



Focus
Ukraine

Markets
Government bonds,
FX market, and macro

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Weekly Insight

NBU eases FX restrictions

Key messages of the today's comments

MONDAY, 4 DECEMBER 2023

Ukrainian bond market

Debt fully refinanced in November

In November, the Ministry of Finance refinanced all UAH repayments.

Eurobond prices edging down

The prices of Ukrainian Eurobonds decreased for the third week, contrary to the global trend.

Foreign exchange market

NBU eases FX restrictions

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Economics

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Banks' reserves market (1 December 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	16.00	+0bp	-900bp
ON rate (%)	16.00	+0bp	-700bp
Reserves (UAHm) ²	204,020	-5.3	+190.0
CDs (UAHm) ³	517,582	+7.8	+43.5

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 gov't bond holders (UAHm) (1 December 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	689,990	+0.0	+2.3
Banks	622,654	+0.4	+27.8
Residents	129,925	+2.0	+80.0
Individuals	50,412	+3.0	+61.0
Foreigners	44,076	+2.9	-23.4
Total	1,539,082	+0.5	+16.3

Source: NBU, ICU.

FX market indicators (1 December 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.4762	+1.1	-1.3
EUR/USD	1.0884	-0.5	+3.5
DXY	103.268	-0.1	-1.4

Source: Bloomberg, ICU.

Market gov't bond quotes (4 December 2023)

Maturity	Bid (%)	Ask(%)
6 months	17.50	15.00
12 months	18.50	17.00
2 years	19.50	18.00
3 years	20.00	18.75
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Debt fully refinanced in November

In November, the Ministry of Finance refinanced all UAH repayments.

Last week, the Ministry of Finance raised UAH6.5bn, taking total November local-currency borrowings to UAH33.9bn vs UAH33.2bn of debt redemptions. The Ministry continued to set caps on borrowings and managed to reduce interest rates for UAH bonds. See details in the auction review.

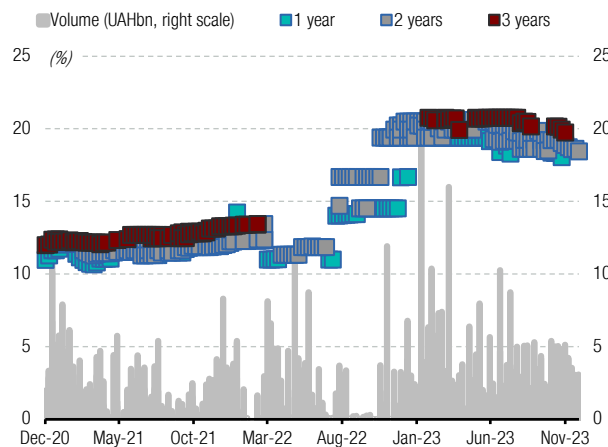
The refinancing of UAH debt redemptions in 11M23 decreased slightly to 162% compared with 172% in 10M23. Additionally, the MoF raised US\$191m of funds in hard currency while there were no USD redemptions in November. The refinancing in USD reached 107% in 11M23.

ICU view: Demand for UAH bonds remained high and significantly exceeded supply last month. However, the Ministry of Finance set caps at UAH3-4bn for each issue, rejecting a significant part of demand. Investors likely had appetite to buy more bonds before the expected decrease in the key policy rate and the overnight CD rate in December. The MoF took full advantage of the situation and lowered interest rates by an average of 35bp last month.

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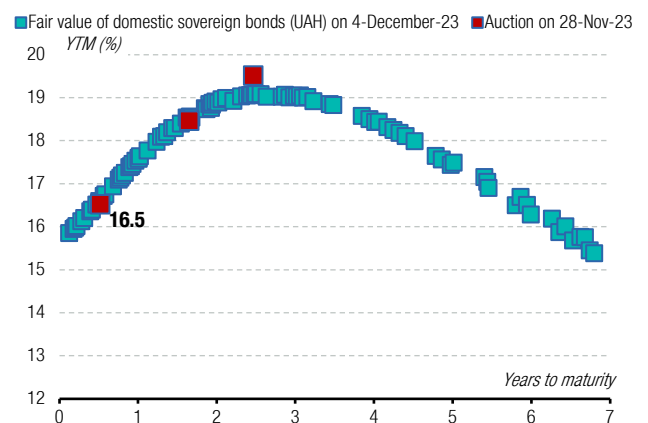
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

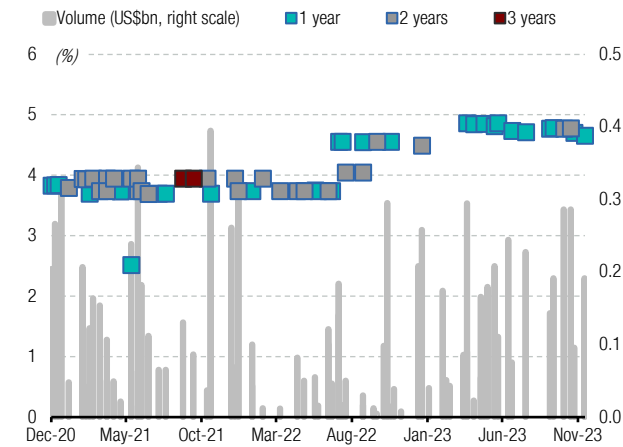
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

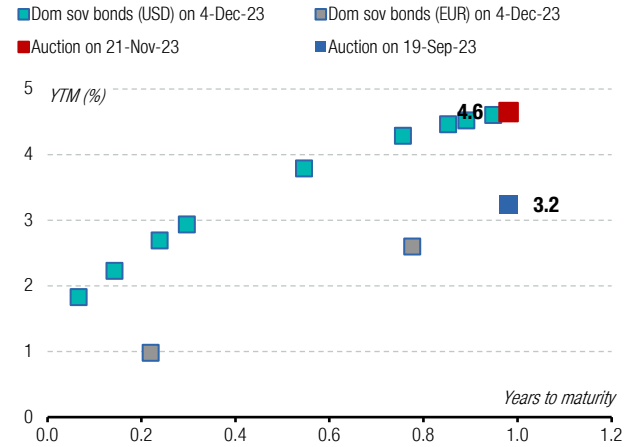
Chart 2. FX-denominated bonds

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

Eurobond prices edging down

The prices of Ukrainian Eurobonds decreased for the third week, contrary to the global trend.

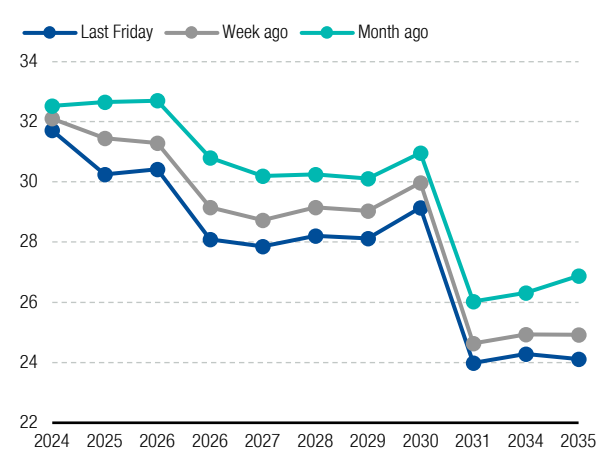
Over the past week, the price range for Ukrainian Eurobonds with different maturities expanded to 13.7% from 12.8%. The prices of Eurobonds shifted to the range of 24–32 cents per dollar, decreasing by almost 3% on average during last week. At the same time, the price of VRIs increased by about 5% to more than 44 cents per dollar of notional value. The EMBI index increased by another 1.2% over the past week.

ICU view: The President signed the 2024 budget law last week, but the sources of external borrowings for over \$40 billion still remain unconfirmed. So, uncertainty about the volume and duration of financial assistance from the US remains crucial for investors when evaluating Ukrainian Eurobonds. At the same time, the prospect of future recovery of the Ukrainian economy supported VRIs' price.

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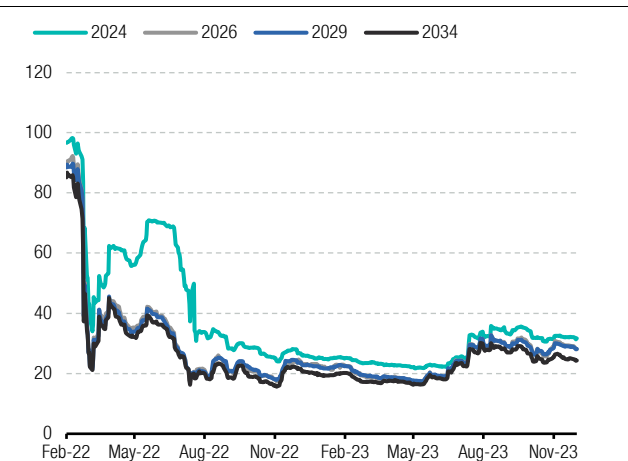
Chart 3. Ukrainian Eurobonds prices

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 eases FX restrictions

Last week, the NBU took another step to ease FX restrictions, primarily for households.

The key NBU decision last week was to lift all remaining restrictions on the sale of FX cash to households by banks and non-banking institutions. In addition, the NBU expanded the list of cross-border transactions allowed for households. Easier access for households to FX cash immediately led banks to revise their cash exchange rates. In systemically important banks, the UAH exchange rate, on average, strengthened by approximately one per cent to UAH36.6–37.4/US\$.

At the same time, the NBU had to increase the volume of interventions on the interbank market by 42% to US\$740m. The reason was an increase in the volume of hard currency purchases by bank clients (legal entities) last Friday, when interventions jumped to around US\$260m.

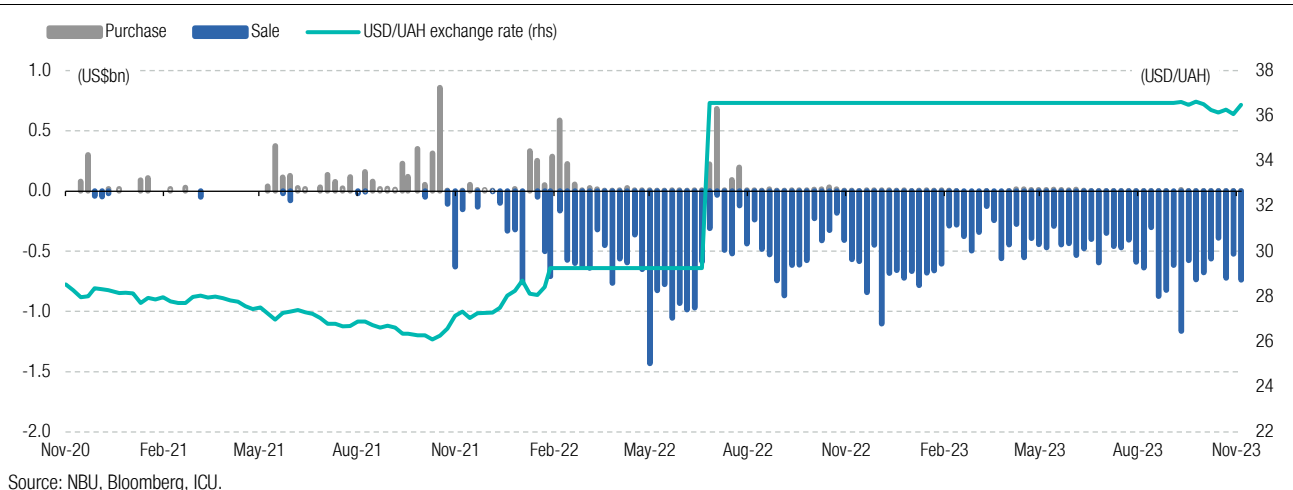
ICU view: The NBU's decision to simplify access to cash hard currency may reduce differences in the exchange rate, particularly for cash and credit card transactions.

Last week's easing of FX restrictions is unlikely to lead to increased demand on the interbank market. Friday's jump in interventions was likely due to operations of state-owned enterprises or government agencies related to imports for the military sector.

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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

Current account deficit widens in October

The shortfall of the current account reached US\$0.9bn in October despite Ukraine receiving US\$1.15bn budgetary grant.

The trade-in-goods deficit stood at US\$2.9bn in October as exports fell by nearly 1/3 YoY due to lower prices for agricultural products and logistical bottlenecks. The huge gap of trade in goods combined with a US\$0.6bn deficit of trade in services was not offset with migrant

incomes and transfers to government and private sector even though Ukraine received the last delayed tranche from the US approved within the 2023 budget.

Net inflows through the financial account fell substantially in October vs previous months. Ukraine received an EUR1.5bn loan from the EU, but the increase of FX cash out of banks was abnormally high in October (likely due to the NBU switching to a managed flexible exchange rate regime), taking the net result for the financial account very close to zero.

Due to the high C/A deficit, the NBU reserves declined US\$0.74bn (-1.98% MoM) in October to US\$39.0bn.

ICU view: We expect the C/A gap to reach 4.4% of GDP in 2023, and widen further to 5.2% of GDP in 2024, on poor performance of exports and surging imports. These projections assume the US will eventually approve the US\$11.8bn package in financial aid, which will be recorded in Ukraine's current-account statistics. We remain of the view that net capital inflows via the financial account will be sufficient to offset the C/A gap and keep the NBU reserves broadly stable through end-2024.

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Chart 5. Key balance of payment components, \$m

Current account deficit remains large in October

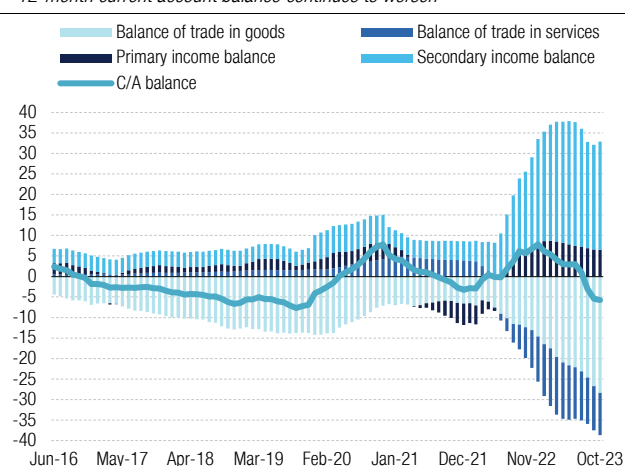
	Oct 2023	Sep 2023	Oct 2022
Current account	-905	-682	-537
Trade in goods	-2,934	-2,788	-1,219
Trade in services	-576	-674	-1,172
Primary income	659	720	820
incl. migrant income	922	918	1,028
Secondary income	1,946	2,060	1,034
incl. transfers to government	1,335	1,409	358
Financial account*	-129	-949	-581
Change in trade credits	-100	491	676
Increase in cash out of banks	1,102	773	838
Net loans to government	-1,512	-1,655	-2,915
Other components	381	-558	820

* 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 balance continues to worsen



Source: NBU, ICU.

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