



Bond Market Insight

Government bond auction results: Moderate market demand

WEDNESDAY, 25 JUNE, 2014

At the second primary auction this month, the MoF again did not use domestic QE to support demand. This time, however, the MoF attracted moderate but stable market demand after it increased interest rates on zero-coupon and 2-year coupon bearing bonds.

Last sold at the end of May at 14.30%, the 5-year bond attracted no demand yesterday, while the 2-year bond received three bids at last week's cut-off rate for UAH55.0m, only UAH1.97m less than that seen a week before. As a result, the MoF attracted UAH55.17m of proceeds against debt principal and interest repayments of UAH1.28bn, including UAH0.28bn of repayments denominated in FX.

Thereby, some market players invested funds in new bonds at yields above 17.72%. This could reflect market anticipations that interest rates are unlikely to decline or rise significantly. This yield appears to be acceptable.

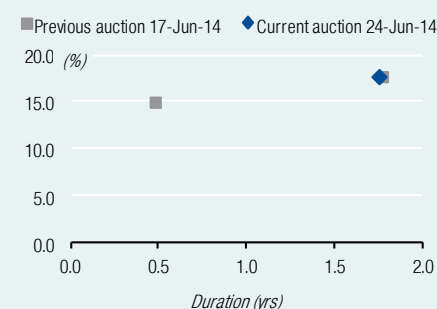
The low level of demand signals that only a small part of the market is prepared to buy bonds at these yields. If the MoF is ready to increase its cut-off interest rate by a few percentage points, the volume of demand without domestic QE could rise significantly.

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)
UA4000184352	16.95	SA	15-Jun-16	55,000	1,003.13	55.17	55.00	17.72	111.97
Total				55,000		55.17	55.00		111.97

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.

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Term structure of yields


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

Auction results

Auction	Last 24-Jun-14	Previous 17-Jun-14	Change
2-year	17.72	17.72	0bp

Breakdown by yields (%)

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

Breakdown by proceeds (UAHm)

3-month			
6-month		102.62	
9-month			
1-year			
2-year	55.17	56.97	-3.16%
3-year			
5-year			
Total	55.17	159.59	-65.43%

Effective yield and duration at the auction

Yield-to-maturity (%)	17.69	17.24	45bp
Duration (years)	1.76	1.16	51.90%

Local currency government bonds outstanding (eop)

Volume ¹ (UAHbn)	106.11	106.06	0.05%
WA life ² (years)	3.54	3.56	-0.56%

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.

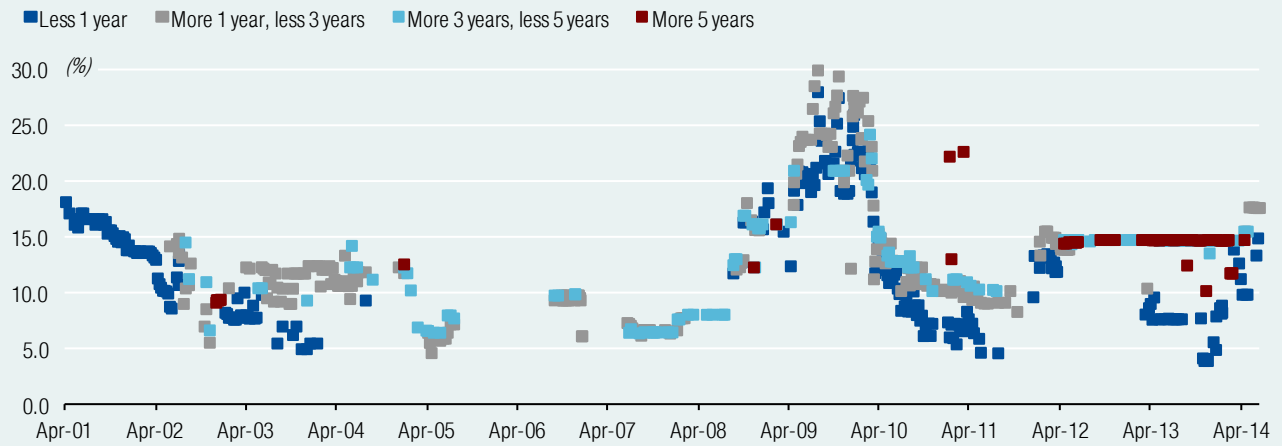
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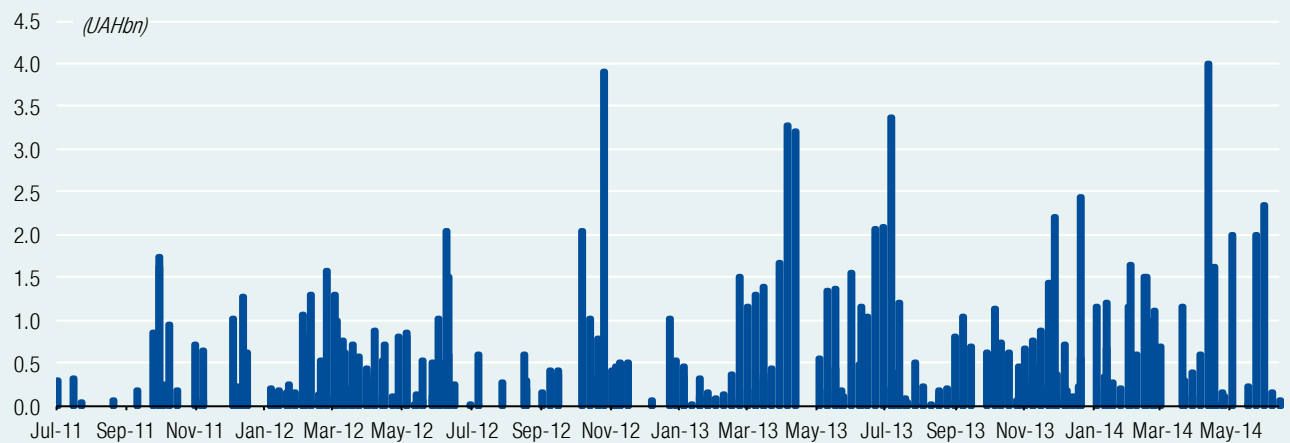
Appendix: Auctions history and schedule for 2014

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



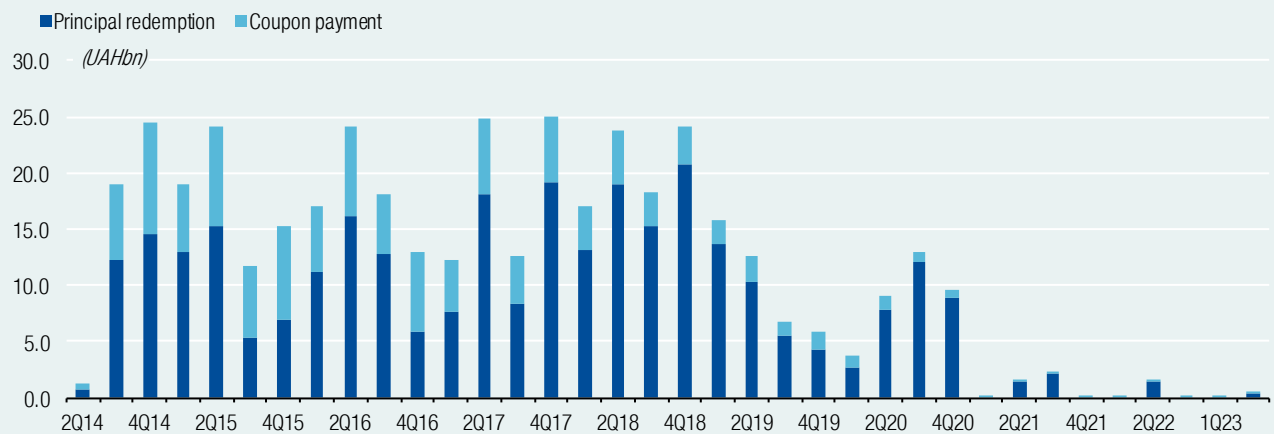
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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	0.00	1,286,416,191.72	
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	1,496,093,818.00	1,140,335,321.69	523,040,460.16	4,187,397,898.00	2,139,576,760.63
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	481,822,884.69	543,645,432.03	1,735,946,898.50	1,117,077,409.33	
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	313,825,000.00	2,477,118,745.75	788,807,907.16	2,120,205,099.00	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	2,293,208,150.00	758,769,154.50	1,225,330,693.06	2,015,381,913.08	
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	1,639,578,076.30	2,152,816,298.50	2,217,572,158.79	1,958,821,740.04	
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	1,091,855,305.38	3,502,259,585.00	2,508,292,254.25	1,807,638,566.72	514,467,890.00

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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