



Focus
Ukraine

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

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Weekly Insight

NBU allows banks to sell FX cash

Key messages of the today's comments

MONDAY, 18 APRIL 2022

Ukrainian bond market

Range of investors expands

More Ukrainian banks have purchased military bonds, which allowed the Ministry of Finance to keep borrowings last week at above UAH6bn (US\$200m).

Eurobond prices decline

Prices of Ukrainian Eurobonds continued to decline for the second consecutive week and lost another 7-10% over the week.

Foreign exchange market

NBU allows banks to sell FX cash

The National Bank of Ukraine allowed banks to sell FX cash to individuals from April 14.

Banks' reserves market (15 April 2022)

| | Last | Weekly chg (%) | YoY chg (%) |
|------------------------------|---------|----------------|-------------|
| NBU rate (%) ¹ | 10.00 | +0bp | +350bp |
| ON rate (%) | 9.76 | +0bp | +399bp |
| Reserves (UAHm) ² | 55,527 | +9.58 | -21.00 |
| CDs (UAHm) ³ | 166,366 | +2.69 | +20.16 |

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) (15 April 2022)

| | Last | Weekly chg (%) | YoY chg (%) |
|-------------------------|------------------|----------------|--------------|
| NBU | 350,106 | +6.06 | +8.70 |
| Banks | 543,373 | +0.06 | +3.98 |
| Residents | 75,606 | -5.50 | +73.51 |
| Individuals | 24,747 | -4.84 | +66.30 |
| Foreigners ¹ | 74,389 | -0.58 | -24.64 |
| Total | 1,068,325 | +1.35 | +6.61 |

Source: NBU, ICU.

FX market indicators (15 April 2022)

| | Last | Weekly chg (%) | YoY chg (%) |
|----------------------|---------|----------------|-------------|
| USD/UAH | 29.4814 | -0.20 | +5.20 |
| EUR/USD | 1.0810 | -0.62 | -9.67 |
| DXY | 100.500 | +0.71 | +9.63 |
| UAH TWI ¹ | 134.217 | +0.39 | +10.98 |

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (18 April 2022)

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

Source: ICU.

Ukrainian bond market

Range of investors expands

More Ukrainian banks have purchased military bonds, which allowed the Ministry of Finance to keep borrowings last week at above UAH6bn (US\$200m).

Last Tuesday, almost UAH6.2bn (US\$210m) was attracted to the budget thanks to active participation of investors who bought hryvnia bonds mainly with redemptions in June next year. More details in the [auction review](#).

According to the NBU, last Wednesday, more than 300 agreements were concluded on the secondary market with UAH-denominated bills issued last Tuesday for nearly UAH3.1bn (US\$105m). Banks that are not primary dealers are the dominant buyers in the secondary market. Non-banking institutions and individuals also showed significant interest, albeit in smaller amounts. The total volume of transactions of all investors in the secondary market amounted to UAH3.4bn (US\$116m), which is more than three-fold increase over the previous week.

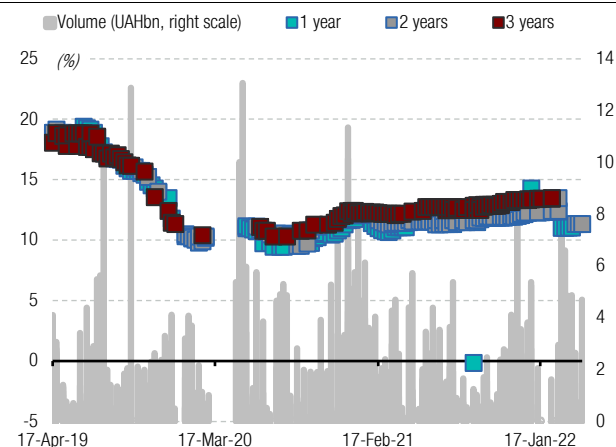
The NBU also bought UAH20bn (US\$0.7bn) worth of bonds for the second time. The deal was private and signals that bond purchases by private investors is not enough to finance the needs of the state budget.

ICU view: Investor activity remains high and their number is expanding thanks to new banks and private investors. However, new bond purchases are not enough to refinance the ongoing redemptions. Since the beginning of the year, almost UAH29bn (US\$1bn) of redemptions in local currency were not refinanced, and another UAH17bn (US\$0.6bn) will be repaid next week. That is the reason why the NBU is forced to step in. In total it bought UAH40bn (US\$1.4bn) since the war started. With NBU purchases accounted for the net budget financing in the local currency is now at UAH11.2bn (US\$0.4bn). Tomorrow, investors' activity may shift again to FX-denominated securities, which will be offered in both US dollars and euros. This may increase the total volume of borrowings even though the demand for UAH-denominated bills may decline.

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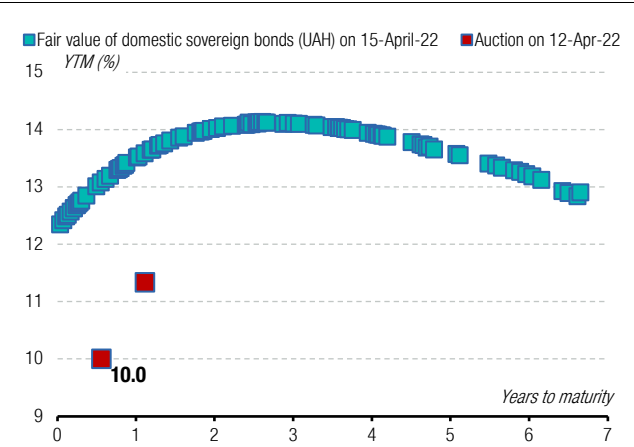
Chart 1. Local-currency bonds

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.

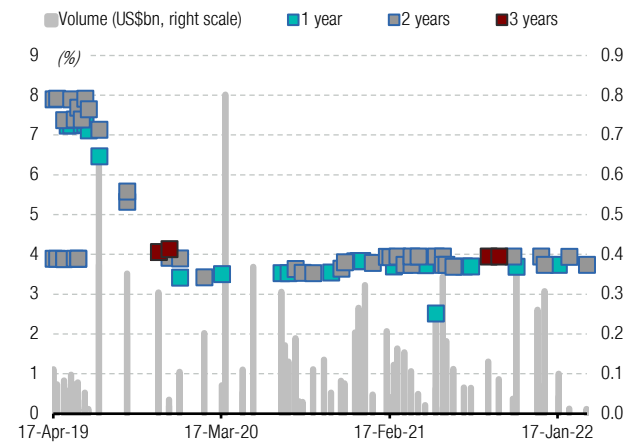
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

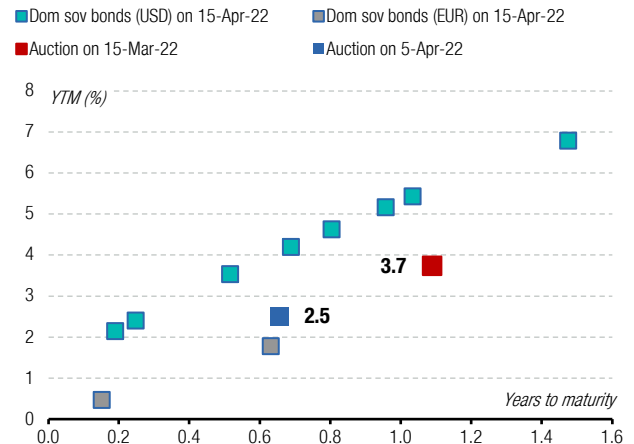
Chart 2. FX-denominated bonds

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.

Eurobond prices decline

Prices of Ukrainian Eurobonds continued to decline for the second consecutive week and lost another 7-10% over the week.

Investors' sentiment toward Ukrainian Eurobonds is not improving, as hostilities continue in Ukraine, and Russia has sent more troops to eastern Ukraine. Over the past week, the balance of powers in the war area remained largely unchanged. It is becoming increasingly clear that the war will not end soon. In particular, according to CNN, US Secretary of State Anthony Blinken discussed with his colleagues the concern that the conflict may drag on, and the war may continue until the end of 2022.

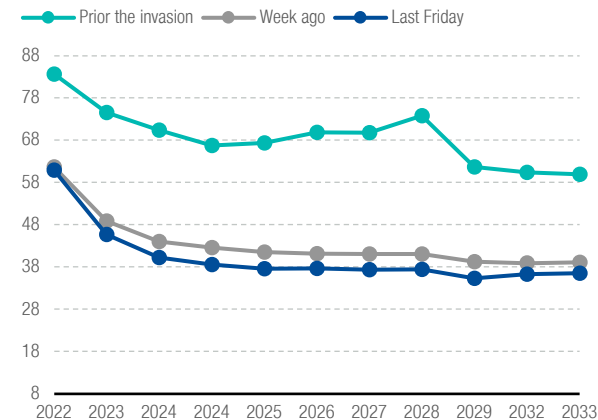
In general, the prices of Ukrainian Eurobonds fell by 7-10% last week. For Eurobonds maturing this year the price fell by one cent to 61 cents per dollar, the equivalent of 185% per annum. But for Eurobonds maturing in the next 10 years, or from 2023 to 2033, prices fell during last week by 3-4 cents to 35-46 cents per dollar, which corresponds to a yield of 24-80%.

ICU view: *At the moment, we do not expect improvements in sentiment toward Ukraine's debt and a respective reversal of the price trend. Military experts predict active fighting in the near future. Russia continues to fire missiles at both Ukraine's infrastructure and civilians, deepening the humanitarian crisis.*

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Chart 3. Ukrainian Eurobonds prices

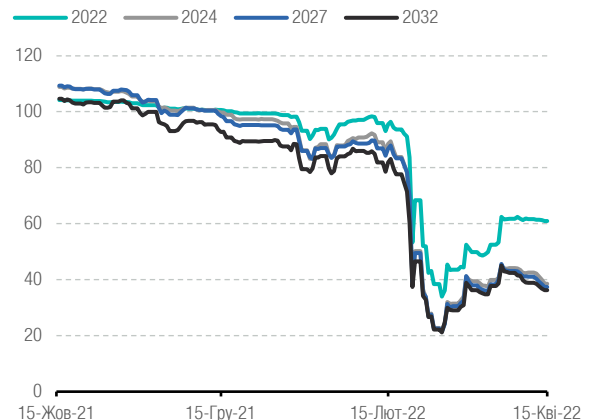
Prices of USD-denominated Eurobonds as of last Friday, a week ago and prior the russian invasion



Source: Bloomberg, ICU.

Chart 4. Prices of selected Ukrainian Eurobonds

Last six-month historical data



Source: Bloomberg, ICU.

Foreign exchange market

NBU allows banks to sell FX cash

The National Bank of Ukraine allowed banks to sell FX cash to individuals from April 14.

This decision of the NBU means the FX cash trading may gradually return to the legal official segment. From the beginning of the war until this decision of the NBU, FX cash trading took place on the grey market.

At the same time, in order to prevent pressure on the FX market, NBU said that banks can only sell to customers what they purchased.

In addition, the National Bank has instructed that bank can sell FX at a rate that does not exceed the official exchange rate by more than 10%. Also FX cash cannot be purchased at below the official rate.

At the same time, the sale of non-cash hard currency to retail customers, in particular through online banking, remains prohibited.

Further, the National Bank forbade banks from repaying loans to foreigners ahead of schedule.

ICU view: The NBU is gradually easing FX restrictions that were introduced since the beginning of the full-scale russian invasion of Ukraine. Such concessions, although mostly symbolic, still create additional comfort for bank customers.

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