



Focus  
**Ukraine**

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

Research team  
**Vitaliy Vavryshchuk  
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Taras Kotovych**

# Weekly Insight

## NBU reserves at 11-year high

### Key messages of the today's comments

TUESDAY, 11 APRIL 2023

#### Ukrainian bond market

##### MinFin redeems its first bond of significant size in April

The Ministry of Finance last week made its first significant bond redemption in April, but managed to refinance only a quarter of it.

##### Eurobond prices flatten

The prices of Ukrainian Eurobonds of different maturities flattened after the announcement of restructuring in 1H24.

#### Foreign exchange market

##### Demand-supply balance improving in retail FX market

In the first week of April, the hryvnia strengthened further and the cash rate continued to converge to the official one.

#### Economics

##### NBU reserves at 11-year high

Gross international reserves of the NBU surged 10.4% in March and reached an 11-year high.

#### Banks' reserves market (10 April 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	25.00	+0bp	+1,500bp
ON rate (%)	9.76	+0bp	+0bp
Reserves (UAHm) <sup>2</sup>	193,806	-5.40	+282.46
CDs (UAHm) <sup>3</sup>	359,150	+7.53	+0.00

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) (10 April 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	696,970	+0.00	+893.34
Banks	529,149	-1.62	+1,844.80
Residents	109,473	-2.56	+3,099.17
Individuals	36,272	+0.97	+332,975.67
Foreigners <sup>1</sup>	54,580	-3.97	+1,313.81
<b>Total</b>	<b>1,429,769</b>	<b>-0.92</b>	<b>+1,266.03</b>

Source: NBU, ICU.

#### FX market indicators (10 April 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9411	+0.43	+25.05
EUR/USD	1.0859	-0.86	-0.17
DXY	102.578	+0.98	+2.79
UAH TWI <sup>1</sup>	110.571	-0.04	-17.30

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Market gov't bond quotes<sup>1</sup> (11 April 2023)

Maturity	Bid	Ask
6m	20.00	17.00
12m	22.00	18.00
2y	25.00	21.00
3y	26.00	22.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## MinFin redeems its first bond of significant size in April

The Ministry of Finance last week made its first significant bond redemption in April, but managed to refinance only a quarter of it.

Last Wednesday, the Ministry of Finance repaid UAH17bn (US\$465m) of UAH bonds, while attracting only UAH4.5bn (US\$123m) to the budget, thus refinancing 27% of the repayment. Most of the funds raised were via "reserve" bonds, UAH3.8bn (US\$104m). See details in the [auction review](#).

Last Wednesday, after the redemption and settlement of the new bonds, banks' portfolios of UAH bonds decreased by UAH6.5bn (US\$169m). Also, portfolios of UAH bonds of non-banking institutions and foreigners decreased significantly, by UAH4.2bn (US\$115m) and UAH2.7bn (US\$74m).

Trading activity remained high on the secondary market. The total volume of trading in UAH bonds amounted to UAH6.8bn (US\$186m), just UAH0.3bn (US\$0.8m) less than the previous week. However, there were 8,868 deals (almost double from the previous week) concentrated in several bonds. The most traded were securities maturing in February and May 2025, UAH1.8bn (US\$49m) and UAH1.7bn (US\$46m), and in November and May this year, UAH1.4bn (US\$38m) and UAH1bn (US\$27m).

**ICU view: Banks continue to have strong demand for "reserve" paper, and their interest may grow somewhat due to the changes in mandatory reserves regulations effective as of May 11. From this date, the zero rate for mandatory reserves will only apply to deposits with an initial term of three months or more, while now the zero rate applies to all term deposits. Therefore, reserve securities will remain a key tool for attracting funds from domestic sources.**

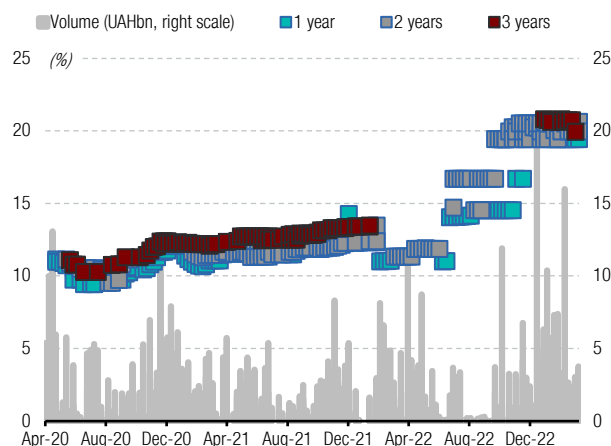
**Active trading in bonds maturing in May 2023 and 2025 likely was partially driven by foreign investors. They received the funds from bond redemptions last Wednesday and probably directed them to purchase bills with coupon payments in the near term. This way, they will be able to repatriate part of the funds received last week.**

**The increase in the total number of deals may be the result of reinvestment by small investors, in particular, individuals who received repayment last Wednesday. Individuals are the only group of investors who increased their portfolios over the week.**

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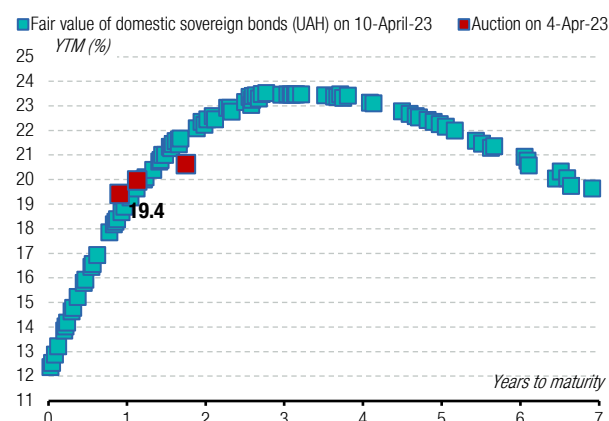
### Chart 1. Local-currency bonds

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



Source: MFU, ICU.

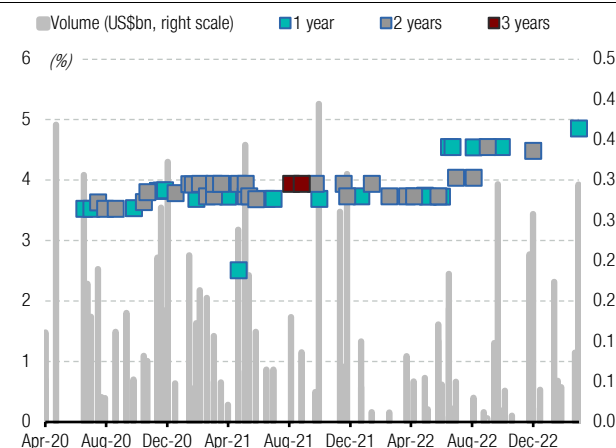
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

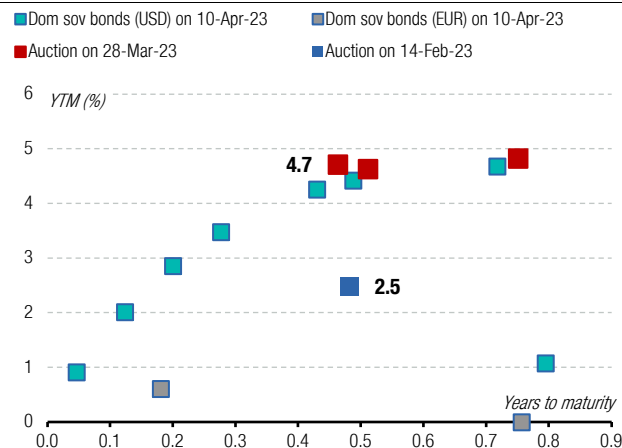
### Chart 2. FX-denominated bonds

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 prices flatten

The prices of Ukrainian Eurobonds of different maturities flattened after the announcement of restructuring in 1H24.

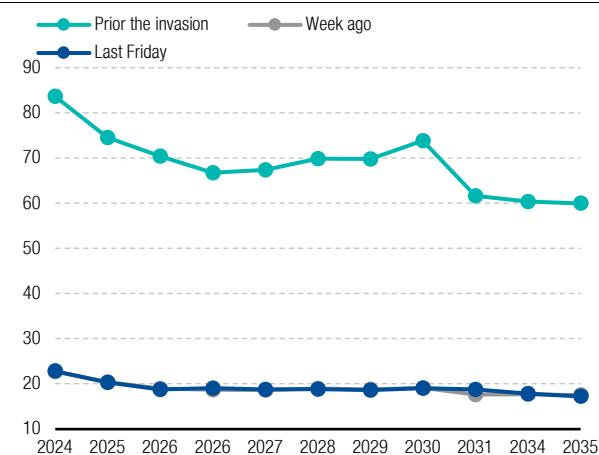
Prices of Ukrainian Eurobonds are almost unchanged and remain in the range of 17–23 cents, with a gradual levelling off due to lower prices for shorter instruments and a slight increase for longer maturities.

**ICU view:** The restructuring of Eurobonds is now certain following the statements of the Ministry of Finance and the publication of the Ukraine–IMF program memorandum. The uncertainty around the terms of restructuring leads to a gradual equalization of Eurobond prices across the board as the risks are seen as nearly equal for all issues.

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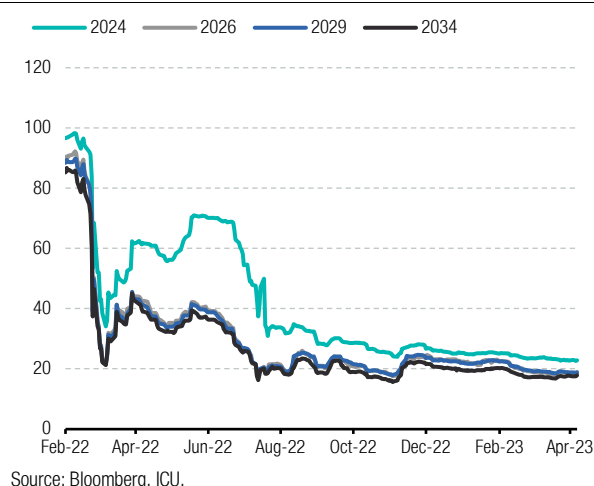
### Chart 3. Ukrainian Eurobonds prices

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



Source: Bloomberg, ICU.

Historical data since February, 2022



Source: Bloomberg, ICU.

## Foreign exchange market

### Demand-supply balance improving in retail FX market

In the first week of April, the hryvnia strengthened further and the cash rate continued to converge to the official one.

The hryvnia cash rate in systemically important banks strengthened over the past week by another half a per cent to UAH37.2–38.0/US\$, but with a widening bid-offer spread by UAH0.04. The strengthening of the hryvnia has already approached 7% YTD.

According to the NBU, US\$1.82bn of hard currency was purchased on the retail market (in cash and non-cash form) in March, which is more than in the previous two months. But the sale of hard currency increased to US\$1.39bn. Therefore, the total balance of the retail market improved; the net purchase of hard currency declined to US\$0.43bn from US\$0.5bn in February and US\$0.56bn in January. At the same time, activity is shifting towards the cash market. The volume of purchases in cash increased to US\$1.5bn (US\$0.2bn more compared to January), and in the non-cash market it decreased to US\$0.3bn in March (US\$0.2bn less than in January).

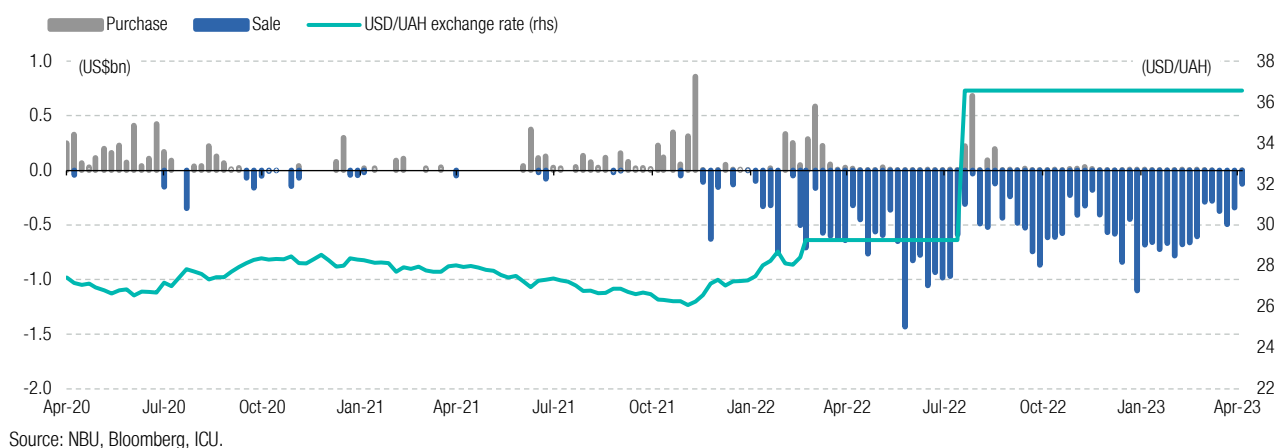
The balance on the interbank market is also improving, which contributed to the reduction of the NBU's interventions of hard currency sales last week to US\$126m.

**ICU view:** *The cash market's balance improved due to higher hard currency sales volumes, while in general, the volume of purchases remains at the same level—US\$1.8bn per month. But the significant inflow of cash into the market contributes to an even greater strengthening of the hryvnia and the convergence of cash exchange rate with the official exchange rate.*

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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)



## Economics

### NBU reserves at 11-year high

Gross international reserves of the NBU surged 10.4% in March and reached an 11-year high.

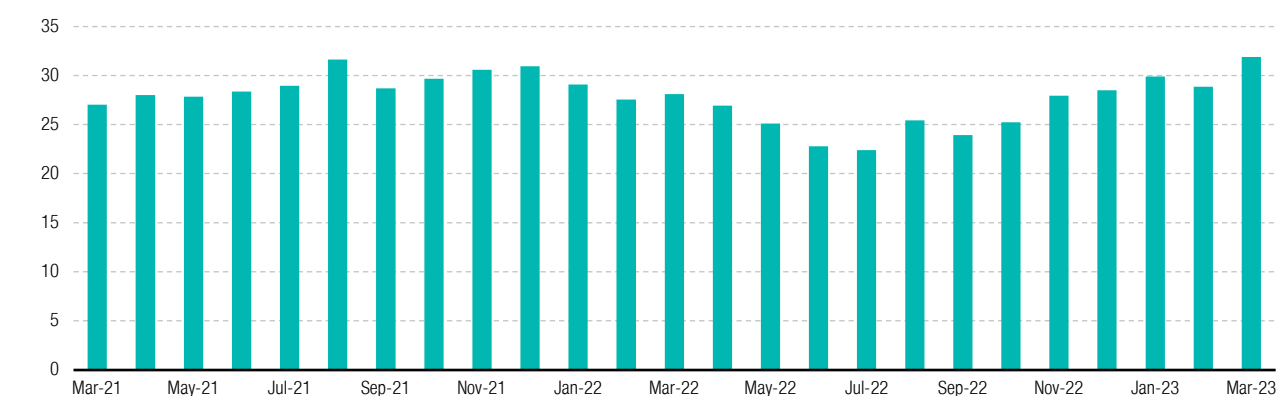
An upsurge in reserves was driven by inflows of international financial assistance. In particular, Ukraine received a US\$1.8bn loan from Canada, a US\$1.6bn loan from the EU and a US\$1.3bn grant from the US. Net FX borrowings from the domestic market stood at US\$70m. The largest FX outflows were driven by the NBU sale interventions of US\$1.7bn and a repayment of the IMF debt in the amount of US\$0.6bn. On top of all that, Ukraine received the first IMF loan tranche of US\$2.7bn in early April.

**ICU view: International financial aid to Ukraine is coming in strictly according to the schedule approved by the country's international partners. This coupled with declining FX sales interventions of the NBU is supportive of the buildup of international reserves. Ukraine is, thus, now in a good position to get through 2023 with reserves that will remain above US\$30bn at all times during the year**

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**Chart 5. NBU gross international reserves, US\$bn**

NBU reserves grew 10% in March on aid from Canada, EU, and the US



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