

Weekly Insight

NBU reserves surge in April

Key messages of the today's comments

Ukrainian bond market

MoF preparing for large debt repayments

The Ministry of Finance apparently intends to keep the domestic debt refinancing level above 100% in May, and it is accumulating funds in advance.

Eurobonds edge down

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Foreign exchange market

Hryvnia cash rate strengthens

The FX market improved last week, as NBU interventions decreased sharply and the hryvnia cash exchange rate strengthened.

Economics

NBU reserves surge 13% in April

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MONDAY, 8 MAY 2023

Banks' reserves market (5 May 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,500bp
ON rate (%)	9.76	+0bp	+0bp
Reserves (UAHm) ²	179,411	+2.96	+287.64
CDs (UAHm) ³	430,324	-2.41	+143.88

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) (5 May 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	694,419	+0.00	+82.69
Banks	540,588	+1.06	-0.93
Residents	116,827	+1.08	+57.45
Individuals	38,021	+6.67	+43.83
Foreigners ¹	53,835	+4.28	-27.36
Total	1,447,049	+0.82	+31.51

Source: NBU, ICU.

FX market indicators (5 May 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9307	+0.03	+25.22
EUR/USD	1.1019	+0.00	+4.52
DXY	101.214	-0.44	-2.45
UAH TWI ¹	109.747	-0.10	-19.78

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes (8 May 2023)

Maturity	Bid	Ask
6m	18.00	16.00
12m	21.00	18.00
2y	23.00	21.00
3y	24.00	21.50
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

MoF preparing for large debt repayments

The Ministry of Finance apparently intends to keep the domestic debt refinancing level above 100% in May, and it is accumulating funds in advance.

Last week, the MoF raised UAH12bn for the budget, including US\$118m (UAH4.3bn) in hard currency. Demand was highest for UAH notes maturing in August 2025, which banks can use to cover part of their required reserves, and the MoF placed UAH4.5bn worth of them. In addition, the MoF raised UAH3.1bn from new three-year paper, which may be added to the list of "reserve" bonds later. See details in the [auction review](#).

Banks' portfolios increased the most, by a total of UAH8.3bn, including UAH6.4bn in local currency. Individuals purchased UAH2.2bn of bonds last week, mostly in hard currency. Foreigners increased their investments less actively than in the previous week (UAH1.0bn vs UAH3.5bn).

The volume of trades in the secondary market decreased by about a quarter, to UAH12.5bn, and was concentrated in bonds maturing in 2025 and 2026, sold at last week's primary auction. They were 44% of the total volume of trades. The volume of trades in bonds with coupons in May, which foreigners probably prefer, decreased to UAH3.9bn or just 31% of the total volume of trades in the secondary market.

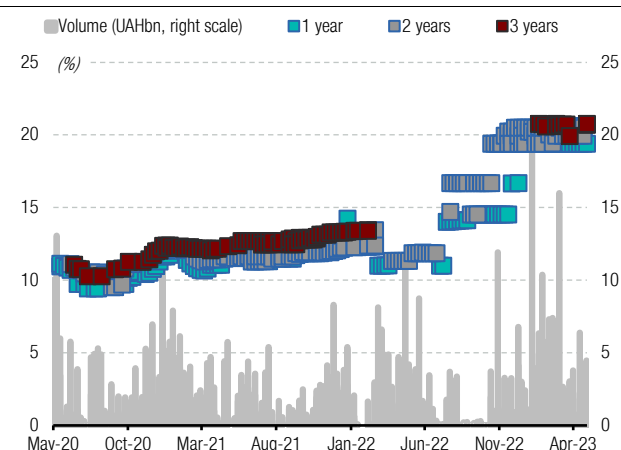
ICU view: Last week, banks took the initiative from foreign investors, purchased a large volume of bonds at the primary auction, and traded them with other banks in the secondary market. Individuals also became more active, buying mainly FX-denominated bills. At the same time, foreigners reduced purchases of bonds, waiting for repayments in May.

All this favours the MoF's accumulation of funds before large redemptions of FX and UAH-denominated bonds in May. That is why the MoF offered USD-denominated bills last week, plans to sell USD and EUR-denominated bills tomorrow, and once more in the second half of the month. This way, the refinancing of domestic debt may stay above 100% for all currencies in May.

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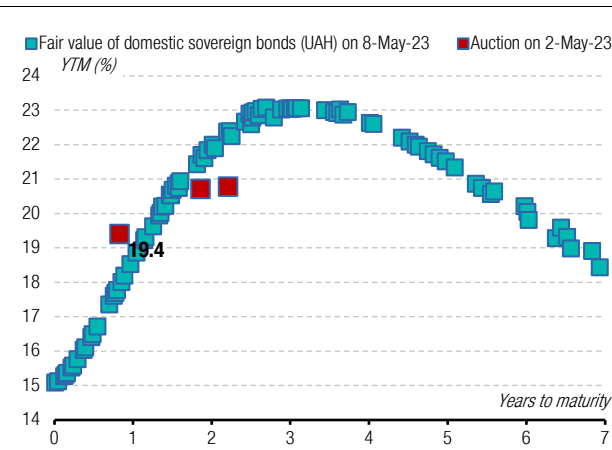
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

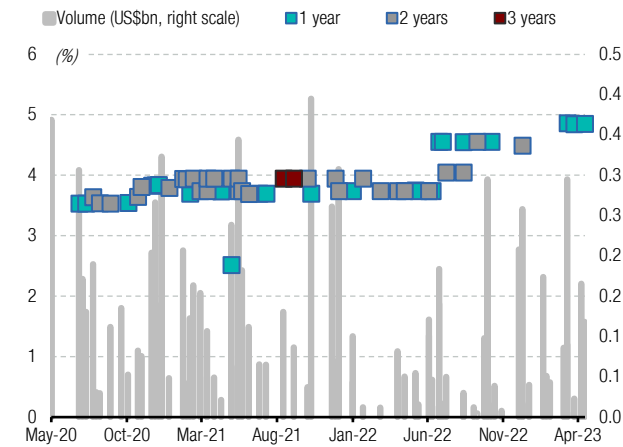
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

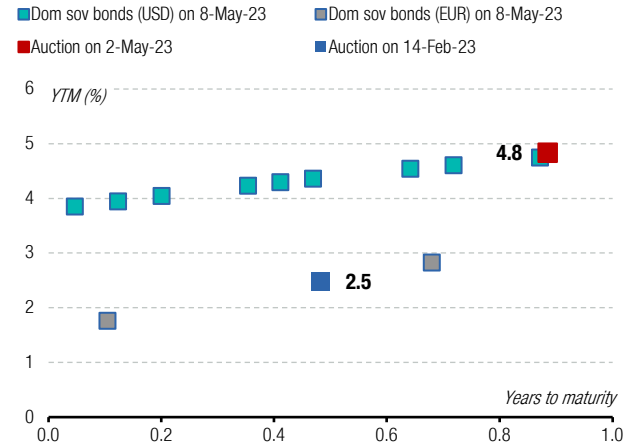
Chart 2. FX-denominated bonds

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.

Eurobonds edge down

Ukrainian Eurobonds fell in price over the past week by about one percent, with prices flattening across most maturities in anticipation of debt restructuring.

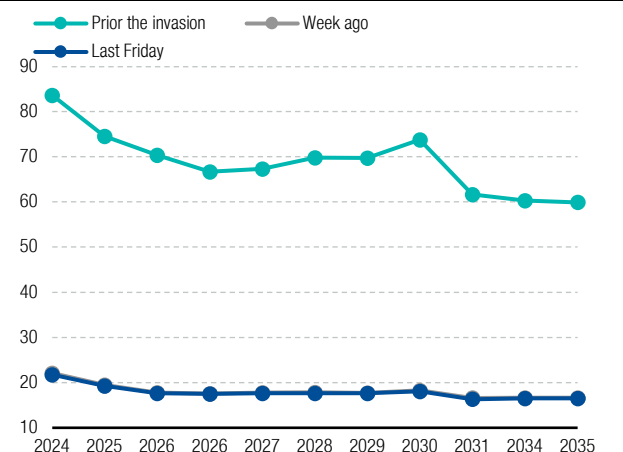
Eurobond prices have shifted to 16–22 cents, with most of them below 18 cents. Only UKRAIN'24 stands slightly below 22 cents and UKRAIN'25 slightly above 19 cents. The market quotes of VRIs are at no more than 26 cents per dollar of notional value.

ICU view: Global interest in emerging markets changed little last week, with the EMBI index fluctuating marginally. At the same time, the prices for Ukrainian Eurobonds continued to fall under the influence of high sovereign risk despite extremely positive news about a sharp increase in NBU international reserves in April. The prices of most Eurobonds are within the range slightly wider than one cent with the exception of the shortest bonds, likely due to the expectation of a more favourable treatment during the debt restructuring.

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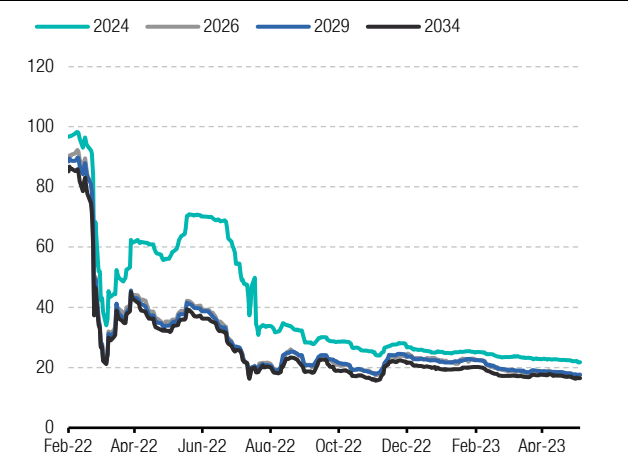
Chart 3. Ukrainian Eurobonds prices

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

Hryvnia cash rate strengthens

The FX market improved last week, as NBU interventions decreased sharply and the hryvnia cash exchange rate strengthened.

In the interbank market, the volume of trading decreased. Bank clients (legal entities) purchased US\$750m in four days and sold US\$677m. There were also small amounts of trading among banks and the NBU, only US\$404m in four days. As a result, the NBU's FX sell interventions fell to US\$275m.

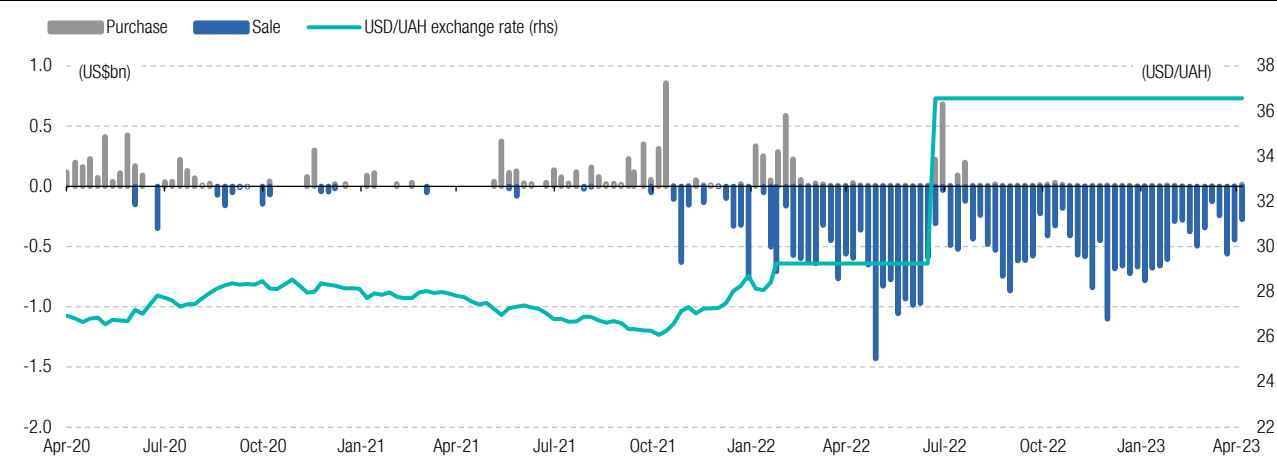
During the week, the cash exchange rate of the hryvnia in systemically important banks appreciated by 0.5% to UAH37.2–37.9/US\$, with the bid-offer spread tightening by UAH0.05 to UAH0.61. YTD, hryvnia appreciated by approximately 7%.

ICU view: The decrease in the volume of hard currency trading in the interbank FX market likely resulted from lower business activity due to problems with agricultural exports and a holiday on Monday in Europe. On the cash market, the strengthening of the hryvnia was a clear indication that the market remains fully saturated, and there are no major looming risks on the horizon.

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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

NBU reserves surge 13% in April

NBU gross international reserves surged 13% in April (+26% YTD) to US\$35.9bn as Ukraine saw the largest monthly inflow of foreign financial aid since the start of the war.

The largest inflows of financial aid that Ukraine received last month include US\$2.7bn in a first tranche of the IMF loan, a EUR1.5bn loan tranche from the EU, and a US\$1.25bn grant from the US. Also, NBU sell interventions were relatively moderate last month at just US\$1.4bn.

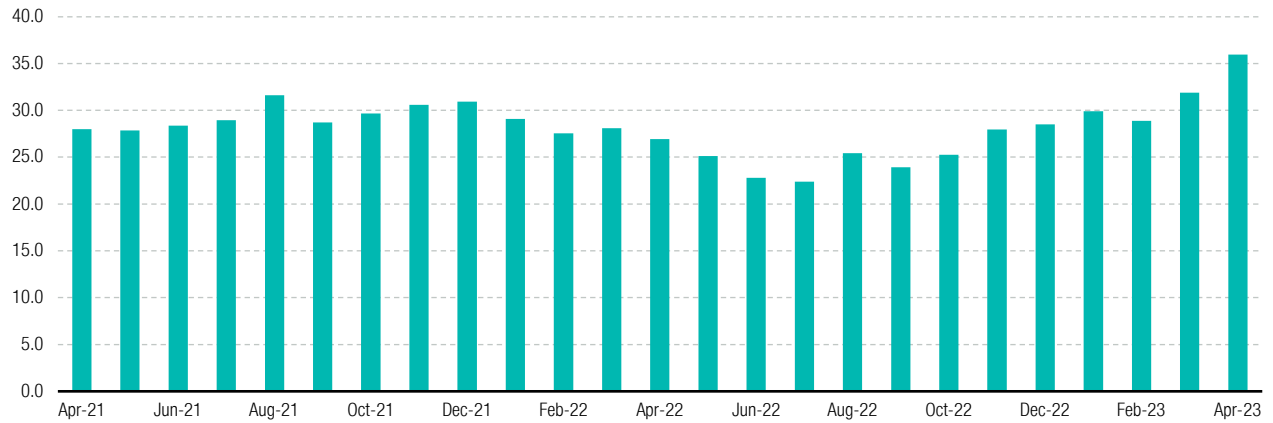
ICU view: Ukraine's foreign partners continue to provide financial assistance strictly in line with schedules agreed to at the beginning of the year. Meanwhile, the rate of FX

sell interventions by the NBU is substantially lower than last winter and below our expectations. This allows the NBU to keep accumulating international reserves at an unprecedented pace. Given recent developments, we are now sure the reserves will remain above US\$30bn at all times through end-2023, and we see a substantial upside to our current projection of end-2023 reserves of US\$30.6bn.

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

NBU reserves up 13% in April



Source: NBU, ICU.

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