

# Weekly Insight

## NBU allows wider exchange rate fluctuations

### Key messages of the today's comments

MONDAY, 19 FEBRUARY 2024

### Ukrainian bond market

#### New borrowings fall short of redemptions

The MoF was able to borrow just half of the funds it paid to redeem bonds last week. This led to higher bond trading in the secondary market.

#### US Senate votes for aid package for Ukraine

Last Tuesday, the US Senate approved a draft of an aid package for Ukraine. This decision had a positive effect on Ukrainian Eurobonds.

### Foreign exchange market

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### Banks' reserves market (16 February 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	15.00	+0bp	-1,000bp
ON rate (%)	15.00	+0bp	-800bp
Reserves (UAHm) <sup>2</sup>	229,798	+4.4	+26.9
CDs (UAHm) <sup>3</sup>	546,646	-5.0	+66.4

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) (16 February 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	684,990	+0.0	-2.1
Banks	662,052	-0.3	+27.4
Residents	149,937	-0.6	+39.0
Individuals	58,658	-0.7	+85.9
Foreigners	43,807	-0.9	-25.9
<b>Total</b>	<b>1,601,559</b>	<b>-0.2</b>	<b>+12.7</b>

Source: NBU, ICU.

### FX market indicators (16 February 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	38.0873	+0.9	+3.5
EUR/USD	1.0777	-0.1	+1.0
DXY	104.275	+0.2	+0.4

Source: Bloomberg, ICU.

### Market gov't bond quotes (19 February 2024)

Maturity	Bid (%)	Ask (%)
6 months	17.00	15.00
12 months	18.00	17.00
2 years	19.25	18.25
3 years	20.00	19.00
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## New borrowings fall short of redemptions

The MoF was able to borrow just half of the funds it paid to redeem bonds last week. This led to higher bond trading in the secondary market.

Last week, the Ministry raised UAH5.4bn from the UAH bond offering at the primary auction. Twelve-month bills received the greatest demand and brought in over half of funds raised. The two-year paper and three-year note were new instruments, which the MoF sold at the same rates as for similar instruments in previous weeks. See details in the [auction review](#).

In the secondary market, the total volume of bond trades rose by 44%, but with significant changes in the structure of trades. The trading volume in UAH bonds doubled, and in FX segment it fell by 75%. The most traded were UAH bills maturing in April 2025 and in December of this year—15% and 11% of all bond trades, respectively. 54% of all trades was with short-term bills (below one year maturity).

All bondholders' portfolios decreased last week. The largest reduction happened in the portfolios of individuals and foreigners by 0.7% and by 0.9%, respectively.

This week, the Ministry must repay UAH2.5bn and EUR296m in bond redemptions. At the same time, tomorrow, the MoF will offer three UAH bonds with a total cap of UAH11bn and 12-month EUR-denominated bills with a EUR300m cap.

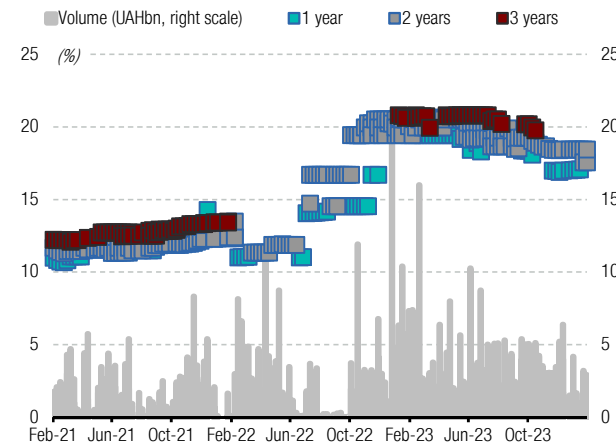
***ICU view: The Ministry of Finance refinanced only half of last week's redemption, but due to large borrowings over the previous couple of weeks, the level of UAH debt refinancing remains high YTD. Given that upcoming repayments are relatively small, the refinancing ratio should increase by the end of February. At the same time, the state budget needs to step up FX-denominated borrowing. The rollover ratio in euros is currently below 100% and is likely to worsen this week. However, the Ministry can gradually improve the ratio in the coming months since the next debt redemption in euros is scheduled for May.***

***Despite the large volumes of UAH repayments, investors' interest in the primary auction was much smaller, probably due to the uncertainty with regard to the placement terms of new bonds. Therefore, some investors likely preferred to reinvest funds in the secondary market, where they can buy bonds with shorter maturities.***

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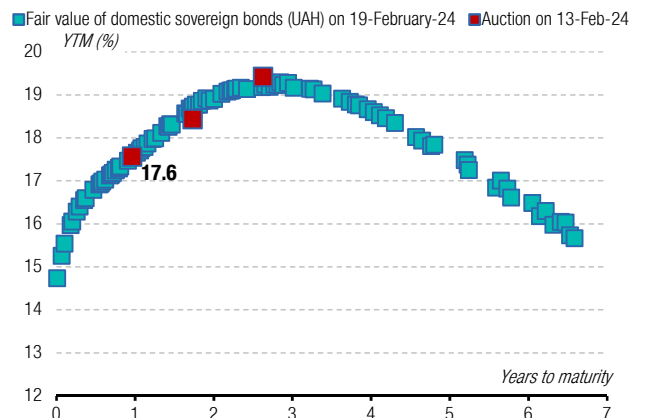
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

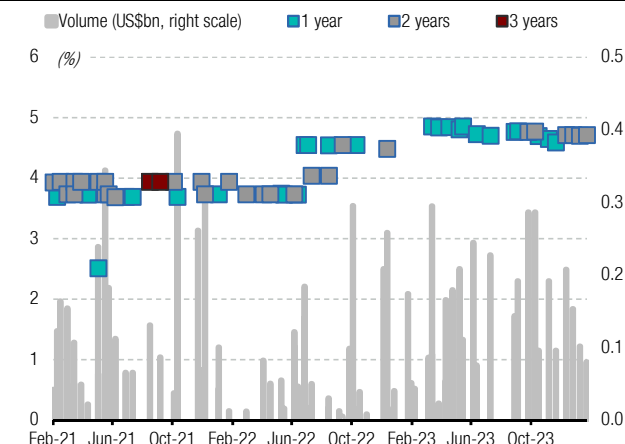
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

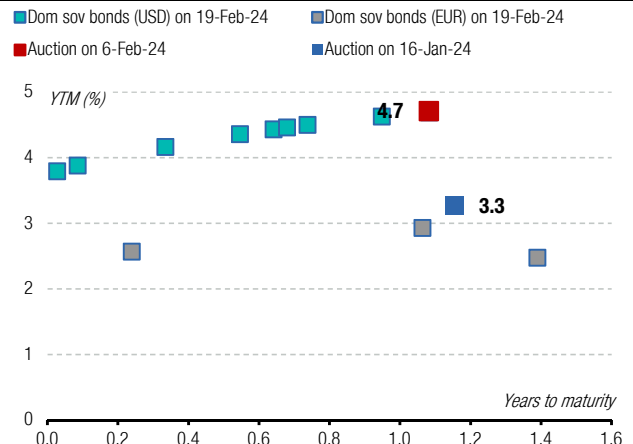
**Chart 2. FX-denominated bonds**

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.

**US Senate votes for aid package for Ukraine**

Last Tuesday, the US Senate approved a draft of an aid package for Ukraine. This decision had a positive effect on Ukrainian Eurobonds.

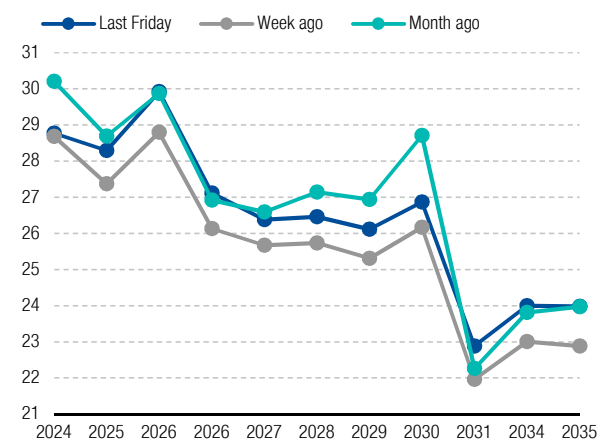
Last week, Eurobonds prices went up by an average of 3%, although this did not compensate for losses seen in the previous week. Prices shifted during the week to 22–30 cents per dollar, and the range of prices for Ukrainian Eurobonds with different maturities remained at 13.3%. The price of VRIs also failed to recover to the level at the beginning of the month, increasing by only 1.5%, and remaining below 47 cents per dollar of notional value. The EMBI index slid by only 0.1% last week.

**ICU view:** Last Tuesday, the US Senate approved an aid package for Ukraine, Israel, and Taiwan without an immigration policy component. This decision added some optimism to bondholders, halted the price decline of Ukraine Eurobonds and even favored a slight price recovery. For now, investors will keep an eye on the passage of this document in the House of Representatives, where it may see some changes.

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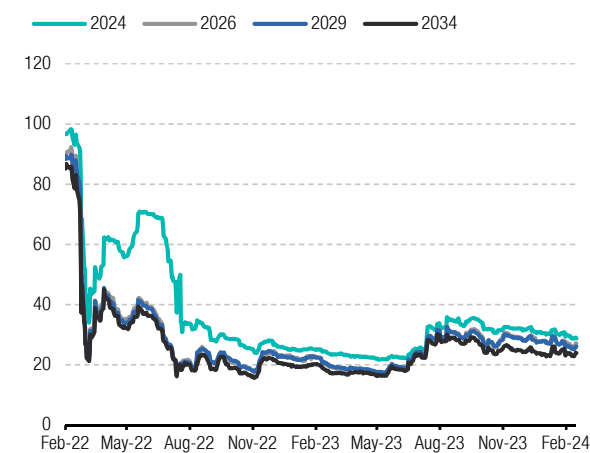
**Chart 3. Ukrainian Eurobonds prices**

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 wider exchange rate fluctuations

Last week, fluctuations in the hryvnia exchange rate increased, and the hryvnia weakened.

In the interbank market, bank clients (legal entities) decreased hard currency sales by 14.5% to US\$862m and purchases by 7% to US\$813m (in four business days compared with the same period of the previous week). As a result, the foreign currency surplus in the segment decreased almost threefold to US\$48m. The UAH official exchange rate saw both weakening and strengthening, fluctuating between UAH37.62/US\$ to UAH38.17/US\$, and for today, it is set at UAH37.97/US\$, 0.9% weaker than a week ago.

At the same time, in the retail market, the volume of hard-currency trading declined with imbalances narrowing. The hryvnia cash rate in systemically important banks weakened by 0.8% to UAH37.8–38.4/US\$.

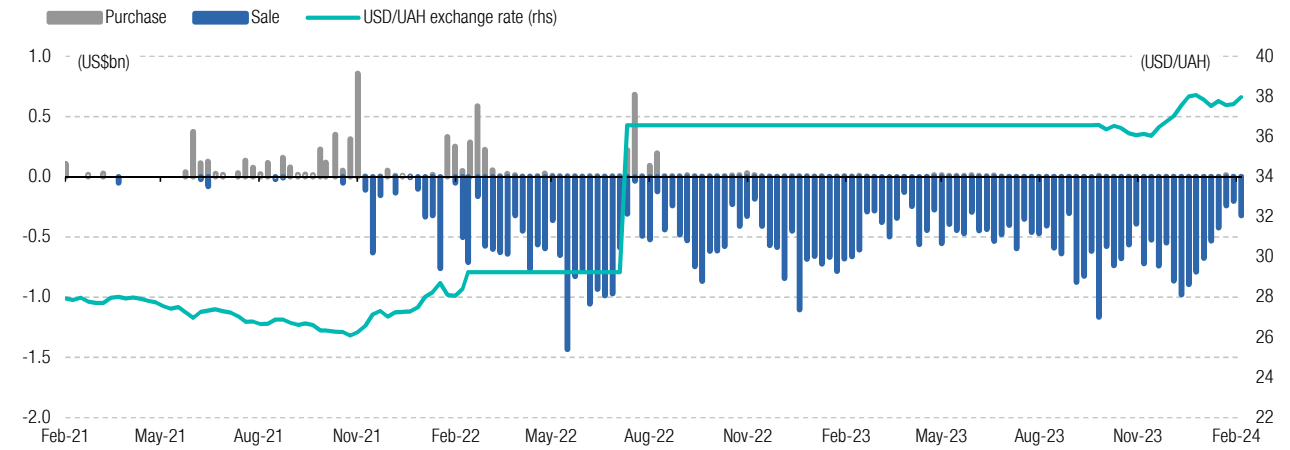
All in, the overall balance on the FX market worsened, and the NBU had to increase interventions to US\$322m, which is still below the average weekly volume of interventions YTD.

**ICU view:** Last week, the hryvnia weakened close to its lowest level since the NBU switched to a managed flexible exchange rate regime in October last year. At the same time, the NBU allowed more frequent and wider exchange rate fluctuations. The NBU is likely testing the market's reaction to wider fluctuations while clearly demonstrating its readiness to keep the FX market under its full control via interventions. We maintain our view the NBU will allow gradual exchange rate weakening during the 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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