

Bond Market Insight

Government bond auction results: New crisis financing

FRIDAY, 7 MARCH, 2014

Due to difficulties with the budget performance and the lack of new sources for financing, the MoF continued to issue 5-year local currency bonds at conditions favorable for the MoF. Yesterday's unscheduled primary auction allows the MoF to finance the state budget with UAH1.10bn of proceeds at the low interest rate of 11.50%, which is standard for the last two weeks.

Yesterday, the MoF offered only 5-year local currency bonds, with no attempt to attract market demand. The auction was oriented to bids supported by domestic QE. Actually, during last week and this week, the MoF purchased UAH6.5bn of bonds from the banks' portfolio while the MoF sold only UAH5.10bn of new bonds during the same period.

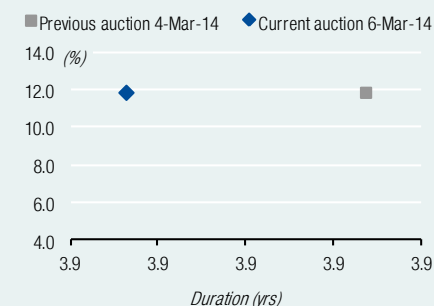
All budget proceeds from this week's primary auctions most likely will be used for current budget expenditures, because there were no large debt repayments scheduled for this week.

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)
UA4000179824	11.50	SA	27-Feb-19	1,100,000	1,000.31	1,100.34	1,100.00	11.86	2,100.00
Total				1,100,000	1,100.34	1,100.00			2,100.00

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 6-Mar-14	Previous 4-Mar-14	Change
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Breakdown by yields (%)

3-month			
6-month			
9-month			
1-year			
2-year			
3-year			
5-year	11.86	11.86	0bp

Breakdown by proceeds (UAHm)

3-month			
6-month			
9-month			
1-year			
2-year			
3-year			
5-year	1,100.34	1,000.00	10.03%
Total	1,100.34	1,000.00	10.03%

Effective yield and duration at the auction

Yield-to-maturity (%)	11.86	11.86	1bp
Duration (years)	3.92	3.93	-0.14%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	98.33	97.23	1.13%
WA life ² (years)	3.79	3.78	0.21%

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.

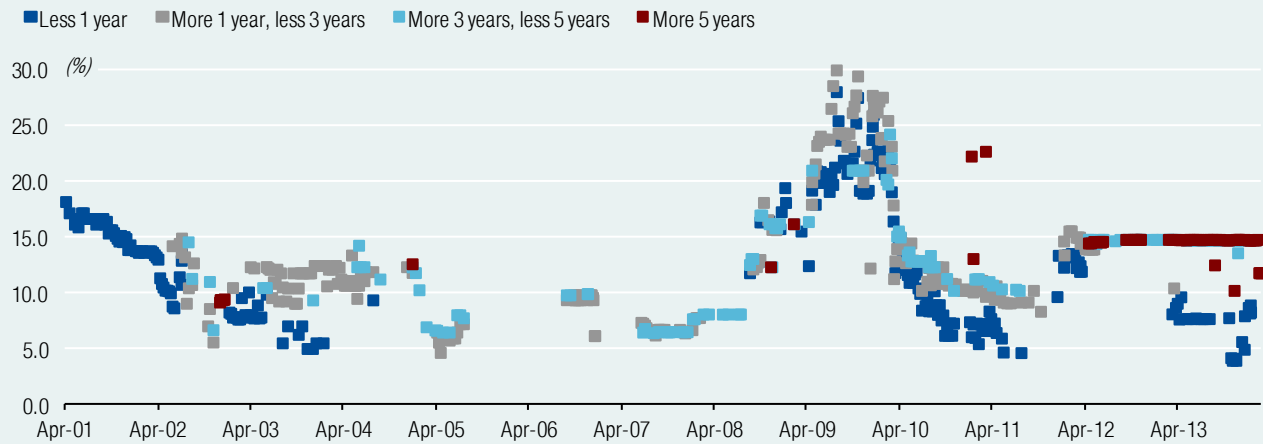
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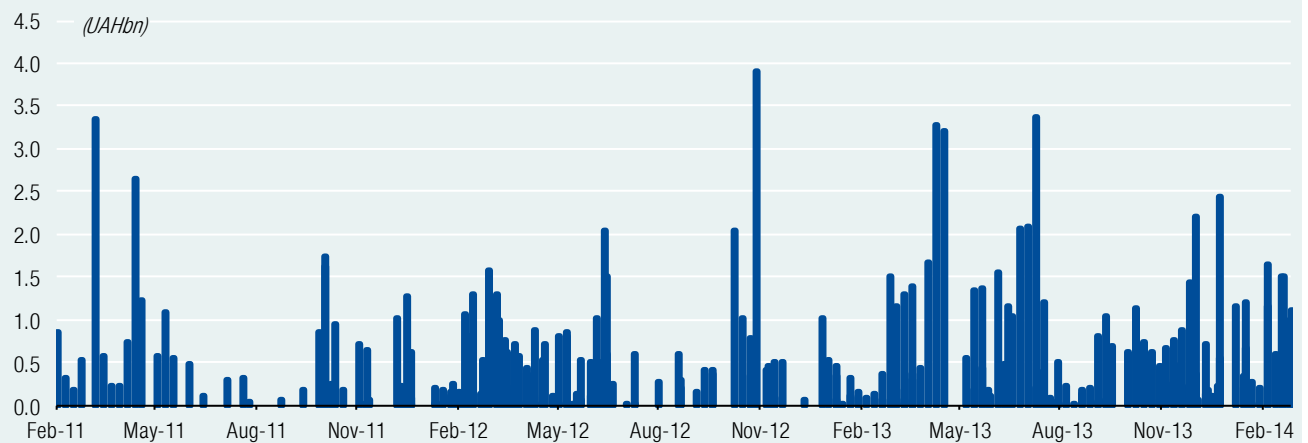
Appendix: Auctions history and schedule for 2013

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



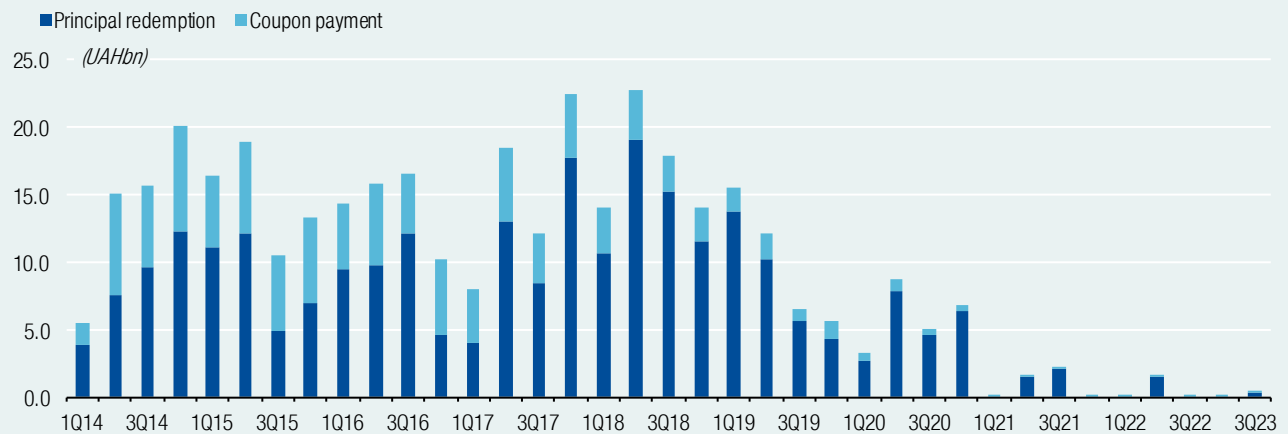
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	0.00	0.00	0.00	
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	0.00	2,236,249,839.50	1,151,891,928.00	2,080,325,309.00	
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	1,845,889,497.00	2,134,292,341.80
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	400,492,668.95	1,632,546,298.50	2,967,036,095.06	707,705,029.40	
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	467,646,741.50	1,978,994,573.75	879,261,474.00	380,822,182.50	
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	1,123,013,103.00	508,803,585.25	3,199,697,070.50	1,933,393,188.75
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	414,046,345.00	492,642,952.50	1,730,483,273.50	1,111,677,599.47	
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	219,550,000.00	1,748,799,839.50	654,891,928.00	2,083,356,559.00	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	742,788,357.00	1,601,543,278.30	
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	1,600,592,668.95	2,152,816,298.50	1,836,352,931.86	1,627,705,029.40	
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	720,315,741.50	2,372,809,960.00	2,477,531,474.00	1,293,784,182.50	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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