



Focus  
Ukraine

Markets  
Government bonds,  
FX market, and macro

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# Weekly Insight

## Annual inflation unchanged in April

### Key messages of the today's comments

MONDAY, 13 MAY 2024

### Ukrainian bond market

#### Yields on UAH bonds continue to decline

The MoF cut interest rates on UAH bonds by 6–20bp last week, which also pushed yields down in the secondary market.

#### Eurobonds holders sentiment improves marginally

Prices of Eurobonds for different maturities continued to converge last week as advisors for investors and the MinFin start a dialogue, according to mass media reports.

### Foreign exchange market

#### FX market deficit widens

NBU interventions in the FX market remain above US\$500m for the third week.

### Economics

#### NBU reserves decline 3% in April on FX interventions

The NBU gross international reserves were down 3.1% in April to US\$42.4bn as NBU FX sale interventions and state debt repayments exceeded inflow of foreign financial aid.

#### Annual inflation unchanged at 3.2% in April

Ukraine's annual inflation remained at 3.2% YoY in April, the same as in March.

### Banks' reserves market (10 May 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	13.50	+0bp	-1,150bp
ON rate (%)	13.51	+1bp	-649bp
Reserves (UAHm) <sup>2</sup>	216,351	-10.2	+27.8
CDs (UAHm) <sup>3</sup>	570,925	+5.9	+26.3

Notes: [1] NBU's key policy rate; [2] stock of banks' reserves held at NBU; [3] stock of NBU's certificates of deposit.

Source: NBU, Bloomberg, ICU.

### Breakdown of govt bond holders (UAHm) (10 May 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,990	+0.0	-2.4
Banks	688,804	+0.7	+27.9
Residents	164,122	+2.0	+40.8
Individuals	61,960	+2.8	+60.5
Foreigners	41,354	-0.3	-24.7
<b>Total</b>	<b>1,635,696</b>	<b>+0.6</b>	<b>+13.1</b>

Source: NBU, ICU.

### FX market indicators (10 May 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	39.5380	+0.3	+7.0
EUR/USD	1.0771	+0.1	-1.9
DXY	105.301	+0.3	+3.8

Source: Bloomberg, ICU.

### Market gov't bond quotes (13 May 2024)

Maturity	Bid (%)	Ask (%)
6 months	16.00	14.00
12 months	17.00	15.50
2 years	17.50	16.50
3 years	19.00	17.75
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## Yields on UAH bonds continue to decline

The MoF cut interest rates on UAH bonds by 6–20bp last week, which also pushed yields down in the secondary market.

Last Tuesday, the Ministry received UAH9.4bn of budget proceeds from the placement of UAH bonds. All offered bonds were oversubscribed, which allowed the MoF to decrease cut-off rates by 10–20bp and weighted-average rates by 6–14bp. See details in the [auction review](#).

In the two weeks since the NBU cut its rates by 100bp, the MoF decreased bond rates by 70–80bp. Since the NBU restarted the monetary-policy-easing cycle in March, the MoF decreased interest rates by 155bp for 12-month bills, by 130bp for two-year papers, and by 100bp for three-year notes.

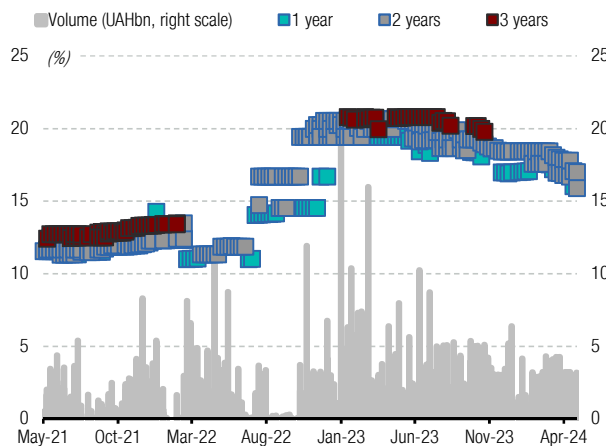
The yields in secondary bond market continued to move in line with the primary auctions, and YTM's slid by about 30bp.

**ICU view:** *Although the current NBU projection implies only a 50bp cut in rates this year (most likely in June), the market broadly expects the cut in rates will be much more significant. Low inflation in April strengthens these expectations (see [comment below](#)). In two months, the NBU cut its key policy rate by 150bp which triggered a decline in bond yields by 100-155bp depending on maturity. If the prevailing market expectations are maintained, we expect further downward adjustment in bonds yields in small steps.*

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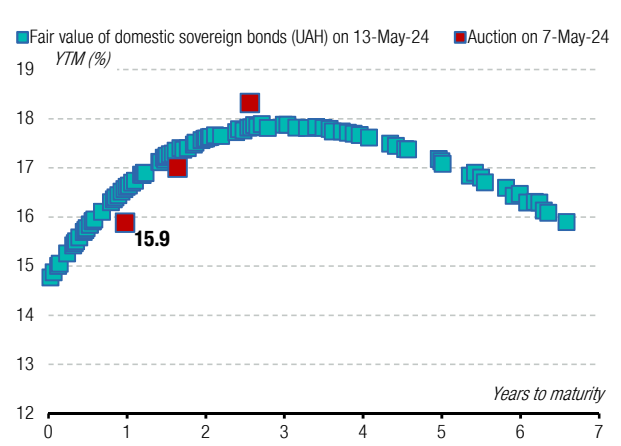
**Chart 1. Local-currency bonds**

Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)



Source: MFU, ICU.

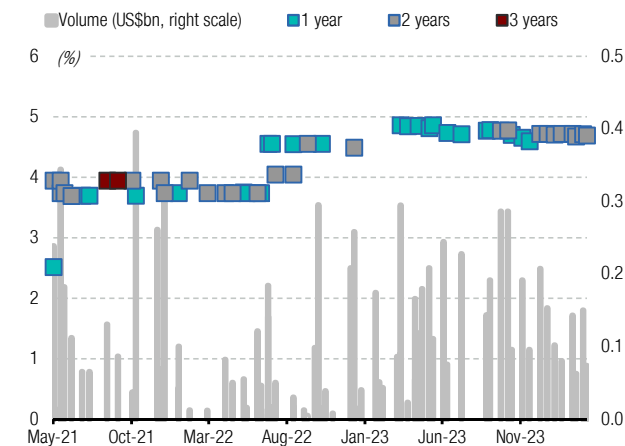
YTM's of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

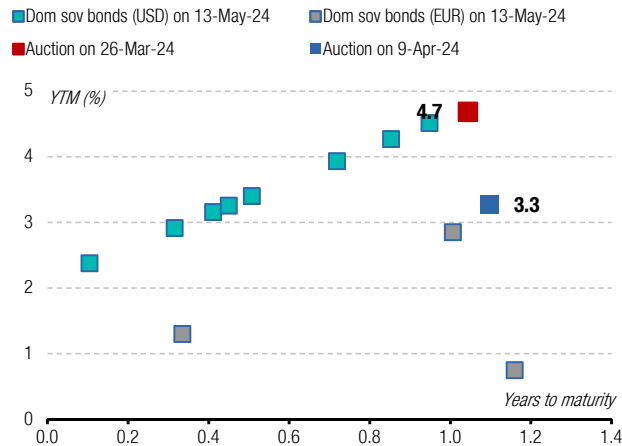
**Chart 2. FX-denominated bonds**

Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)



Source: MFU, ICU.

YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

**Eurobonds holders sentiment improves marginally**

Prices of Eurobonds for different maturities continued to converge last week as advisors for investors and the MinFin start a dialogue, according to mass media reports.

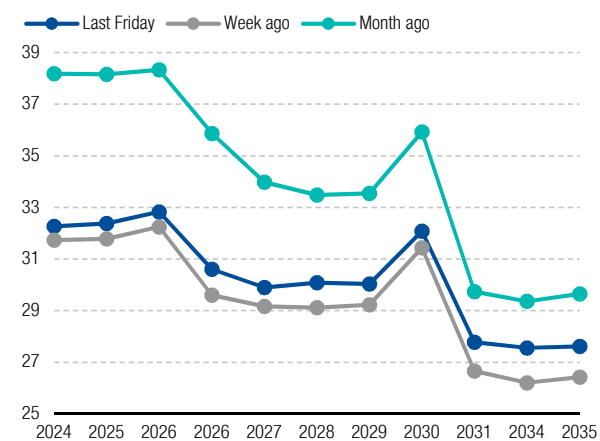
Prices of Ukrainian Eurobonds rose last week by an average of 3% to 27.6–32.8 cents on the dollar, narrowing the price range for instruments with different maturities to 8.8%. The price of VRIs slid by 0.5% to 53.7 cents per dollar of notional value. The EMBI index rose last week by 0.6%.

**ICU view:** Last week, rumours emerged in the market about the beginning of an active dialogue between advisers of the two sides, introducing slightly positive sentiment and pushing prices marginally up. The market lives in expectation of the restructuring proposal from MinFin and remains thirsty for any hints about potential restructuring parameters.

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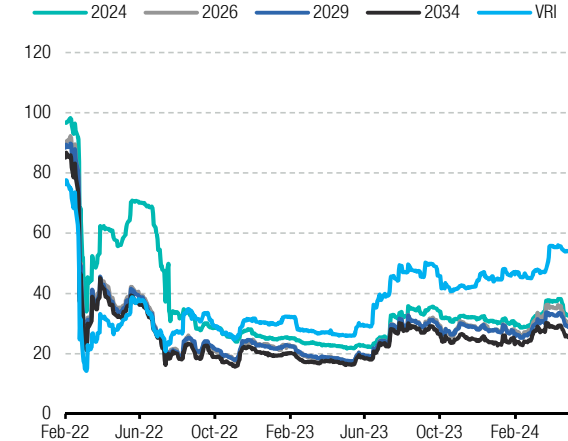
**Chart 3. Ukrainian Eurobonds and VRI prices**

Prices of USD-denominated Eurobonds as of last Friday, two weeks and a month ago



Source: Bloomberg, ICU.

Historical data since February, 2022



Source: Bloomberg, ICU.

# Foreign exchange market

## FX market deficit widens

NBU interventions in the FX market remain above US\$500m for the third week.

In the interbank FX market segment, bank clients (legal entities) purchased in four days of last week US\$920m of hard currency (8% less than in the same period of the previous week) while selling US\$768m or 9% less. Net foreign currency purchases slid by 5% to US\$152m. In the retail segment, net FX purchases rose by 31% to US\$174m (in four business days of last week).

Therefore, the hard-currency deficit rose last week, requiring an increase of 5% to US\$534m of NBU interventions.

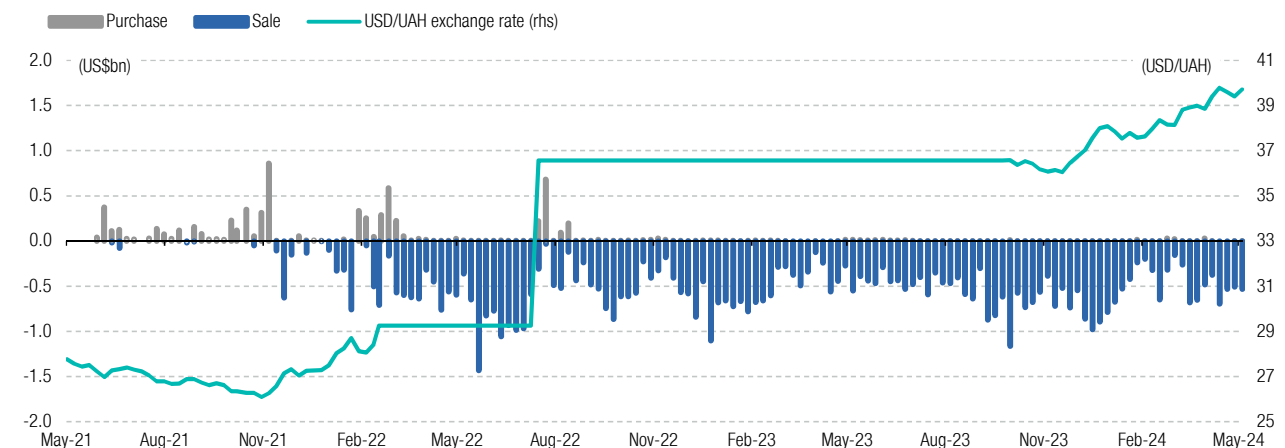
The official exchange rate weakened last week by 0.8% to UAH39.7/US\$.

**ICU view: The hard currency shortage increased again last week, and FX trading was down. At this point, there is no evidence that the latest round of FX liberalization by the NBU had an immediate meaningful impact on the market. Even so, the deficit in the market remains significant with the NBU selling more than US\$500m per week.**

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**Chart 4. FX market indicators, 3-year history**

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market and NBU interventions (weekly data)



Source: NBU, Bloomberg, ICU.

## Economics

### NBU reserves decline 3% in April on FX interventions

The NBU gross international reserves were down 3.1% in April to US\$42.4bn as NBU FX sale interventions and state debt repayments exceeded inflow of foreign financial aid.

The NBU sold a net US\$2.3bn in the FX market to support the hryvnia exchange rate. Additionally, the government and the NBU repaid nearly US\$1.0bn in external sovereign debt to official creditors. Meanwhile, reserves were replenished with a EUR1.5bn loan tranche from the EU.

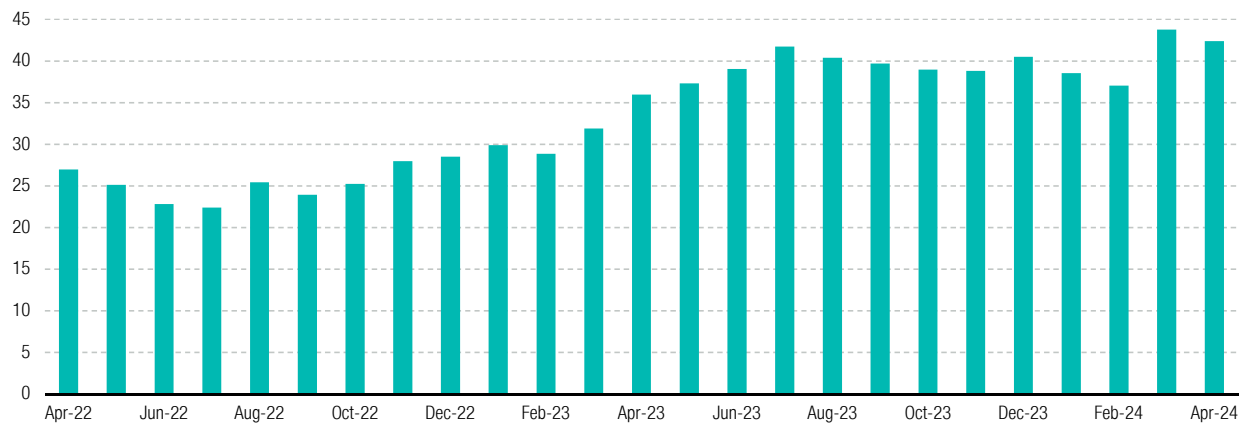
**ICU view: NBU reserves will remain volatile, but we expect they will stay above US\$40bn through 2024 and will be close to US\$45bn at the end of the year providing Ukraine receives all the committed foreign financial aid from its partners. We expect**

**total inflows of loans and grants will exceed the deficit of Ukraine's external accounts, even if increased FX demand due to recent relaxation of capital controls is accounted for.**

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#### Chart 5. NBU gross international reserves, US\$bn

*NBU gross reserves down 3.1% in April*



Source: NBU, ICU.

#### Annual inflation unchanged at 3.2% in April

Ukraine's annual inflation remained at 3.2% YoY in April, the same as in March.

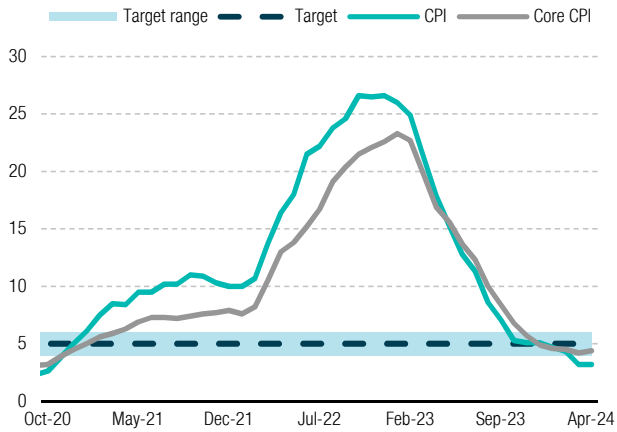
Inflation remains sustainably low due to broadly stable food prices. Food prices declined 0.4% MoM in April and were also down 0.8% in annual terms. The market remains saturated with key food staples thanks to last year's abundant harvest and expensive export logistics. Price growth for most non-food components also remained subdued. Yet, prices of transportation services started to accelerate recently as prices of motor fuels added 3.7% MoM and 18.1% YoY in April, likely due to the weakening exchange rate.

***ICU view: April CPI clearly indicates inflationary pressures remain very low, largely thanks to the availability of cheap agricultural products and some processed food staples for consumers. Inflation is expected to pick up in 2H as this year's harvest is likely to be below last year's high levels. Another inflation contributor is the gradual depreciation of hryvnia exchange rate even though its pass-through effect on inflation has remained relatively weak so far. We see end-2024 CPI at 6.4%, and we don't see prices accelerating considerably going forward. This opens more room for the NBU to cut its policy rates further. We see the end-2024 key policy rate at 11.5%, down from the current 13.5%. Such a reduction in NBU rates will likely push rates on one-year government bonds below 14% by year-end.***

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**Chart 6. CPI, core CPI and target, YoY, %**

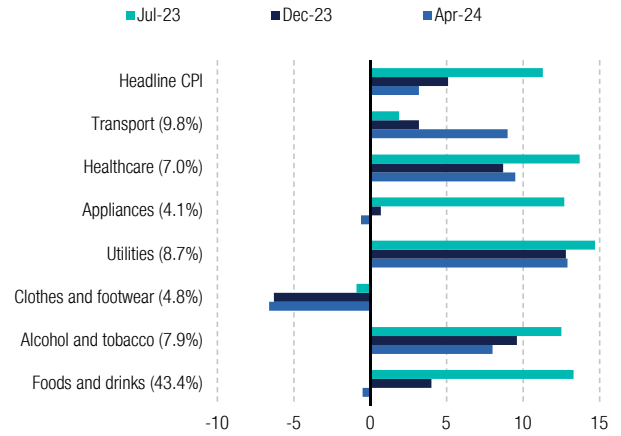
*Annual inflation unchanged in April*



Source: Ukrstat, NBU, ICU.

**Chart 7. CPI and its main components, YoY, %**

*Food prices decline YoY in April*



\* numbers in brackets indicate the share of the component in consumer basket

Source: Ukrstat, ICU.

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