



Focus
Ukraine

Markets
Government bonds,
FX market, and macro

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Weekly Insight

NBU continues rate-cutting cycle

Key messages of the today's comments

MONDAY, 29 APRIL 2024

Ukrainian bond market

Decline in bond yields likely to resume

Last week, the NBU cut its key policy rate and interest rates for CDs by 100bp, so we expect the yield on government bonds to again follow suit.

MoF getting ready for large domestic redemptions

In April, the Ministry of Finance raised 10 times more proceeds than it redeemed, so the refinancing ratios for domestic debt improved significantly.

Eurobond prices falling on negative expectations

Lingering uncertainty about terms of Ukraine's Eurobond restructuring and a wave of discussion that a restructuring scenario may prove less favourable for investors then expected pushed prices of Eurobonds significantly down.

Foreign exchange market

Hryvnia weakening paused

The deficit in the FX market decreased last week, allowing the NBU to reduce interventions and strengthen the hryvnia exchange rate.

Economics

NBU continues rate-cutting cycle

The central bank has implemented a 100bp reduction in the key interest rate, bringing it to 13.5%. This adjustment exceeded market expectations slightly, but was not entirely unpredictable.

Banks' reserves market (26 April 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	13.50	-100bp	-1,150bp
ON rate (%)	13.50	-100bp	-650bp
Reserves (UAHm) ²	161,325	-23.6	-8.7
CDs (UAHm) ³	619,531	+9.0	+40.4

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 govt bond holders (UAHm) (26 April 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,990	-0.4	-2.7
Banks	699,555	+1.1	+32.3
Residents	159,061	-0.1	+40.9
Individuals	61,755	+1.4	+64.5
Foreigners	41,827	-1.7	-18.9
Total	1,641,952	+0.3	+14.7

Source: NBU, ICU.

FX market indicators (26 April 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	39.6363	-0.6	+7.3
EUR/USD	1.0739	+0.8	-2.7
DXY	105.535	-0.6	+4.0

Source: Bloomberg, ICU.

Market gov't bond quotes (29 April 2024)

Maturity	Bid (%)	Ask(%)
6 months	17.00	14.50
12 months	17.50	16.00
2 years	19.00	17.00
3 years	19.75	18.00
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Decline in bond yields likely to resume

Last week, the NBU cut its key policy rate and interest rates for CDs by 100bp, so we expect the yield on government bonds to again follow suit.

The downward drift of yields on UAH government bonds in the primary market was effectively paused for two weeks. Last week, the MoF reduced the cut-off rate by just 10bp for 12-month paper only, preferring to accept non-competitive demand (i.e. satisfied at the weighted average rate) instead of competitive bids with higher rates. Interest rates in bids for two-year and three-year instruments remained broadly unchanged for three weeks, leaving the Ministry little room to lower the cut-off rate (see [auction comment for details](#)).

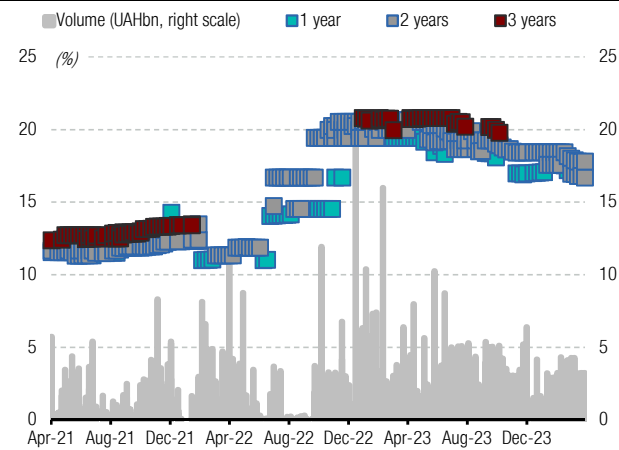
The YTM for UAH bonds were also little changed in the secondary market. Trading volume almost halved to UAH8.1bn, and was mainly concentrated in longer instruments. The leader of last week's trading was notes due in July 2027.

ICU view: NBU's decision to cut interest rates on its instruments by 100bp (see [comment below](#)) will likely force primary auction participants to compete by lowering rates in their bids for tomorrow's placement. YTM's did not change visibly in the secondary market as investors await signals from the primary placements tomorrow. Investors' focus remains mainly on longer bonds as they try to lock-in current yields for the maximum available term.

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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 (%)



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

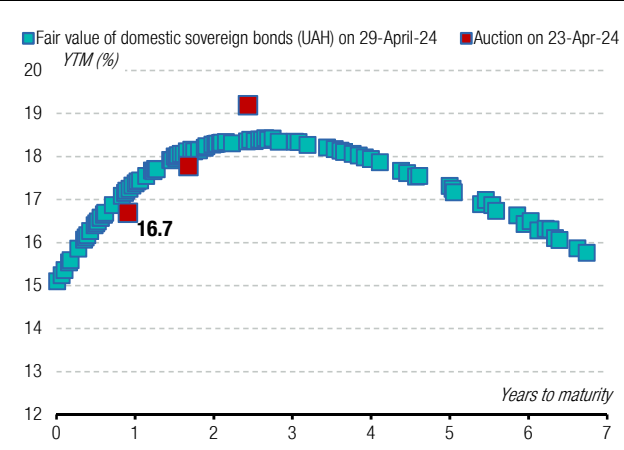
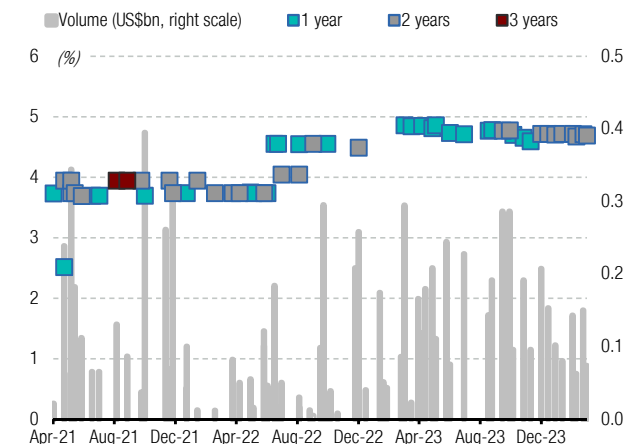


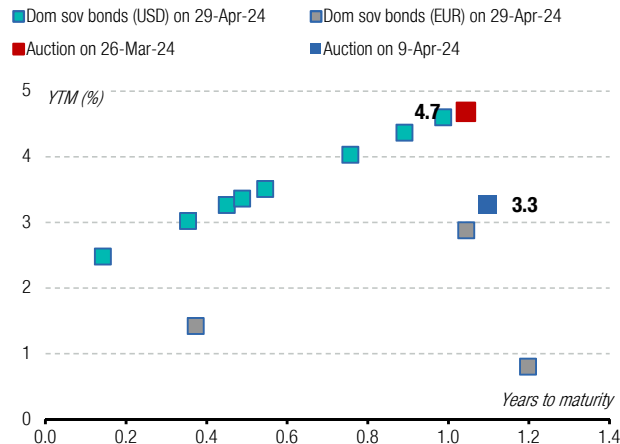
Chart 2. FX-denominated bonds

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

MoF getting ready for large domestic redemptions

In April, the Ministry of Finance raised 10 times more proceeds than it redeemed, so the refinancing ratios for domestic debt improved significantly.

Last week, the MoF redeemed UAH2.5bn of bonds from the NBU's portfolio. It was the only redemption this month. At the same time, the Ministry borrowed UAH25bn and EUR42m over the month. So, in April, UAH borrowings covered redemptions tenfold. Meanwhile, there were no redemptions of FX debt. In 4m24, borrowings were 57% higher than repayments, so the net borrowings YTD in all currencies reached an equivalent of UAH52bn, implying a 241% rollover rate for hryvnia-denominated debt, 96% for USD, and 101% for euros.

Next month, in contrast, is heavy on redemptions. Next week, the Ministry of Finance needs to repay UAH19bn, then a EUR277m repayment comes in the middle of the month, and another UAH21.6bn at the end of the month. The MoF plans to offer UAH bonds and EUR-denominated bills in May. Proceeds from tomorrow's auction will also be booked in May.

ICU view: The MoF expectedly improved the refinancing ratios in April and increased the rollover rate (combined in all currencies) in 4M24 to 157% from 131% in 1Q24. At the same time, the prospect of a further reduction in UAH bond rates will incentivise investors to buy paper in May, so we expect the refinancing rate will remain decent in the near term.

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Eurobond prices falling on negative expectations

Lingering uncertainty about terms of Ukraine's Eurobond restructuring and a wave of discussion that a restructuring scenario may prove less favourable for investors than expected pushed prices of Eurobonds significantly down.

Last week, prices of Ukrainian Eurobonds fell by more than 7% to 25.5–32.9, and the price range for instruments with different maturities slightly widened to 12.7%. The price of VRIs declined by 0.7% to 54 cents per dollar of notional value. The EMBI index slid last week by 0.1%.

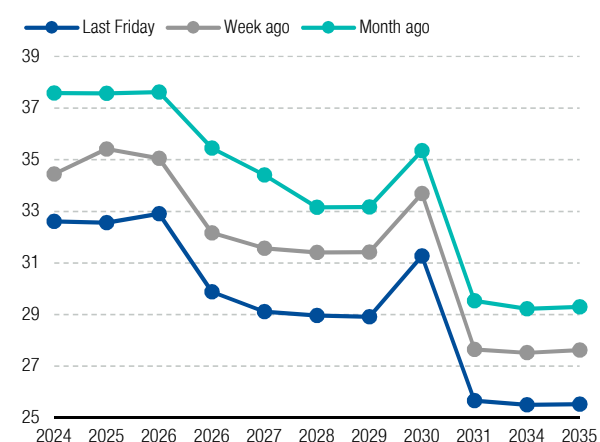
ICU view: Last week, the US's military and financial aid package for Ukraine was finally approved, which provided a huge relief for the economy and state budget. On top of that, Ukraine received the second tranche of transitional financing from the EU for

EUR1.5bn. With budget financing uncertainties substantially minimized, the Ministry of Finance is now in a position to complete the preparation of a Eurobond restructuring proposal. Yet, this positive news was overwhelmed with rumors that the terms of the Eurobond restructuring may be worse than what market broadly expects. Some investors that participated in the IMF spring meetings noted that the IMF may give more weighting to a downside scenario DSA developed in MEFP. This may result in more significant write-downs and less near-term cash payment than the market currently expects. There have been no official statements in this regard so far.

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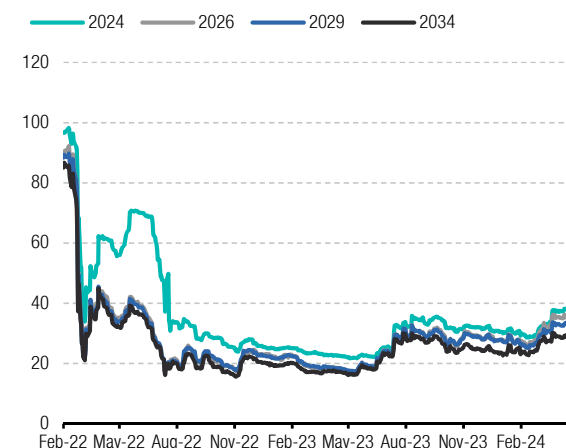
Chart 3. Ukrainian Eurobonds prices

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

Hryvnia weakening paused

The deficit in the FX market decreased last week, allowing the NBU to reduce interventions and strengthen the hryvnia exchange rate.

In the FX interbank market, the net purchase of hard currency declined by 24% to US\$180m (in four business days). Trading volume was also down: sale of foreign currency decreased by 9% to US\$788m, and purchases by 12% to US\$969m. Net purchases in the retail FX segment decreased by 17% to US\$100m.

Lower trading volumes and deficit allowed the NBU to reduce interventions by almost a quarter compared with the previous week to US\$532m.

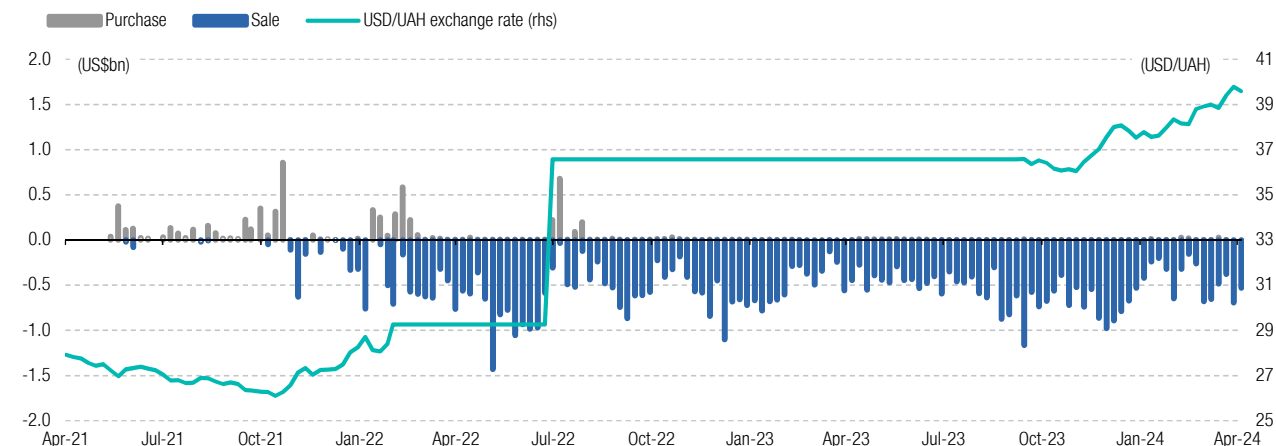
The official exchange rate appreciation was 0.5% to UAH39.6/US\$ last week, and the cash rate in systemically important banks strengthened by 0.3% to UAH39.4-40/US\$.

ICU view: With no one-off excessive demand for hard currency, the hryvnia strengthened slightly last week. The NBU allows the exchange rate to fluctuate, but at this point, they do not let it cross the UAH40/US\$ mark.

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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.

Economics

NBU continues rate-cutting cycle

The central bank has implemented a 100bp reduction in the key interest rate, bringing it to 13.5%. This adjustment exceeded market expectations slightly, but was not entirely unpredictable.

Concurrently, interest rates on certificates of deposit (CDs) were also lowered by 100bp to 13.5% for overnight instruments and 16.5% for three-month instruments. Additionally, the cost of refinancing loans has been reduced by 200bp to 17.5%.

The regulator has announced plans for further FX liberalization, though details have not yet been disclosed. These plans are expected to encompass permissions for repatriation of new dividends, payments for imported services, and servicing debts incurred by foreigners prior to 2022.

ICU view: *We anticipate that the NBU will surpass its current forecast of a single 50bp cut in June and anticipate lowering the rate to 11.5-12.0% by the end of 2024. The combination of a low inflation and stability in the foreign exchange market this year provides potential for additional interest rate reductions, while simultaneously maintaining the objective of keeping Ukrainian hryvnia assets attractive.*

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