

Weekly Insight

Once again, NBU finances budget

Key messages of the today's comments

MONDAY, 29 AUGUST 2022

Ukrainian bond market

Once again, NBU finances budget

Over the past week, borrowings from the market remained extremely low, leaving the National Bank to provide the key support for the budget.

Changes in Eurobond prices insignificant

The market for Ukrainian Eurobonds remains inactive, and their prices have decreased by 1-2 cents per dollar.

Foreign exchange market

On balance, FX market is shaky

Last week, the FX market calmed down, and there were no significant fluctuations in the cash market.

Banks' reserves market (26 August 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,700bp
ON rate (%)	9.76	+0bp	+229bp
Reserves (UAHm) ²	62,517	-13.98	+7.63
CDs (UAHm) ³	204,229	+18.88	+68.80

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) (26 August 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	589,570	+5.36	+88.60
Banks	513,560	-0.16	+3.90
Residents	66,435	+0.51	+33.02
Individuals	30,395	+0.86	+54.71
Foreigners ¹	70,278	-0.22	-30.56
Total	1,270,990	+2.40	+30.00

Source: NBU, ICU.

FX market indicators (26 August 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.7522	+0.35	+37.14
EUR/USD	0.9966	-0.71	-15.20
DXY	108.803	+0.59	+16.91
UAH TWI ¹	114.779	+0.11	-9.34

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (29 August 2022)

Maturity	Bid	Ask
6m	21.00	16.00
12m	21.00	17.00
2y	23.00	18.00
3y	25.00	19.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Once again, NBU finances budget

Over the past week, borrowings from the market remained extremely low, leaving the National Bank to provide the key support for the budget.

Last week's primary auction ended once again with a small volume of proceeds, only UAH278m (US\$7.6m). These funds were attracted at interest rates that are usual for military bills, from 12 to 16%. See details in the [auction overview](#).

The volume of bids requesting higher interest rates was also small because market participants no longer expected better terms from the Ministry of Finance and, instead, purchased bonds on the secondary market. That is why the volume of transactions on the secondary market amounted to UAH3.4bn (US\$93m), of which UAH3bn (US\$82m) were trades with ordinary (non-military) bonds, although the number of deals was only 440. At the same time, there were many deals with military bonds, but they were small, only UAH360m (US\$10m) for the week.

Foreigners abstained from purchasing new bonds last week. During the week, their portfolios declined by UAH2.2bn (US\$60m), including UAH1.5bn (US\$41m) decline after last week's redemption.

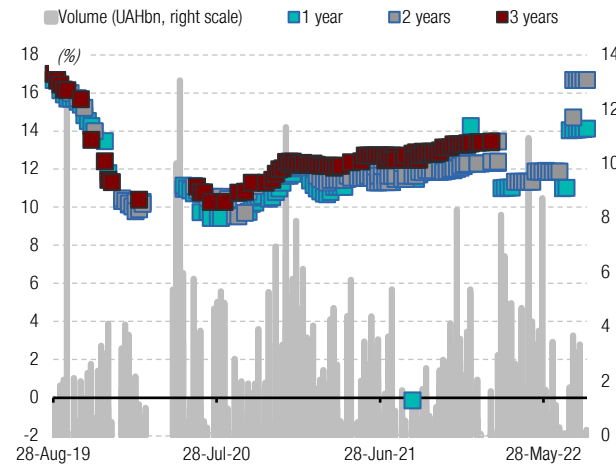
Due to the low volume of market borrowings, the National Bank once again provided key support to the state budget. Last week there were two issues of bonds sold to the NBU for a total amount of UAH30bn (US\$820m). In this way, the NBU has already purchased military bonds in the total amount of UAH285bn (US\$7.8bn).

ICU view: The MoF continues to keep rates on military bills in the range of 12–16%, so demand shrank to minimal volumes and shifted to the secondary market. The Ministry of Finance meets its financing needs through the sale of bonds to the NBU and most likely will have to service these securities next year at a rate close to 25%. The MoF refuses to revise rates for the market in order to draw demand back from the secondary market. It is apparent that in September, the Ministry of Finance will again have to ask the NBU for the support. Meanwhile, the MinFin will test demand by offering FX-denominated bills, as they are scheduled for tomorrow.

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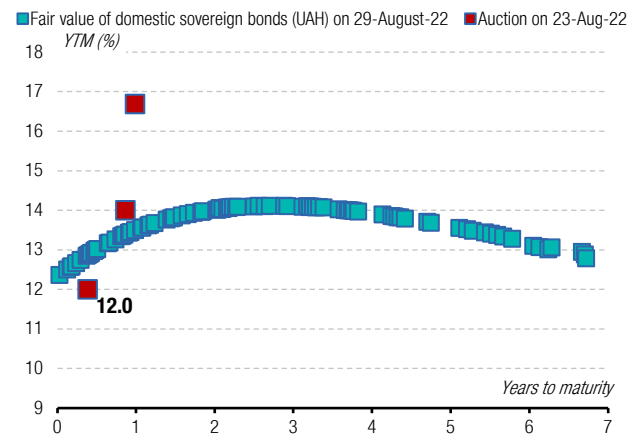
Chart 1. Local-currency bonds

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.

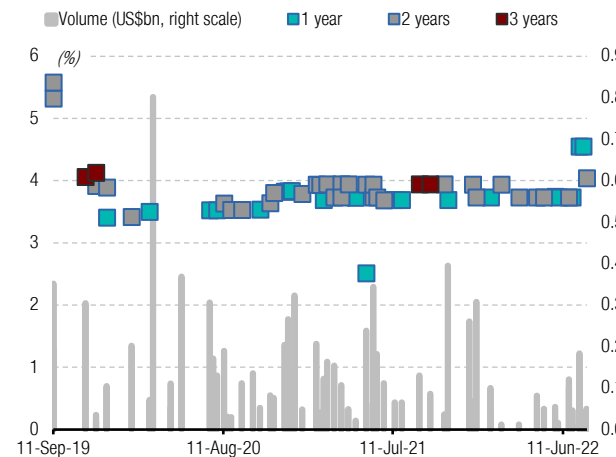
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

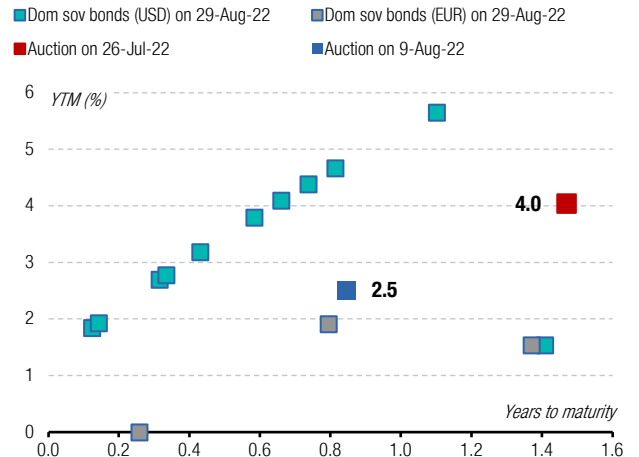
Chart 2. FX-denominated bonds

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



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Changes in Eurobond prices insignificant

The market for Ukrainian Eurobonds remains inactive, and their prices have decreased by 1-2 cents per dollar.

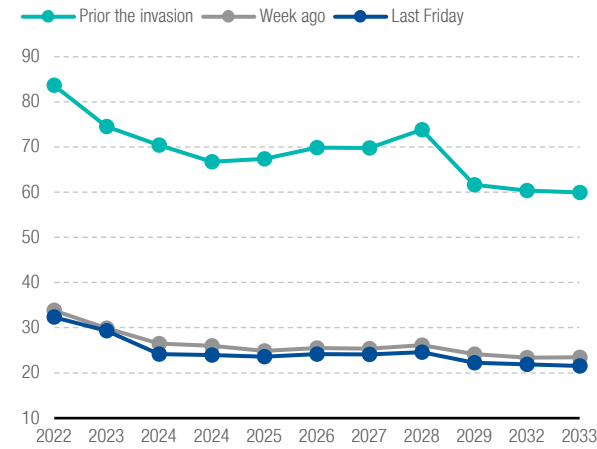
The Ukrainian Eurobond market continues to be inactive after the recent restructuring. Eurobonds fell in price by 1–2 cents per dollar to 22–32 cents. VRIs fell in price by 1 cent to 33.5 cents per dollar of nominal value.

ICU view: *In the medium term, we do not expect any important news that could affect investors' assessment of the fair value of Ukrainian Eurobonds. Therefore, trading will mainly reflect the decisions of investors to carry out a strategic reallocation from or to Ukrainian assets, with a view of the long-term assessment of country risk.*

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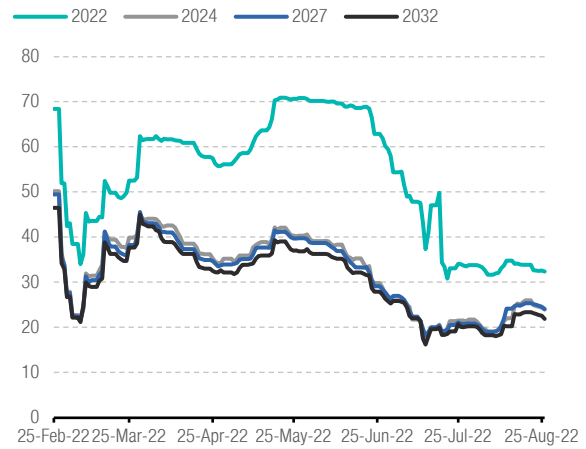
Chart 3. Ukrainian Eurobonds prices

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



Source: Bloomberg, ICU.

Last six-month historical data



Source: Bloomberg, ICU.

Foreign exchange market

On balance, FX market is shaky

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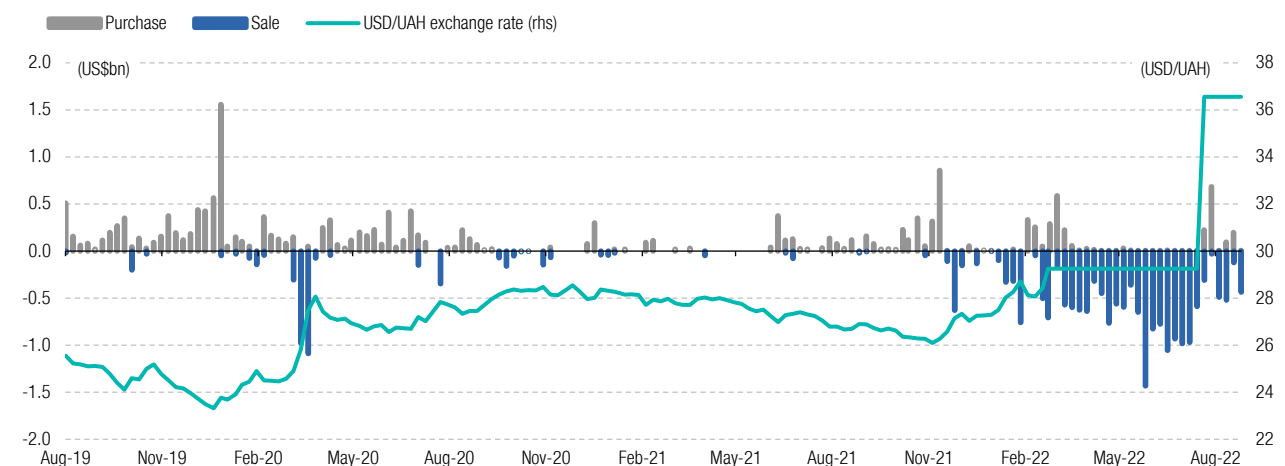
The interbank market was again under pressure from buyers, although they did not create a significant pressure on the market. The NBU had to sell US\$437m during the week in the absence of a hard currency offer from the Ministry of Finance. The cash rate did not change significantly, from UAH39.0-39.9/US\$ to UAH39.2-40.0/US\$.

ICU view: Demand among bank clients was not very large, so the cash market was calmer, with minor changes in the exchange rate of the US dollar against the hryvnia. We do not expect significant fluctuations of the hryvnia rate in the short term.

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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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