



Focus
Ukraine

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

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Weekly Insight

Eurobond prices rising sharply

Key messages of the today's comments

Ukrainian bond market

Refinancing of redeemed debt remains strong

Month to date, the Ministry of Finance raised enough funds to refinance the large repayments made two weeks ago. Tomorrow and next Tuesday, it may also attract enough funds to refinance all repayments scheduled for May.

Eurobond prices rising sharply

Ukrainian Eurobond prices rose all last week, and now prices are approaching their maximum values since the start of the full-scale invasion of Ukraine by Russia.

MONDAY, 23 MAY 2022

Banks' reserves market (20 May 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	10.00	+0bp	+250bp
ON rate (%)	9.76	+0bp	+297bp
Reserves (UAHm) ²	55,154	-11.76	+19.11
CDs (UAHm) ³	188,430	-0.60	+24.84

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) (20 May 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	430,106	+2.38	+34.92
Banks	542,215	+1.21	+7.63
Residents	73,535	+0.52	+64.71
Individuals	27,889	+3.36	+70.05
Foreigners ¹	72,353	+0.00	-25.52
Total	1,146,098	+1.57	+16.84

Source: NBU, ICU.

FX market indicators (20 May 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	29.4000	-0.31	+6.95
EUR/USD	1.0564	+1.46	-13.61
DXY	103.150	-1.35	+14.86
UAH TWI ¹	137.569	-0.50	+13.91

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (23 May 2022)

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

Source: ICU.

Ukrainian bond market

Refinancing of redeemed debt remains strong

Month to date, the Ministry of Finance raised enough funds to refinance the large repayments made two weeks ago. Tomorrow and next Tuesday, it may also attract enough funds to refinance all repayments scheduled for May.

Since the beginning of May, the government has borrowed more than UAH19bn (US\$644m) for the state budget, with only US\$50m in hard currency. In particular, last week's borrowings amounted to UAH7.5bn (US\$254m) where 1.5-year bills accounted for the largest part (more details in the [auction review](#)).

Last week, the structure of buyers of military bonds did not change. New bonds were mostly purchased by banks, but other residents also remained active. So, last week, banks' portfolios grew by UAH6.7bn (US\$227m), non-banking institutions by UAH0.3bn (US\$10m), and individuals by UAH0.9bn (US\$30m). Foreign investors did not buy local-currency bills last week.

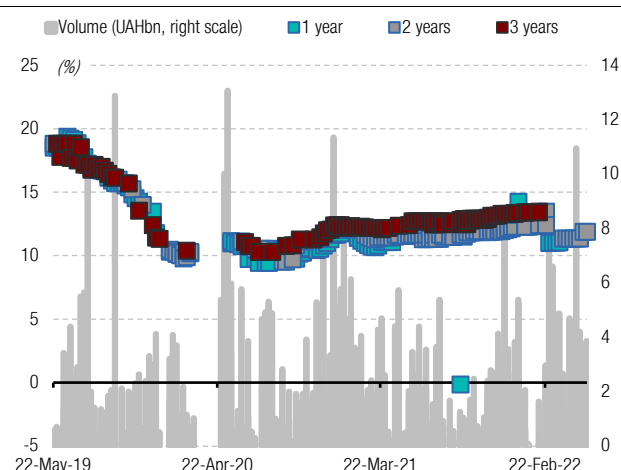
Last week, over 13,300 deals with local-currency bills worth UAH1.7bn (US\$58m) were concluded on the secondary market. This is not the largest weekly volume of transactions; however, it is close to the average weekly volume since MoF started placing military bills.

ICU view: The interest of domestic investors in military bonds remains high. We expect that for the remaining two auctions this month, they are likely to buy a considerable amount of new bills. Such purchases could be an important support for the budget in war time, as tax revenues and international aid will not need to be spent on repaying hryvnia domestic debt.

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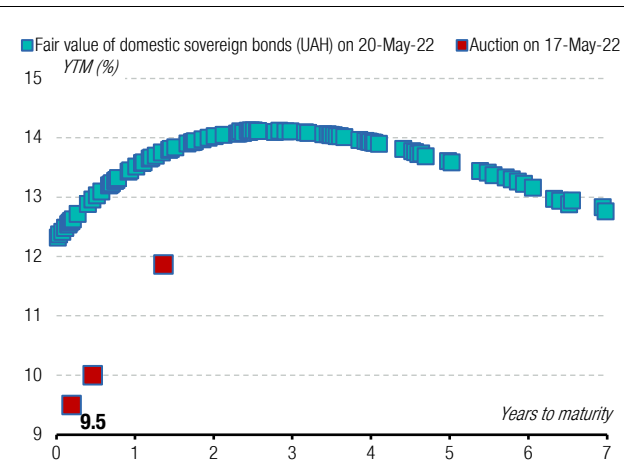
Chart 1. Local-currency bonds

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.

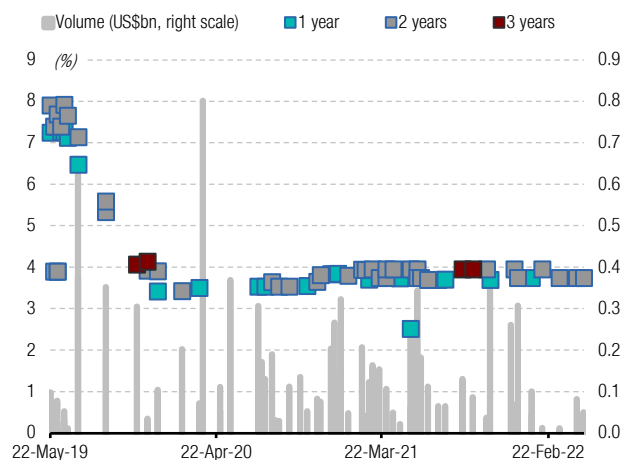
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

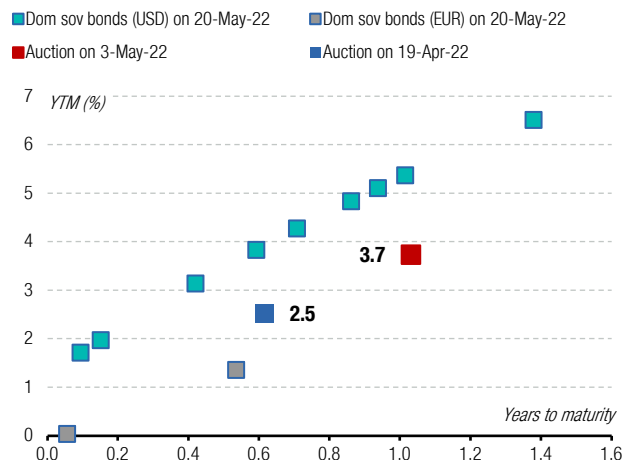
Chart 2. FX-denominated bonds

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 rising sharply

Ukrainian Eurobond prices rose all last week, and now prices are approaching their maximum values since the start of the full-scale invasion of Ukraine by Russia.

Eurobond prices fell sharply on 24 February and reached their lows in early March at 14-34 cents per dollar. But as the panic subsided, Eurobonds prices rose to 32-62 in early April, although they fell again later.

Last week, Eurobonds maturing in September 2022 rose by 7 cents to 71 cents per dollar and reached a new high since the Russian invasion. Other Eurobonds added just 3-4 cents to 40-47 cents per dollar, which is slightly below the 42-51 cents observed in early April.

The price of GDP warrants, which cost almost 39 cents on Friday night, has also risen sharply to the highest level since the start of the war.

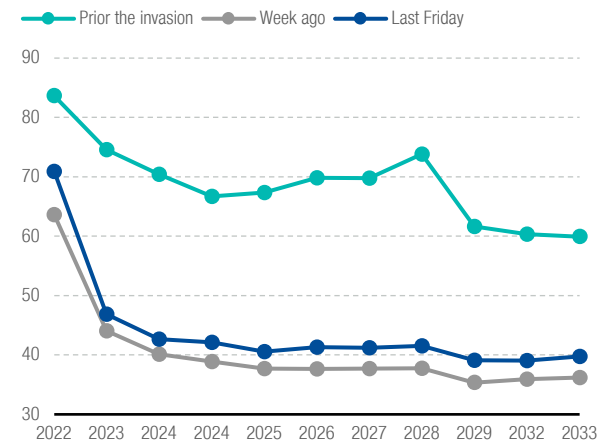
ICU view: Last week, investors received several important signals from the United States and other G7 countries about support for Ukraine. First, the US Congress approved an almost US\$40bn aid package that among other things includes direct financial support for Ukraine's budget. Second, specific details of financial assistance from the G-7 countries began to emerge. They are going to provide almost US\$20bn to support the country during the war (the US financial assistance is a part of this amount). In addition, the Ministry of Finance, in communication with investors, reiterated that it sees no need to seek Eurobond restructuring.

Such news could have contributed to a significant rise in the price of bonds maturing in September, as well as VRI's. It increasingly looks like Ukraine is going to see a sufficient inflow of international financial assistance in the next few months and, therefore, will have sufficient hard-currency liquidity compared with the amount of scheduled debt repayments in the coming months.

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Chart 3. Ukrainian Eurobonds prices

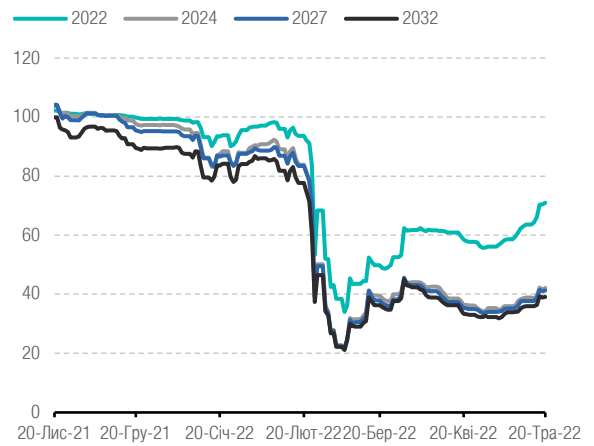
Prices of USD-denominated Eurobonds as of last Friday, a week ago and prior the russian invasion



Source: Bloomberg, ICU.

Chart 4. Prices of selected Ukrainian Eurobonds

Last six-month historical data



Source: Bloomberg, ICU.

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