

Bond Market Insight

Government bond auction results: Failed auction

MONDAY, 21 JULY, 2014

The MoF's unscheduled additional primary auction of three bonds with maturities from 75 days to five years failed on Friday. Because of insufficient demand and higher interest rates, the auction was canceled.

The 75-day bond received two bids for a total of UAH40.0m at interest rates of 13.5-14.0%, the 9-month bond receive just one bid for UAH20.0m at 15.9%, and the 5-year bond received no bids. The interest rate for the 9-month bond was up 100bp to 15.9% versus 14.9% on the 6-month bond sold last Tuesday, and the interest rate for the 75-day bond was 150-200bp higher than the rate bid for the 84-day bond sold the week before.

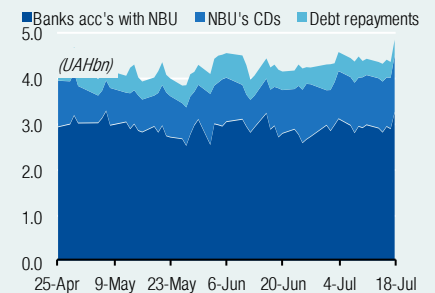
The increase in interest rates could be a reaction to the increase in the NBU's discount rate and in refinancing rates that occurred earlier in the week. However, the MoF most likely refused these bids due to the low volume of demand.

This week, the MoF now plans to hold two auctions rather than just the single auction on Tuesday originally scheduled that will offer local currency bonds. In preparation for a scheduled FX-denominated bond redemption, the MoF will offer FX-denominated bonds on an additional auction on Wednesday with an extended set of bonds.

RESEARCH INSIGHT

Historical breakdown of local financial market liquidity (UAHbn)

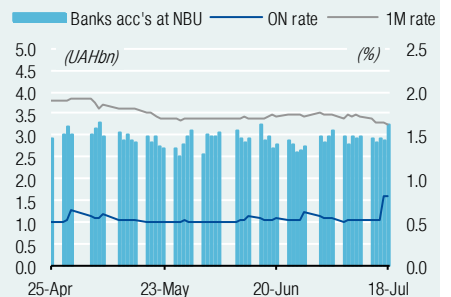
Last 3-month period



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

Banks' acc' with the NBU and KyivPrime rates.

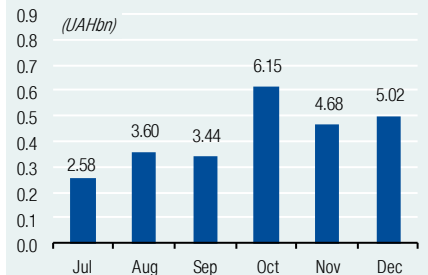
Last 3-month period



Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

UAH state debt payback (UAHbn)

Until the end of 2014



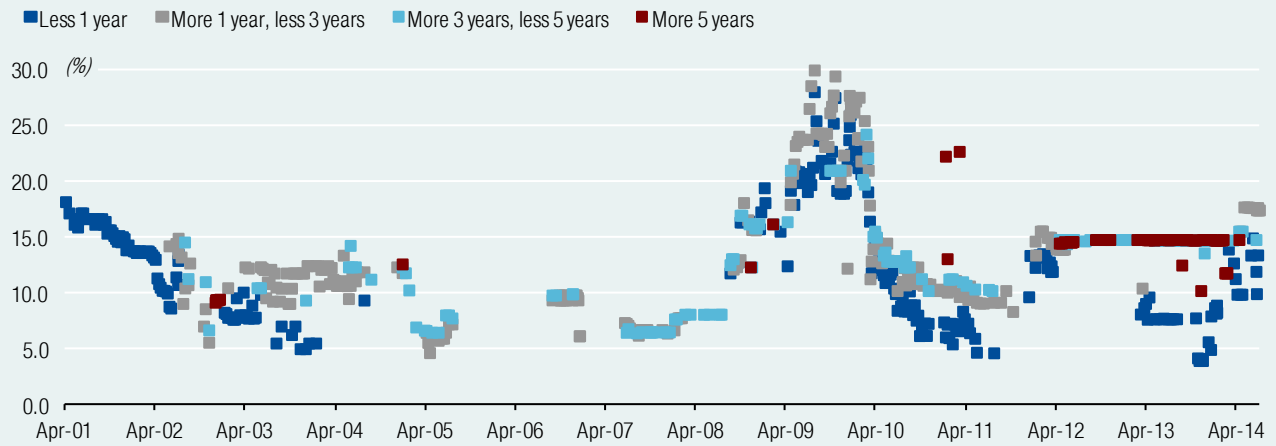
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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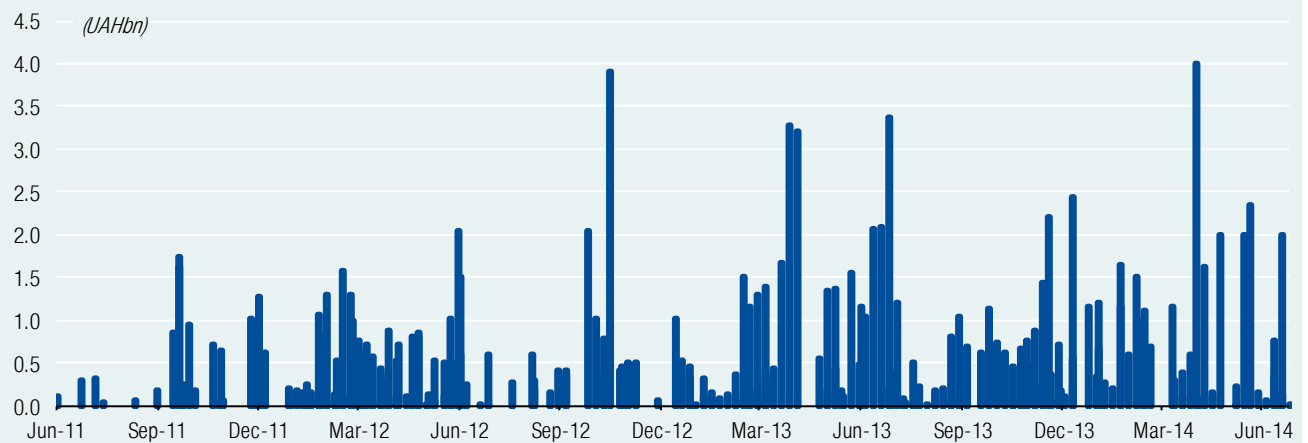
Appendix: Auctions history and schedule for 2014

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 1. 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	0.00	
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	0.00	0.00	521,995,551.91	4,160,268,866.50	2,135,792,423.75
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	481,718,136.50	538,311,227.75	1,735,375,473.50	1,116,512,658.57	
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	2,432,322,089.50	783,371,625.85	2,116,351,215.00	1,300,580,000.00
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	812,169,358.50	1,221,132,320.30	1,982,396,378.34	
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	1,636,169,922.31	2,152,816,298.50	2,177,879,322.21	1,924,191,184.98	
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	1,089,385,525.30	3,475,608,060.00	2,514,542,547.10	1,772,525,585.25	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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