

Bond Market Insight

Government bond auction results: Low activity and partial refinancing of repayments

WEDNESDAY, 7 MAY, 2014

At May's debut primary auction yesterday, the MoF offered an additional 3-month bond denominated in local currency as a last minute change to the list of offerings. Both 3-year and 3-month bonds were sold, but not all demand was satisfied.

The 3-year bond received a routine single bid at the same 15% interest rate as last week but for a significantly lower amount of UAH100.0m. At the same time, the 3-month bond continued to attract several bids, part of which reflected the current situation and market interest rates. The MoF accepted only one bid for UAH150.0m (par value) of the 3-month bonds at 9.95%, the same as last week, while other bids were submitted with interest rates of up to 20.0%, or 400bp higher than last 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)
UA4000180442	0.00		30-Jul-14	150,000	977.35	146.60	150.00	9.95	170.00
UA4000180541	15.00	SA	3-May-17	100,000	1,000.00	100.00	100.00	15.61	100.00
Total				250,000		246.60	250.00		270.00

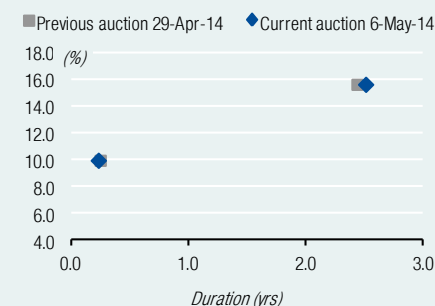
Note: Note: [1] payment frequency abbreviations: Q - quarterly, SA - semi-annually; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day last price of USD/UAH exchange rate 1; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry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

UAH246.60m of proceeds could cover the majority of UAH293.21m in local currency debt repayments scheduled for this week. At the same time, the MoF received UAH146.60m from 3-month bond sales, which could cover UAH120m of FX-denominated debt repayments. With the purchasing date on this bond set for yesterday, could be specially to receive funds to pay for FX and make the FX-denominated debt repayment immediately.

Next week, the MoF has to repay UAH1.64bn in local currency, including UAH1.0bn of principal repayments, which most likely will be refinanced via domestic QE. We do not anticipate that the MoF will increase interest rates to accept demand at higher interest rates. Refinancing is needed because if the MoF will receive budget part of loan from IMF, these FX funds will be needed for debt repayments in FX scheduled for May and June, including repayments to the IMF and Eurobond redemptions.

RESEARCH INSIGHT

Term structure of yields



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

Auction results

Auction	Last 6-May-14	Previous 29-Apr-14	Change
3-month	9.95	9.95	0bp
6-month			
9-month			
1-year			
2-year			
3-year	15.61	15.61	0bp
5-year			

Breakdown by yields (%)

3-month	9.95	9.95	0bp
6-month			
9-month			
1-year			
2-year			
3-year	15.61	15.61	0bp
5-year			

Breakdown by proceeds (UAHm)

3-month	146.60	19.52	7.51x
6-month			
9-month			
1-year			
2-year			
3-year	100.00	1,617.26	-93.82%
5-year			
Total	246.60	1,636.78	-84.93%

Effective yield and duration at the auction

Yield-to-maturity (%)	15.15	15.11	4bp
Duration (years)	1.40	1.38	1.59%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	101.30	102.49	-1.16%
WA life ² (years)	3.73	3.70	0.74%

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.

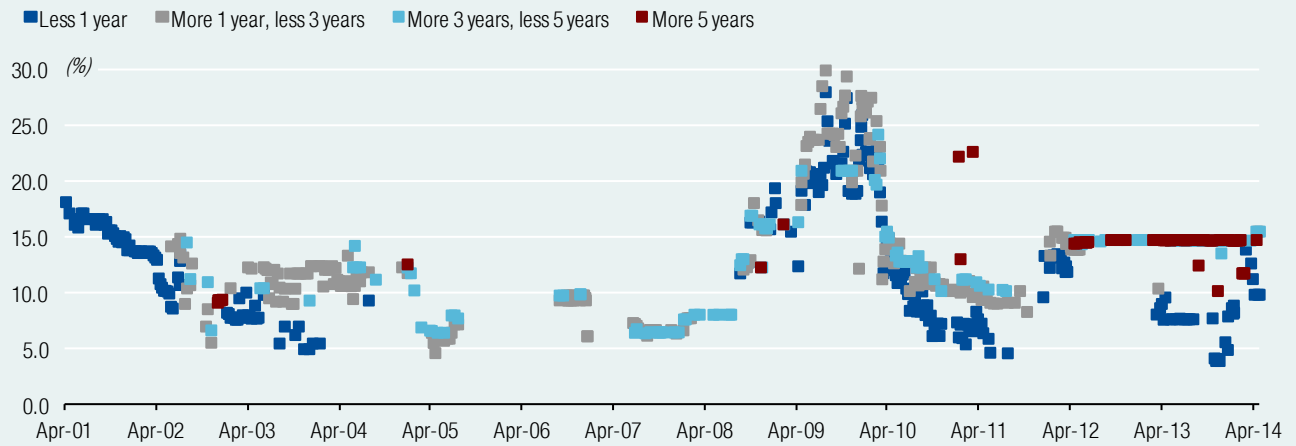
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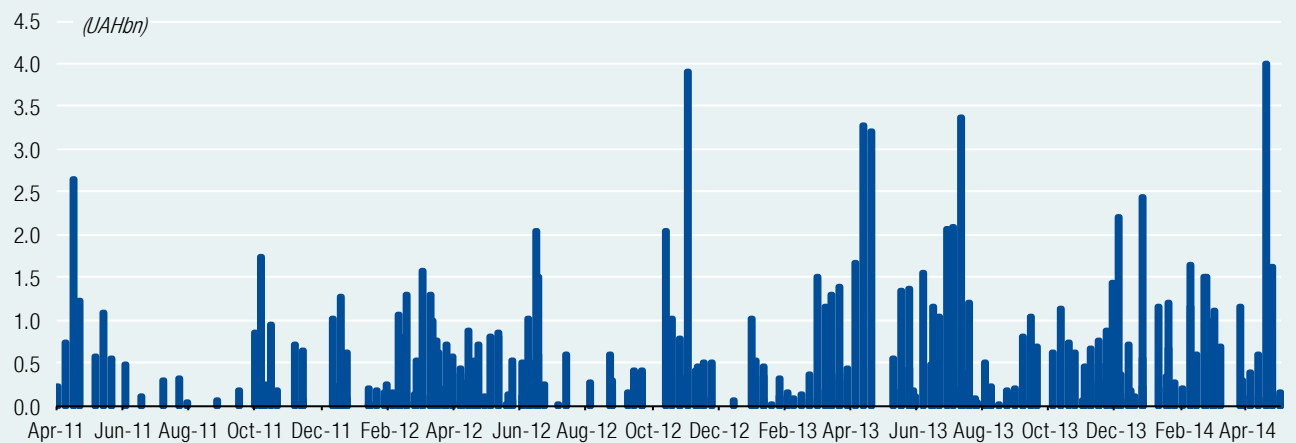
Appendix: Auctions history and schedule for 2013

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



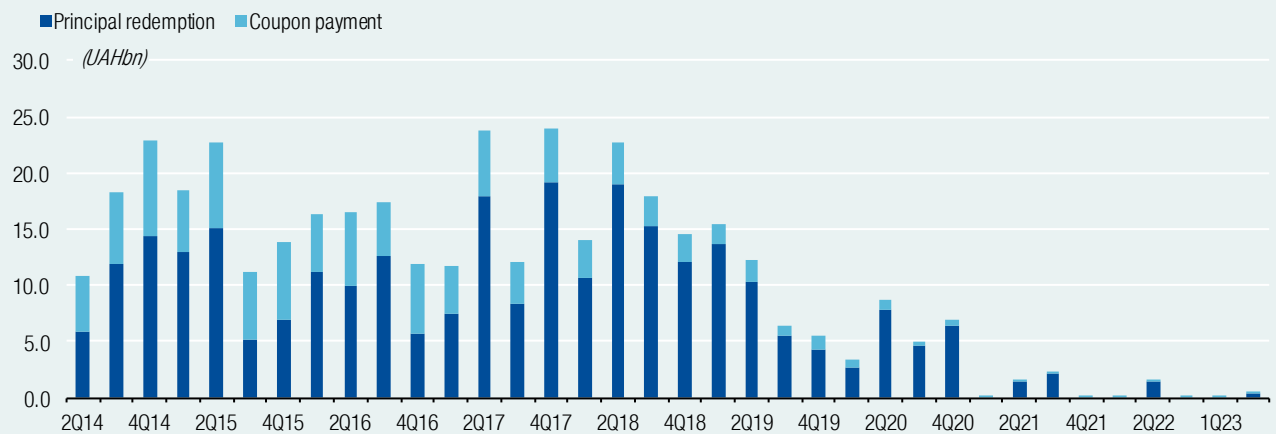
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	0.00	0.00	0.00	
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	0.00	0.00	0.00	0.00	0.00
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	430,888,222.15	1,632,546,298.50	3,476,295,772.74	763,632,900.10	
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	490,178,068.50	2,002,043,573.75	899,557,048.00	1,155,220,136.25	
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	1,438,486,890.00	1,139,540,724.50	522,387,392.50	3,994,558,410.50	2,137,916,963.75
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	415,001,942.50	541,305,868.75	1,735,696,273.50	1,116,829,711.63	
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	2,157,471,089.50	786,423,573.25	2,118,514,799.00	880,580,000.00
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	758,769,154.50	1,081,089,301.50	1,857,895,758.10	
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	1,638,488,222.15	2,152,816,298.50	2,198,463,019.94	1,943,632,900.10	
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	742,847,068.50	2,980,858,960.00	2,497,827,048.00	1,614,113,136.25	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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