



Focus  
Ukraine

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

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# Weekly Insight

## Fall in Eurobond prices accelerates

### Key messages of the today's comments

MONDAY, 27 JUNE 2022

### Ukrainian bond market

#### NBU provides budget financing again

Last week, the Ministry of Finance raised UAH7.7bn (US\$261m) at the primary auction, mainly in hard currency, while the NBU again provided local-currency financing through buying UAH35bn (US\$1.2bn) worth of military bonds.

#### Fall in Eurobond prices accelerates

Over the past week, the price of Ukrainian Eurobonds lost 8–14%.

### Foreign exchange market

#### Hryvnia exchange rate stable

The hryvnia exchange rate remains stable in the retail segment with small fluctuations.

### Banks' reserves market (24 June 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	25.00	+0bp	+1,750bp
ON rate (%)	9.76	+0bp	+325bp
Reserves (UAHm) <sup>2</sup>	43,007	-31.32	-25.80
CDs (UAHm) <sup>3</sup>	199,976	+16.36	+25.66

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) (24 June 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	533,606	+7.02	+68.18
Banks	526,849	-0.86	+4.62
Residents	68,777	-2.02	+42.88
Individuals	27,569	-4.50	+53.33
Foreigners <sup>1</sup>	71,081	+0.16	-36.00
<b>Total</b>	<b>1,228,187</b>	<b>+2.32</b>	<b>+23.03</b>

Source: NBU, ICU.

### FX market indicators (24 June 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	29.4095	-0.44	+6.81
EUR/USD	1.0553	+0.51	-11.56
DXY	104.185	-0.49	+13.47
UAH TWI <sup>1</sup>	138.660	+0.15	+13.63

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes<sup>1</sup> (27 June 2022)

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

Source: ICU.

# Ukrainian bond market

## NBU provides budget financing again

Last week, the Ministry of Finance raised UAH7.7bn (US\$261m) at the primary auction, mainly in hard currency, while the NBU again provided local-currency financing through buying UAH35bn (US\$1.2bn) worth of military bonds.

At the primary auction, demand was mainly concentrated in three-month securities, while semi-annual and 1.5-year bills received small bids. The two issues of USD-denominated bills brought the vast majority of proceeds to the budget: US\$222m (UAH6.5bn) out of UAH7.7bn (US\$261m) raised at the auction. See details in the [auction review](#).

On the same day, the Ministry issued UAH35bn (US\$1.2bn) of military bonds for the NBU, which compensated for low borrowings at the primary auctions in June. The amount of funds the NBU provided for the budget via direct purchase of bonds rose to UAH225bn (US\$7.6bn), of which UAH105bn (US\$3.6bn) was provided in June.

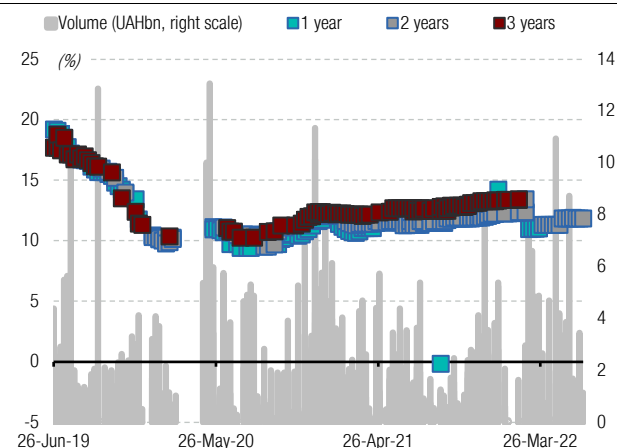
In the secondary market, trading increased insignificantly, by just UAH30m (US\$1m) to UAH1.32bn (US\$45m). Foreign investors were back, and their portfolios grew last week by UAH425m (US\$14m). Domestic banks increased their portfolios by UAH315m (US\$11m), and individuals by UAH292m (US\$10m). At the same time, last week's purchases did not fully compensate for the redemptions a week ago for any of these investor groups.

**ICU view: Last week, the Ministry of Finance kept the yields on military bills unchanged and failed to attract much attention to paper denominated in hryvnia. Accordingly, this prompted the need to increase borrowings from the NBU, which carry a floating rate and significantly higher yields compared with bills offered in the primary market. At the same time, market rumours started to emerge that the Ministry of Finance would eventually agree to a gradual increase in yields on military bills offered in the primary market.**

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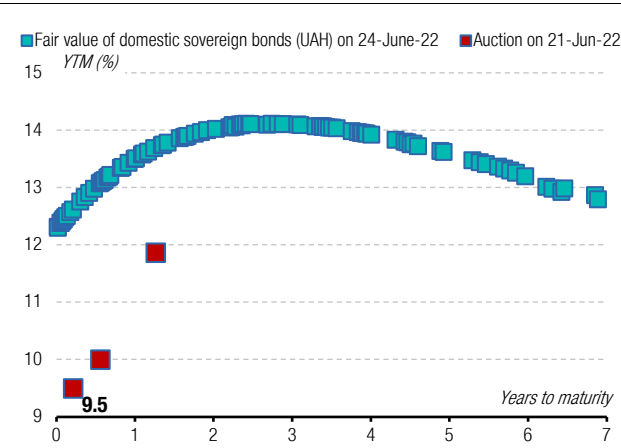
**Chart 1. Local-currency bonds**

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.

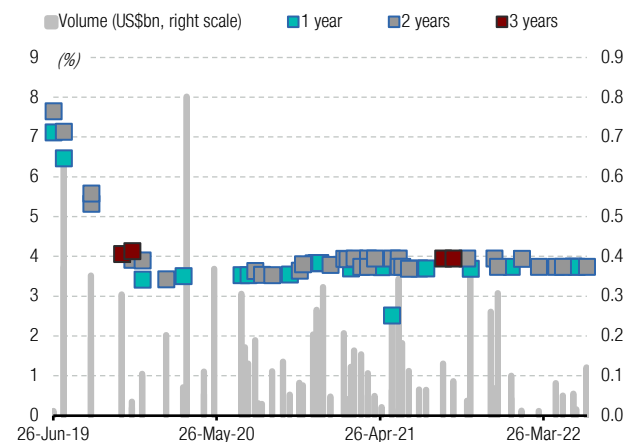
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

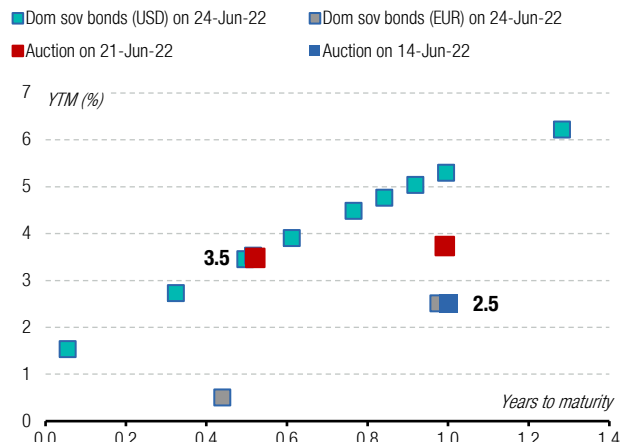
**Chart 2. FX-denominated bonds**

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.

**Fall in Eurobond prices accelerates**

Over the past week, the price of Ukrainian Eurobonds lost 8–14%.

From Monday to Wednesday, Eurobond prices fell relatively moderately by about 2-4%, or by less than one cent. But on Thursday, the market for Ukraine paper was in turmoil, and bonds lost 8 to 15 cents in just two days. So, last week ended with Eurobond prices mostly below 30 cents with the exception of Eurobonds maturing in 2022 and 2023, which ended at 63 and 36 cents, respectively.

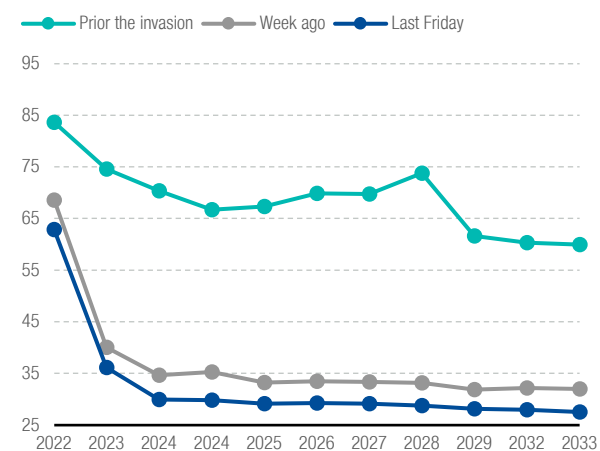
VRIs fell even more significantly by almost 16%, or 5.5 cents, to 28 cents per dollar.

**ICU view:** *The risk-off attitude toward Ukraine debt continues to dominate among both institutional and private investors, due to, among other things, the uncertainties of the world economy caused by russian aggression against Ukraine. Information from the battlefields that the Ukrainian army was retreating in the Donetsk region and leaving several positions, including Severodonetsk, dominated the headlines of the global media and also prompted investors to assess Ukrainian risks more conservatively. These negative sentiments were not altered even by the last week's approval of a long-term EUR9bn loan to Ukraine by the European Council. These funds, probably in tranches, should reach the government's accounts by the end of this year.*

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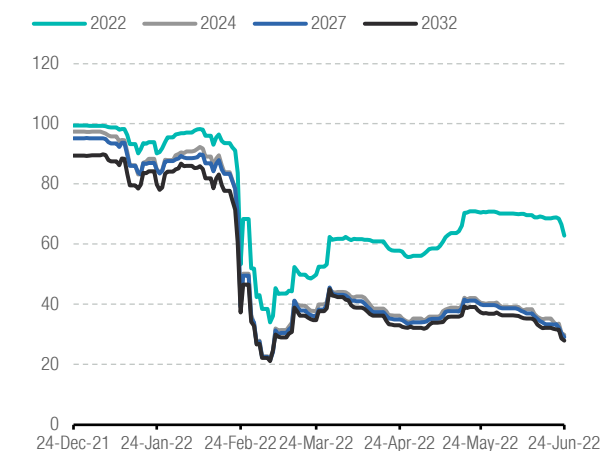
**Chart 3. Ukrainian Eurobonds prices**

*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 stable

The hryvnia exchange rate remains stable in the retail segment with small fluctuations.

The USD/UAH exchange rate in banks edged down to UAH34.6–35.4/US\$ from UAH34.9–35.7/US\$ a week earlier, and the bid-ask spread remained at UAH 0.8. The exchange rate for card transactions, too, remained almost unchanged at UAH30–33/US\$.

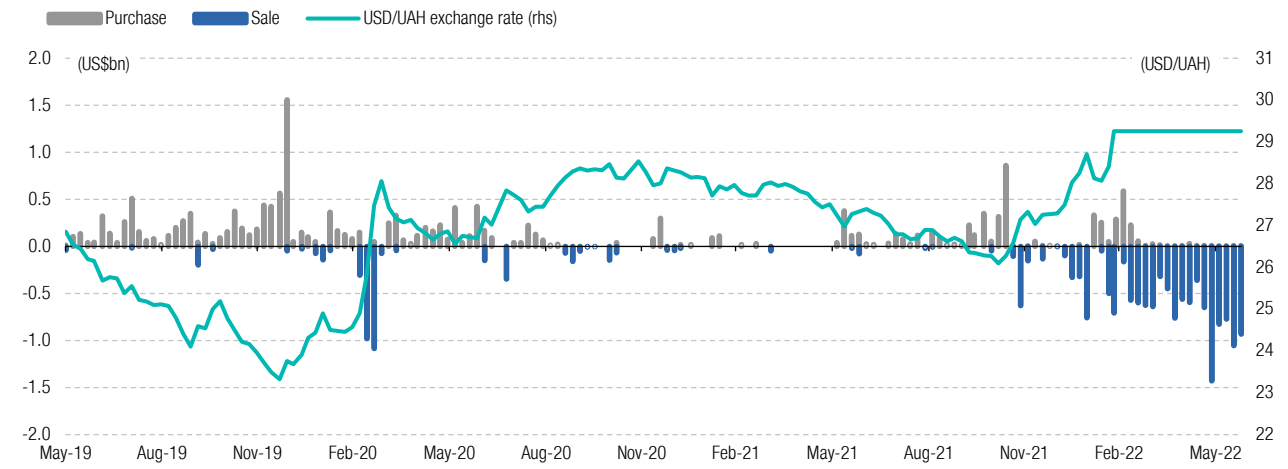
In the interbank market, critical demand for hard currency hit on Tuesday when the NBU had to sell US\$464m, or almost half of last week's interventions totalling US\$933m.

**ICU view:** *The cash market continues to fluctuate at reasonably normal levels with an unchanged spread between buy and sell prices. The market balance may remain close to current levels providing that no negative news emerges. In the interbank market, the NBU continues to sell as much hard currency as needed to fully balance the market and maintain the official exchange rate at a fixed pre-war level.*

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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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