



# Bond Market Insight

## Government bond auction results: Third attempt succeeds in raising funds

FRIDAY, 8 AUGUST, 2014

Yesterday's third auction held this week attracted market demand for all offered bonds, including the 2-year "military" bonds which were offered at a fixed interest rate.

Instead of the intermediate-term and long-term bonds that were offered in the prior two auctions earlier this week, the MoF replaced them with 6-month and 9-month bonds which collected five bids, three of which were for the 6-month bond. Interest rates on these bonds remained unchanged from previous similar offerings.

The "military" bonds, issued to finance the Ukrainian army, received two bids. Although only one bid was submitted last week for this bond, that bid was for a significantly higher UAH50.0m versus total demand of UAH6.51m submitted in the two bids yesterday.

The MoF should receive a total of UAH210.40m in proceeds today, indicating that yesterday's bids came from market demand not supported by domestic QE. The key takeaway from yesterday's auction is that there is no market demand for long-term bonds.

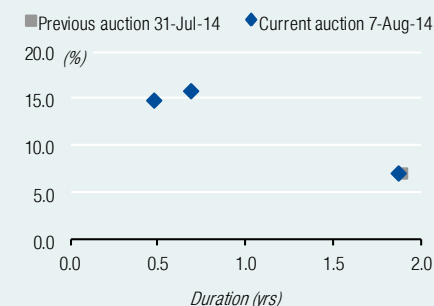
**Table 1. Details of last government bond auction**

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)
UA4000185722	14.90		28-Jan-15	170,000	934.04	158.79	170.00	14.90	170.00
UA4000185383	15.88		15-Apr-15	50,000	901.79	45.09	50.00	15.90	845.00
UA4000185623	7.00	SA	27-Jul-16	6,510	1,001.70	6.52	6.51	7.14	56.51
<b>Total</b>				<b>226,510</b>		<b>210.40</b>	<b>226.51</b>		<b>1,071.51</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 7-Aug-14	Previous 31-Jul-14	Change
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### Breakdown by yields (%)

3-month			
6-month	14.90		
9-month	15.90		
1-year			
2-year	7.14	7.14	0bp
3-year			
5-year			

### Breakdown by proceeds (UAHm)

3-month			
6-month	158.79		
9-month	45.09		
1-year			
2-year	6.52	50.02	-86.96%
3-year			
5-year			
<b>Total</b>	<b>210.40</b>	<b>50.02</b>	<b>4.21x</b>

### Effective yield and duration at the auction

Yield-to-maturity (%)	10.31	7.13	317bp
Duration (years)	1.01	1.89	-46.53%

### Local currency government bonds outstanding (eop)

Volume <sup>1</sup> (UAHbn)	109.13	108.90	0.21%
WA life <sup>2</sup> (years)	3.45	3.47	-0.72%

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.

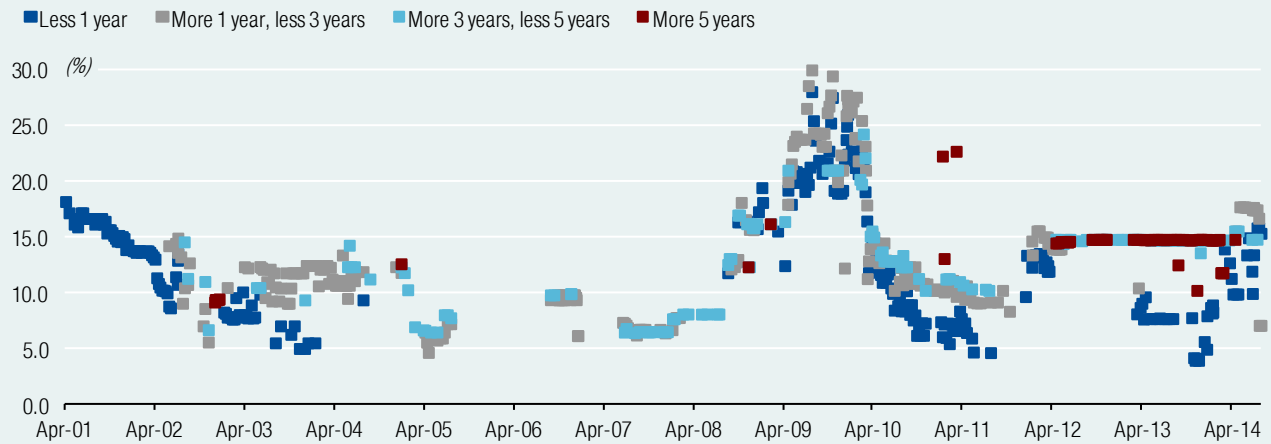
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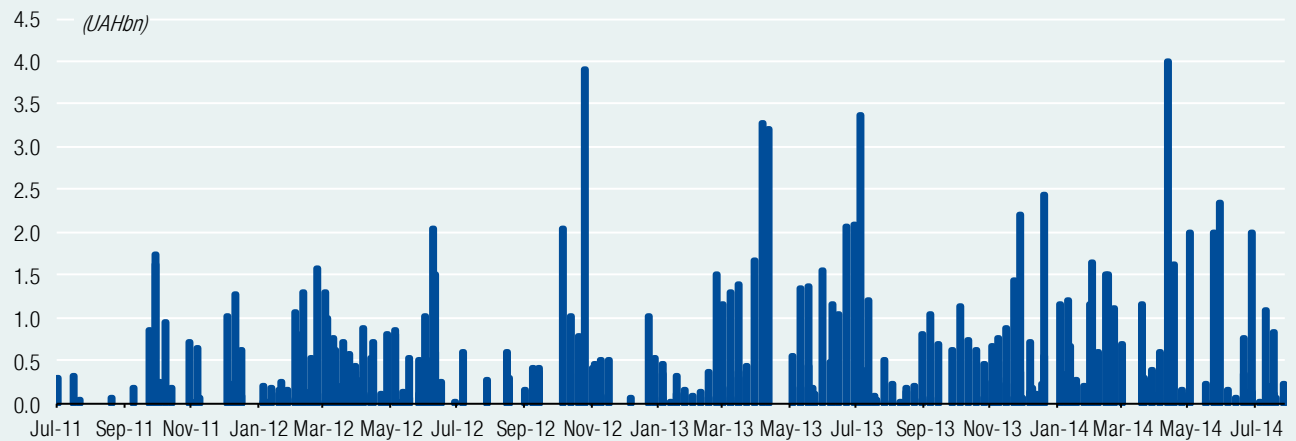
## Appendix: Auctions history and schedule for 2014

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



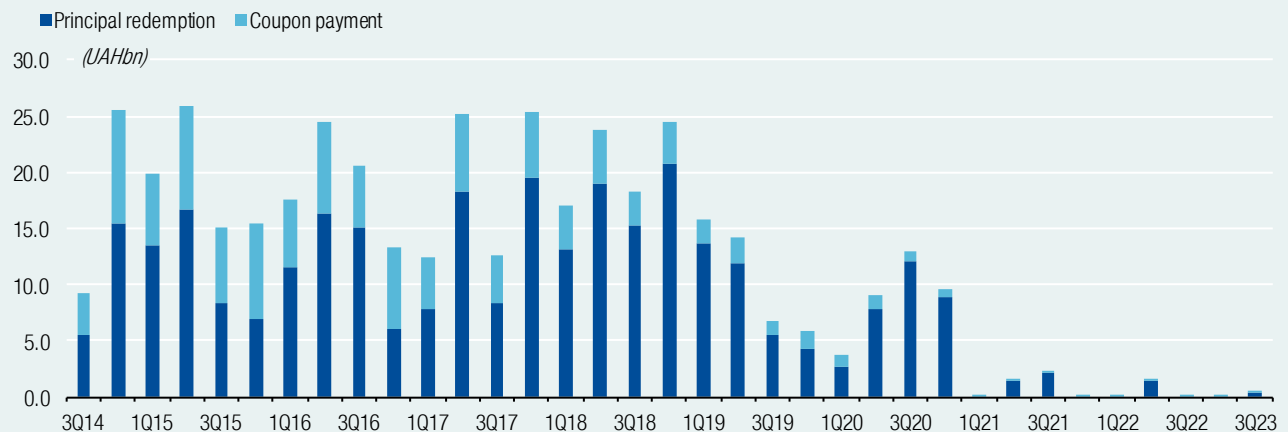
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

**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	0.00	0.00
<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	0.00	<b>554,407,423.13</b>	<b>1,737,099,773.50</b>	<b>1,118,216,818.75</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>2,567,497,964.50</b>	<b>799,775,843.13</b>	<b>2,127,980,479.00</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>1,233,801,094.25</b>	<b>2,051,514,543.00</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>1,645,978,908.75</b>	<b>2,152,816,298.50</b>	<b>2,297,654,197.50</b>	<b>2,028,690,403.75</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>1,096,838,195.00</b>	<b>3,676,731,960.00</b>	<b>2,521,255,698.50</b>	<b>1,878,480,546.88</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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