



Bond Market Insight

Government bond auction results: Low proceeds

WEDNESDAY, 18 JUNE, 2014

As the MoF has minor debt interest repayments scheduled today, and as the significant decline in banking sector liquidity seen on Monday was not countered by a routine NBU liquidity injection, no domestic QE support was seen at yesterday's auction.

Of the six bids submitted, the MoF rejected only one bid for UAH10.0m of the 2-year bond at the highest rate of 18.00%. The 6-month bond sold to two bidders at 15.00%, the same level as the week before. While the 2-year bond was also sold at its cut-off interest rate, the same 16.95% as the week before, one bid yesterday was submitted at an interest rate 10bp below this rate. Do not get excited too quickly...the volume was too small to have an impact on the weighted average interest rate.

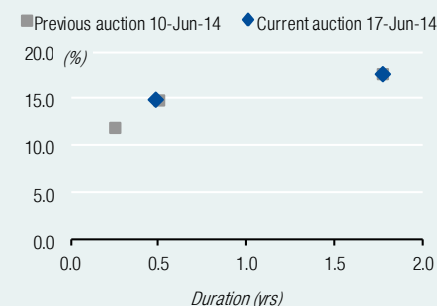
Table 1. Details of last government bond auction

ISIN	Coupon rate (%)	Payment freq ¹	Maturity	Qty of bonds sold	Price (UAH)	Proceeds ² (UAHm)	Volume ² (UAHm)	YTM ³ (%)	Outstanding (m)
UA4000184246	14.92		10-Dec-14	110,000	932.91	102.62	110.00	15.00	142.00
UA4000184352	16.95	SA	15-Jun-16	56,970	1,000.06	56.97	56.97	17.72	56.97
Total				166,970		159.59	166.97		198.97

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.

The MoF appears to need no near-term additional financing as scheduled debt repayments later in June and at the beginning of July are low. Because of the required volumes being so small, domestic QE prior the auction should continue to be unnecessary, which could continue next week. At the same time, large demand and domestic QE could solidly indicate that the MoF needs extra financing to cover gaps in budget revenues to meet current budget expenditures.

RESEARCH INSIGHT

Term structure of yields

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

Auction results

Auction	Last 17-Jun-14	Previous 10-Jun-14	Change
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Breakdown by yields (%)

3-month		12.00	
6-month	15.00	14.92	8bp
9-month			
1-year			
2-year	17.72	17.72	0bp
3-year			
5-year			

Breakdown by proceeds (UAHm)

3-month		291.29	
6-month	102.62	29.78	3.45x
9-month			
1-year			
2-year	56.97	2,030.00	-97.19%
3-year			
5-year			
Total	159.59	2,351.07	-93.21%

Effective yield and duration at the auction

Yield-to-maturity (%)	17.24	16.74	51bp
Duration (years)	1.16	0.86	33.69%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	106.06	106.11	-0.05%
WA life ² (years)	3.56	3.58	-0.45%

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.

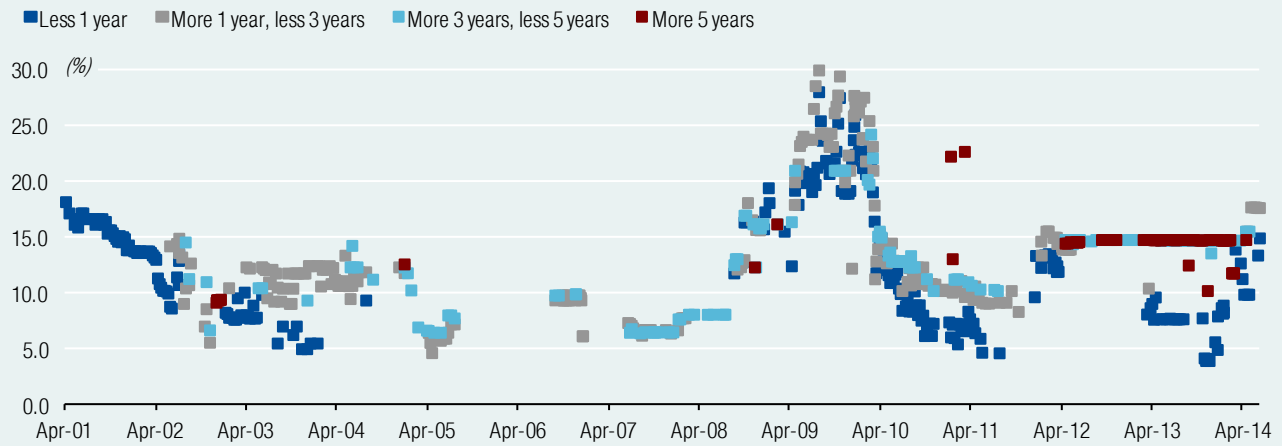
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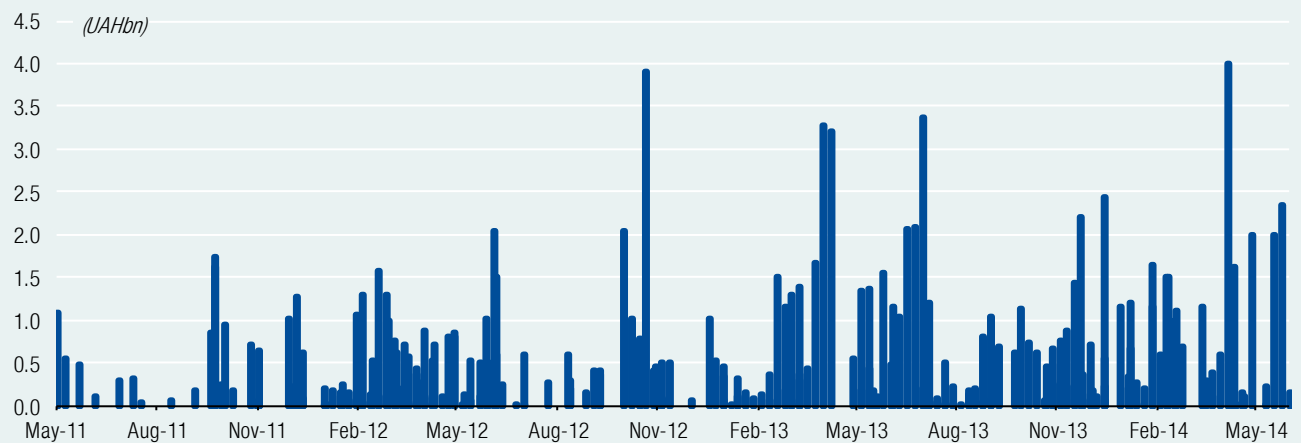
Appendix: Auctions history and schedule for 2014

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



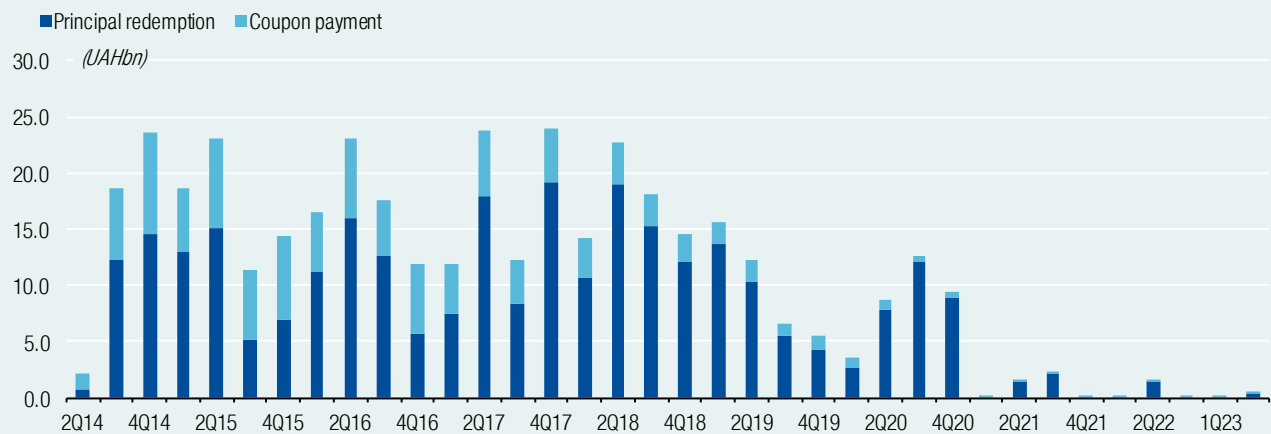
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	0.00	
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	0.00	0.00	899,286,180.15	1,154,388,431.25	
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	1,139,320,144.32	522,206,100.92	3,983,950,068.77	2,137,456,204.14
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	481,764,188.95	540,656,405.98	1,735,626,700.00	1,116,760,950.75	
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	2,452,016,900.13	785,761,682.16	2,118,045,571.72	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	1,080,578,131.20	1,995,919,645.29	
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	1,637,653,020.56	2,152,816,298.50	2,195,330,243.00	1,939,416,478.13	
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	912,346,361.94	3,286,786,344.50	2,502,384,387.65	1,609,837,976.75	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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