


**INVESTMENT CAPITAL UKRAINE**  
 INVESTMENT BANKING

# Bond Market Insight

## Government bond auction results: Only "military" bonds sold

FRIDAY, 15 AUGUST, 2014

Of the three offered bonds yesterday, the MoF sold only a small volume of "military" bonds. The other two routine bonds with 9-month and 5-year maturities attracted no demand. Military bonds received two bids which were accepted at the usual fixed 7.0% rate. Demand was twice the amount of seen at the last auction but still was significantly lower than that seen at the debut auction two weeks ago. Yesterday's auction, which provided the state budget with UAH14.02m of proceeds, appears to have offered bonds to attract some portion of demand from banks which neither purchased bonds on Tuesday nor received NBU loans on Wednesday. They attracted no bids possibly because free liquidity in the banking system was invested in FX or paid to the state budget as quarterly tax payments.

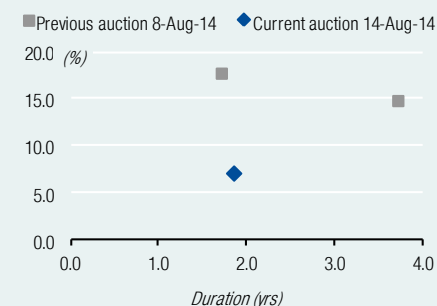
As a result, the MoF will most likely avoid any additional auctions until the scheduled one next Tuesday which will be prior to a large series of repayments, including UAH1.77bn in amortization and interest repayments on VAT-bonds.

**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)
UA4000185623	7.00	SA	27-Jul-16	13,978	1,003.03	14.02	13.98	7.14	70.49
<b>Total</b>				<b>13,978</b>		<b>14.02</b>	<b>13.98</b>		<b>70.49</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 14-Aug-14	Previous 8-Aug-14	Change
3-month			
6-month			
9-month			
1-year			
2-year	7.14	17.77	-1,063bp
3-year			
5-year		14.85	

**Breakdown by yields (%)**

3-month			
6-month			
9-month			
1-year			
2-year	7.14	17.77	-1,063bp
3-year			
5-year		14.85	

**Breakdown by proceeds (UAHm)**

3-month			
6-month			
9-month			
1-year			
2-year	14.02	1,237.78	-98.87%
3-year			
5-year		300.23	
<b>Total</b>	<b>14.02</b>	<b>1,538.01</b>	<b>-99.09%</b>

**Effective yield and duration at the auction**

Yield-to-maturity (%)	7.13	15.79	-866bp
Duration (years)	1.85	2.68	-30.69%

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

Volume <sup>1</sup> (UAHbn)	110.67	110.66	0.01%
WA life <sup>2</sup> (years)	3.42	3.43	-0.48%

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.

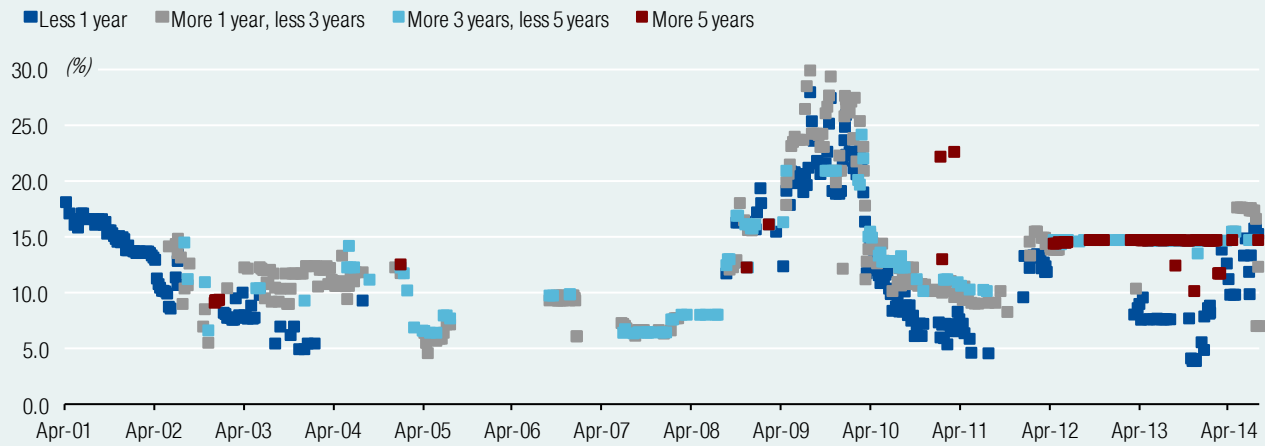
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

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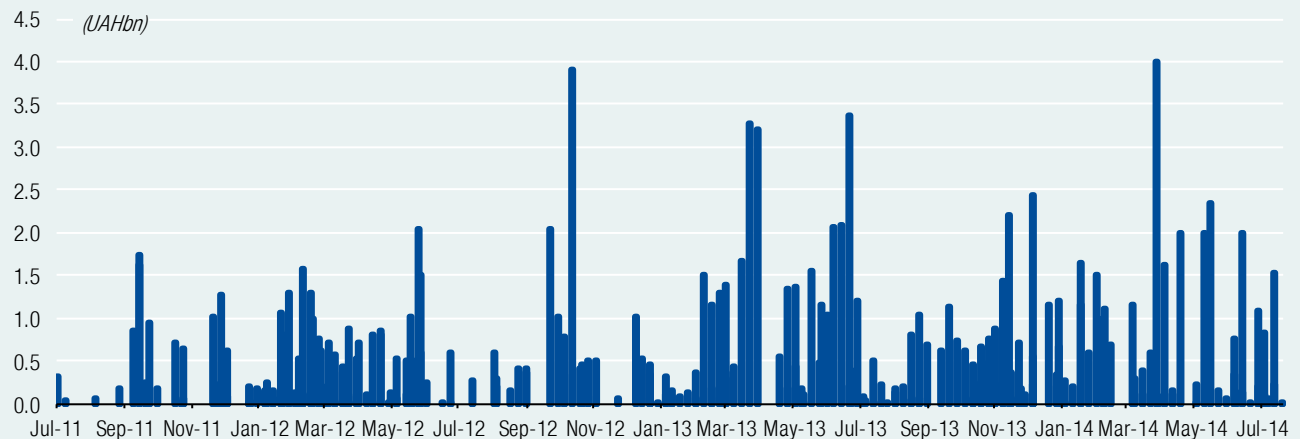
## Appendix: Auctions history and schedule for 2014

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



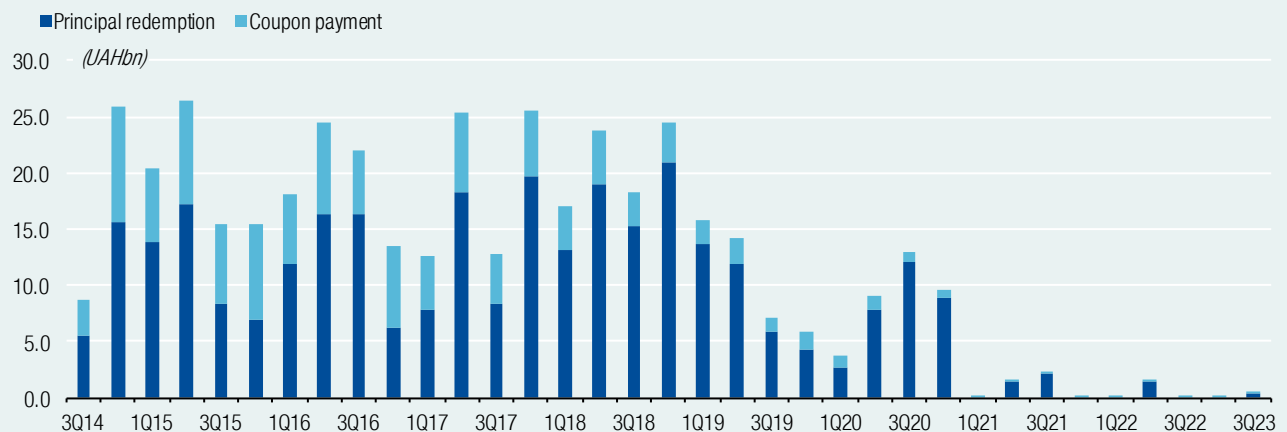
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

**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	0.00	<b>1,738,002,023.50</b>	<b>1,119,108,530.47</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>2,638,229,527.00</b>	<b>808,359,445.19</b>	<b>2,134,065,559.00</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>1,240,430,103.88</b>	<b>2,093,747,988.75</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>1,651,206,314.25</b>	<b>2,152,816,298.50</b>	<b>2,360,327,097.36</b>	<b>2,083,370,227.53</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>1,100,737,847.75</b>	<b>3,781,971,210.00</b>	<b>2,524,768,394.00</b>	<b>1,933,922,096.56</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.

# Disclosures

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