



Focus
Ukraine

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

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Weekly Insight

Eurobonds prices continue to decline

Key messages of the today's comments

MONDAY, 25 APRIL 2022

Ukrainian bond market

More financing needed for budget

Last week, the government borrowed UAH23.6bn (US\$08.bn), including UAH20bn (US\$0.7bn) from the NBU. It was the third issue of bonds purchased by the National Bank since the beginning of the war.

Eurobond prices continue to decline

The escalation on the front-line has once again worsened investors' sentiment and has led to a further decline in prices for Ukrainian Eurobonds.

Banks' reserves market (22 April 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	10.00	+0bp	+250bp
ON rate (%)	9.76	+0bp	+317bp
Reserves (UAHm) ²	64,462	+16.09	+22.82
CDs (UAHm) ³	166,179	-0.11	+5.29

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) (22 April 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	370,106	+5.71	+15.31
Banks	545,640	+0.42	+3.53
Residents	75,961	+0.47	+65.99
Individuals	25,698	+3.84	+63.69
Foreigners ¹	74,389	+0.00	-23.79
Total	1,091,898	+2.21	+8.39

Source: NBU, ICU.

FX market indicators (22 April 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	30.2598	+2.64	+8.28
EUR/USD	1.0790	-0.19	-10.20
DXY	101.220	+0.72	+10.83
UAH TWI ¹	131.375	-2.12	+8.62

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (25 April 2022)

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

Source: ICU.

Ukrainian bond market

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Last week, the amount of bonds purchased by the National Bank since the beginning of the full-scale russian invasion reached UAH60bn. The debut issue of bonds for the NBU took place in March, the second, on April 13, but the third issue took place with an interval of only one week. The volume of each of these three issues amounted to UAH20bn (US\$0.7bn).

Also, on Tuesday, another primary auction was held by the MoF. Despite large amounts of hryvnia liquidity in the banking system (last week, the total amount of banking-sector liquidity exceeded UAH230bn (US\$7.8bn)), UAH-denominated securities did not receive much demand. Only UAH156m was raised for the budget. The vast majority of funds came from FX-denominated bills, almost US\$82m and EUR33m (UAH2.4bn and UAH1.1bn, respectively). See more details in the [auction review](#).

FX-denominated bills traded actively on the secondary market. While four issues of UAH military bills saw nearly 2,000 trades, the total amount was less than UAH300m (US\$10m). In contrast, there were only 150 trades in FX-denominated papers, but the total value stood at an equivalent of UAH3bn (US\$100m). Therefore, UAH-denominated bills were likely bought mainly by retail investors, while FX-denominated securities were purchased primarily by banks.

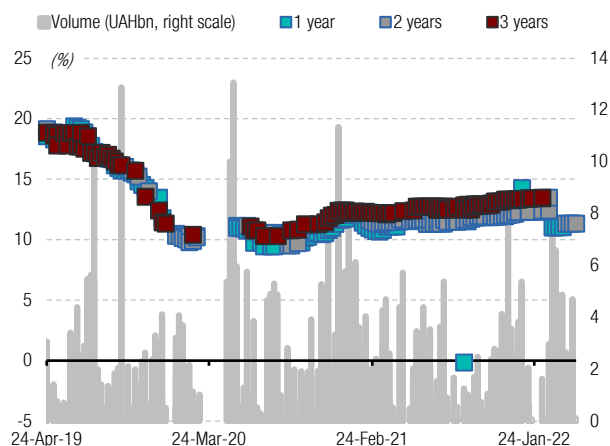
ICU view: It is very likely that the bulk of liquidity that local banks have is short-term. This likely forced the Ministry of Finance to announce an offering of three-month bills tomorrow in addition to the usual offering of semi-annual and annual securities. Due to the upcoming UAH17bn redemption of UAH-denominated paper on Wednesday (the MoF sold part of this issue since the martial law was enacted), we expect considerable demand for the three-month bills from Ukrainian banks. Therefore, the total amount of borrowings may increase compared with the previous week.

Thanks to the NBU, net budget financing in local currency has increased to UAH48.5bn (US\$1.6bn) YTD. However, new UAH placements fall short of redemptions by almost UAH12bn (US\$0.4bn) if the NBU's part is excluded. In addition, the government did not manage to refinance a large part of FX-denominated redemptions – US\$690m and EUR203m. That is why raising external financing is of particular importance.

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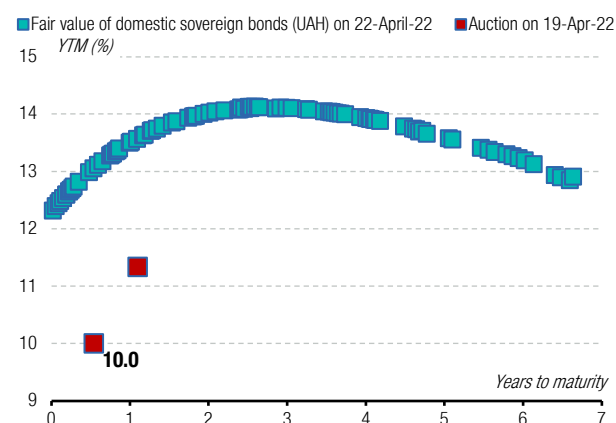
Chart 1. Local-currency bonds

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.

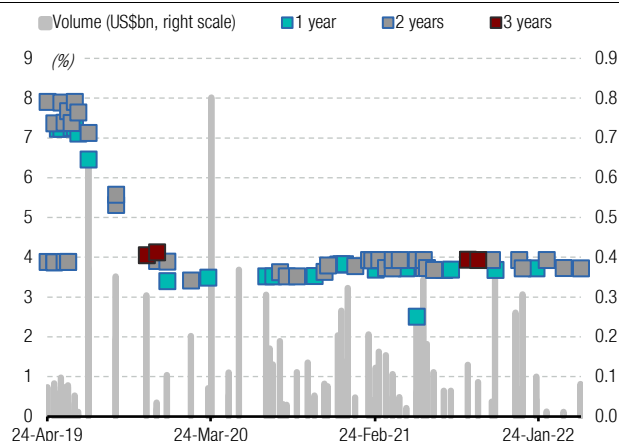
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

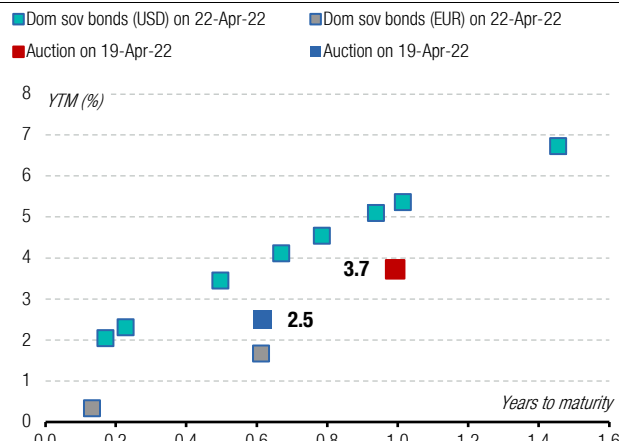
Chart 2. FX-denominated bonds

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 continue to decline

The escalation on the front-line has once again worsened investors' sentiment and has led to a further decline in prices for Ukrainian Eurobonds.

The week started with statements from Ukrainian officials and experts about the beginning of russia's offensive in Donbas. Also, russia announced about the launch of the second stage of the "special operation" and plans to capture the entire south of Ukraine. This series of messages discouraged investors even further. Therefore, Eurobonds fell by another 4-8% back to values of mid-March.

For Eurobonds maturing from 2023 to 2033, prices fell by 2-3 cents to 33-43 cents per dollar, corresponding to 26-88% YTM. For Eurobonds maturing this year, the price also fell by three cents to 58 cents per dollar, giving a 219% YTM.

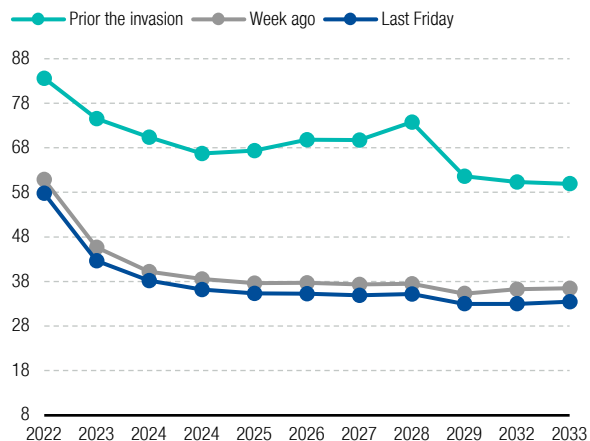
ICU view: During the Spring Meeting of the World Bank and the IMF, the Minister of Finance of Ukraine reiterated that Ukraine plans to meet all its debt obligations fully and on time. A significant increase of the international assistance package to Ukraine declared last week was yet one more positive signal. Promises of non-refundable aid,

including US\$500m from the United States, have also begun to emerge. At the same time, investors seem to continue to put much heavier weight on information about the course of military actions and the signals about prospects for ending the war. Such signals seem to be quite rare at this point, even though Western countries have announced significant future supplies of heavy weapons to Ukraine.

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Chart 3. Ukrainian Eurobonds prices

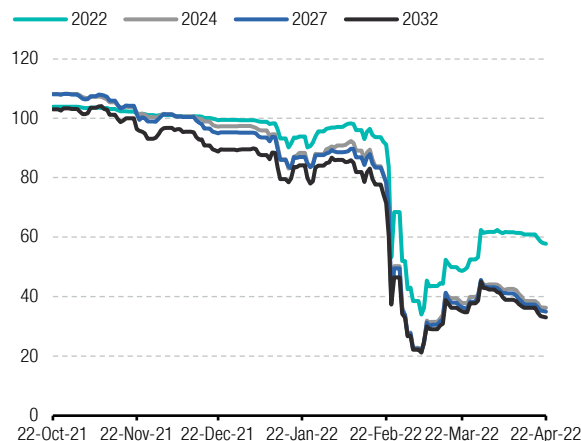
Prices of USD-denominated Eurobonds as of last Friday, a week ago and prior the russian invasion



Source: Bloomberg, ICU.

Chart 4. Prices of selected Ukrainian Eurobonds

Last six-month historical data



Source: Bloomberg, ICU.

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