

# Weekly Insight

## Significant redemptions of domestic FX debt

### Key messages of the today's comments

MONDAY, 26 FEBRUARY 2024

### Ukrainian bond market

#### Ukraine navigates significant redemptions of domestic FX debt

Last week, the Ministry of Finance was able to refinance a significant portion of redemptions in euro. This week, a redemption of USD-denominated bills for US\$453m is scheduled, and the MoF plans to raise about two-thirds of that volume in tomorrow's auction.

#### Eurobonds supported by new commitment from partners

Staff-level agreement under the third review of the IMF program and a new financial aid commitment from Japan supported Eurobond prices.

### Foreign exchange market

#### NBU allows even larger range for hryvnia fluctuations

Last week, the demand for hard currency increased significantly, which led to a sharp increase in NBU interventions and a new low for the official hryvnia exchange rate.

### Banks' reserves market (23 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>	223,648	-2.7	+34.9
CDs (UAHm) <sup>3</sup>	564,040	+3.2	+64.9

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) (23 February 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	682,490	-0.4	-2.1
Banks	665,272	+0.4	+25.6
Residents	151,751	+1.4	+39.4
Individuals	60,122	+2.5	+83.2
Foreigners	43,520	-0.9	-26.2
<b>Total</b>	<b>1,605,270</b>	<b>+0.2</b>	<b>+12.3</b>

Source: NBU, ICU.

### FX market indicators (23 February 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	38.2587	+0.5	+3.9
EUR/USD	1.0821	+0.4	+2.1
DXY	103.936	-0.3	-0.6

Source: Bloomberg, ICU.

### Market gov't bond quotes (26 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

## Ukraine navigates significant redemptions of domestic FX debt

Last week, the Ministry of Finance was able to refinance a significant portion of redemptions in euro. This week, a redemption of USD-denominated bills for US\$453m is scheduled, and the MoF plans to raise about two-thirds of that volume in tomorrow's auction.

Last week, the Ministry attracted an equivalent of UAH16.6bn (US\$434m) to the budget, including EUR278.7m, while keeping interest rates unchanged (see [auction review](#)). This allowed the MoF to refinance almost the entire volume of redemptions made last week. The rollover in euros YTD declined marginally, but stayed at a relatively high 93%.

This week, the Ministry must redeem bonds for almost US\$453m. At the same time, the MoF plans to raise only US\$300m at the auction. The planned volume of UAH borrowing remains at UAH11bn (US\$286m).

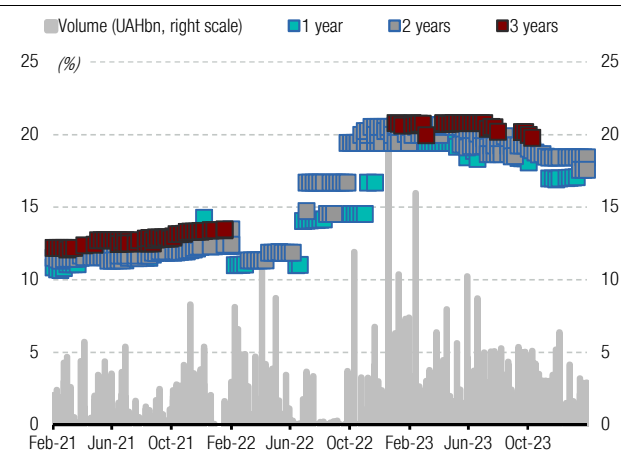
Last week, the secondary bond market remained focused on UAH bonds. The total volume of trades decreased by only 3%, and the share of trades in FX-denominated instruments was only 4%. The most traded paper were UAH bonds maturing in September 2026 – almost 27% of the total volume of all deals.

**ICU view: While the rollover of local debt in euros is below 100%, the MinFin has a few months to improve the ratio, as the next redemption in euros is scheduled for May. At the same time, the cumulative rollover rate YTD for US\$ debt may slip below 100% this week. In addition, in three weeks, another sizable repayment of US\$430m is scheduled, so the MoF may struggle to accumulate the necessary funds to secure a 100% rollover by that time.**

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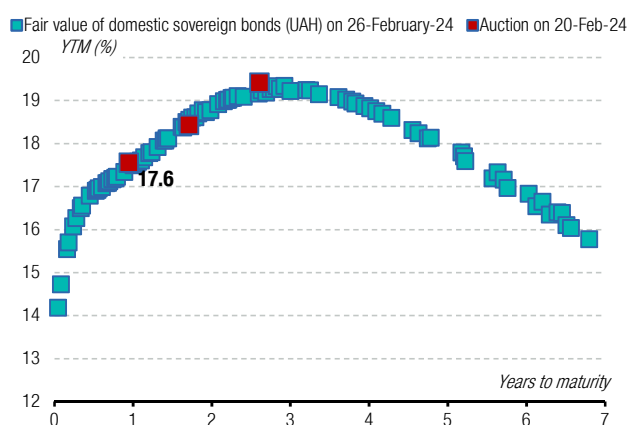
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

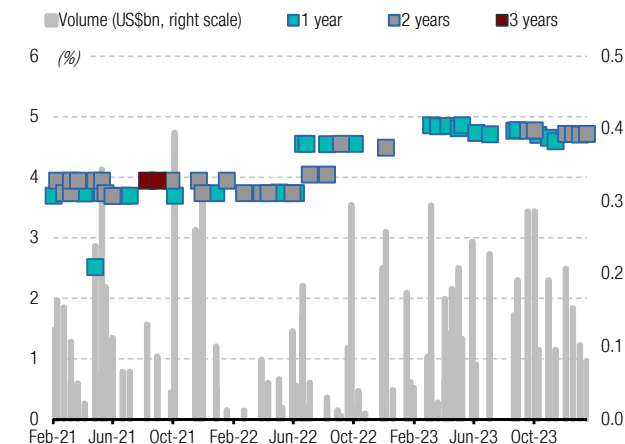
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

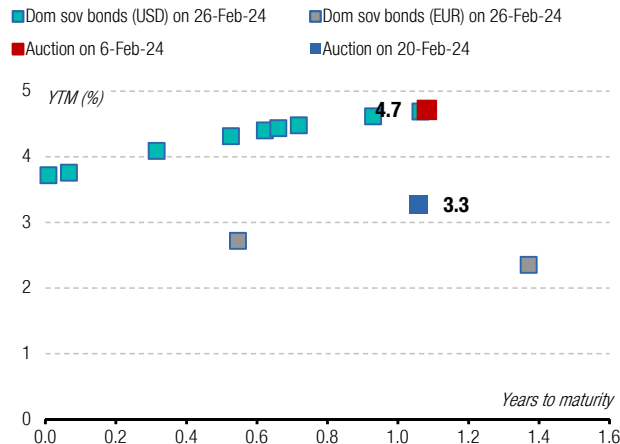
**Chart 2. FX-denominated bonds**

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 supported by new commitment from partners**

Staff-level agreement under the third review of the IMF program and a new financial aid commitment from Japan supported Eurobond prices.

Last Wednesday, the IMF mission to Ukraine announced it reached a staff-level agreement under the third program review. After the IMF board approves this review in late March, Ukraine will receive a new loan tranche for US\$880m. On top of that, Japan announced it would provide additional US\$1.8bn in financial aid to Ukraine by end-1Q24.

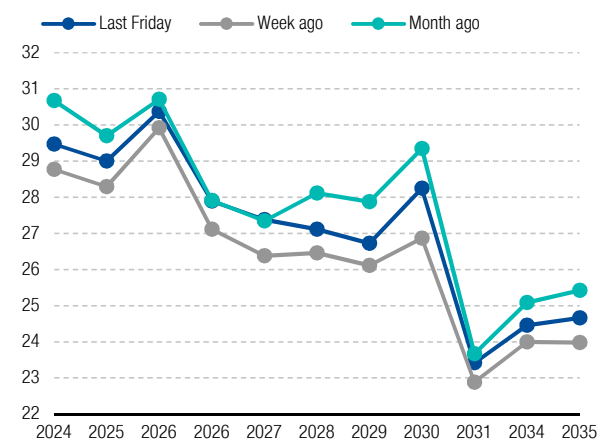
All in, last week, Ukrainian Eurobond prices rose by an average of 2.7% to the range of 23–30 cents per dollar. For most maturities, this exceeded the level at the beginning of February. The range of prices for different maturities narrowed to 12.7%. At the same time, VRIs slid by 3% to 45 cents per dollar of notional value. The EMBI index was up by 0.8% last week.

**ICU view:** *Despite the delay of an approval of the aid package from the US, other donors confirmed their commitment to provide grants and loans according to plans. A staff-level agreement with the IMF, although much expected, still sends a positive signal to Ukraine’s creditors.*

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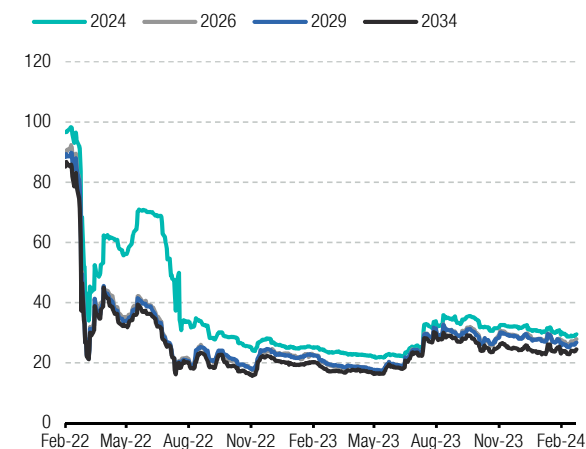
### Chart 3. Ukrainian Eurobonds prices

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 even larger range for hryvnia fluctuations

Last week, the demand for hard currency increased significantly, which led to a sharp increase in NBU interventions and a new low for the official hryvnia exchange rate.

The demand for foreign currency in the interbank FX market from bank clients (legal entities) exceeded supply by US\$337m (in four business days). Purchases increased by 46% to US\$1.2bn, while the sales remained almost unchanged WoW at US\$0.9bn. The NBU doubled its interventions to US\$649m, which was the largest amount in the past six weeks. Interventions were significant from Tuesday to Thursday.

Last Wednesday, the NBU set the official exchange rate at UAH38.62/US\$, the weakest level historically. Yet, by Friday, it strengthened somewhat and ended the week with 1% depreciation to UAH38.35/US\$.

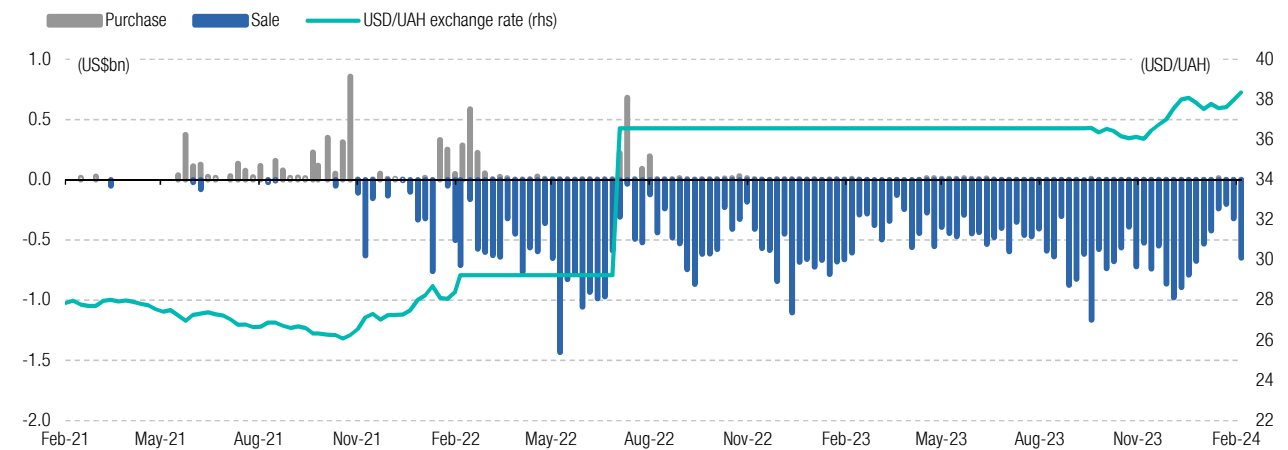
In the retail FX segment, the hryvnia cash exchange rate in systemically important banks also weakened by almost 1% to UAH38.2–38.7/US\$, broadly in line with the interbank market.

**ICU view: The increase in demand for hard currency was situational and could again be explained by foreign currency purchases by government agencies to pay for defence contracts with foreign suppliers. However, the NBU allowed the hryvnia to weaken to a new historical low, which sets new guidance for the market about the extent of exchange-rate fluctuations. At the same time, the NBU maintains its commitment to two-way movements of the hryvnia exchange rate.**

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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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