



Focus
Ukraine

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

Research team
**Vitaliy Vavryshchuk
Alexander Martynenko
Taras Kotovych**

Weekly Insight

Ukraine receives even more support

Key messages of the today's comments

MONDAY, 14 MARCH 2022

Ukrainian bond market

Budget funding still adequate

Last week, the issuance of military bills raised almost UAH27bn for the budget, partially thanks to the National Bank of Ukraine.

Ukraine receives even more support

Last week, Ukraine's Western partners continued to provide both humanitarian and financial assistance.

Economics

February inflation 10.7% YoY, set to surge in the coming months due to war

CPI accelerated to 10.7% YoY in February from 10.0% in January.

Banks' reserves market (11 March 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	10.00	+0bp	+350bp
ON rate (%)	9.76	+0bp	+404bp
Reserves (UAHm) ²	75,558	-11.96	+39.60
CDs (UAHm) ³	136,105	+13.19	+13.50

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) (11 March 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	330,106	+6.45	+2.49
Banks	524,652	-1.72	-0.91
Residents	78,690	-2.33	+38.07
Individuals	24,958	-2.27	+74.03
Foreigners ¹	74,806	+0.04	-27.69
Total	1,033,313	+0.83	+0.66

Source: NBU, ICU.

FX market indicators (11 March 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	N/A
EUR/USD	1.0912	-0.15	-8.96
DXY	99.124	+0.48	+8.43
UAH TWI ¹	N/A

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes (14 March 2022)

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

Source: ICU.

Ukrainian bond market

Budget funding still adequate

Last week, the issuance of military bills raised almost UAH27bn for the budget, partially thanks to the National Bank of Ukraine.

At the [primary auction](#), UAH6.7bn was attracted to the budget through military bills, which were purchased by a large number of participants. Thus, two-month securities were sold with seven bids, and as many as 31 bids were submitted for the one-year paper. This means that there is demand both from primary dealers and their customers. The secondary market also became more active. Since the first issuance of military bills this month, more than 1,400 agreements have been concluded, and, in particular, individuals have purchased military bonds worth almost than UAH300m.

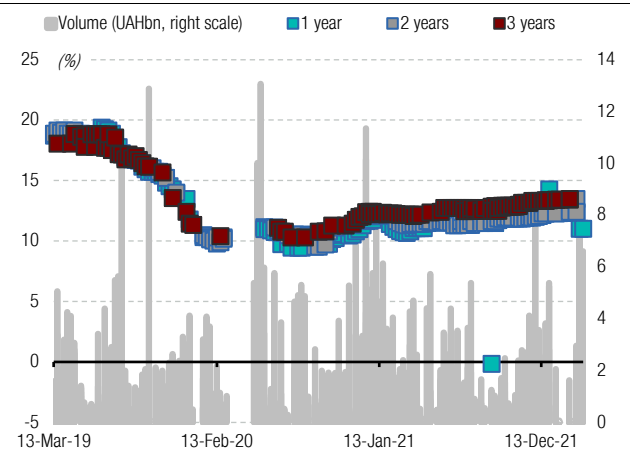
In addition, to support the budget's ability to finance critical expenditures, the NBU purchased military bonds for UAH20bn. This represents direct financing of the budget prompted by the war and the need for additional funds for budget expenditures.

ICU view: This week, the Ministry of Finance will not only offer the same two issues of UAH-denominated military bonds as in the previous two weeks, but also add annual USD-denominated military bills. These instruments may attract even more interest from domestic investors. We expect that the NBU will continue to buy military bonds to support the budget.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

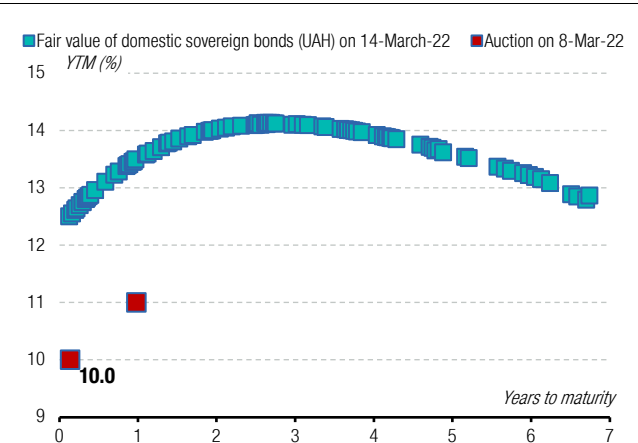
Chart 1. Local-currency bonds

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.

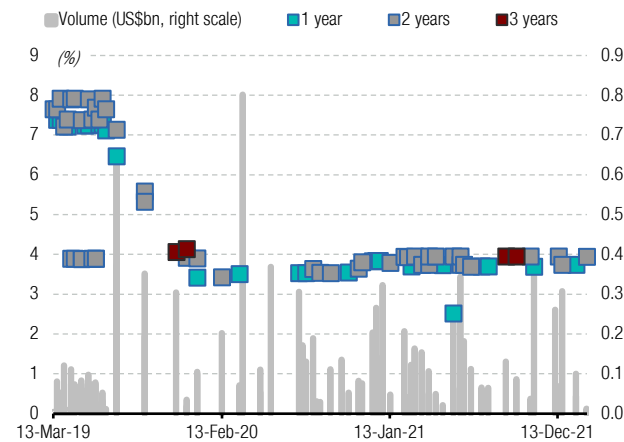
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

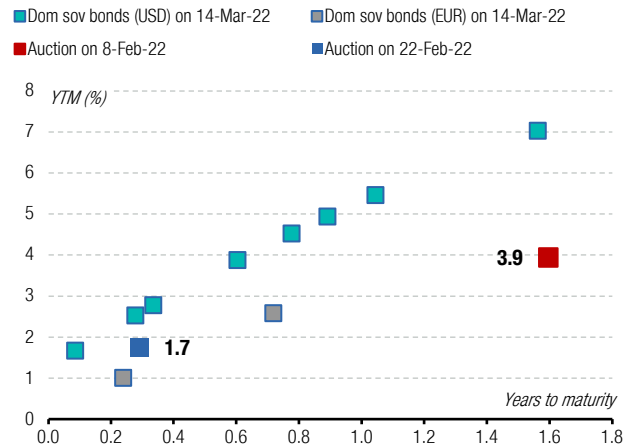
Chart 2. FX-denominated bonds

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 receives even more support

Last week, Ukraine's Western partners continued to provide both humanitarian and financial assistance.

Over the past week, there have been several very important decisions to support Ukraine financially. The IMF provided US\$1.4bn in emergency financing (RFI), the EBRD has approved 2bn euros for Ukraine and our European neighbours, and the World Bank has approved US\$723m for Ukraine through a variety of instruments. And at the end of the week, the United States approved US\$13.6bn in aid, some of which could go to the economic needs of Ukraine and neighbouring countries, including cybersecurity and energy issues.

ICU view: The government is currently financing the budget deficit both by placing domestic bonds with banks and investors and by attracting concessional loans from IFIs. The direct involvement of the National Bank of Ukraine has become another important source of financing for the budget deficit. This is a necessary step, and we expect that over the next few months, the NBU will continue to be actively involved in financing the budget deficit if tax revenues are not restored quickly enough.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

Economics

February inflation 10.7% YoY, set to surge in the coming months due to war

CPI accelerated to 10.7% YoY in February from 10.0% in January.

ICU view: February's number is the last consumer inflation reading that covers the pre-war period. We expect inflation will accelerate considerably in the coming months and may reach 25-30% YoY by the autumn. Price growth will be broad-based, driven by a number of factors. The most critical ones are:

- Depreciation of the hryvnia as significant FX market imbalances will persist in the coming months. The official FX market is now closed, and the official hryvnia exchange rate has been fixed at UAH29.3/USD since the start of the war. However, US dollars are currently offered at 35 hryvnia or more in the cash market (vs. the beginning-of-February rate of UAH28.5/\$). The interbank hryvnia rate will be heading north when the market reopens.

- Severe supply disruptions of key goods and services: Importation of the vast majority of consumer goods is effectively impossible due to FX controls and logistical difficulties. The supplies of locally produced consumer goods are also limited as many businesses paused production and deliveries are impossible due to safety concerns.

- Expected significant reduction in crop harvest and animal-products output as spring sowing campaign may be disrupted due to war.

At the same time, the government is very likely to step in to mitigate inflationary pressures by providing gas below cost to households and businesses and by introducing price caps on certain food products. Also the authorities announced plans to reduce certain indirect taxes.

As a side note, further inflation estimates will be much less accurate and reliable, as many goods and services are no longer supplied in many regions. Also, collection of some price data in the field will be impossible due to safety reasons for Ukrstat personnel. Further, we expect a major change in consumer-basket composition as household expenditures are being shifted to goods that are necessities. This implies the pre-war consumer basket used to track CPI will be largely irrelevant.

Vitaliy Vavryshchuk, Kyiv, (044) 377-7040 ext.721

This page is intentionally left blank



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko, CFA

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

