



Focus
Ukraine

Markets
Government bonds,
FX market, and macro

Research team
Vitaliy Vavryshchuk
Alexander Martynenko
Taras Kotovych

Weekly Insight

Current account remains negative

Key messages of the today's comments

MONDAY, 6 NOVEMBER 2023

Ukrainian bond market

Refinancing of redemptions continues

In October, the MoF borrowed a record monthly amount of funds this year, keeping refinancing above 100% in all currencies.

Eurobonds rise on the back of global sentiment

Prices of Ukrainian Eurobond rose last week along with the positive change in global sentiment towards emerging markets.

Foreign exchange market

NBU strengthens hryvnia

Last week, the hryvnia official exchange rate strengthened to UAH36.17/US\$ (set for today) even though NBU FX sale interventions remained significant.

Economics

Current account remains negative in September

Ukraine's current-account balance substantially improved, but still remained negative in September at US\$0.8bn.

Banks' reserves market (3 November 2023)

| | Last | Weekly chg (%) | YoY chg (%) |
|------------------------------|---------|----------------|-------------|
| NBU rate (%) ¹ | 16.00 | +0bp | -900bp |
| ON rate (%) | 9.76 | +0bp | +0bp |
| Reserves (UAHm) ² | 208,076 | -3.75 | +265.58 |
| CDs (UAHm) ³ | 479,709 | +9.07 | +46.51 |

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) (3 November 2023)

| | Last | Weekly chg (%) | YoY chg (%) |
|-------------------------|------------------|----------------|---------------|
| NBU | 690,693 | +0.00 | +7.16 |
| Banks | 600,223 | -0.23 | +21.59 |
| Residents | 126,389 | +0.89 | +90.72 |
| Individuals | 46,388 | -2.72 | +59.58 |
| Foreigners ¹ | 45,726 | -3.04 | -25.41 |
| Total | 1,510,997 | -0.20 | +16.63 |

Source: NBU, ICU.

FX market indicators (3 November 2023)

| | Last | Weekly chg (%) | YoY chg (%) |
|----------------------|---------|----------------|-------------|
| USD/UAH | 36.2625 | -0.68 | -1.28 |
| EUR/USD | 1.0731 | +1.57 | +10.07 |
| DXY | 105.021 | -1.44 | -7.00 |
| UAH TWI ¹ | 116.065 | -0.11 | -1.12 |

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes (6 November 2023)

| Maturity | Bid | Ask |
|----------|-------|-------|
| 6m | 17.50 | 15.00 |
| 12m | 18.50 | 17.25 |
| 2y | 19.50 | 18.25 |
| 3y | 20.00 | 18.75 |
| 12m (\$) | 5.00 | 4.50 |
| 2y (\$) | N/A | N/A |

Source: ICU.

Ukrainian bond market

Refinancing of redemptions continues

In October, the MoF borrowed a record monthly amount of funds this year, keeping refinancing above 100% in all currencies.

In October (taking into account last week's auction with settlement in early November), the Ministry raised UAH80.5bn, of which UAH54.6bn was in local currency and the rest in USD. The total amount of borrowings in 10m23 is UAH467.3bn, including UAH145.1bn in hard currency (US\$3.2bn and EUR709m).

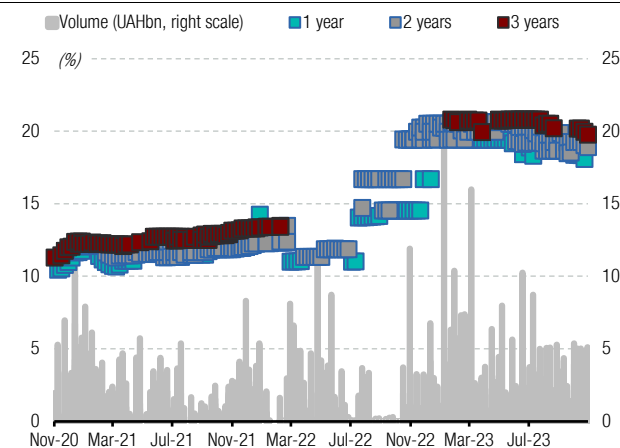
Since UAH borrowings exceeded redemptions by almost 13x in October, total refinancing for 10m23 increased to 172%. The refinancing rate in euros remained at 122% and in USD it slid to 101%.

ICU view: The Ministry of Finance increased borrowing in October mainly due to a significant increase in demand for UAH bonds on the back of market expectations of a further reduction in the NBU discount rate. Also, on the last day of October, the Ministry replaced 12-month paper with seven-month bills, which the MoF hadn't offered since February and which was oversubscribed more than three times. Plans to regularly place these bonds throughout November should facilitate attracting funds for the budget. As for FX-denominated bills, it looks as if the Ministry of Finance seeks to attract only what is needed to keep the refinancing rate above 100%.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

Chart 1. Local-currency bonds

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



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

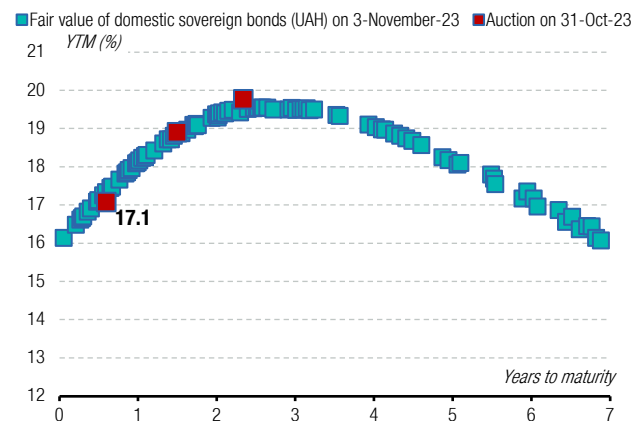
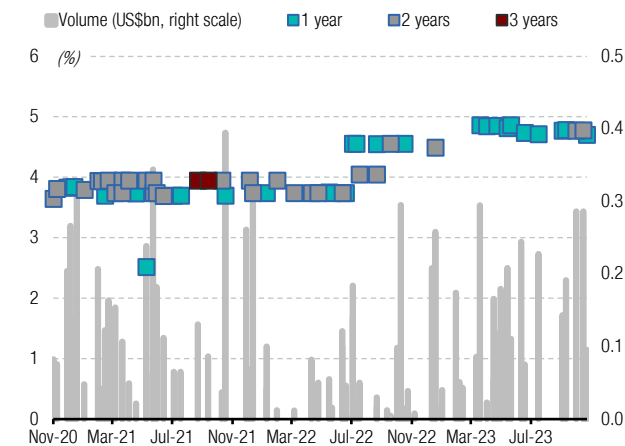


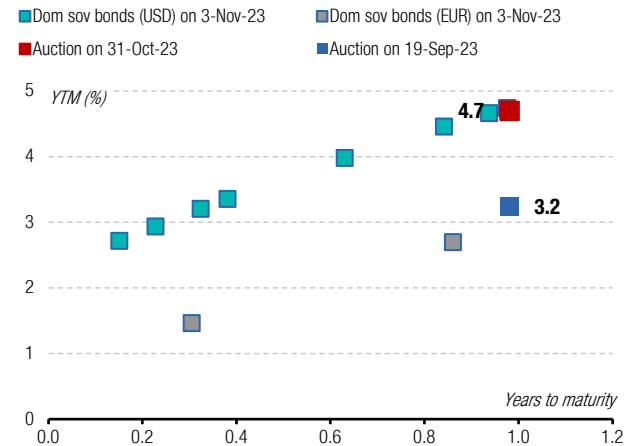
Chart 2. FX-denominated bonds

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 rise on the back of global sentiment

Prices of Ukrainian Eurobond rose last week along with the positive change in global sentiment towards emerging markets.

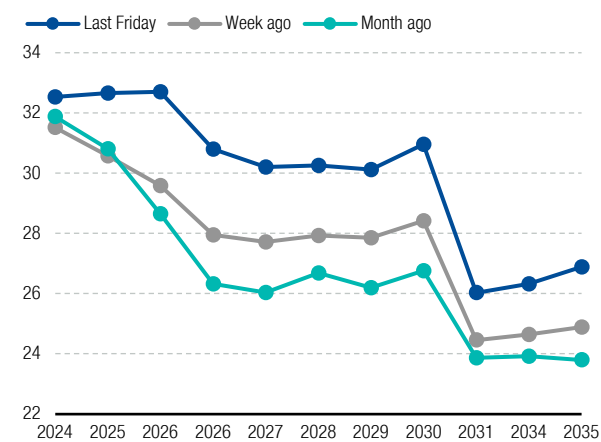
Eurobond prices rose, on average, slightly more than two cents to 26–33 cents on the dollar. The price range for instruments with different maturities narrowed to 11%. VRIs' price rose by one cent to more than 42 cents per dollar of notional value. The change in Eurobond prices was almost 8%, while the EMBI index increased by 2.7%.

ICU view: The price for Ukraine Eurobonds increased more significantly than the EMBI index. This week, the focus will remain on US internal politics and the prospects of approving the aid package for Ukraine by Congress. The House of Representatives, as expected, voted for the aid package for Israel, but did get closer to voting on the aid package for Ukraine. Until the prospects of aid for Ukraine becomes clearer, prices will remain highly volatile. This week, the IMF mission to Ukraine starts its second review of the EFF program. Positive signals from the mission may improve investor sentiments towards Ukrainian paper.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

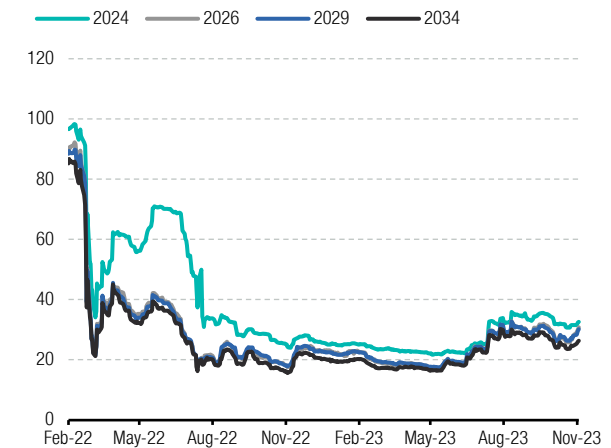
Chart 3. Ukrainian Eurobonds prices

Prices of USD-denominated Eurobonds as of last Friday, a week and a month ago



Source: Bloomberg, ICU.

Historical data since February, 2022



Source: Bloomberg, ICU.

Foreign exchange market

NBU strengthens hryvnia

Last week, the hryvnia official exchange rate strengthened to UAH36.17/US\$ (set for today) even though NBU FX sale interventions remained significant.

In the interbank market, the volume of FX trading increased significantly. In four business days, the sale of hard currency by bank clients (legal entities) increased by 18%, and purchases by 8%, contributing to the reduction of NBU interventions to US\$563m, which is the lowest weekly amount since the end of August.

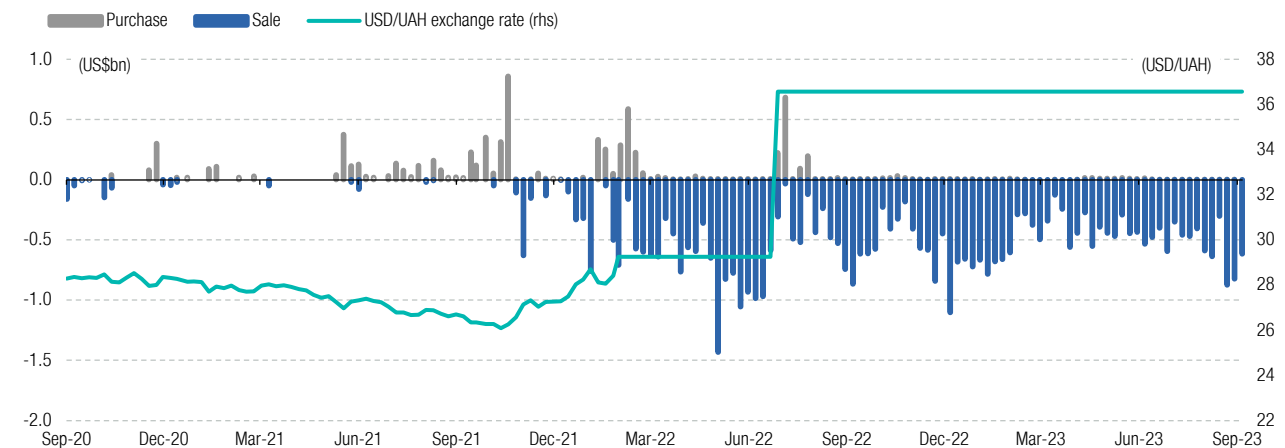
In the retail market, households increased purchases of hard currency in non-cash segment. The cash hryvnia exchange rate in systemically important banks appreciated to UAH37.24–37.84/US\$.

ICU view: *The NBU maintains its daily presence in the interbank market with hard currency supply, meeting excess demand, but sometimes causing oversupply, which turns into hryvnia strengthening. Households tried to fully use limits for hard-currency purchases in October, and started to use limits for November, preferring the non-cash segment last week.*

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

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

Current account remains negative in September

Ukraine's current-account balance substantially improved, but still remained negative in September at US\$0.8bn.

The external trade-in-goods deficit remained hefty, as monthly export was 1/3 lower YoY in September on a 43% decline in agricultural supplies. Meanwhile, import grew 17% YoY in September. The balance of trade in services and migrant incomes remained broadly stable with fluctuations being driven by seasonality. The positive balance of secondary income surged in September as, unlike in August, the US provided a grant of US\$1.25bn. This was the sole most important driver behind the improvement in the current-account balance. For the past 12 months, the current-account deficit stood at US\$5.6bn, close to 3% of 2023E GDP.

Inflows through the financial account were more than enough to offset the current-account deficit in September, largely thanks to an EU loan for EUR1.5bn. Despite that, NBU reserves were down 1.7% MoM, as the NBU repaid US\$0.9bn of the IMF loan.

ICU view: A significant uncertainty with regard to Ukraine's current-account balance till the end of the year is posed by the fate of US financial aid. Lack of budgetary grants from the US will undercut the current-account balance. At this point, we assume that the US Congress will eventually approve the aid package to Ukraine. Even so, we now see the C/A deficit exceeding 4% of GDP due to poor export of goods. We previously expected a C/A gap of just below 3% of GDP. The financial account will remain in surplus, thus offsetting the C/A shortfall and supporting NBU reserves.

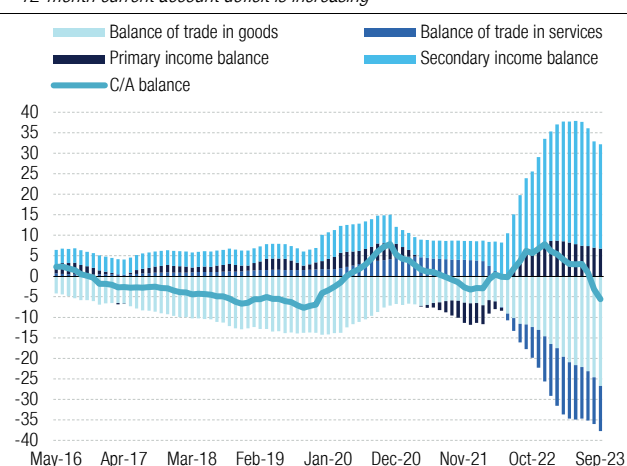
Vitaliy Vavryshchuk, Kyiv, (044) 377-7040 ext.721

Chart 5. Key balance of payment components, \$m*Current account balance improved in September*

| | Sep 2023 | Aug 2023 | Sep 2022 |
|-------------------------------|---------------|---------------|--------------|
| Current account | -758 | -2,114 | 1,688 |
| Trade in goods | -2,849 | -2,972 | -685 |
| Trade in services | -716 | -614 | -1,160 |
| Primary income | 772 | 463 | 1,016 |
| incl. migrant income | 970 | 988 | 1,060 |
| Secondary income | 2,035 | 1,009 | 2,517 |
| incl. transfers to government | 1,409 | 220 | 2,328 |
| Financial account* | -1,025 | -943 | 2,444 |
| Change in trade credits | 430 | 223 | 1,374 |
| Increase in cash out of banks | 775 | 661 | 1,087 |
| Net loans to government | -1,655 | -1,537 | -466 |

* negative numbers in financial account indicate increase in liabilities (cash inflow).
Only the largest components of Financial Account are provided.

Source: MoF, ICU.

Chart 6. Current account, 12-month trailing, \$bn*12-month current account deficit is increasing*

Source: NBU, ICU.

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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua




RESEARCH

Vitaliy Vavryshchuk
Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych 
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko
Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko 
Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv 
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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