



Bond Market Insight

Government bond auction results: Short-term USD-denominated bonds sold

WEDNESDAY, 28 MAY, 2014

At yesterday's primary auction, along with the originally scheduled 5-year local currency denominated bond, the MoF added a routinely offered 2-year local currency bond and the debut offering of a new 2-week USD-denominated bond, a rarely seen short maturity.

Of the short-term zero-coupon bonds sold a few times last year, most had maturities of approximately five months. Three prior auctions offered bonds similar to those sold yesterday: two auctions were last December, and one was held this January. The shortest maturity bond had a one week maturity, offered last December prior to receiving the debut tranche of Russian financing that was meant to cover the budget gap. Later that month, the MoF sold a 3-week bond at a similar volume to the one-week bond that was sold 10 days before. The offering in January occurred when the prior December bonds were redeemed just before the new tranche from Russia was announced by the Minister of Finance.

Yesterday's auction followed a large financing received this month from the IMF and a US-backed Eurobond offering, and also after a large USD-denominated bond redemption last week, while debt repayments in FX at the domestic market will be insufficient over the next two months.

The MoF could have raised FX for the short period of time to compensate for its outflow last week and to replenish FX reserves prior to the end of the month and next week's scheduled Eurobond redemption. At the same time, this could be for the scheduled redemption of FX-denominated bonds with put-options that were issued last year.

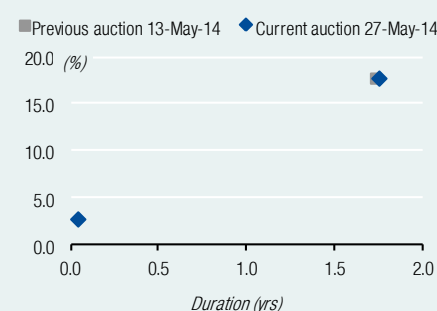
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment frequency ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000180764	0.00		11-Jun-14	215,000	998.93	2,555.76	2,558.50	2.79	2,558.50
UA4000180772	17.00	SA	18-May-16	20,000	1,003.14	20.06	20.00	17.78	20.00
Total				235,000		2,575.83	2,578.50		2,578.50

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 27-May-14	Previous 13-May-14	Change
3-month	2.79		
6-month			
9-month			
1-year			
2-year	17.78	17.77	0bp
3-year			
5-year			

Breakdown by yields (%)

3-month	2.79		
6-month			
9-month			
1-year			
2-year	17.78	17.77	0bp
3-year			
5-year			

Breakdown by proceeds (UAHm)

3-month	2,555.76		
6-month			
9-month			
1-year			
2-year	20.06	2,000.00	-99.00%
3-year			
5-year			
Total	2,575.83	2,000.00	28.79%

Effective yield and duration at the auction

Yield-to-maturity (%)	17.38	17.74	-36bp
Duration (years)	0.91	1.74	-47.87%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	101.75	103.29	-1.50%
WA life ² (years)	3.69	3.67	0.49%

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.

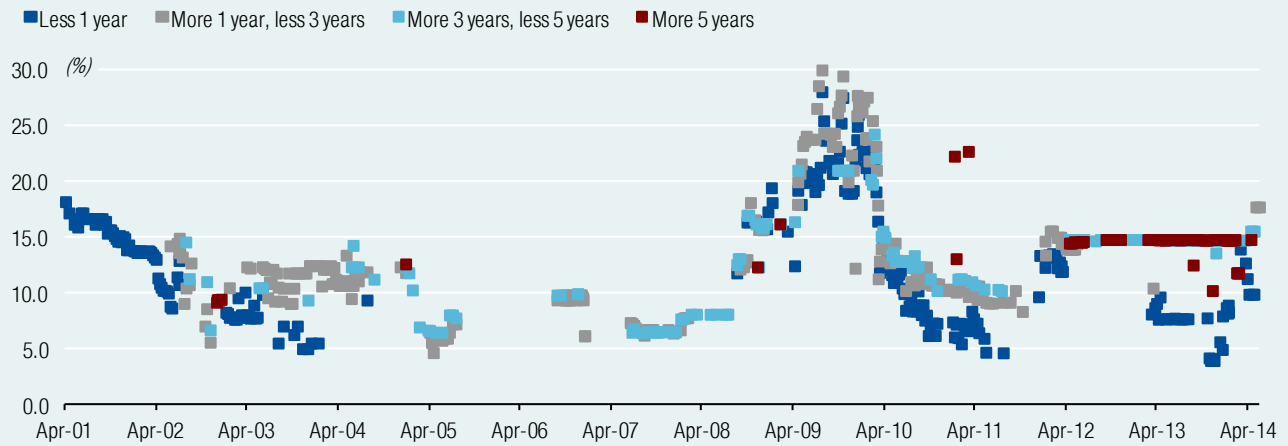
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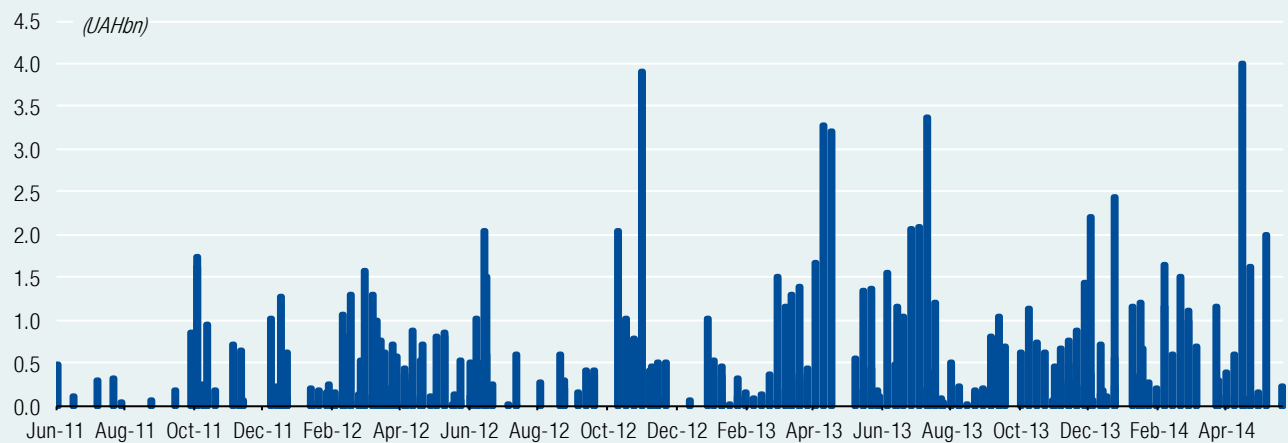
Appendix: Auctions history and schedule for 2014

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



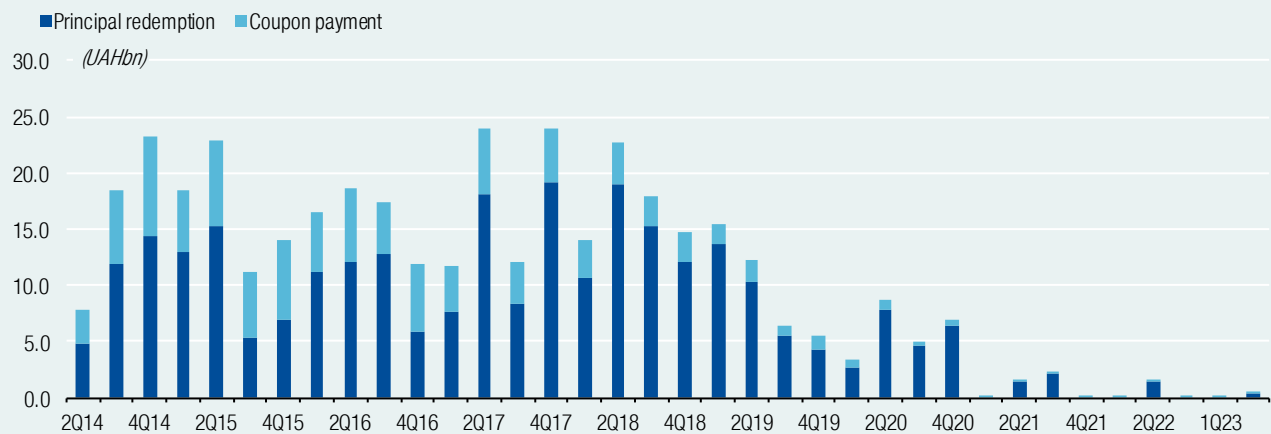
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	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	0.00	0.00	0.00	765,783,972.05	
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	491,044,658.00	4,561,430,073.75	900,337,647.00	1,157,616,980.63	
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	1,140,176,402.25	522,909,846.63	4,025,130,000.50	2,139,244,801.25
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	415,038,696.25	543,177,519.38	1,735,896,773.50	1,117,027,869.79	
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	2,173,189,214.50	788,331,040.38	2,119,867,039.00	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	1,082,562,414.75	2,015,123,154.00	
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	1,639,320,282.75	2,152,816,298.50	2,214,090,331.02	1,955,783,972.05	
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	743,713,658.00	3,004,245,460.00	2,498,607,647.00	1,626,433,480.63	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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