



Bond Market Insight

Government bond auction results: Interest rates decline in refinancing

THURSDAY, 27 FEBRUARY, 2014

After the MoF canceled Tuesday's auction and deleted it from the monthly schedule, yesterday's unannounced auction came as a surprise and yet was typical in that it offered only one 5-year bond with an additionally announced offering slightly later.

There was only one bid for UAH1.50bn, possibly the result of the increase in banking sector liquidity. Of note, the 11.50% interest rate bid came in 275bp below the standard 14.25% seen earlier this year. This bid most likely was submitted by a bank with support from the NBU under domestic QE, because the cost of funds at the market was higher.

As significant debt repayments were scheduled this week and last Friday, of UAH1.95bn and UAH0.23bn, respectively, the auction was much needed. Of the UAH1.95bn to be repaid this week, UAH1.43bn were principal repayments on VAT-bonds issued in 2010 while UAH0.35bn were interest repayments on another bond.

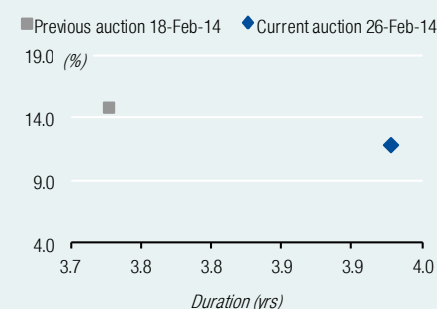
Yesterday's auction described the MoF's directive to decrease the cost of new borrowings, particularly as it is prepared to support this demand at the primary market. We expect no changes in MoF policy at the primary market as it stays on track to optimize the cost of debt servicing.

Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000179741	11.50	SA	20-Feb-19	1,500,000	1,000.00	1,500.00	1,500.00	11.86	1,500.00
Total				1,500,000		1,500.00	1,500.00		1,500.00

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.

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Term structure of yields


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

Auction results

Auction	Last 26-Feb-14	Previous 18-Feb-14	Change
5-year	11.86	14.85	-299bp

Breakdown by yields (%)

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

Breakdown by proceeds (UAHm)

3-month			
6-month			
9-month			
1-year			
2-year			
3-year			
5-year			
Total	1,500.00	600.00	2.50x

Effective yield and duration at the auction

Yield-to-maturity (%)	11.86	14.84	-298bp
Duration (years)	3.93	3.73	5.30%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	94.73	93.23	1.61%
WA life ² (years)	3.77	3.77	-0.06%

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.

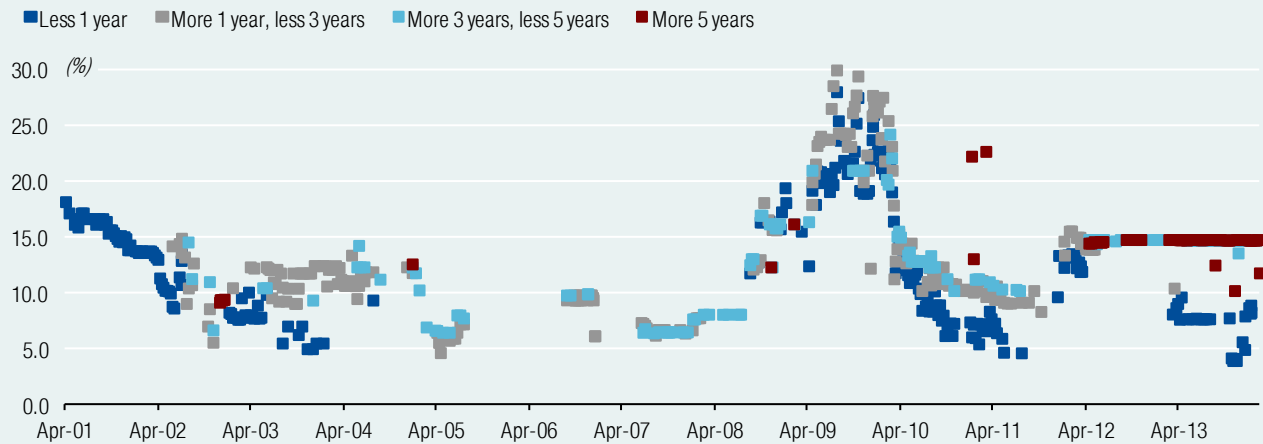
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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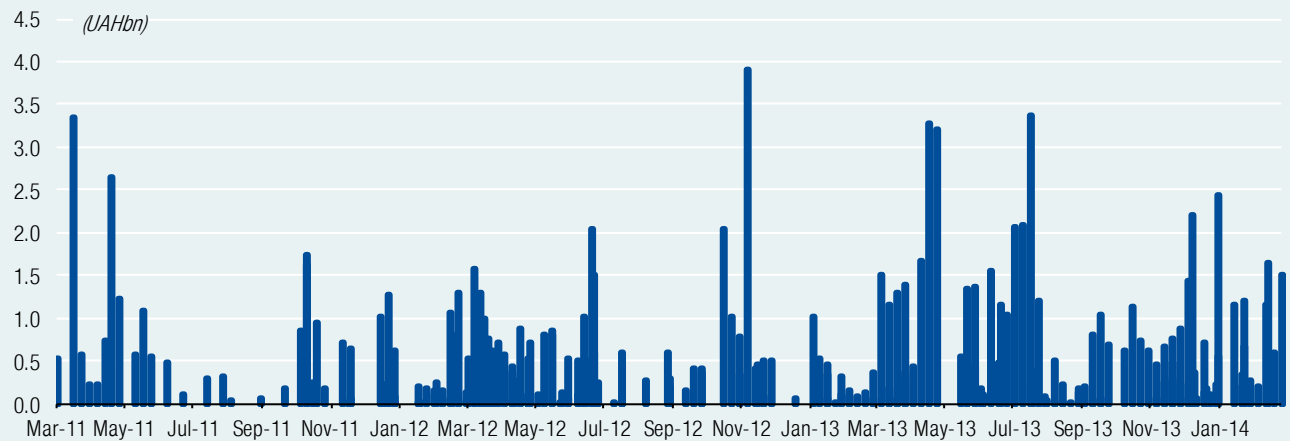
Appendix: Auctions history and schedule for 2014

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



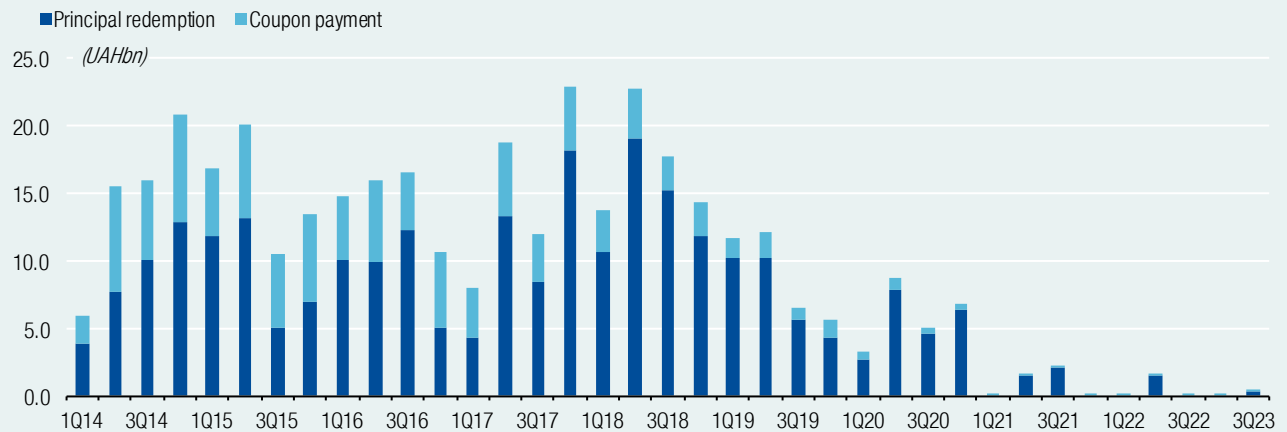
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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 2014

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	0.00	0.00	374,044,625.74	
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	2,241,647,027.00	1,170,012,865.69	2,093,171,589.00	
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	1,888,384,072.88	2,145,655,159.20
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	411,401,459.05	1,632,546,298.50	3,153,111,746.52	728,140,212.92	
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	475,879,341.75	1,987,416,323.75	886,677,164.50	403,592,204.06	
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	1,129,052,041.63	513,766,899.44	3,490,127,175.50	1,946,007,645.00
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	414,395,505.63	510,423,633.44	1,646,138,023.50	1,113,560,101.99	
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	1,898,122,027.00	673,012,865.69	2,096,202,839.00	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	756,782,932.88	1,682,584,775.95	
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	1,611,501,459.05	2,152,816,298.50	1,968,662,387.12	1,743,140,212.93	
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	728,548,341.75	2,594,981,710.00	2,484,947,164.50	1,410,827,454.06	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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