

# Bond Market Insight

## Government bond auction results: Moderate market demand

WEDNESDAY, 30 JULY, 2014

The MoF offered four bonds with maturities from nine months to five years at yesterday's primary auction. All but the 5-year bond received moderate market demand.

Of the five bids that attracted UAH120.32m in total demand, the MoF accepted only three. It rejected two bids for a total of UAH20.00m at 16.50% for the 12-month bond, based on low volume and a high interest rate (which was only 25bp lower than that for the 2-year bond). The 2-year bond sold UAH65.32m (par value) at 16.75% and the 9-month bond sold UAH35.00m at the routine 15.90%. In sum, the auction raised UAH97.18m in budget proceeds.

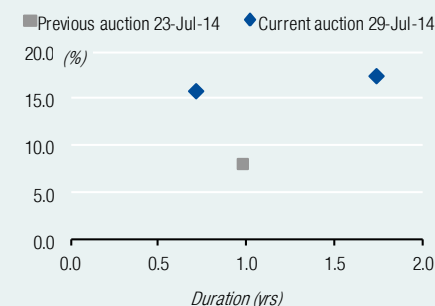
As the MoF is scheduled to repay a significantly higher UAH1.98bn (including UAH1.67bn of principal repayments) in local currency and UAH161.33m in FX, an additional unscheduled primary auction with domestic QE support could be held this week.

**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)
UA4000185383	15.88		15-Apr-15	35,000	898.61	31.45	35.00	15.90	295.00
UA4000185276	16.75	SA	13-Jul-16	65,320	1,006.21	65.73	65.32	17.50	165.32
<b>Total</b>				<b>100,320</b>		<b>97.18</b>	<b>100.32</b>		<b>460.32</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.

RESEARCH INSIGHT

**Term structure of yields**


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

**Auction results**

Auction	Last 29-Jul-14	Previous 23-Jul-14	Change
---------	----------------	--------------------	--------

**Breakdown by yields (%)**

3-month	
6-month	
9-month	15.90
1-year	8.16
2-year	17.50
3-year	
5-year	

**Breakdown by proceeds (UAHm)**

3-month	
6-month	
9-month	31.45
1-year	2,347.01
2-year	65.73
3-year	
5-year	
<b>Total</b>	<b>97.18 2,347.01 -95.86%</b>

**Effective yield and duration at the auction**

Yield-to-maturity (%)	17.13	8.14	899bp
Duration (years)	1.26	0.98	28.62%

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

Volume <sup>1</sup> (UAHbn)	108.07	108.33	-0.23%
WA life <sup>2</sup> (years)	3.50	3.50	-0.19%

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.

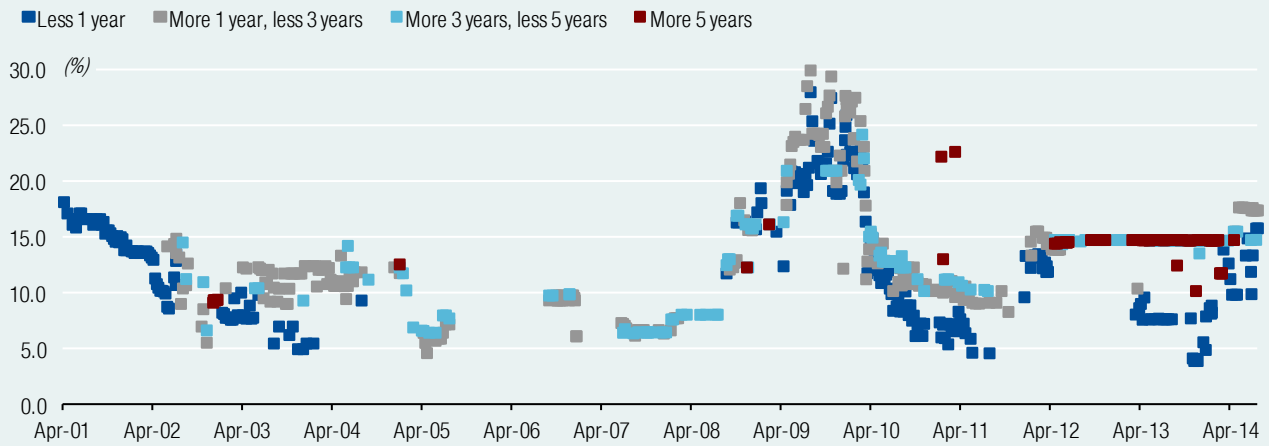
**Research team**

**Alexander Valchyshen**  
**Taras Kotovych**

Kiev, +38 (044) 2200120 extn.242

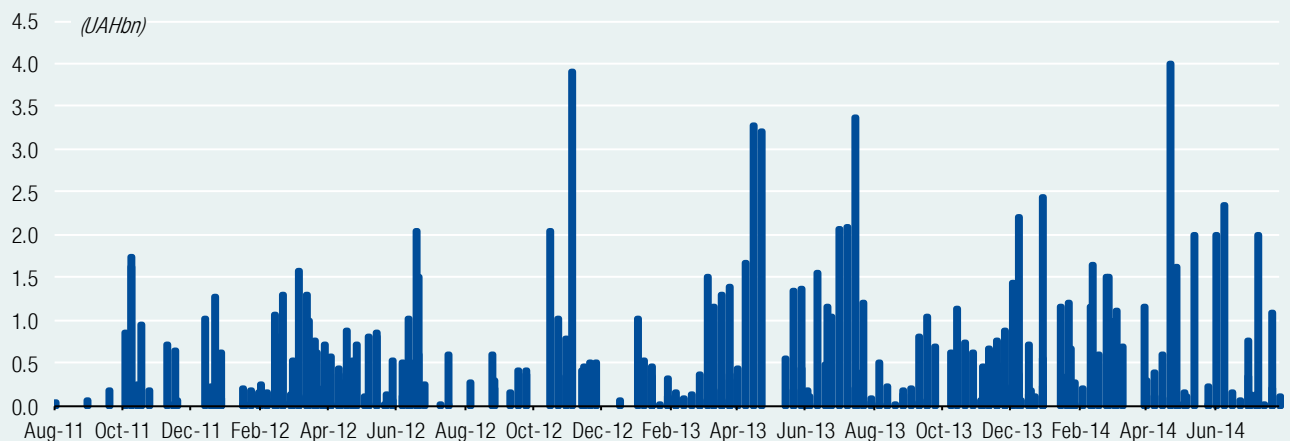
## Appendix: Auctions history and schedule for 2014

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



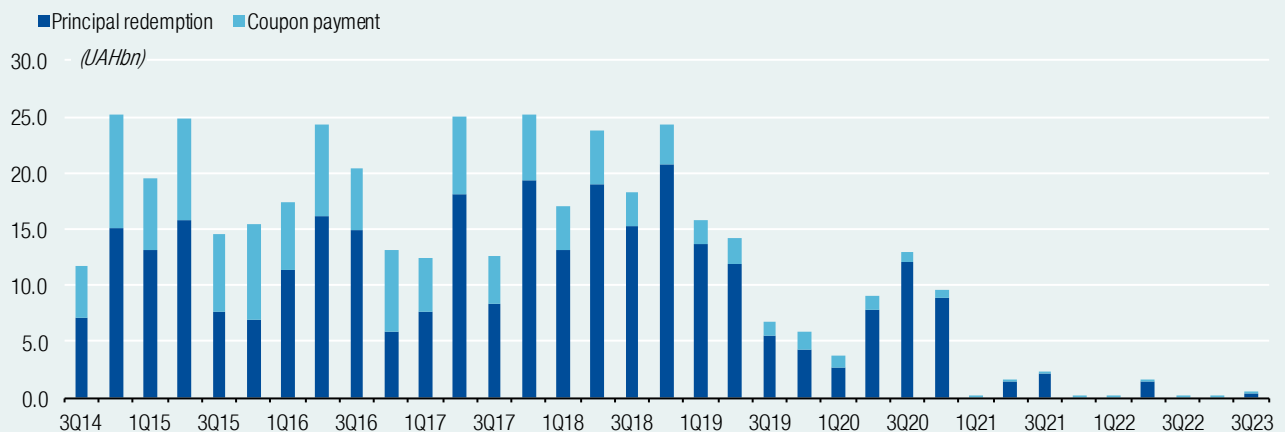
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

**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	0.00	<b>2,142,099,651.88</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	481,892,716.81	<b>547,201,568.22</b>	<b>1,736,327,848.50</b>	<b>1,117,453,909.83</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>2,506,983,183.25</b>	<b>792,432,094.69</b>	<b>2,122,774,355.00</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>1,228,129,608.24</b>	<b>2,018,799,111.17</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>1,641,559,973.36</b>	<b>2,152,816,298.50</b>	<b>2,244,034,049.84</b>	<b>1,981,908,776.74</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>1,093,501,825.43</b>	<b>3,586,693,935.00</b>	<b>2,518,250,392.35</b>	<b>1,831,047,221.03</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

### ANALYST CERTIFICATION

This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.



**INVESTMENT CAPITAL UKRAINE**  
INVESTMENT BANKING

Office 44, 11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kiev, 01030 Ukraine  
Phone/Fax +38 044 2200120

**CORPORATE FINANCE TEL. +38 044 2200120**

**Makar Paseniuk**, Managing Director  
makar.paseniuk@icu.ua

**Volodymyr Demchyshyn**, Director  
volodymyr.demchyshyn@icu.ua

**Ruslan Kilmukhametov**, Director  
ruslan.kilmukhametov@icu.ua

**Alexander Zhyvotovskyy**, Director  
alexander.zhyvotovskyy@icu.ua

**SALES AND TRADING TEL. +38 044 2201621**

**Konstantin Stetsenko**, Managing Director  
konstantin.stetsenko@icu.ua

**Sergiy Byelyayev**, Fixed-Income Trading  
sergiy.byelyayev@icu.ua

**Vitaliy Sivach**, Fixed-Income & FX Trading  
vitaliy.sivach@icu.ua

**Vlad Sinani**, Director,  
Strategy and Corporate Development  
vlad.sinani@icu.ua

**Julia Pecheritsa**,  
Ukraine and CIS International Sales  
julia.pecheritsa@icu.ua

**Yevgeniya Gryshchenko**,  
Fixed-Income Sales  
yevgeniya.gryshchenko@icu.ua

**RESEARCH DEPARTMENT TEL. +38 044 2200120**

**Alexander Valchyshen**  
Head of Research  
alexander.valchyshen@icu.ua

**Alexander Martynenko**  
Head of corporate research  
alexander.martynenko@icu.ua

**Bogdan Vorotilin**  
Financial analyst (Food & Agribusiness)  
bogdan.vorotilin@icu.ua

**Taras Kotovych**  
Senior financial analyst (Sovereign debt)  
taras.kotovych@icu.ua

**Mykhaylo Demkiv**  
Financial analyst (Banks)  
mykhaylo.demkiv@icu.ua

**Lee Daniels, Rolfe Haas**  
Editors

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (licence numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

---

## DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

**Additional information is available upon request.**