



# Bond Market Insight

## Government bond auction results: Successful sale of local currency bonds

WEDNESDAY, 23 JULY, 2014

The MoF sold all three offered bonds, accepting all seven submitted bids at yesterday's primary auction, providing surplus reserves for current budget needs.

Although the MoF rejected UAH20.00m in bids for 9-month bonds at 15.90% last week, it set this interest rate as yesterday's cut-off rate for this bond. At the same time, at this auction there were three bids for a much higher total demand of UAH260.00m at interest rates in the range of 15.75-15.90%, with a weighted average interest rate at 15.88%.

The 2-year bond was sold under the same conditions as last week at 16.75%, but demand rose to UAH80m from UAH20m last week. Demand for this bond was also submitted by three participants.

The third bond offered yesterday was a 5-year that received only one bid at 14.30%, the standard rate for this bond, most likely supported by domestic QE as will be confirmed soon.

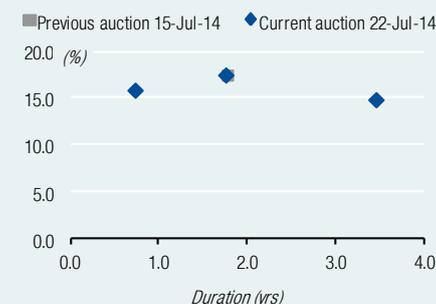
At yesterday's close, the MoF refinanced all of today's local currency debt repayments, while today's auction will be oriented to raise FX funds for today's scheduled debt repayments on USD-denominated bonds for the budget.

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

ISIN	Coupon rate (%)	Pay-ment freq <sup>1</sup>	Maturity	Qty of bonds sold	Price (UAH)	Pro-ceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Out-standing (m)
UA4000185383	15.88		15-Apr-15	260,000	896.26	233.03	260.00	15.88	260.00
UA4000185276	16.75	SA	13-Jul-16	80,000	1,003.10	80.25	80.00	17.50	100.00
UA4000180426	14.30	SA	10-Apr-19	750,000	1,037.49	778.12	750.00	14.87	1,571.59
<b>Total</b>				<b>1,090,000</b>		<b>1,091.39</b>	<b>1,090.00</b>		<b>1,931.59</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 22-Jul-14	Previous 15-Jul-14	Change
3-month			
6-month			
9-month	15.88		
1-year			
2-year	17.50	17.50	0bp
3-year			
5-year	14.87		

**Breakdown by yields (%)**

3-month			
6-month			
9-month	15.88		
1-year			
2-year	17.50	17.50	0bp
3-year			
5-year	14.87		

**Breakdown by proceeds (UAHm)**

3-month			
6-month			
9-month	233.03		
1-year			
2-year	80.25	20.00	4.01x
3-year			
5-year	778.12		
<b>Total</b>	<b>1,091.39</b>	<b>20.00</b>	<b>54.57x</b>

**Effective yield and duration at the auction**

Yield-to-maturity (%)	15.78	17.47	-170bp
Duration (years)	2.02	1.78	13.81%

**Local currency government bonds outstanding (eop)**

Volume <sup>1</sup> (UAHbn)	108.13	107.04	1.02%
WA life <sup>2</sup> (years)	3.51	3.53	-0.53%

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.

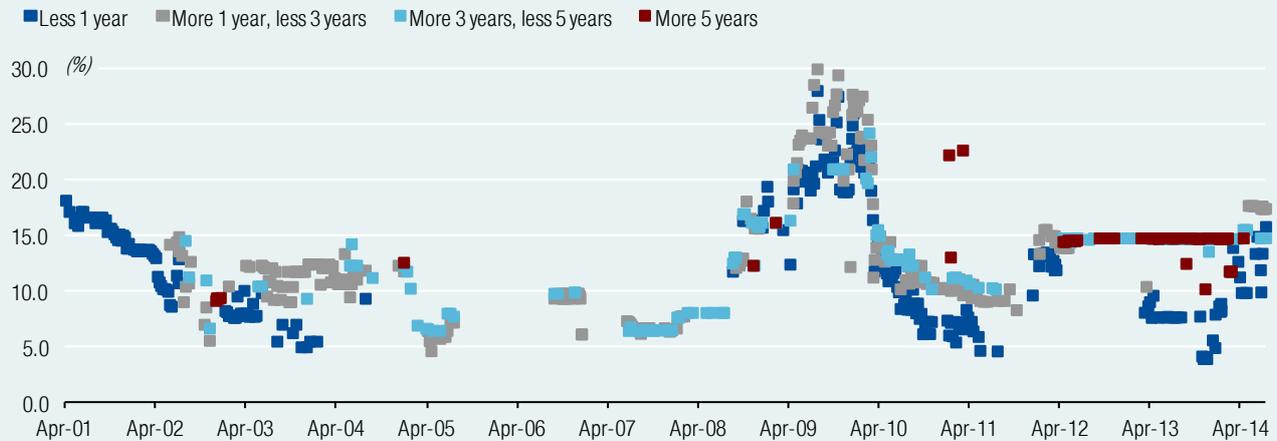
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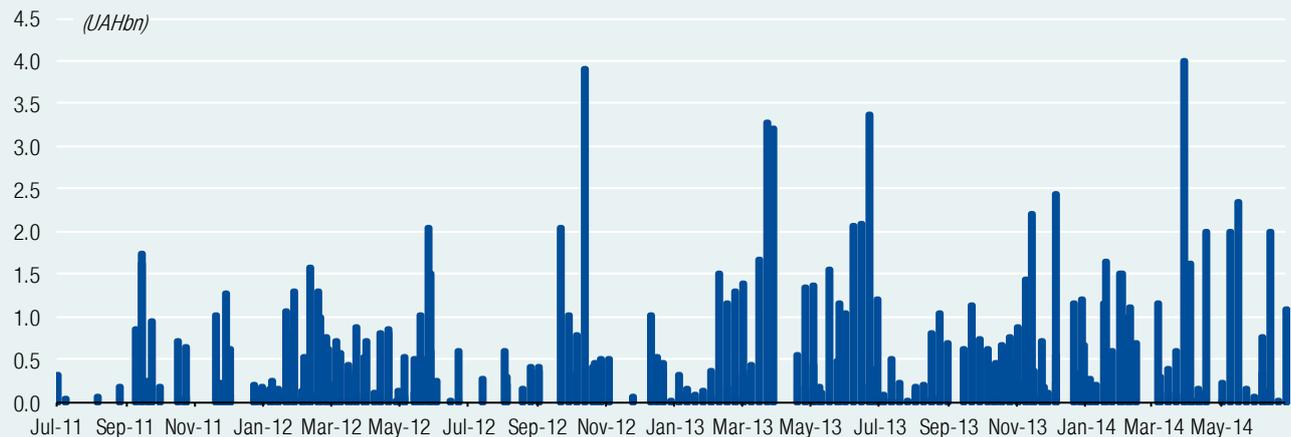
## Appendix: Auctions history and schedule for 2014

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



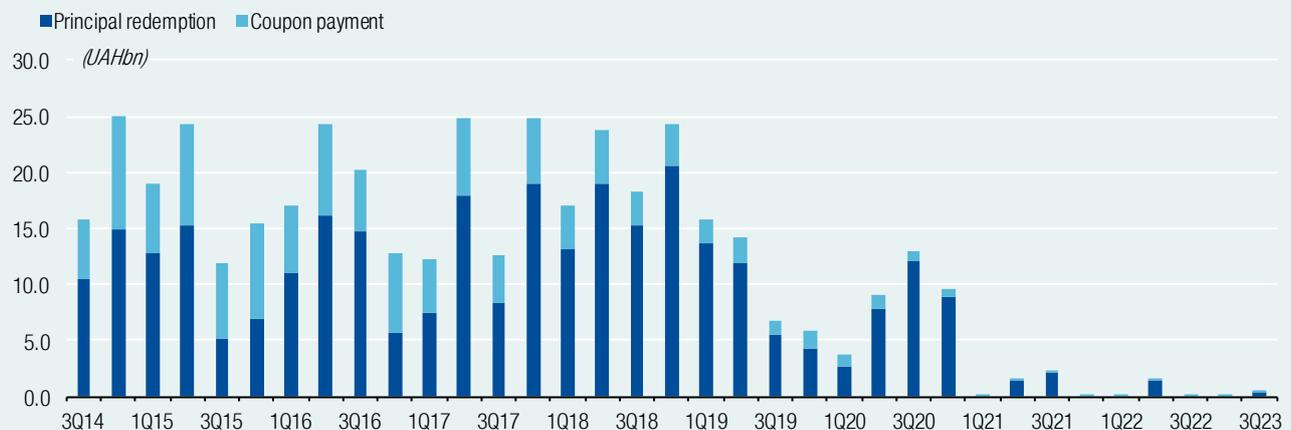
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

**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	0.00	<b>4,169,440,343.50</b>	<b>2,136,190,775.00</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	481,729,162.63	<b>538,872,722.94</b>	<b>1,735,435,623.50</b>	<b>1,116,572,106.02</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>2,437,037,527.00</b>	<b>783,943,865.99</b>	<b>2,116,756,887.00</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>865,794,358.50</b>	<b>1,221,574,254.28</b>	<b>1,981,077,500.43</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>1,636,453,815.37</b>	<b>2,152,816,298.50</b>	<b>2,182,057,515.54</b>	<b>1,927,836,506.57</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>1,089,645,502.15</b>	<b>3,482,624,010.00</b>	<b>2,514,776,726.80</b>	<b>1,776,221,688.56</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.

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