

Weekly Insight

New FX market liberalization steps

Key messages of the today's comments

MONDAY, 26 JUNE 2023

Ukrainian bond market

Refinancing of local debt redemptions remains high

The Ministry of Finance refinanced a significant part of the domestic debt redemptions that were made last week.

Eurobonds rally continues

The positive news contributed to the further growth and narrowing of Ukrainian Eurobond prices.

Foreign exchange market

New small steps toward FX market liberalization

The NBU's steps to liberalize the FX market have not affected the interbank so far and will have a limited impact in the future.

Banks' reserves market (23 June 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+0bp
ON rate (%)	9.76	+0bp	+0bp
Reserves (UAHm) ²	199,987	-0.18	+140.42
CDs (UAHm) ³	480,384	+6.77	+200.75

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) (23 June 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	694,346	+0.00	+30.12
Banks	545,811	+0.16	+2.42
Residents	115,133	-2.21	+63.63
Individuals	38,320	-7.77	+31.37
Foreigners ¹	51,114	-0.62	-28.45
Total	1,448,386	-0.32	+17.08

Source: NBU, ICU.

FX market indicators (23 June 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9297	+0.00	+25.00
EUR/USD	1.0894	-0.39	+3.53
DXY	102.903	+0.65	-1.46
UAH TWI ¹	112.087	+0.50	-19.01

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes (26 June 2023)

Maturity	Bid	Ask
6m	18.00	16.00
12m	21.00	18.00
2y	23.00	20.00
3y	23.50	20.50
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Refinancing of local debt redemptions remains high

The Ministry of Finance refinanced a significant part of the domestic debt redemptions that were made last week.

Last Tuesday, the MoF sold six bonds, including two FX-denominated bills. In total, budget proceeds amounted to UAH31.4bn (US\$859m), including UAH14.4bn (US\$393m) in hard currency: US\$244m and EUR136m. The MoF reduced interest rates on some of them by 5-30bp. See details in the auction review.

These borrowings allowed the MoF to refinance 76% of last week's redemption in local currency and more than half of the USD-denominated redemptions.

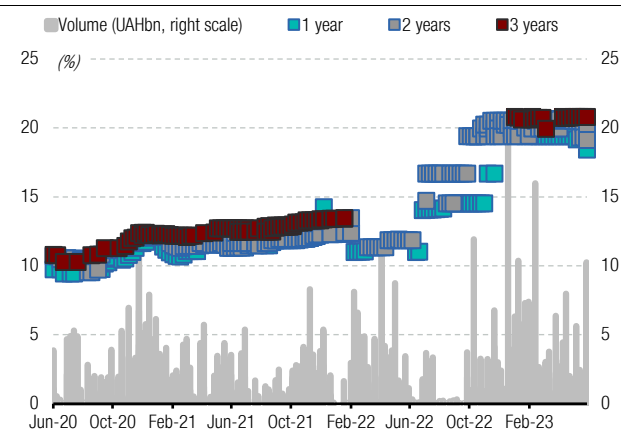
In the secondary market, trading in UAH bonds decreased to UAH4bn (US\$111m). The most traded were military bills due in June next year and a "reserve" note maturing in August 2025: 30% and 25% of total UAH bond trading, respectively.

ICU view: The refinancing of last week's debt redemptions was partial, but the refinancing in all currencies YTD remains high: 130% in local currency, 107% in US dollars and 122% in euros. Since the amount of redemptions will be insignificant this week, and the placement of both UAH and USD-denominated bills is planned at the primary auction tomorrow, there should not be a decrease in the refinancing level in June and in 1H23 overall.

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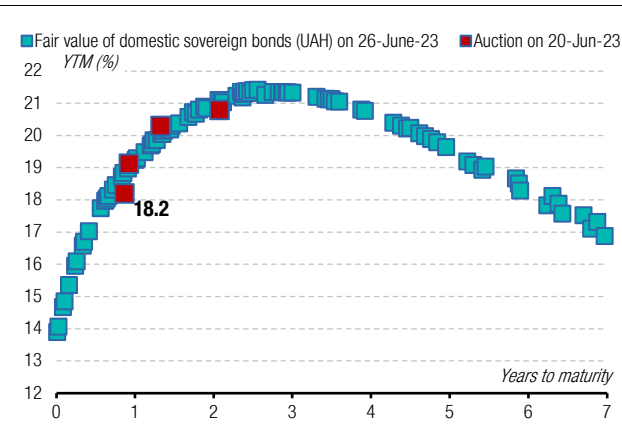
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

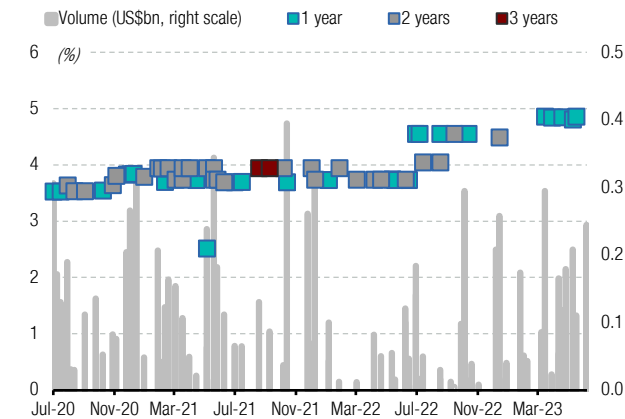
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

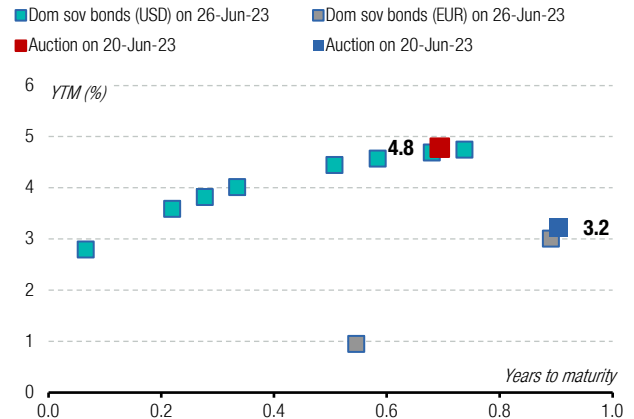
Chart 2. FX-denominated bonds

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 rally continues

The positive news contributed to the further growth and narrowing of Ukrainian Eurobond prices.

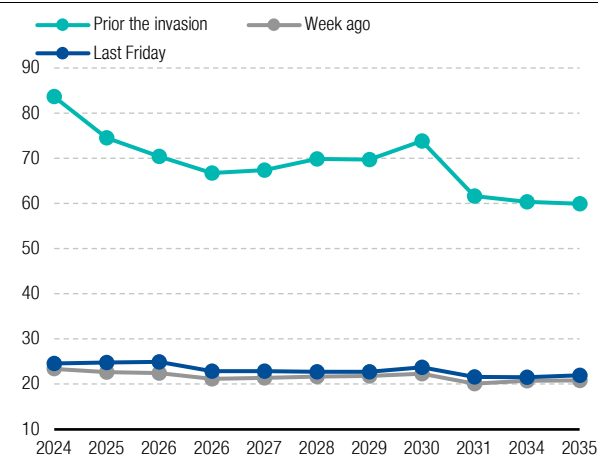
Over the past week, Ukrainian Eurobonds added another 3–10% in price and shifted mainly to 22–25 cents per dollar, narrowing the price range to 7.4%. The prices of VRIs rose by 4% to almost 38 cents per dollar of notional value.

ICU view: The success of the Ukraine Recovery Conference in London, which attracted many key global investors, added to the positive tone of news set in the previous week. During the conference, the EU announced that it plans to approve a EUR50bn package of financial assistance to Ukraine until 2027. Another positive is that Ukraine has made significant progress to start negotiations on EU membership. This could support investors' interest in Ukrainian securities.

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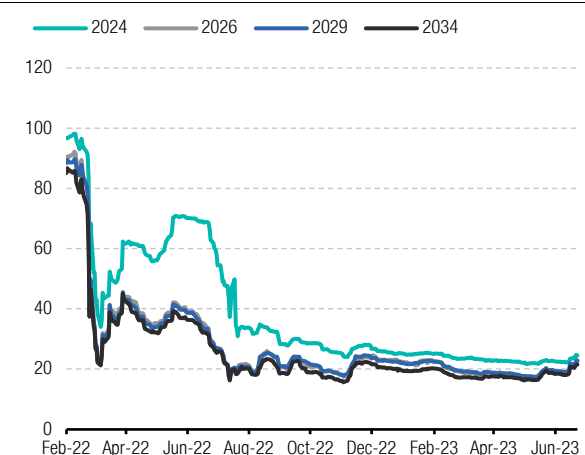
Chart 3. Ukrainian Eurobonds prices

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

New small steps toward FX market liberalization

The NBU's steps to liberalize the FX market have not affected the interbank so far and will have a limited impact in the future.

The National Bank took another small step to liberalize the FX market. Initially, the NBU allowed servicing loans secured by an IFI guarantee or surety, or those provided with the participation of a foreign export credit agency. Last Wednesday, the NBU allowed residents to service and repay new external loans received after June 20, 2023. At the same time, the NBU defined several conditions that residents must comply with like a cap on the interest rate and prohibition of early repayment.

Over four business days last week, the volume of hard currency purchases and sales by bank clients (legal entities) on the interbank market barely changed, and the NBU reduced the volume of interventions by 2.5% to US\$436m.

On the cash market, the hryvnia exchange rate moved from UAH36.75–37.36/US\$ to UAH36.59–37.39/US\$ last week, with the bid-offer spread widening to UAH0.80. During the four days of last week, households bought US\$298m and sold US\$266m of hard currency, almost the same as in the same period of the previous week.

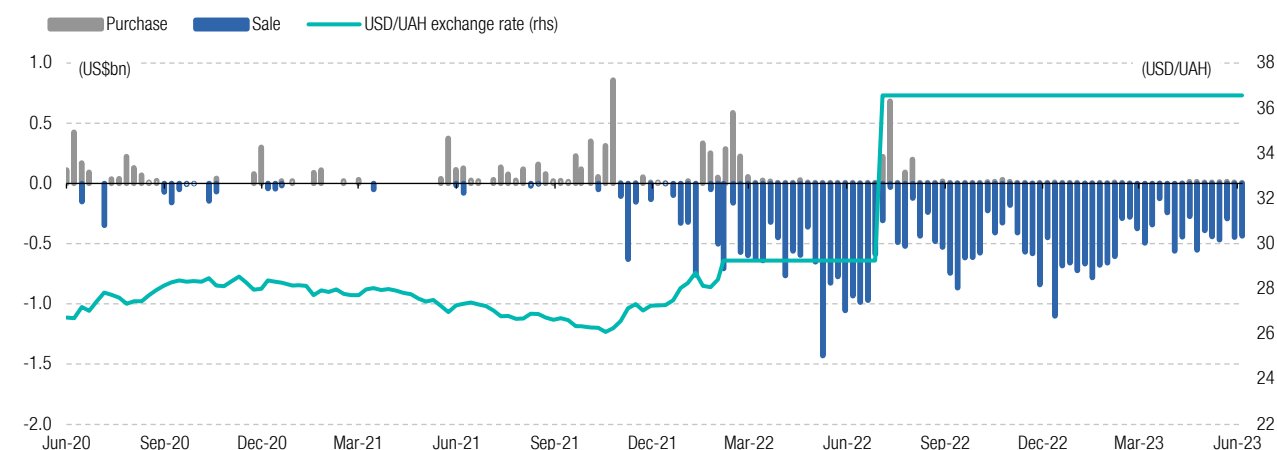
ICU view: As the NBU's liberalization decisions were symbolic, the interbank FX market did not see any additional demand for hard currency. Likewise, the latest decision will probably not significantly impact the FX market in the foreseeable future.

In the retail market, there were no significant changes in the volume of buying and selling of hard currency by households.

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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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