

# Weekly Insight

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### Key messages of the today's comments

#### Ukrainian bond market

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Last week, the Ministry of Finance managed to significantly reduce yields on three-year notes.

##### Eurobond holders thirsty for positive news

Prices of Ukrainian Eurobond continued to decline last week, but at the end of the week they moved up in anticipation of good news from the G7 meeting and the IMF mission.

#### Foreign exchange market

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### MONDAY, 27 MAY 2024

#### Banks' reserves market (24 May 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	13.50	+0bp	-1,150bp
ON rate (%)	13.50	+0bp	-850bp
Reserves (UAHm) <sup>2</sup>	232,226	+3.3	+16.7
CDs (UAHm) <sup>3</sup>	563,486	+2.5	+41.0

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) (24 May 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	-0.1	-2.4
Banks	685,374	-0.8	+24.9
Residents	162,197	+0.0	+38.4
Individuals	61,764	+0.1	+53.3
Foreigners	35,420	-12.4	-35.9
<b>Total</b>	<b>1,623,857</b>	<b>-0.7</b>	<b>+11.3</b>

Source: NBU, ICU.

#### FX market indicators (24 May 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	40.1359	+1.6	+8.7
EUR/USD	1.0847	-0.2	+0.9
DXY	104.724	+0.3	+0.8

Source: Bloomberg, ICU.

#### Market gov't bond quotes (27 May 2024)

Maturity	Bid (%)	Ask (%)
6 months	15.50	13.00
12 months	16.50	15.00
2 years	17.25	16.25
3 years	18.50	17.00
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## MoF lowers interest rates faster than NBU

Last week, the Ministry of Finance managed to significantly reduce yields on three-year notes.

In the primary bond market, the most significant volume of bids was received for three-year UAH notes, which were oversubscribed almost five-fold—UAH14.4bn vs. the supply cap of UAH3bn. The Ministry lowered rates by 10bp to 15.05% for 12-month bills, by 12bp to 16.08% for two-year papers and by 27bp to 16.93% for three-year notes. Rates on EUR-denominated bills remain unchanged. See details in the auction overview.

For all three tenors of UAH-denominated bonds, interest rates have already fallen by more than 150bp since the beginning of the spring cycle of monetary policy easing, thus exceeding the cumulative cut in the NBU key policy rate. Interest rates for one-year bills decreased by 175bp, for two-year papers by 152bp, and for three-year notes by 157bp.

In the secondary market, the trading almost doubled to UAH12.4bn. The most traded were notes maturing in February 2027 (25% of all UAH bond trades) and February 2025 (16% of trades).

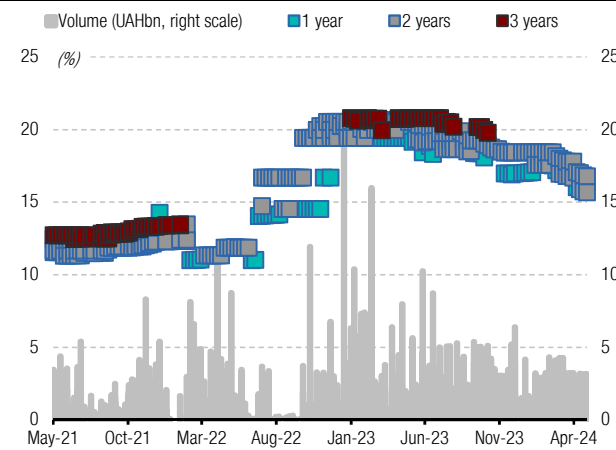
Last week's debt redemption of UAH22bn caused a sharp reduction in the portfolios of all investor groups. Only individuals restored their portfolio until the end of last week.

**ICU view: Investors were looking to quickly reinvest last week's redemptions and lock in yields at current levels. This caused a substantial oversubscription in the primary bond market and increased trading volumes in the secondary market. We expect UAH bond rates to continue to decline in the coming weeks.**

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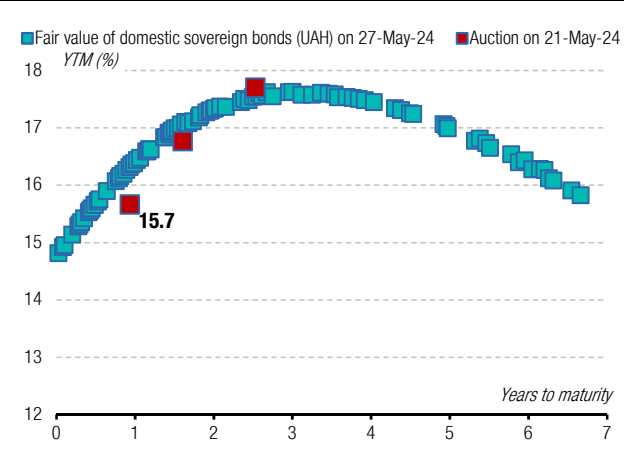
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

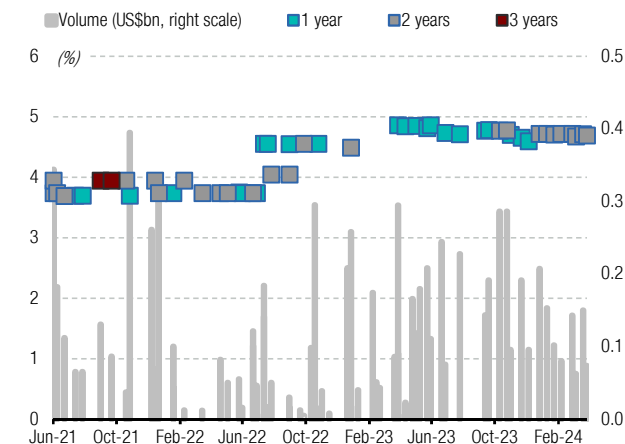
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

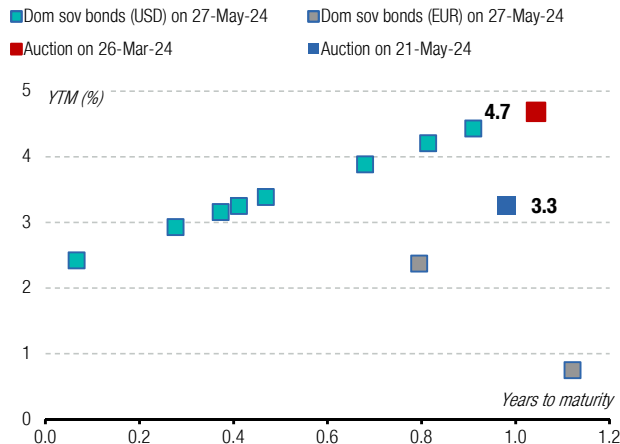
**Chart 2. FX-denominated bonds**

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 holders thirsty for positive news**

Prices of Ukrainian Eurobond continued to decline last week, but at the end of the week they moved up in anticipation of good news from the G7 meeting and the IMF mission.

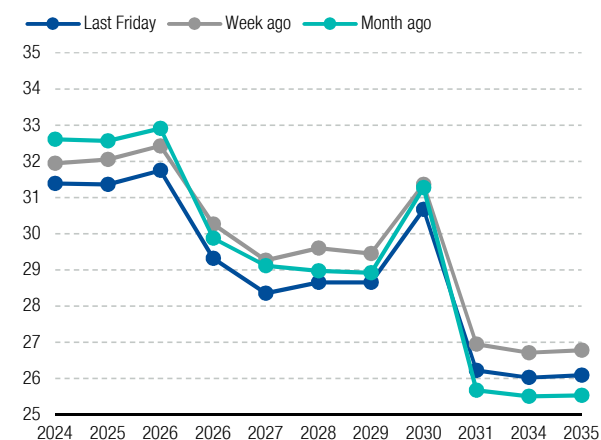
By Wednesday, Eurobond prices fell to 25.7-31.4 cents per dollar, but by the end of the week, they had risen slightly to 26–31.8 cents per dollar. As a result, Ukrainian Eurobond prices decreased by an average of 2.5% last week, with the price range for instruments with different maturities widening to 10%. The price of VRIs declined by 3.8% to 51.9 cents per dollar of notional value. The EMBI index slid by 0.6% last week.

**ICU view:** Last week, finance ministers and heads of central banks of the G7 countries held a two-day meeting in Italy. They discussed the prospects and format of a loan for Ukraine secured by the proceeds from frozen Russian assets. As investors were anticipating some progress in discussions their sentiment somewhat improved at the end of last week. Also, last week, the IMF started its scheduled review of the EFF program, which may result in an allocation of a new US\$2.2bn tranche. At the same time, there was no new important information about the restructuring in the public space, only rumours about the contacts of advisers and changes in the composition of the creditors' club.

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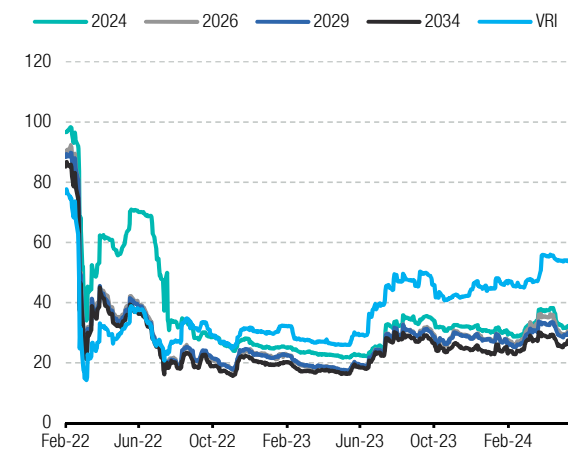
### Chart 3. Ukrainian Eurobonds and VRI prices

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 resumes hryvnia devaluation

The National Bank ended a several-week pause in hryvnia devaluation and weakened the official exchange rate to UAH40.12/US\$ last Friday.

FX interbank trading (for four business days) decreased significantly, while imbalances were little changed. Hard currency purchases by bank clients (legal entities) amounted to US\$921m (14% less than in the same period of the previous week), while foreign currency sales decreased by 15% to US\$837m. Net FX purchases decreased by 1% to US\$85m.

In the retail market segment last week (also in four business days), the purchase of hard currency decreased by 3.1%, and sales decreased by 2.8%. The net purchase of foreign currency by households decreased by 3.8% to US\$154m.

Over four days, the hard currency deficit decreased by approximately 3% WoW to US\$238m. During this period, the NBU's interventions totaled approximately US\$400m. However, for the full week, the NBU's interventions increased by 39% to US\$684m. So, it is likely that on Friday, the NBU significantly increased hard currency sales from international reserves.

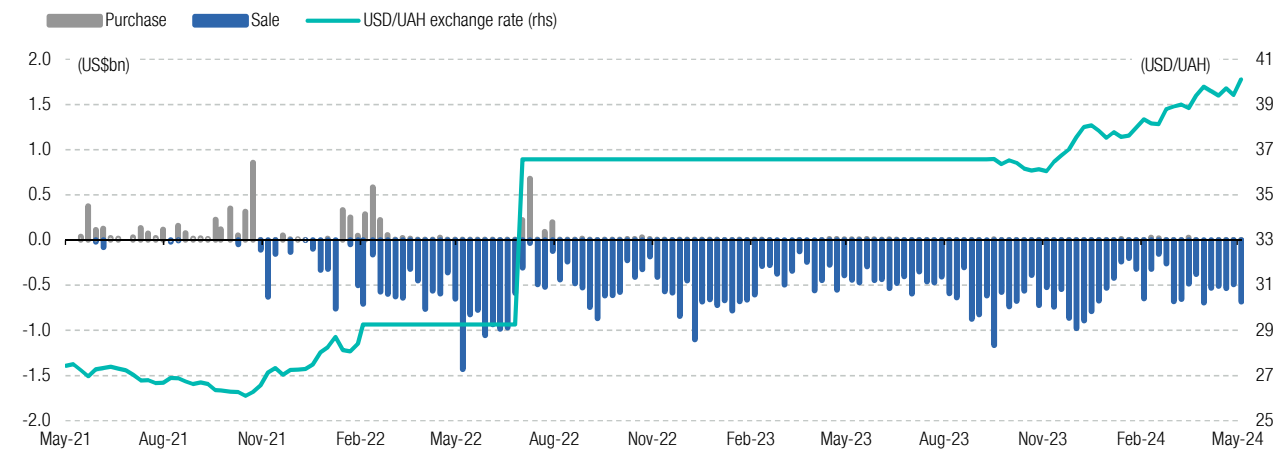
The hryvnia exchange rate weakened significantly last Friday, both in the interbank market and in the retail segment. The official exchange rate weakened last week by 1.8% to UAH40.12/US\$, and the cash rate in systemically important banks weakened by 1.2% to UAH39.9-40.4/US\$.

**ICU view: Clients likely stepped up purchases in the FX interbank market on Friday. A large part of the demand could be from government agencies. So, the National Bank had to increase the sale of currency dramatically. At the same time, the NBU responded with another step of hryvnia weakening after four weeks of relative stability of the exchange rate. It allowed the official exchange rate to cross the level of UAH40/US\$ for the first time. The NBU may now be testing a new exchange rate corridor for the coming weeks/months.**

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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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