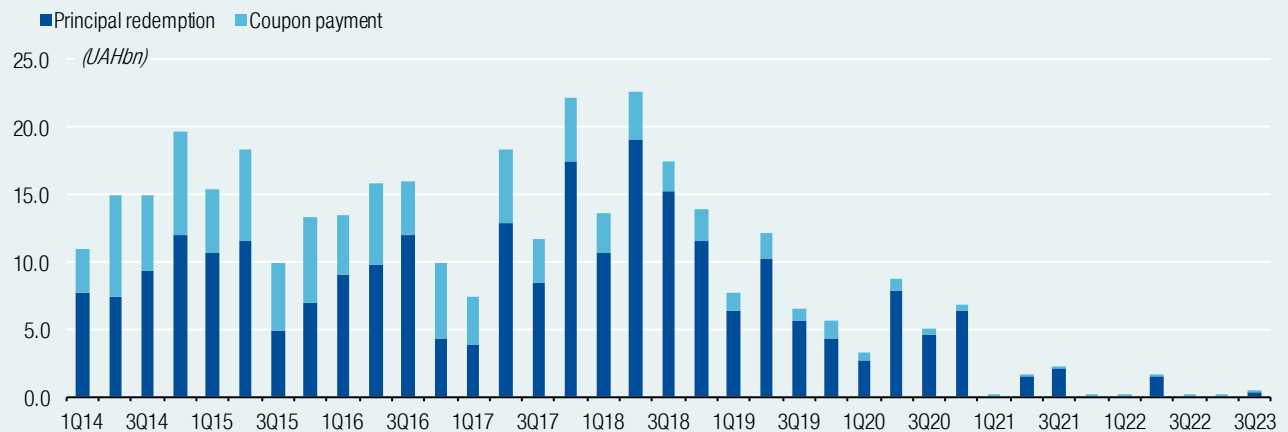
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	0.00	2,760,339,163.94	1,622,297,815.50	1,040,893,756.71	
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	2,233,011,527.00	1,141,019,365.39	2,072,617,541.00	
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	1,820,392,751.47	2,127,044,933.76
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	393,660,916.49	1,632,546,298.50	2,855,390,704.18	695,443,919.28	
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	462,707,181.35	1,973,941,523.75	874,812,059.70	367,160,169.56	
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	1,119,389,739.83	505,825,596.74	3,025,439,007.50	1,925,824,515.00
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	296,274,348.63	481,974,543.94	1,600,190,423.50	1,024,298,097.96	
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	1,659,206,527.00	644,019,365.39	2,075,648,791.00	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	734,391,611.48	1,534,583,762.11	
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	1,593,760,916.49	2,152,816,298.50	1,756,967,258.70	1,558,443,919.29	
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	715,376,181.35	2,239,506,910.00	2,473,082,059.70	1,223,558,219.56	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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