



Focus  
Ukraine

Markets  
Government bonds,  
FX market, and macro

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# Weekly Insight

## Eurobonds retreat after a short rally

### Key messages of the today's comments

MONDAY, 22 JANUARY 2024

### Ukrainian bond market

#### Domestic bond market dominated by UAH instruments

Last week, investors, including foreigners, were primarily interested in UAH bonds.

#### Eurobonds retreat after a short rally

Ukrainian Eurobond prices are back to levels seen before the start of the rally a week ago.

### Foreign exchange market

#### NBU allows visible hryvnia appreciation

The hryvnia appreciated last week, while NBU FX sale interventions declined.

### Banks' reserves market (19 January 2024)

|                              | Last    | Weekly<br>chg (%) | YoY<br>chg (%) |
|------------------------------|---------|-------------------|----------------|
| NBU rate (%) <sup>1</sup>    | 15.00   | +0bp              | -1,000bp       |
| ON rate (%)                  | 15.02   | +2bp              | -798bp         |
| Reserves (UAHm) <sup>2</sup> | 211,696 | -7.0              | +66.2          |
| CDs (UAHm) <sup>3</sup>      | 572,263 | +1.1              | +49.7          |

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) (19 January 2024)

|              | Last             | Weekly<br>chg (%) | YoY<br>chg (%) |
|--------------|------------------|-------------------|----------------|
| NBU          | 687,490          | -0.4              | -2.4           |
| Banks        | 661,848          | +0.5              | +32.5          |
| Residents    | 144,935          | +1.8              | +32.4          |
| Individuals  | 55,614           | +1.1              | +74.8          |
| Foreigners   | 44,147           | +1.0              | -26.6          |
| <b>Total</b> | <b>1,596,065</b> | <b>+0.3</b>       | <b>+13.3</b>   |

Source: NBU, ICU.

### Market gov't bond quotes (22 January 2024)

| Maturity       | Bid (%) | Ask(%) |
|----------------|---------|--------|
| 6 months       | 17.50   | 15.00  |
| 12 months      | 18.00   | 16.50  |
| 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

## Domestic bond market dominated by UAH instruments

Last week, investors, including foreigners, were primarily interested in UAH bonds.

In the primary bond market, the MoF doubled UAH borrowings to UAH6.6bn (US\$175m) while FX proceeds decreased to EUR45m. Interest rates remain unchanged. See details in the [auction review](#).

Trading in the secondary market rose slightly to UAH13bn (US\$347m) with a focus on UAH securities. Almost half of all trades were in two instruments: UAH2.5bn (US\$66m) of trades in UAH-denominated bills due in October 2025 and UAH3.7bn (US\$99m) in USD-denominated paper maturing at the end of February.

After a five-week break, foreign investors increased their portfolios by 1.2% to UAH44bn (US\$1.2bn). Individuals and non-banks significantly increased their portfolios by 1.6% and 1.7%, respectively.

This week, the MoF has to redeem just US\$80m of FX-denominated bills, the last debt redemption in January. In February, debt redemptions are much more significant: UAH15bn (about US\$400m), EUR297m, and US\$453m.

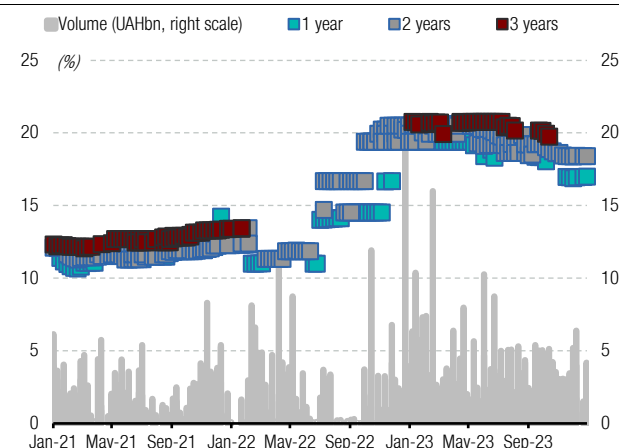
**ICU view: Low demand for EUR-denominated paper did not allow the MoF to complete the refinancing of all redemptions made in January. Therefore, we may see additional offerings of bills in euros to complete refinancing and replenish FX accounts before redemptions in February. In the secondary bond market, significant trading in short-term USD-denominated bills was likely driven by the need to hedge FX risks due to increased volatility in the hryvnia exchange rate. A huge number of trades in 1.5-year UAH bills was likely a resale of bonds by primary dealers after the primary auction.**

**Tomorrow, the MoF will offer US\$100m of USD-denominated bills and will most likely be able to sell all of them. UAH bonds will also be offered with caps. The smallest cap is UAH1bn (US\$27m) for a three-year "reserve" note, which can get larger demand and see the interest rate edging down after it has stayed at 18.6% for two months.**

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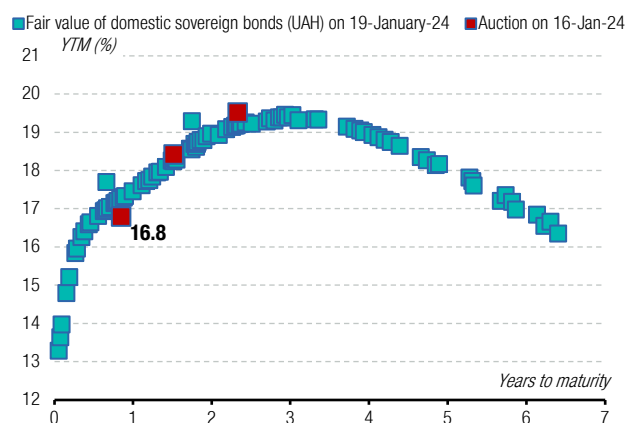
### Chart 1. Local-currency bonds

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



Source: MFU, ICU.

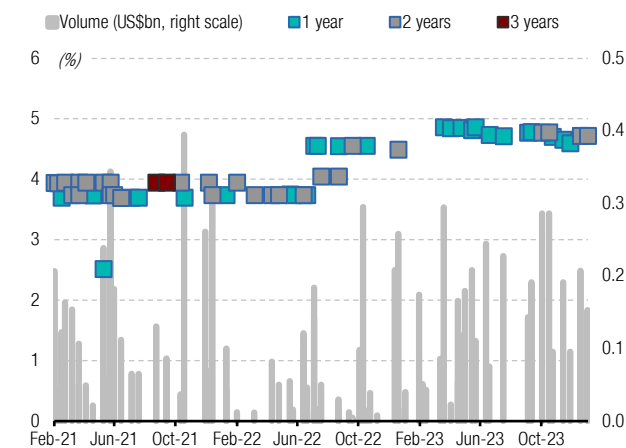
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

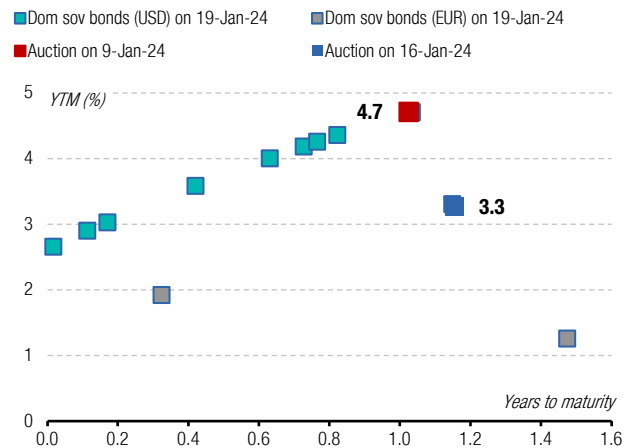
### Chart 2. FX-denominated bonds

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.

## Eurobonds retreat after a short rally

Ukrainian Eurobond prices are back to levels seen before the start of the rally a week ago.

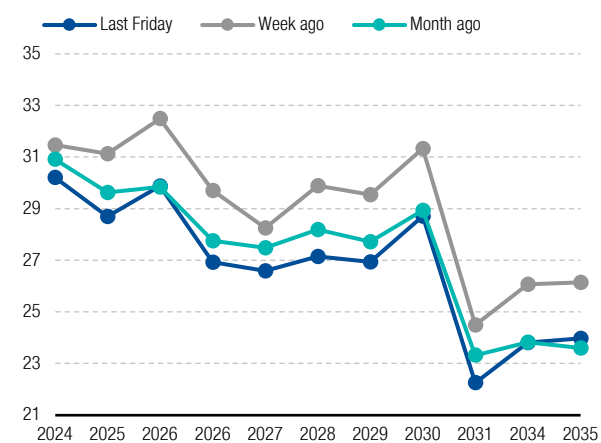
Last week, Ukrainian Eurobonds lost 8% on average, moving to the 22–31 range. The price range for Eurobonds with different maturities widened to 14.8%. VRIs lost about 3.5% with a price decline to slightly above 46 cents per dollar of notional value. The EMBI index slid by 1.1% last week.

**ICU view:** The G7 countries are stepping up their efforts to confiscate russian assets and this provided a short-term positive background that could fuel interest in Ukrainian Eurobonds. However, the rally ran out of steam within days and prices fell again. Prices of Ukrainian Eurobonds will stay volatile in the coming week as investors are closely watching the progress with approval of aid packages for Ukraine by the EU and the US.

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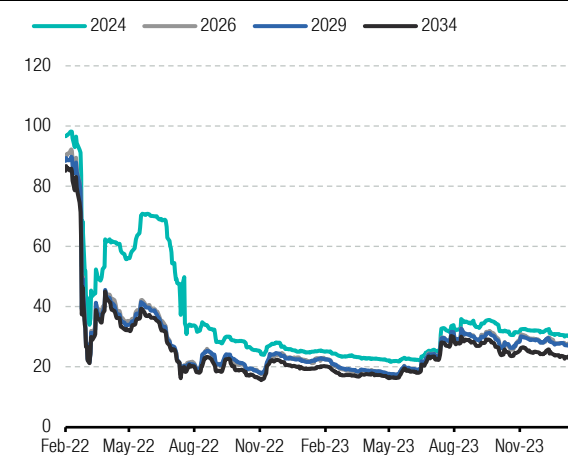
### Chart 3. Ukrainian Eurobonds prices

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



Source: Bloomberg, ICU.

Historical data since February, 2022



Source: Bloomberg, ICU.

# Foreign exchange market

## NBU allows visible hryvnia appreciation

The hryvnia appreciated last week, while NBU FX sale interventions declined.

Balance of FX trading by bank clients (legal entities) slightly improved last week. In four business days they sold US\$708m (4% more) and purchased US\$906m, 5% less compared with the same period of the previous week.

In the retail market, households decreased purchases of non-cash hard currency while purchases in cash segment were almost unchanged. The average hryvnia cash rate in systemically important banks strengthened by 1.4% to UAH37.5–38.2/US\$ over the week.

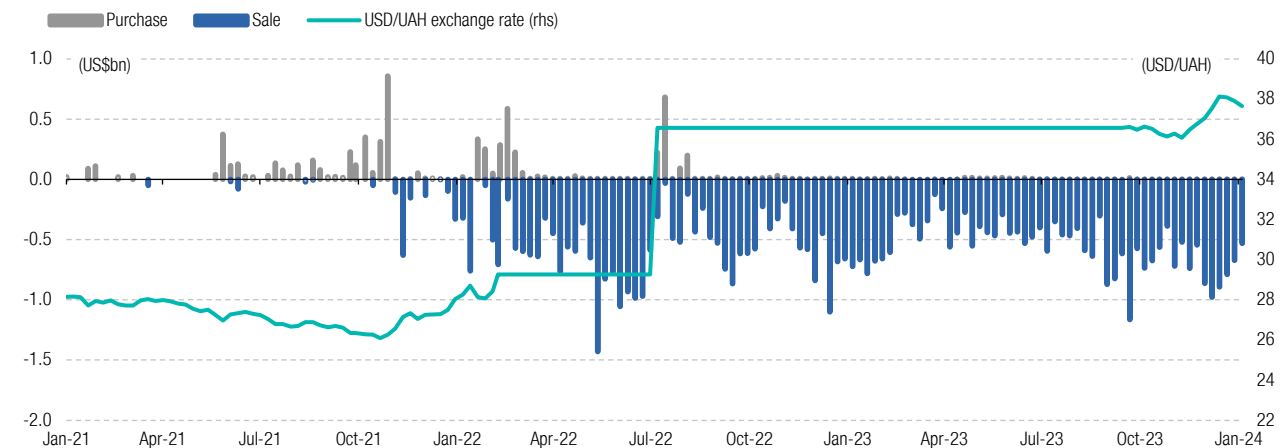
Together, these factors reduced the need for NBU interventions by 21% to US\$531m, the smallest volume this year and below the weekly average for 2023. Similar interventions had been usual last year before the NBU abandoned fixed exchange rate policy.

**ICU view: Imbalances in the interbank FX market narrowed, prompting a decline in NBU interventions and moderate hryvnia appreciation last week. Retail market continues to follow trends in the interbank market. Last week's hryvnia appreciation signals that the NBU follows its promised intervention approach, allowing exchange rate to move in both directions. We do not expect sharp short-term changes in exchange rate this year.**

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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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