

Weekly Insight

Ukraine's public debt unchanged

Key messages of the today's comments

MONDAY, 31 OCTOBER 2022

Ukrainian bond market

MinFin increases rates on UAH bills

Last week, the Ministry of Finance again increased interest rates on military bills, this time on the 1.5-year paper. This led to higher borrowings, but reduced trading in the secondary market.

Uncertainty adds pressure on Ukrainian Eurobonds

Prices for Ukrainian Eurobonds continue to decline due to the risks of repeated destruction of the energy infrastructure.

Foreign exchange market

The hryvnia reacts positively to signals from NBU

In the cash segment, the hryvnia strengthened significantly during the past week after the NBU confirmed its readiness to keep the official USD/UAH exchange rate unchanged. In addition, the FX market continued to be saturated with banknotes.

Economics

Ukraine's public debt unchanged in September

Ukraine's public debt remained unchanged in September vs. August at US\$98.1bn.

Banks' reserves market (28 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,650bp
ON rate (%)	9.76	+0bp	+181bp
Reserves (UAHm) ²	65,487	-1.15	+28.41
CDs (UAHm) ³	288,957	-0.95	+68.24

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) (28 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	634,570	+0.00	+102.99
Banks	498,651	-0.01	+1.78
Residents	66,441	+1.93	+33.66
Individuals	31,515	+3.30	+51.33
Foreigners ¹	60,840	-1.14	-35.24
Total	1,293,034	+0.09	+33.73

Source: NBU, ICU.

FX market indicators (28 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.7170	+0.00	+39.48
EUR/USD	0.9965	+1.04	-14.69
DXY	110.752	-1.12	+18.65
UAH TWI ¹	116.283	-0.27	-9.61

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (31 October 2022)

Maturity	Bid	Ask
6m	23.00	18.00
12m	24.00	19.00
2y	28.00	20.00
3y	25.50	21.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

MinFin increases rates on UAH bills

Last week, the Ministry of Finance again increased interest rates on military bills, this time on the 1.5-year paper. This led to higher borrowings, but reduced trading in the secondary market.

At last Tuesday's auction, the MoF yielded to signals from the new NBU governor as well as market expectations and raised the interest rate on 1.5-year military bills to 18.5%. This was the same rate that was set a week earlier for ordinary (non-military) securities with a similar maturity.

Such an increase made it possible to attract UAH1bn (US\$27m), twice more than the MoF managed to raise by selling this paper at 16% in the previous six weeks. See details in the [auction review](#). The data on portfolios show that most of this issue was purchased by banks. However, they did not actively trade this paper on the secondary market.

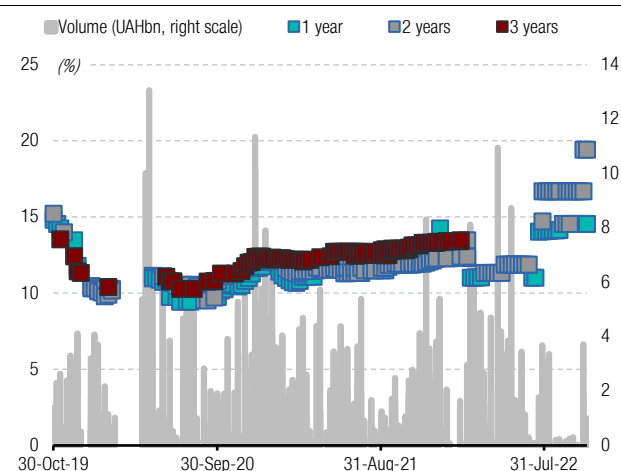
Such a step — a selective increase in rates for military bills for two auctions — also signals to the secondary market that interest rates for all military bonds may change. Consequently, demand for local-currency bills on the secondary market decreased. Over the last week, 4,981 deals were made in the secondary market, and this was only 729 deals less than the week before. But the volume of trades almost halved: for non-military bills from UAH1.9bn to UAH1.1bn (US\$53m and US\$31m, respectively), and for military securities from UAH137m to only UAH57m (US\$3.8m and US\$1.6m, respectively).

ICU view: The Ministry of Finance continues to take small steps to increase interest rates, but the rates are still far from the level that the NBU likely considers adequate. Therefore, the discussion between the NBU and the MoF will continue. At tomorrow's auction, the Ministry of Finance will offer five UAH bonds, of which only two issues of military bills with maturities of five and 11 months. The remaining three issues with longer maturities will be ordinary (non-military) bills that should see greater demand and be more diverse in rates.

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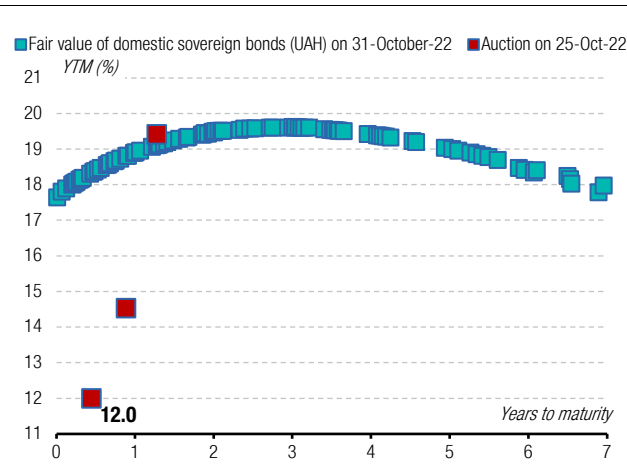
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

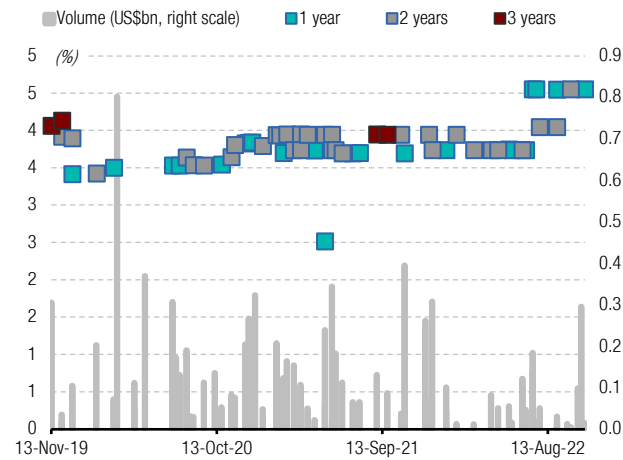
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

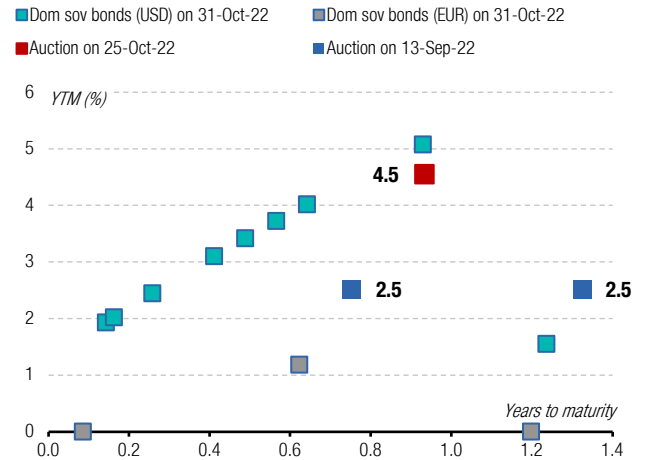
Chart 2. FX-denominated bonds

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.

Uncertainty adds pressure on Ukrainian Eurobonds

Prices for Ukrainian Eurobonds continue to decline due to the risks of repeated destruction of the energy infrastructure.

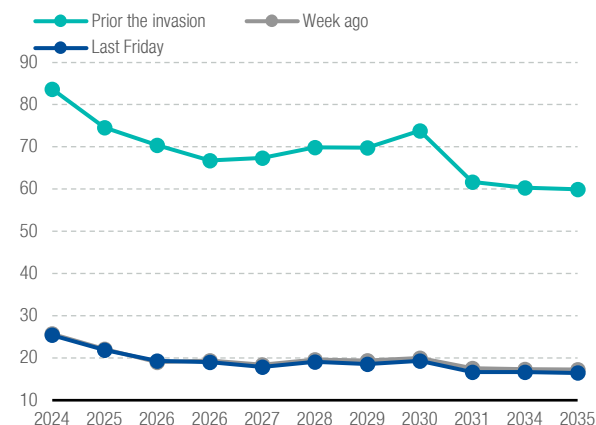
Regular interruptions in the supply of electricity and a signal from the government that the problem will become even worse in winter worsens the assessment of Ukrainian debt. Spreads of Ukrainian securities to the benchmark widened by 150-440b during the week. So, even against the backdrop of declining YTM on US Treasuries, the YTM on Ukrainian Eurobonds increased, resulting in prices declining by up to one cent or 1-5% to the range of 16-25 cents. VRIs are still trading slightly above 26 cents per dollar of notional value.

ICU view: Ukrainian Eurobonds are again under the impact of local news due to an increased risk of regular interruptions in the electricity supply for businesses. This new risk may well deepen the GDP decline and affect tax revenues in the following quarters.

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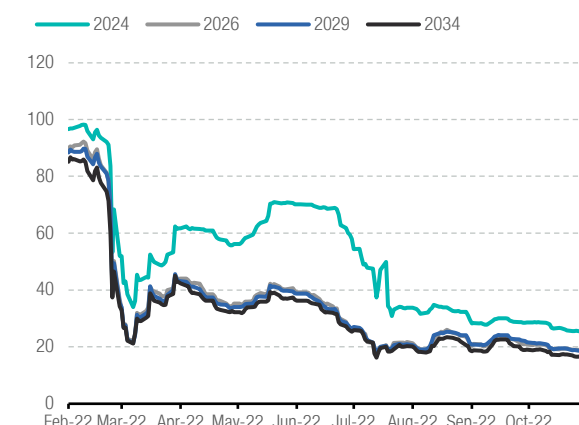
Chart 3. Ukrainian Eurobonds prices

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



Source: Bloomberg, ICU.

Last eight-month historical data



Source: Bloomberg, ICU.

Foreign exchange market

The hryvnia reacts positively to signals from NBU

In the cash segment, the hryvnia strengthened significantly during the past week after the NBU confirmed its readiness to keep the official USD/UAH exchange rate unchanged. In addition, the FX market continued to be saturated with banknotes.

Imbalances in the interbank market decreased significantly last week, probably due to one-time factors. The volume of interventions decreased to US\$214m.

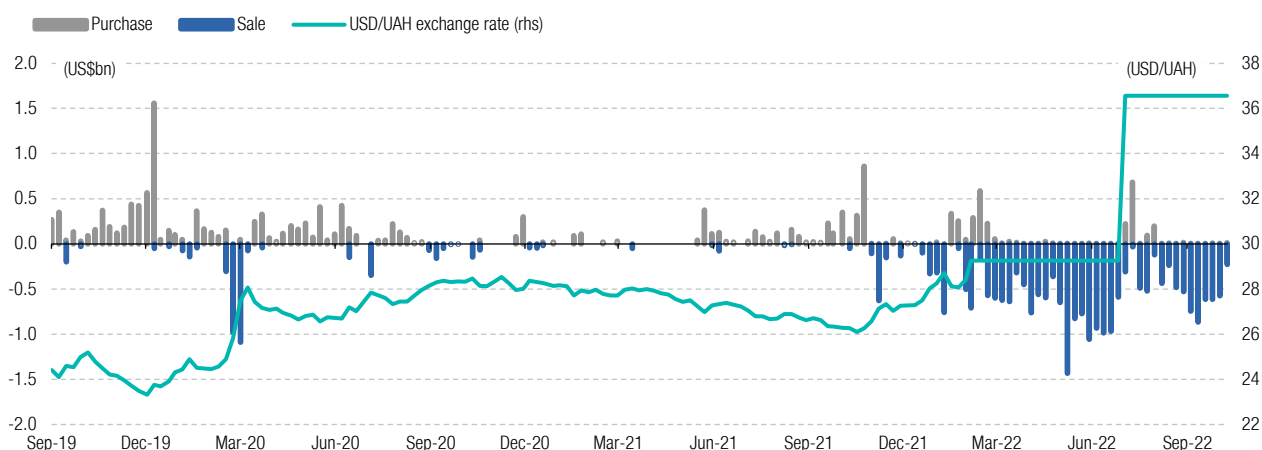
The hryvnia cash exchange rate in the leading retail banks strengthened during the last week to UAH39.1-40.0/US\$ from UAH39.9-40.7/US\$ the previous Friday.

ICU view: NBU statements on the official USD/UAH exchange rate received an immediate reaction from the market and remained a decisive factor for the FX market all last week. On top of the psychological effect of these statements combined with the saturation in the cash market, a new factor emerged – bank customers started selling hard currency from deposits that they started to open since the end of July.

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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.

Economics

Ukraine's public debt unchanged in September

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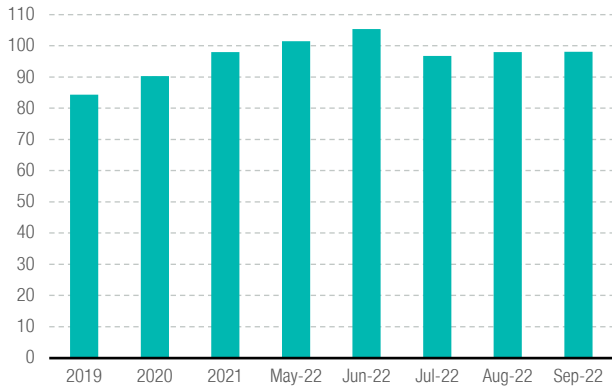
The vast majority of international financial assistance that Ukraine received last month was in the form of grants. Relatively small new loans from abroad and new local borrowings in hryvnia were offset with repayment of debt, including to the IMF.

ICU view: Ukraine's public debt may increase by more than US\$10bn by the end of 2022 on new loan tranches from the EU, the IMF, and other governments and IFIs. We expect the end-2022 debt-to-GDP ratio at close to 85%.

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Chart 5. Ukraine's public debt, \$bn

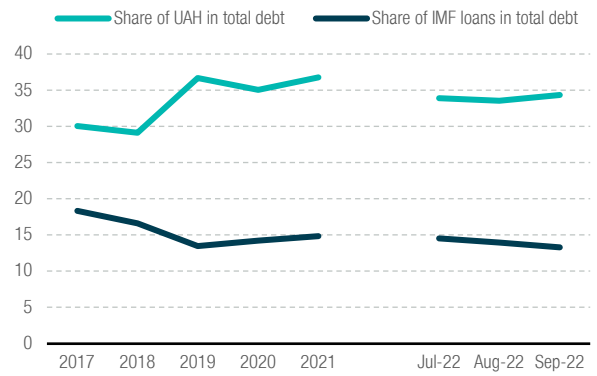
Public debt unchanged MoM in September



Source: MoF, ICU.

Chart 6. Share of UAH and IMF loans* in total debt, %

The share of loans from the IMF edged down in September



* includes IMF SDR allocation

Source: MoF, ICU.

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