



Focus
Ukraine

Markets
**Domestic liquidity,
government bonds, FX
market, and macro**

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Weekly Insight

Military bond issuance resumed

Key messages of the today's comments

MONDAY, 7 MARCH 2022

Ukrainian bond market

Military bond issuance resumed

Last Tuesday, the Ministry of Finance raised more than UAH8bn through the issuance of military bonds and plans to continue to offer them at primary auctions.

Ukraine meets its obligations

Despite hostilities in the country and significant destruction of civilian infrastructure, Ukraine is making timely payments on external debt, confirming its status of a reliable borrower even in this situation.

Economics

NBU to keep the rate at 10% until the war ends

The regulator announced it will abstain from changing the monetary policy rate until the war ends, as the transmission mechanism does not work under current conditions.

Banks' reserves market (4 March 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	10.00	+0bp	+350bp
ON rate (%)	9.76	+0bp	+463bp
Reserves (UAHm) ²	85,826	-22.40	+68.20
CDs (UAHm) ³	120,247	+78.97	-16.09

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) (4 March 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	N/A	...	...
Banks	N/A	...	...
Residents	N/A	...	...
Individuals	N/A	...	...
Foreigners ¹	N/A	...	...
Total	N/A	...	...

Source: NBU, ICU.

FX market indicators (4 March 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	N/A	...	...
EUR/USD	1.0928	-3.02	-8.70
DXY	98.648	+2.10	+7.66
UAH TWI ¹	N/A	...	...

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (7 March 2022)

Maturity	Bid	Ask
6m
12m
2y
3y
12m (\$)
2y (\$)

Source: ICU.

Ukrainian bond market

Military bond issuance resumed

Last Tuesday, the Ministry of Finance raised more than UAH8bn through the issuance of military bonds and plans to continue to offer them at primary auctions.

In 2014-2015, the rebuilding of the Ukrainian army required more funds than could be financed from the state budget. To raise enough money, military bonds were floated, and all funds from them were directed to the needs of the Ukrainian army. Last week, issuance of such bonds was resumed, and up to UAH400bn is planned to be raised from the sale of such instruments.

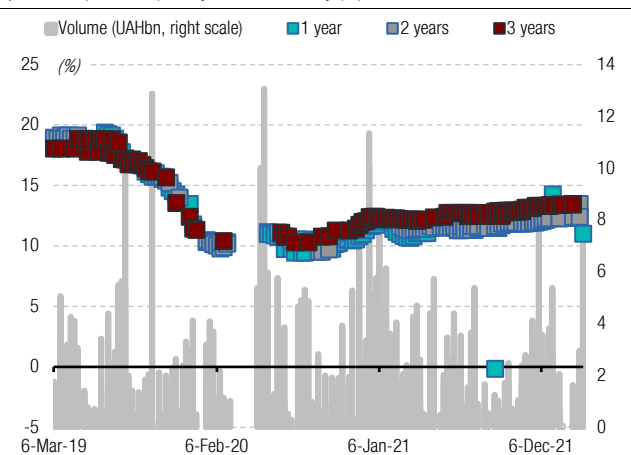
The debut auction had 10 participants, likely primary dealers, and more than UAH8bn was attracted to the budget. This placement was for 12-month bills at a simple yield of 11%. More details in the [auction review](#).

ICU view: These bills were traded on the stock exchange almost immediately, and it looks like the range of investors will continue to expand. We expect that not only banks, but also foreigners and individuals will join the demand for military bonds soon.

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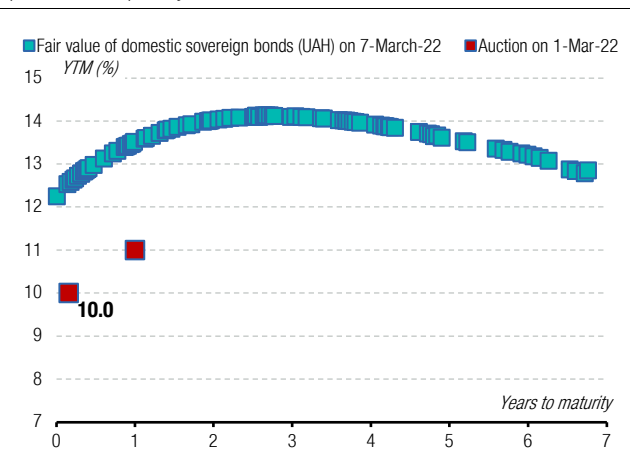
Chart 1. Local-currency bonds

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



Source: Ministry of Finance of Ukraine, ICU.

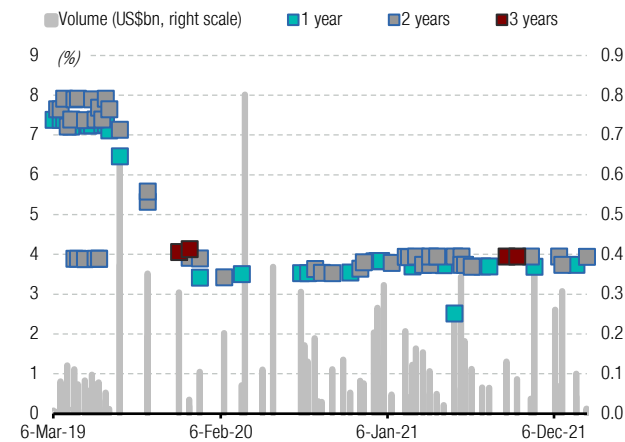
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

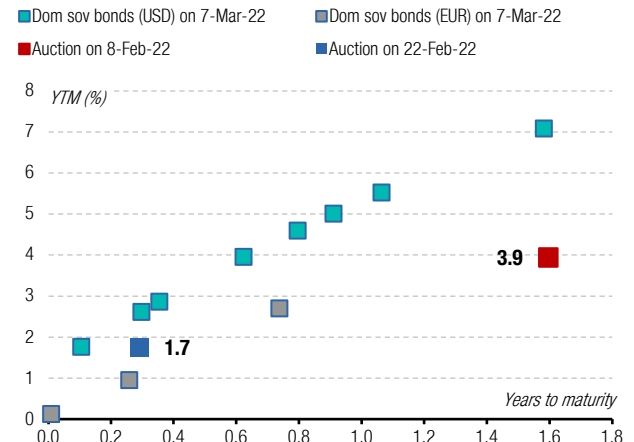
Chart 2. FX-denominated bonds

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



Source: Ministry of Finance of Ukraine, ICU.

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



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Ukraine meets its obligations

Despite hostilities in the country and significant destruction of civilian infrastructure, Ukraine is making timely payments on external debt, confirming its status of a reliable borrower even in this situation.

On the second day of the war, rating agencies lowered their assessment of Ukraine's creditworthiness. Fitch downgraded Ukraine to CCC immediately, S&P downgraded the country to B-, and Moody's kept the rating at B3, downgrading the outlook to negative.

Nevertheless, on 1 March, Ukraine paid the interest on Eurobonds issued in 2015 in full compliance with the schedule, which once again confirmed the country's readiness to remain a reliable partner and borrower.

Ukraine's ability to fully service its commitments over the next few years will depend on it having access to official concessional funding from international financial institutions and other partner countries. All major IFIs have indicated their readiness to provide financial support to Ukraine in the long run. In particular, an agreement with the EU on macro-financial assistance worth EUR1.2bn has already been signed. The World Bank previously announced its readiness to provide about US\$3bn of loans to Ukraine. This week, the IMF Board of Directors will also consider providing Ukraine with US\$1.4bn under the IMF's Rapid Funding Instrument.

ICU view: We expect the country will continue to receive assistance from international partners and financial institutions. Accordingly, Ukraine will make efforts to maintain the status of a reliable financial partner, even in the face of having to defend itself from aggression by the Russian Federation.

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Economics

NBU to keep the rate at 10% until the war ends

The regulator announced it will abstain from changing the monetary policy rate until the war ends, as the transmission mechanism does not work under current conditions.

It will resume Board meetings on monetary issues when economic conditions normalize. After Ukraine is liberated from Russian invaders, the NBU will return to its inflation targeting regime and a floating exchange rate.

The regulator has also decided to continue providing banks with refinancing loans, including blank loans in order to ensure the currently high liquidity of the banking sector.

ICU view: NBU's decision is somewhat regretful, yet absolutely logical under the current circumstances. Return to normal functioning of economy and financial system will be hard, time-consuming, and painful given the amount of damage Ukraine has already suffered.

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