



Focus
Ukraine

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

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Weekly Insight

NBU reserves decreased 4% in April

Key messages of the today's comments

Ukrainian bond market

Market for military bonds becoming more active

At the end of April, the Ministry of Finance borrowed almost UAH13bn (US\$0.4bn) and another UAH7bn (US\$0.2bn) last week. We anticipate that tomorrow, the volume of new placements may also be significant.

Eurobond prices cease decline

Over the past week, prices for Ukrainian Eurobonds stabilized and even marginally increased.

Economics

NBU reserves decreased 4% in April on heavy interventions

In April, NBU gross international reserves declined by US\$1.2bn, or 4.1%, to US\$26.9bn.

MONDAY, 9 MAY 2022

Banks' reserves market (6 May 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	10.00	+0bp	+250bp
ON rate (%)	9.76	+0bp	+303bp
Reserves (UAHm) ²	47,765	-1.66	-0.58
CDs (UAHm) ³	177,284	-4.29	+8.98

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) (6 May 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	380,106	+0.00	+18.42
Banks	546,266	+1.05	+4.13
Residents	74,232	+0.63	+67.54
Individuals	26,635	+3.73	+64.42
Foreigners ¹	74,399	+0.00	-23.66
Total	1,101,638	+0.65	+9.75

Source: NBU, ICU.

FX market indicators (6 May 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	30.2620	+0.00	+9.05
EUR/USD	1.0551	+0.06	-12.55
DXY	103.660	+0.68	+13.97
UAH TWI ¹	133.511	+0.25	+10.40

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (9 May 2022)

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

Source: ICU.

Ukrainian bond market

Market for military bonds becoming more active

At the end of April, the Ministry of Finance borrowed almost UAH13bn (US\$0.4bn) and another UAH7bn (US\$0.2bn) last week. We anticipate that tomorrow, the volume of new placements may also be significant.

At the end of April, the government redeemed UAH18.6bn (US\$0.6bn) of bills, part of which had been placed after the start of the war. However, the government borrowed only UAH13bn (US\$0.4bn) immediately after the redemption. Last week, an additional UAH5.6bn (US\$190m) and US\$50m were borrowed (more details in the [auction review](#)), which is UAH4.5bn (US\$150m) more than the amount of the coupon payment on UAH bonds last week.

A total of UAH66bn (US\$2.2bn) has been raised in hryvnia-denominated paper since the beginning of the year, which refinanced the vast majority of UAH78bn (US\$2.6bn) of debt redemptions. However, refinancing of FX-denominated debt remains low; US\$641m and EUR203m have not been rolled over.

Activity in the secondary market was strong. Last week, the volume of transactions with UAH bills exceeded UAH8.2bn (US\$0.3bn), and the number of deals increased to more than 38,000. This is significantly more than in the last week of April when 4,500 transactions for a total of only UAH1.3bn (US\$44m) were recorded.

Overall, last week, banks increased their portfolios of government bonds by UAH5.6bn (US\$190m) and other domestic investors by UAH1.4bn (US\$47m): individuals' portfolios grew by UAH1.0bn (US\$34m) and non-banking institutions' by UAH0.4bn (US\$13m).

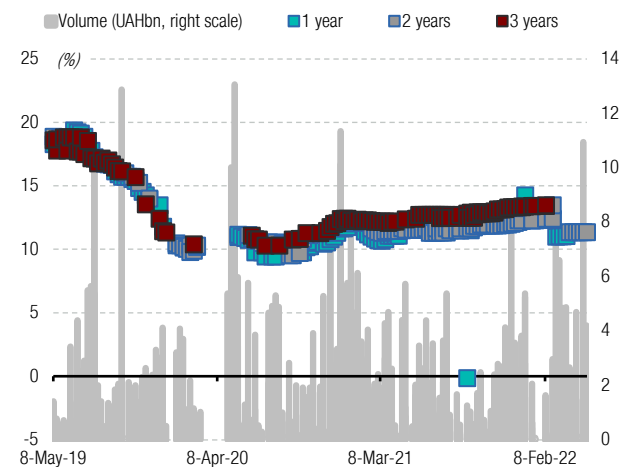
ICU view: More and more banks are making it easier for individuals to buy military bonds. Most likely, this was the main reason for last week's eight-fold increase in the number of deals in the secondary market. Such deals could be small, with several bonds purchased by each client, which, ultimately, significantly increased the total volume of transactions in the secondary market.

We expect large volumes of both placements in the primary auction and trading on the secondary market this week. The Ministry of Finance has to redeem UAH14bn (US\$0.5bn) of bonds, and most of these funds can be reinvested in new bills. And given the launch of new paper maturing in October next year, investors will have the opportunity to further diversify investments by maturity.

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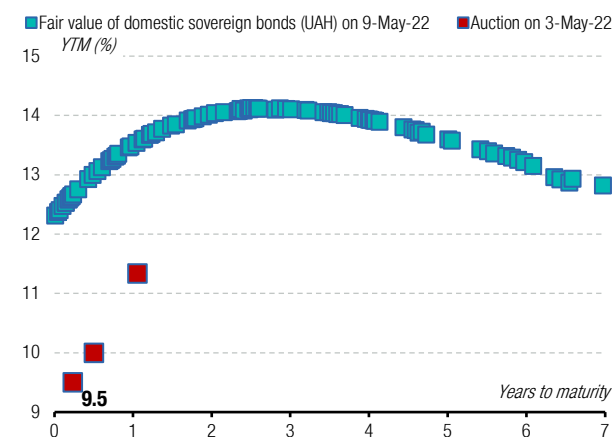
Chart 1. Local-currency bonds

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.

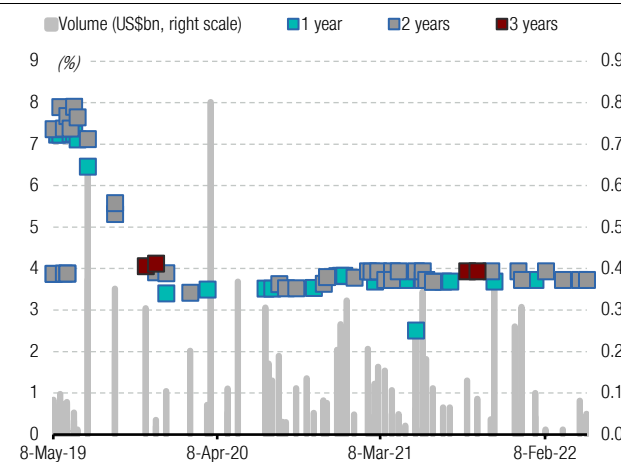
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

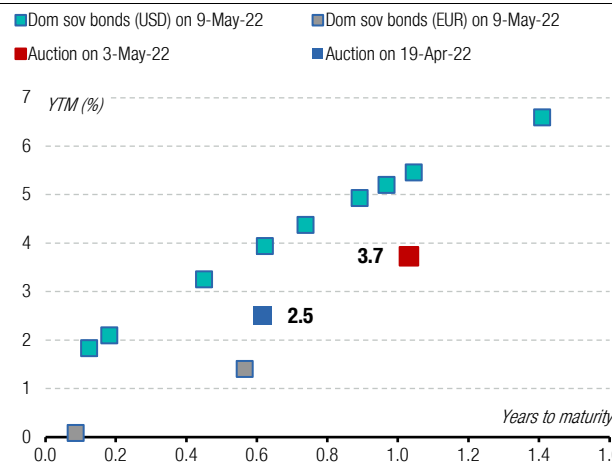
Chart 2. FX-denominated bonds

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 cease decline

Over the past week, prices for Ukrainian Eurobonds stabilized and even marginally increased.

The Eurobond market did not receive any material news about progress in the war nor about the support of Ukraine from the international community.

However, during the week, the prices of Eurobonds even increased by 3-5%. Securities maturing this year rose the most, by 2.5 cents per dollar to 58 cents. Other Eurobonds in US dollars rose by 1-2 cents. The price of VRIs rose to 32 cents on Friday after trading at less than 30 cents for a long time.

At the end of last week, the Minister of Finance reiterated that he did not see the need for restructuring Eurobonds by Ukraine. He also stated that current prices of both VRIs and Eurobonds are favourable for buy-backs. Thus, the Ministry of Finance does not rule out such a possibility, but at the moment, it does not seem appropriate. In particular, there is no free

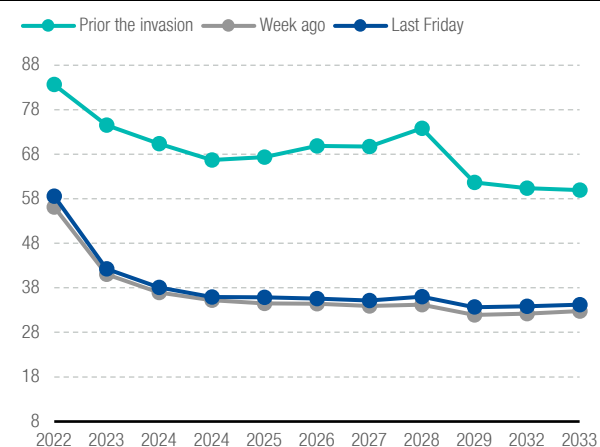
liquidity for buy-backs, and, moreover, such operations will raise questions from partners about how their financial support is being used.

ICU view: *Although the donors' conference in Poland signaled another US\$6.5bn of aid to Ukraine, the details about the timing and terms of such aid are currently unknown. Therefore, investors did not treat this positive news as material. Statements by the Minister of Finance are, in fact, a repetition of his earlier messages about the importance of servicing the debt on time and in full despite the difficult economic situation. However, despite these messages being positive, they did not provide the market with new information. In general, the recent increase in Eurobond prices may be situational. Without significant positive news, it is unlikely that a steady trend for Eurobond appreciation will emerge.*

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Chart 3. Ukrainian Eurobonds prices

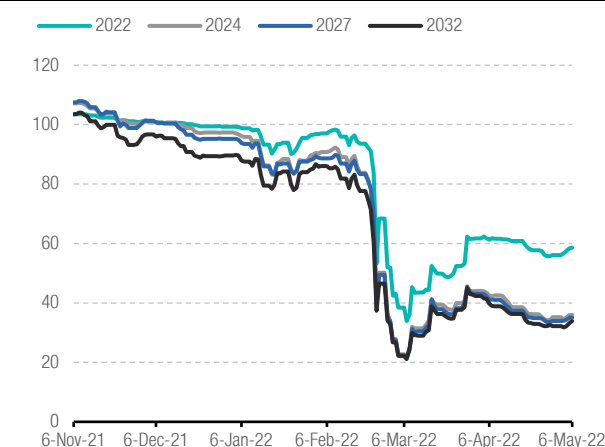
Prices of USD-denominated Eurobonds as of last Friday, a week ago and prior the Russian invasion



Source: Bloomberg, ICU.

Chart 4. Prices of selected Ukrainian Eurobonds

Last six-month historical data



Source: Bloomberg, ICU.

Economics

NBU reserves decreased 4% in April on heavy interventions

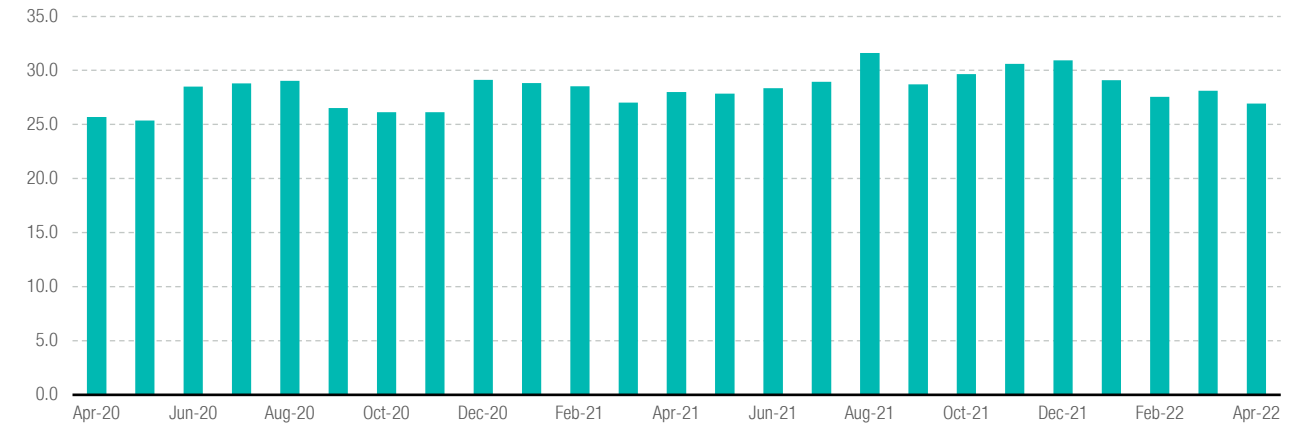
In April, NBU gross international reserves declined by US\$1.2bn, or 4.1%, to US\$26.9bn.

The decline was primarily driven by significant interventions as the NBU had to sell US\$2.2bn in April to keep the FX market in balance against the backdrop of a fixed UAH/\$ exchange rate. NBU reserves were supported by US\$1.9bn in new borrowings and grants, including US\$750m from the World Bank, EUR300m from France, US\$235m from Canada, and EUR120m from the EU. At the same time, the government and the NBU spent US\$0.7bn to service their FX debt.

ICU view: *The volume of FX interventions of the NBU remains robustly high. The NBU has also been selling FX in May and sold almost US\$0.6bn in the first day of the month. The risks are high that interventions may need to be increased in the future as the import of goods will likely recover significantly faster than exports. In that case, the NBU may be forced to reconsider its commitment to a fixed exchange rate and let the hryvnia gradually depreciate. At the same time, we don't expect a significant decline in NBU reserves throughout the year as they will be supported by the inflow of financial assistance from Ukraine's allies.*

Chart 5. NBU gross international reserves, \$bn

NBU reserves decreased 4.1% in April



Source: NBU, ICU.

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