



Focus  
Ukraine

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

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# Weekly Insight

## Prices of Eurobonds rising

### Key messages of the today's comments

#### Ukrainian bond market

##### The Ministry of Finance expands offering of military bonds

Last week, the Ministry of Finance expanded the offering of military bonds and started to offer longer maturities. Funds can now be provided to support the government during martial law for up to 15 months.

##### Prices of Eurobonds rising

The new phase of talks between Ukrainian and Russian delegations in Turkey last week which discussed the possibility of entering into a peace treaty has contributed to even higher prices for Ukrainian Eurobonds compared with the previous week.

TUESDAY, 5 APRIL 2022

#### Banks' reserves market (4 April 2022)

|                              | Last    | Weekly<br>chg (%) | YoY<br>chg (%) |
|------------------------------|---------|-------------------|----------------|
| NBU rate (%) <sup>1</sup>    | 10.00   | +0bp              | +350bp         |
| ON rate (%)                  | 9.76    | +0bp              | +437bp         |
| Reserves (UAHm) <sup>2</sup> | 43,084  | -3.04             | -12.14         |
| CDs (UAHm) <sup>3</sup>      | 143,558 | -11.72            | +0.00          |

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 April 2022)

|                         | Last             | Weekly<br>chg (%) | YoY<br>chg (%) |
|-------------------------|------------------|-------------------|----------------|
| NBU                     | 330,106          | +0.00             | +2.49          |
| Banks                   | 538,062          | +0.57             | +0.86          |
| Residents               | 79,895           | +0.19             | +74.17         |
| Individuals             | 25,754           | +0.71             | +63.82         |
| Foreigners <sup>1</sup> | 74,819           | +0.00             | -28.21         |
| <b>Total</b>            | <b>1,048,738</b> | <b>+0.33</b>      | <b>+2.65</b>   |

Source: NBU, ICU.

#### FX market indicators (4 April 2022)

|                      | Last    | Weekly<br>chg (%) | YoY<br>chg (%) |
|----------------------|---------|-------------------|----------------|
| USD/UAH              | 29.4006 | +0.00             | +4.90          |
| EUR/USD              | 1.0972  | -1.03             | -6.69          |
| DXY                  | 99.000  | +0.61             | +6.43          |
| UAH TWI <sup>1</sup> | 133.679 | +0.41             | +9.26          |

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Market gov't bond quotes<sup>1</sup> (5 April 2022)

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

Source: ICU.

# Ukrainian bond market

## The Ministry of Finance expands offering of military bonds

Last week, the Ministry of Finance expanded the offering of military bonds and started to offer longer maturities. Funds can now be provided to support the government during martial law for up to 15 months.

For the second quarter, the Ministry of Finance plans traditional weekly primary auctions, which will offer mostly semi-annual and annual hryvnia-denominated military bills. In April, the MoF will offer bills denominated in local currency maturing in November this year and in June next year. In addition, the offer will include euro-denominated papers due in December this year and USD-denominated bills due in April 2023. Also in June, in addition to local-currency bills, new annual bills denominated in euros and USD are currently planned.

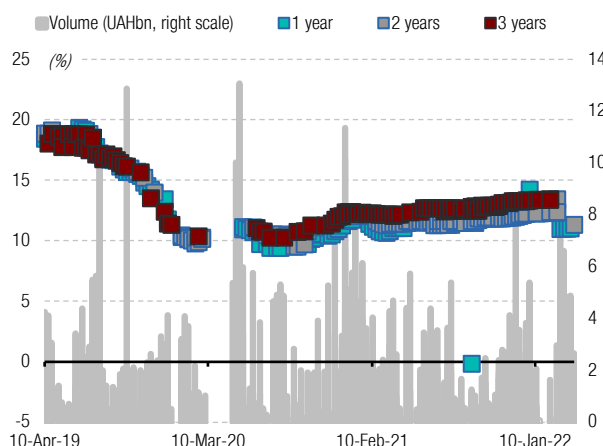
The change in the instruments offered at the primary auction has resulted in a decline in demand for military bonds in the primary market, but increased the activity on the secondary market. According to the NBU, 1,473 agreements worth UAH416m (US\$14m) were concluded last week, which is more than the week before (1,292 agreements worth UAH406m (US\$13.8m)). Individuals last week continued to actively buy military bonds and increased their portfolios by another UAH222m (US\$7.5m) to UAH25.75bn (US\$0.8bn).

**ICU view: So far, the Ministry of Finance has published a schedule of primary auctions for the second quarter indicating the tenors and currency denomination of the proposed instruments. For April, the Ministry published the schedule with specific instruments to be offered at each primary auction. Of course, the list of bonds can be changed again to ensure an even distribution of redemptions if the planned issues attract significant amounts.**

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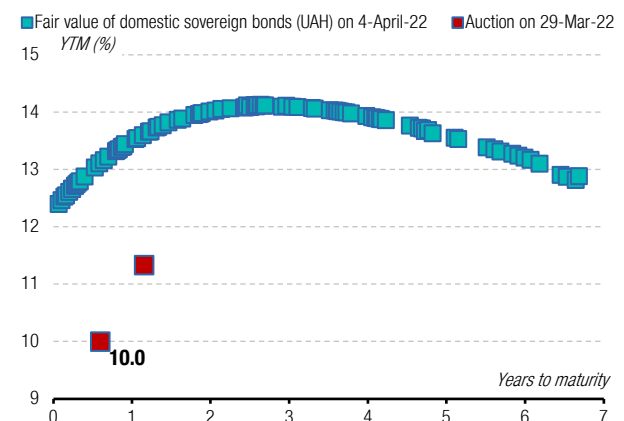
### Chart 1. Local-currency bonds

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.

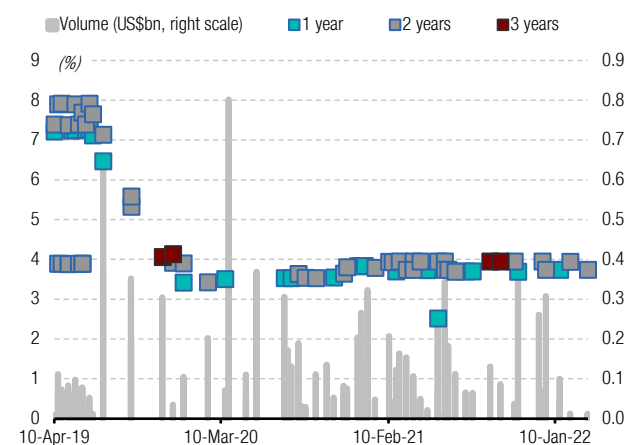
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

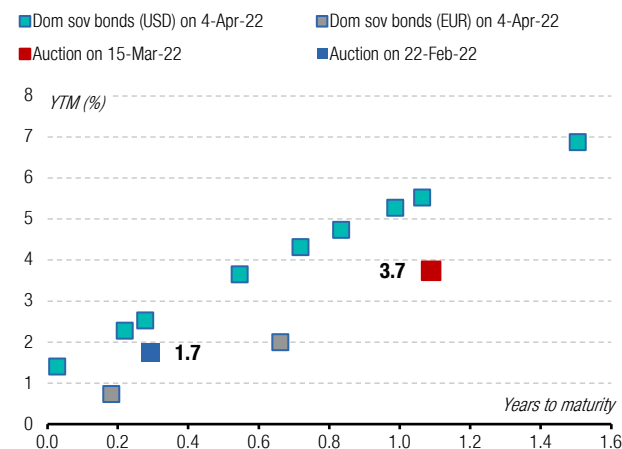
## Chart 2. FX-denominated bonds

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.

## Prices of Eurobonds rising

The new phase of talks between Ukrainian and Russian delegations in Turkey last week which discussed the possibility of entering into a peace treaty has contributed to even higher prices for Ukrainian Eurobonds compared with the previous week.

Early last week, another round of talks took place in Turkey between Ukrainian and Russian delegations. Following the negotiations, the representatives of the Ukrainian delegation announced a number of proposals to end the Russian's war against Ukraine, including signing a peace treaty and an international security agreement for Ukraine.

This news contributed to an even greater improvement in sentiment toward Ukrainian Eurobonds. Over the past week, prices rose another 5-10 cents per dollar to 42-62. In terms of YTM, this corresponds to 21-163%. The most noticeable are the changes in prices and YTM for bonds maturing in September this year: the YTM was 162% last Friday, slid over the week by 60bp and from the peak level by 260bp. The price respectively rose to 62 cents per dollar, or by 9 cents last week and by 28 cents per dollar from its lowest seen on March 7.

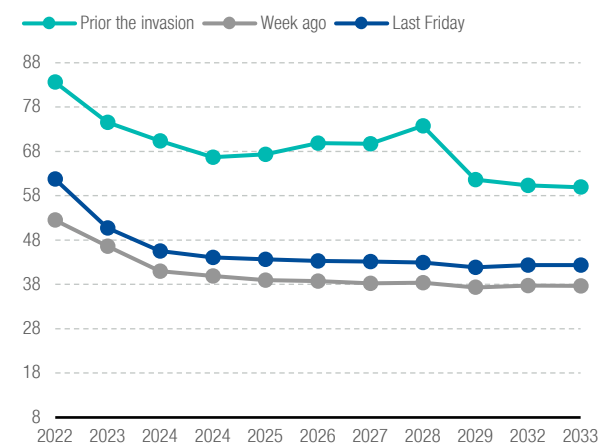
The government's position repeatedly was confirmed by the Minister of Finance in interviews and briefings was an additional factor supporting Eurobonds. The Ministry keeps saying that Ukraine will be able to service its external debt on time and in full this year and a restructuring scenario is not being considered.

**ICU view: Ukraine's strong resistance to Russian aggression and a reconfirmed commitment to service its debt are improving investor sentiment toward Ukraine's sovereign Eurobonds. However, prices are still far from pre-war levels. The recent price dynamics show that investors have reassessed the risks of Ukraine's victory in this war, especially thanks to the growing support from foreign partners, both military and financial.**

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**Chart 3. Ukrainian Eurobonds prices**

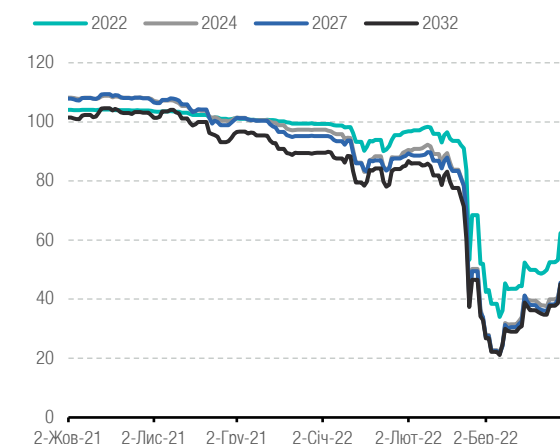
*Prices of USD-denominated Eurobonds as of last Friday, a week ago and prior the russian invasion*



Source: Bloomberg, ICU.

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

*Last six-month historical data*



Source: Bloomberg, ICU.

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