



# Bond Market Insight

## Government bond auction results: Insufficient market demand

WEDNESDAY, 20 AUGUST, 2014

According to the NBU data on bondholders' portfolios, the largest increase was in the non-residents' portfolio, most likely from last Friday's primary auction, as their portfolio rose about UAH2.0bn, similar to the auction's results. Yesterday's primary auction appears to be a continuation of their investments in government debt as only one 2.5-year bond was sold out of the four bonds offered.

Demand yesterday was submitted for the 2-year and 2.5-year bonds, but as both bids for the 2-year bond were submitted at 19.00%, they and were rejected as this level of interest rates exceeds the level at which bonds were sold last Friday with a longer maturity.

However, two bids for the 2.5-year bonds were also submitted at 18.95-18.98% were accepted. There likely were two different bidders, as one small bid was submitted at the lowest interest rate which was too small to have an impact on the weighted average interest rate of this auction.

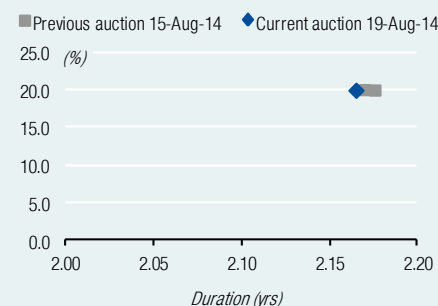
Proceeds from yesterday's auction are insufficient to cover scheduled debt repayments. The MoF could hold new auctions this week, possibly offering the same 2.5-year bonds maturing in April 2017 under the assumption that there is additional unfulfilled demand from non-residents.

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

| ISIN         | Coupon rate (%) | Payment frequency <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) |
|--------------|-----------------|--------------------------------|-----------|-------------------|-------------|------------------------------|----------------------------|----------------------|-----------------|
| UA4000180400 | 15.00           | SA                             | 19-Apr-17 | 286,000           | 967.76      | 276.78                       | 286.00                     | 19.94                | 6,390.54        |
| <b>Total</b> |                 |                                |           | <b>286,000</b>    |             | <b>276.78</b>                | <b>286.00</b>              |                      | <b>6,390.54</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 19-Aug-14 | Previous 15-Aug-14 | Change |
|---------|----------------|--------------------|--------|
|         | 19.94          | 20.02              | -9bp   |

**Breakdown by yields (%)**

|         |       |       |      |
|---------|-------|-------|------|
| 3-month |       |       |      |
| 6-month |       |       |      |
| 9-month |       |       |      |
| 1-year  |       |       |      |
| 2-year  |       |       |      |
| 3-year  | 19.94 | 20.02 | -9bp |
| 5-year  |       |       |      |

**Breakdown by proceeds (UAHm)**

|              |               |                 |                |
|--------------|---------------|-----------------|----------------|
| 3-month      |               |                 |                |
| 6-month      |               |                 |                |
| 9-month      |               |                 |                |
| 1-year       |               |                 |                |
| 2-year       |               |                 |                |
| 3-year       | 276.78        | 2,031.53        | -86.38%        |
| 5-year       |               |                 |                |
| <b>Total</b> | <b>276.78</b> | <b>2,031.53</b> | <b>-86.38%</b> |

**Effective yield and duration at the auction**

|                       |       |       |        |
|-----------------------|-------|-------|--------|
| Yield-to-maturity (%) | 19.91 | 19.94 | -3bp   |
| Duration (years)      | 2.17  | 2.18  | -0.50% |

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

|                              |        |        |        |
|------------------------------|--------|--------|--------|
| Volume <sup>1</sup> (UAHbn)  | 113.06 | 112.78 | 0.25%  |
| WA life <sup>2</sup> (years) | 3.39   | 3.40   | -0.38% |

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.

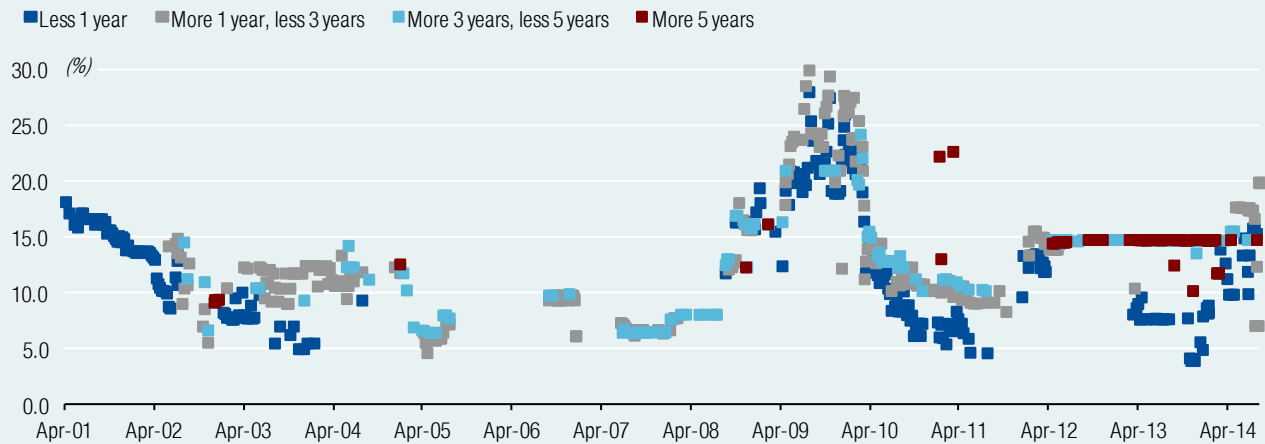
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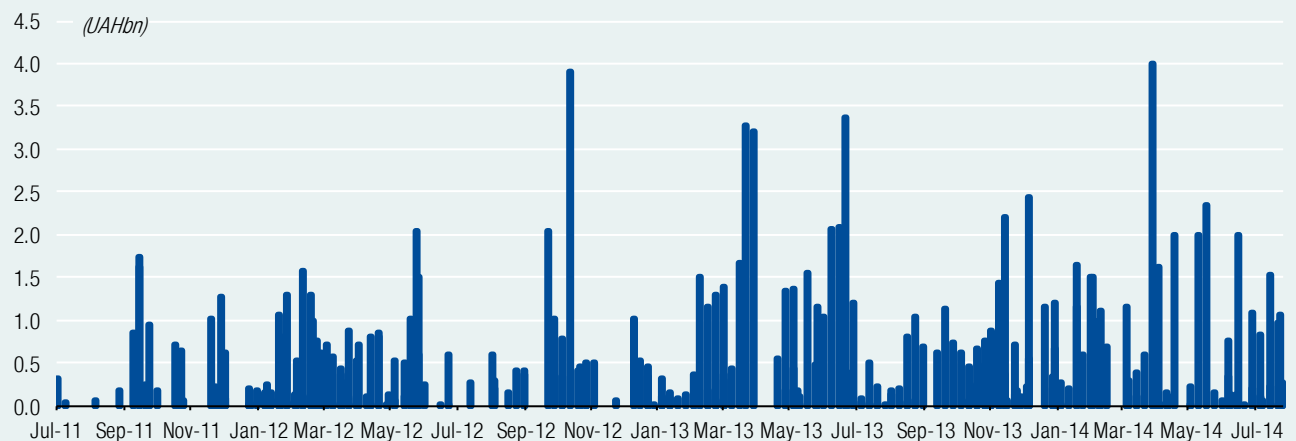
## Appendix: Auctions history and schedule for 2014

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



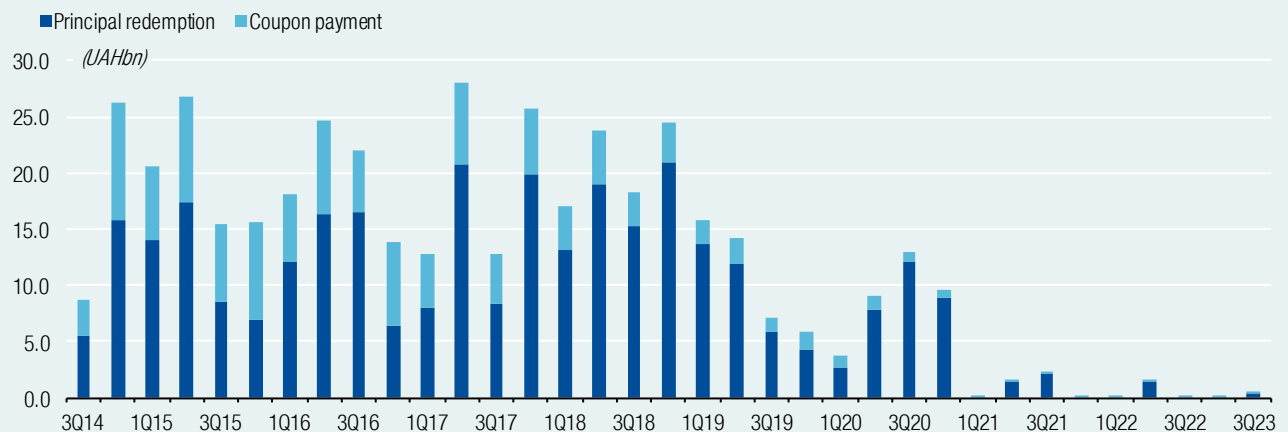
Sources: Ministry of Finance of Ukraine, Investment Capital Ukraine LLC.

**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>1,738,302,773.50</b> | <b>1,119,405,767.71</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>2,661,806,714.50</b> | <b>811,220,645.88</b>   | <b>2,136,093,919.00</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>1,421,930,048.75</b> | <b>2,104,178,316.00</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>1,652,891,790.75</b> | <b>2,152,816,298.50</b> | <b>2,381,218,063.98</b> | <b>2,101,596,835.45</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>1,102,037,732.00</b> | <b>3,817,050,960.00</b> | <b>2,525,939,292.50</b> | <b>1,952,402,613.13</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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