



Focus
Ukraine

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

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Weekly Insight

Debt refinancing is falling

Key messages of the today's comments

MONDAY, 20 JUNE 2022

Ukrainian bond market

Refinancing of local debt is falling

Last week, the Ministry of Finance repaid UAH18.2bn (US\$0.62bn) in UAH bonds, but borrowed only UAH5.5bn (US\$0.19bn) for the budget, of which only UAH3.8bn (US\$0.13bn) was in local currency. As a result, the total refinancing gap in local currency increased to UAH35bn (US\$1.2bn) YTD.

Eurobond price decline continues

Ukrainian Eurobonds were under general market pressure last week due to rising yields of the US risk-free securities and wider spreads for emerging markets. This was caused by persistently high global inflation and related decisive actions of the key central banks to tighten their monetary policies.

Foreign exchange market

Hryvnia exchange rate volatility low

The hryvnia exchange rate in the cash segment remains relatively stable.

Banks' reserves market (17 June 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,750bp
ON rate (%)	9.76	+0bp	+265bp
Reserves (UAHm) ²	62,619	-22.36	-7.65
CDs (UAHm) ³	171,865	+22.30	+7.20

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) (17 June 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	498,606	+0.00	+57.15
Banks	531,423	-1.45	+7.36
Residents	70,195	-4.96	+48.00
Individuals	28,868	-1.04	+67.09
Foreigners ¹	70,967	-2.01	-35.68
Total	1,200,363	-1.08	+21.55

Source: NBU, ICU.

FX market indicators (17 June 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	29.5406	+0.03	+8.80
EUR/USD	1.0499	-0.19	-11.82
DXY	104.700	+0.53	+13.94
UAH TWI ¹	138.450	+0.32	+11.72

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (20 June 2022)

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

Source: ICU.

Ukrainian bond market

Refinancing of local debt is falling

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Since the beginning of the full-scale Russian invasion, placement of local-currency bills has improved due to the patriotism of domestic investors. In March and April, borrowings in local currency exceeded redemptions. But since early May, inflationary expectations worsened and expectations emerged that bond yields could go up. Such expectations were reinforced after the National Bank of Ukraine raised the key policy rate. As a result, refinancing of debt has begun to face more challenges. In the first two weeks of June, new placements in hryvnia fell short of redemptions by UAH12.5bn (US\$0.42bn), and the cumulative YTD gap increased to UAH35bn (US\$1.2bn).

At the first auction in June, the MoF borrowed only UAH0.8bn (US\$27m) via military bills; and the volume fell further to only UAH0.3bn (US\$11m) last week. The parallel offering of non-military bonds attracted limited demand as well. More details in [auction review](#).

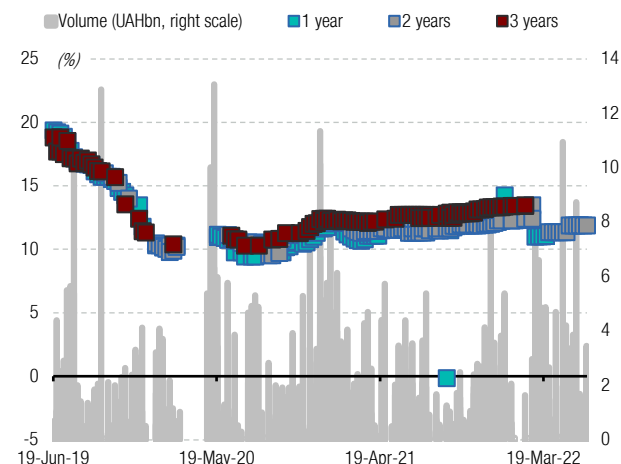
In the secondary market, the volume of military bond trading increased, but remained below the average weekly volume since the beginning of the war. For the first time in two months, the bond portfolio of individuals decreased by UAH0.4bn (US\$14m), and the portfolios of foreign investors also continued to decline. While individuals continued to buy bills, albeit in small amounts, foreigners have not been in a hurry to purchase bonds at all.

ICU view: The Ministry of Finance insists the rates on military bonds should remain unchanged even after the hike in the NBU key policy rate. This is despite the fact that the MoF agreed to pay a floating rate on military bills issued for the NBU. Therefore, banks and other private investors expect that the Ministry of Finance will also be forced to offer a higher rate on bonds sold to the market. At this point, they are not ready to buy significant amounts of military bonds. This week, the demand is unlikely to increase significantly.

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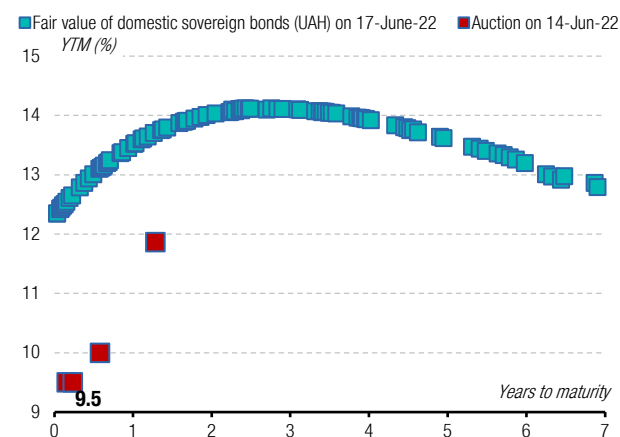
Chart 1. Local-currency bonds

Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)



Source: MFU, ICU.

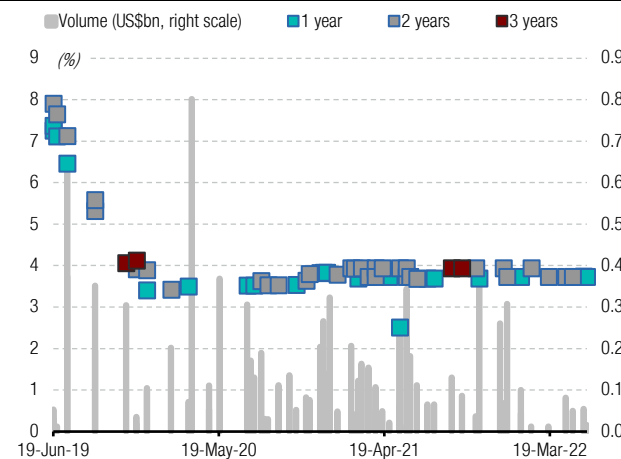
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

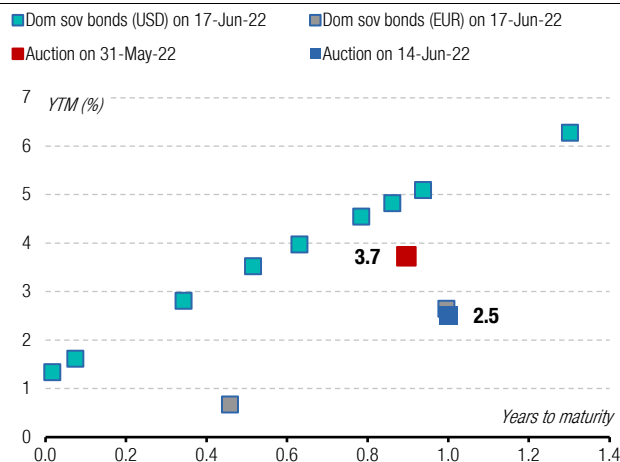
Chart 2. FX-denominated bonds

Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

Eurobond price decline continues

Ukrainian Eurobonds were under general market pressure last week due to rising yields of the US risk-free securities and wider spreads for emerging markets. This was caused by persistently high global inflation and related decisive actions of the key central banks to tighten their monetary policies.

Uncertainty about the prospects for ending the war and Ukraine's ability to repay foreign debt in the medium term also restrained investor appetite for Ukraine's debt.

Over the past week, all Eurobonds maturing in 2023–2033 lost an average of three cents and fell to 32–40. Only the price of Eurobonds redeemable in two months decreased by one cent. VRIs fell by three cents to less than 34 cents.

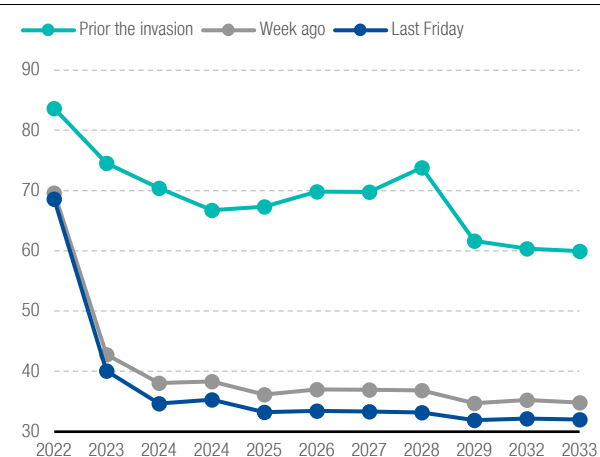
ICU view: A huge budget deficit and continuing extraordinary financing needs has brought the topic of restructuring Ukraine's Eurobonds into the spotlight. The Minister of Finance has repeatedly claimed that Ukraine will keep honoring its debt obligations, including Eurobond payments, in time and in full. Indeed, a restructuring doesn't look

imminent given generous financial aid that Ukraine is receiving from its allies. Meanwhile, investors' perception remains cautious as indicated by Eurobond (maturing in 2023 and beyond) prices of 32-40 cent per dollar. The 2022 Eurobond price is significantly higher at 69 cent, implying the investors believe a full and timely redemption is likely. The balance of pros and cons is not static and may change depending on how long the war continues. Eurobond prices are unlikely to recover significantly and ample volatility will persist until there is clarity about when Russia's war against Ukraine may end. Read more about the prospects of Ukrainian Eurobonds in our special report ["Eurobonds: Pros and Cons of Restructuring"](#).

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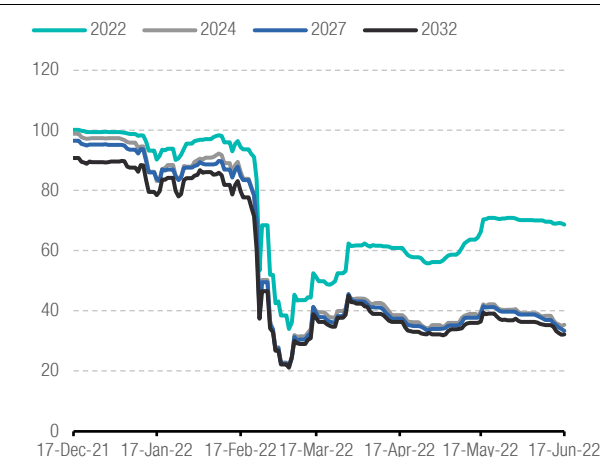
Chart 3. Ukrainian Eurobonds prices

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



Source: Bloomberg, ICU.

Last six-month historical data



Source: Bloomberg, ICU.

Foreign exchange market

Hryvnia exchange rate volatility low

The hryvnia exchange rate in the cash segment remains relatively stable.

The cash exchange rate of hryvnia to the US dollar offered by banks weakened from UAH34.5–35.5/US\$ to UAH34.9–35.7/US\$, but the spread tightened. The exchange rate for card transactions remained almost unchanged at UAH30–33/US\$.

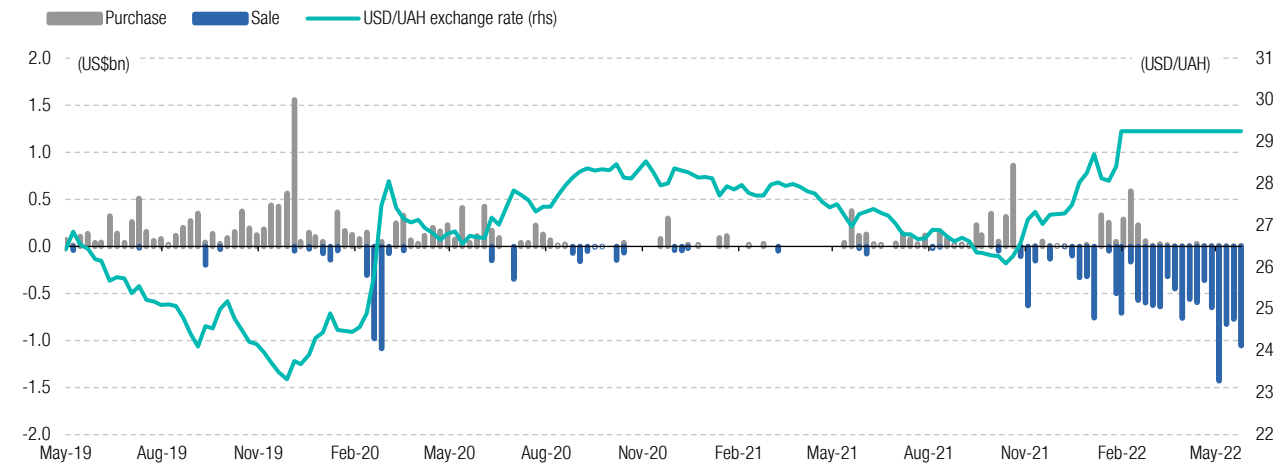
Demand for hard currency on the interbank market increased significantly, forcing the NBU to increase the volume of interventions by more than a third to almost US\$1.1bn.

ICU view: *The cash market continues to fluctuate close to the previous week's levels, which contributes to narrowing the spread. Therefore, in the absence of significant news, the cash exchange rates may remain close to current levels.*

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Chart 4. FX market indicators, 3-year history

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market and NBU interventions (weekly data)



Source: NBU, Bloomberg, ICU.

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