



Focus  
**Ukraine**

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

Research team  
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# Weekly Insight

## The Eurobond market prizes Ukraine's resistance

### Key messages of the today's comments

MONDAY, 28 MARCH 2022

### Ukrainian bond market

#### Individuals purchased UAH0.6bn of military bills

Since the beginning of the Russian aggression, Ukrainian citizens have become increasingly committed to investing into military bills and have so far purchased UAH0.6bn (US\$20m) of this instrument.

#### The Eurobond market prizes Ukraine's resistance

Investors in Ukrainian Eurobonds welcome Ukraine's strong resistance to Russian aggression, however still weigh the risks of a long confrontation and a decline in the country's solvency position.

### Banks' reserves market (24 March 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	10.00	+0bp	+350bp
ON rate (%)	9.76	+0bp	+376bp
Reserves (UAHm) <sup>2</sup>	45,003	-21.08	-25.81
CDs (UAHm) <sup>3</sup>	160,361	+20.99	+11.70

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) (24 March 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	330,106	+0.00	+2.49
Banks	535,115	+1.04	+1.55
Residents	79,703	+0.53	+49.44
Individuals	25,515	+0.95	+68.11
Foreigners <sup>1</sup>	74,819	+0.00	-28.45
<b>Total</b>	<b>1,045,360</b>	<b>+0.59</b>	<b>+2.25</b>

Source: NBU, ICU.

### FX market indicators (24 March 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	29.5253	+0.41	+4.96
EUR/USD	1.0983	-0.62	-6.64
DXY	98.789	+0.57	+6.40
UAH TWI <sup>1</sup>	133.461	+0.02	+9.77

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes<sup>1</sup> (28 March 2022)

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

Source: ICU.

# Ukrainian bond market

## Individuals purchased UAH0.6bn of military bills

Since the beginning of the Russian aggression, Ukrainian citizens have become increasingly committed to investing into military bills and have so far purchased UAH0.6bn (US\$20m) of this instrument.

Since the start of the placement of military bills on 1 March 2022, regulators have simplified the conditions for the purchase of this instrument. Ukrainian banks and dealers have streamlined their terms and cancelled fees for all or part of their services to individuals. This has significantly expanded the potential base of investors, in particular small clients.

Thus, since the beginning of the month, according to the NBU, Ukrainians have bought military bonds worth UAH0.6bn (US\$20m) and US\$0.7m. At the same time, they bought some of these bonds on the primary market. In just three weeks, 2,000 individuals have stepped in and purchased military bills.

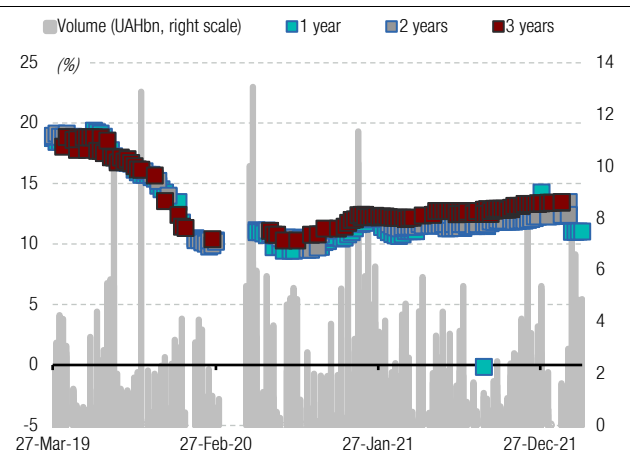
Last week, secondary market deals were active, although the volumes were relatively small, as some customers bought bills in the primary market. Last week, 1,300 deals worth UAH406m (US\$13.5m) were concluded, while a week earlier 1,200 deals worth almost UAH1bn (US\$33m) were entered into.

**ICU view: Dynamics of trade in military bills indicate an increase in the number of retail customers wishing to purchase bills in small amounts. At the same time, the amount of funds raised at primary auctions remains large due to the participation of banks and legal entities, which together have already purchased military bills for UAH21.5bn (US\$0.7bn).**

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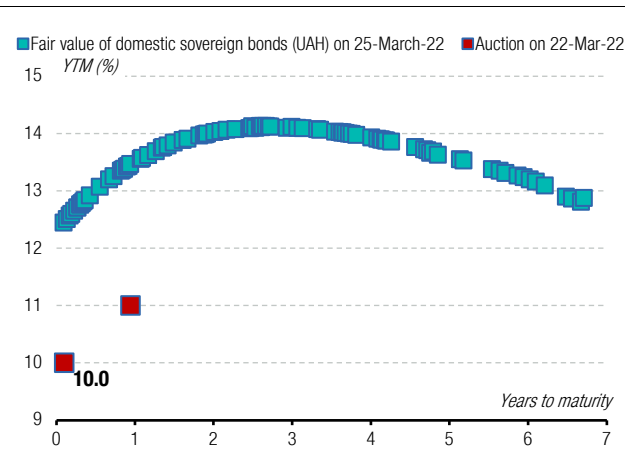
**Chart 1. Local-currency bonds**

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.

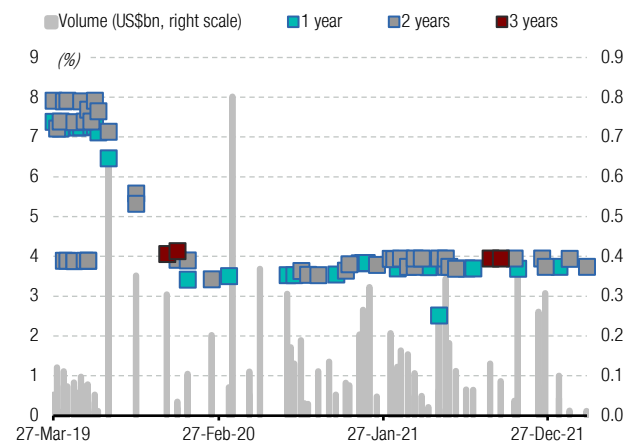
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

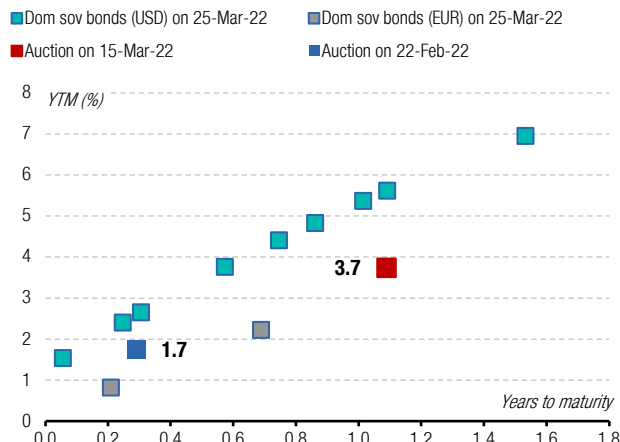
**Chart 2. FX-denominated bonds**

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.

**The Eurobond market prizes Ukraine's resistance**

Investors in Ukrainian Eurobonds welcome Ukraine's strong resistance to Russian aggression, however still weigh the risks of a long confrontation and a decline in the country's solvency position.

After the threat of Russia's invasion of Ukraine started to emerge months ago, the prices of Ukrainian Eurobonds became very volatile. However, after 24 February 2022, when the invasion of Russian troops began, they fell sharply. They reached the lowest values on 7 March of 21-34 cents on the dollar, which corresponded to yields of 37-427%, depending on the maturity. But the next day, prices rose gradually, and last week fluctuated at 35-50 cents per dollar, which corresponds to yields of 24-250%.

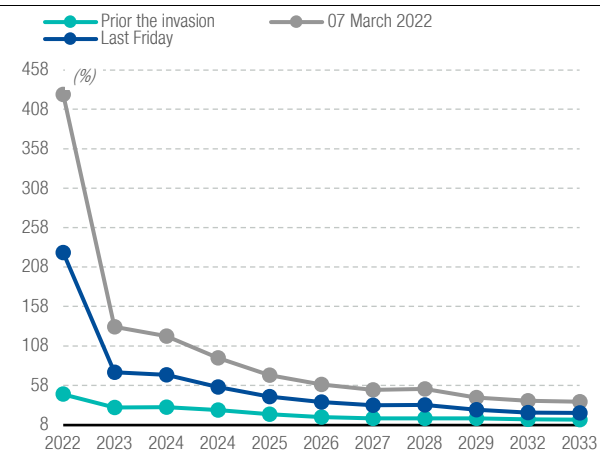
This dynamic reflected Ukraine's strong resistance to Russia's aggression. It now looks like not only will the invasion be stopped, but Ukraine will gradually regain control of certain territories. The prices for Eurobonds were also supported by large amounts of financial assistance from IFI's.

**ICU view: Eurobond prices have likely reached temporary highs and no major moves are expected in the near future. Russia has been using heavy weapons against Ukrainian cities and civilians, destroying infrastructure and industry, and blocking seaports. Therefore, currently, Ukraine's ability to export is very limited, and loans from IFIs is the only material source of hard currency inflows to the country. Large institutional investors will expect greater clarity on the prospects for ending the war before reassessing the fair value of Ukrainian Eurobonds.**

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**Chart 3. Ukrainian Eurobonds yield curves**

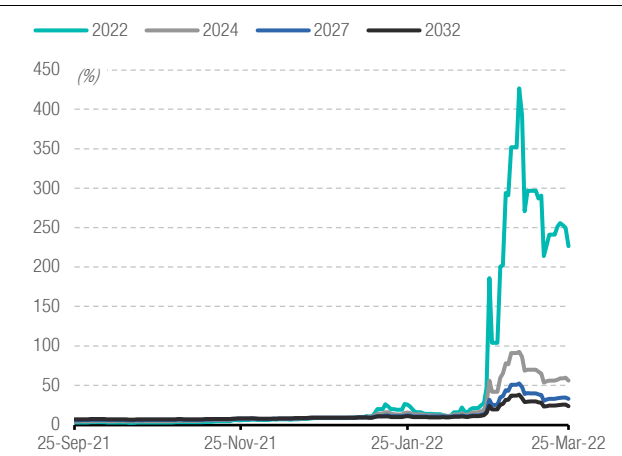
Yield curves of USD-denominated Eurobonds as of last Friday, a week and a month earlier



Source: Bloomberg, ICU.

**Chart 4. YTM of selected Ukrainian Eurobonds**

Last six-month historical data



Source: Bloomberg, ICU.

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