



# Bond Market Insight

## Government bond auction results: For the second week, only the 2-year bond sold

WEDNESDAY, 16 JULY, 2014

In anticipation of upcoming secondary market trading of the new VAT-bonds issued last week, combined with a slight decline of banking sector liquidity yesterday for the second consecutive business day, market demand tightened. Moreover, with no domestic QE support, there were no large bids.

Of the four bonds offered with maturities ranging from 2.5 months to five years, demand was submitted only for 6-month and 2-year bonds. Both bonds received only one bid at the same volume of UAH20.0m, possibly indicating demand from one bidder, at interest rates relatively unchanged from last week's auction.

The bid for the 2-year bond was submitted at 16.75%, unchanged from the last unscheduled auction last week but 20bp below the cut-off interest rate at last Tuesday's auction which indicated market demand as the maturity was slightly longer. The 6-month bond was submitted at 14.90%, down 5bp from last week when the similar bond was sold, but with a 5-month maturity. It appears that the MoF anticipated lower interest rates, particularly due to the decline in interest rates for 2-year bonds, as it rejected the bid for the 6-month bond.

As only interest repayments are scheduled today, the MoF does not need to refinance these repayments or hold an unscheduled auction this week unless it needs to finance the state budget and raise additional funds for Ukrainian military efforts in eastern Ukraine.

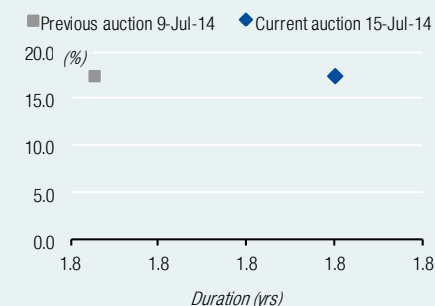
**Table 1. Details of last government bond auction**

ISIN	Coupon rate (%)	Payment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m)
UA4000185276	16.75	SA	13-Jul-16	20,000	1,000.00	20.00	20.00	17.50	20.00
<b>Total</b>				<b>20,000</b>		<b>20.00</b>	<b>20.00</b>		<b>20.00</b>

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 15-Jul-14	Previous 9-Jul-14	Change
3-month			
6-month			
9-month			
1-year			
2-year	17.50	17.50	0bp
3-year			
5-year			

### Breakdown by yields (%)

3-month			
6-month			
9-month			
1-year			
2-year	17.50	17.50	0bp
3-year			
5-year			

### Breakdown by proceeds (UAHm)

3-month			
6-month			
9-month			
1-year			
2-year	20.00	2,000.88	-99.00%
3-year			
5-year			
<b>Total</b>	<b>20.00</b>	<b>2,000.88</b>	<b>-99.00%</b>

### Effective yield and duration at the auction

Yield-to-maturity (%)	17.47	17.47	0bp
Duration (years)	1.78	1.78	0.15%

### Local currency government bonds outstanding (eop)

Volume <sup>1</sup> (UAHbn)	107.04	107.77	-0.68%
WA life <sup>2</sup> (years)	3.53	3.52	0.23%

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.

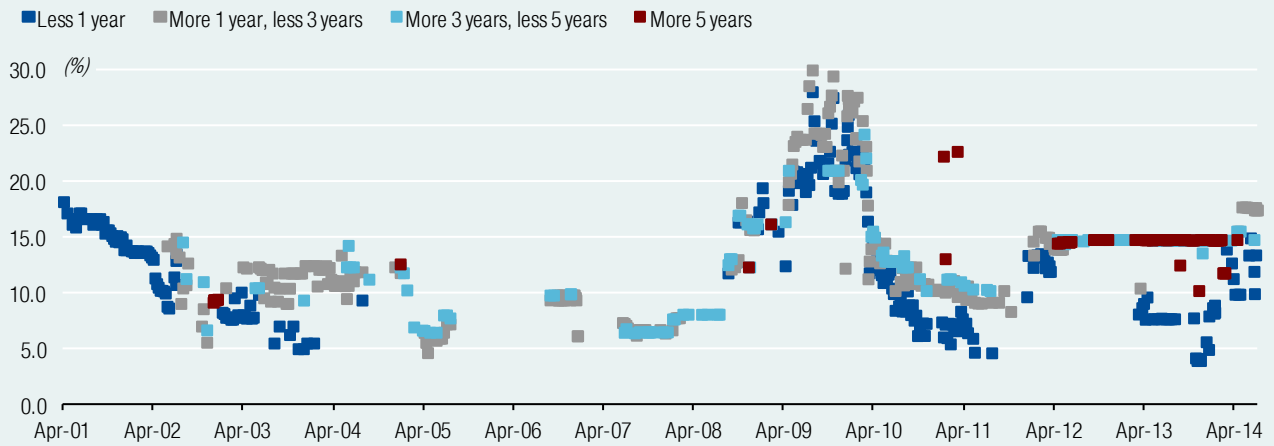
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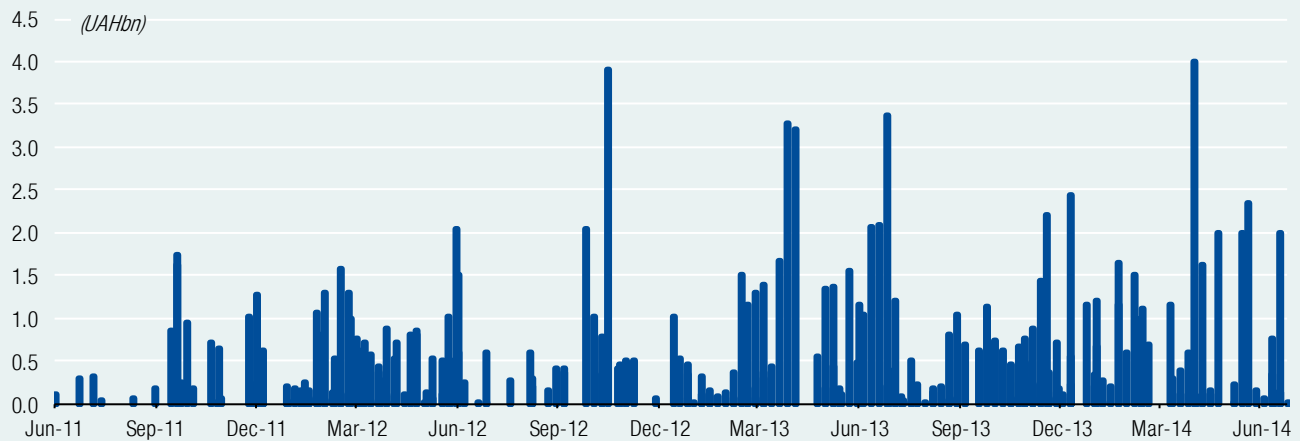
## Appendix: Auctions history and schedule for 2014

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



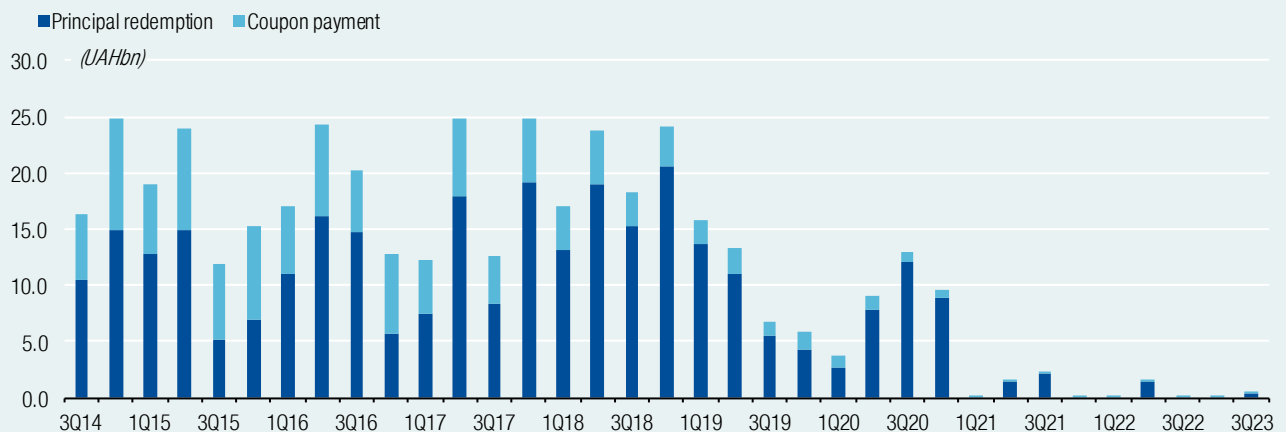
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

**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
<b>January</b>	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	
<b>February</b>	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	
<b>March</b>	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	
<b>April</b>	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
<b>May</b>	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	
<b>June</b>	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	0.00	
<b>July</b>	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	0.00	0.00	<b>521,917,183.79</b>	<b>4,181,668,979.50</b>	<b>2,136,721,910.00</b>
<b>August</b>	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	481,743,864.13	<b>539,621,383.19</b>	<b>1,735,515,823.50</b>	<b>1,116,651,369.29</b>	
<b>September</b>	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	<b>2,443,324,777.00</b>	<b>784,706,852.84</b>	<b>2,117,297,783.00</b>	<b>1,300,580,000.00</b>
<b>October</b>	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	<b>2,293,208,150.00</b>	<b>812,169,358.50</b>	<b>1,222,163,499.58</b>	<b>1,992,188,096.07</b>	
<b>November</b>	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	<b>1,637,033,419.13</b>	<b>2,152,816,298.50</b>	<b>2,187,628,439.97</b>	<b>1,932,696,935.35</b>	
<b>December</b>	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	<b>1,089,992,137.95</b>	<b>3,491,978,610.00</b>	<b>2,515,088,966.40</b>	<b>1,781,149,826.31</b>	<b>514,467,890.00</b>

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.

# Disclosures

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