

Weekly Insight

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Key messages of the today's comments

Ukrainian bond market

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Foreign exchange market

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MONDAY, 24 JUNE 2024

Banks' reserves market (21 June 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	13.00	+0bp	-1,200bp
ON rate (%)	13.01	-2bp	-698bp
Reserves (UAHm) ²	236,213	+32.7	+15.9
CDs (UAHm) ³	521,808	-11.6	+11.8

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) (21 June 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-2.4
Banks	706,161	+1.2	+29.9
Residents	161,674	-2.0	+36.8
Individuals	56,824	-11.2	+35.2
Foreigners	36,372	-0.8	-29.0
Total	1,639,692	-0.2	+12.9

Source: NBU, ICU.

FX market indicators (21 June 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	40.4500	-0.6	+9.5
EUR/USD	1.0693	-0.1	-2.7
DXY	105.796	+0.2	+3.6

Source: Bloomberg, ICU.

Market gov't bond quotes (24 June 2024)

Maturity	Bid (%)	Ask (%)
6 months	15.00	13.00
12 months	16.00	15.00
2 years	16.50	15.50
3 years	17.50	16.50
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

New UAH note receives high interest

Last week, the Ministry of Finance offered a new note due in 2028 with a decent term premium, but it also lowered rates on two-year bills.

At the primary bond auction, the Ministry of Finance offered the usual one-year and two-year bills, but a three-year bond was replaced with a new note maturing in February 2028. For the one-year and new 3.7-year instruments, demand exceeded UAH5.5bn vs the UAH4bn cap. Interest rates on 12-month bills did not change, while the MoF lowered rates by another 10–30bp on two-year paper to 15.28–15.40%. On the new instrument, the MoF set the rate at 16.8%, which implies a 60bp term premium over the yield of the three-year paper sold a week before. See details in the [auction review](#).

In the secondary bond market, trading rose by 12% to UAH7.3bn. Bonds due in October this year (15% of the total trading volume) and June next year (25% of the total trading volume) were the most heavily traded, and almost 5% of trading was with newly issued notes maturing in February 2028.

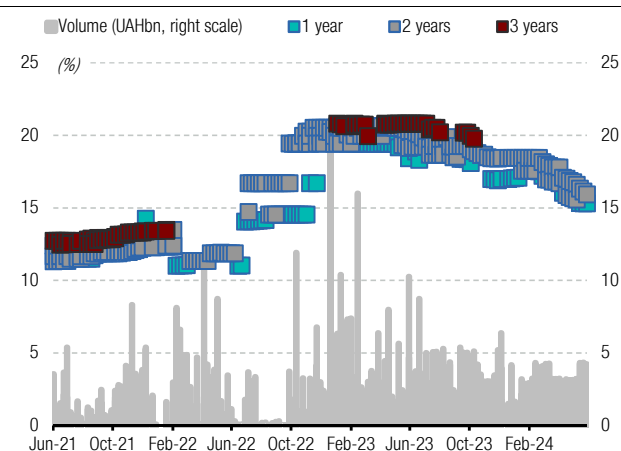
The redemption of US\$303m of FX-denominated bills reduced the portfolios of almost all groups of investors. The repayment of UAH18bn of local-currency bonds this week may reduce the portfolios even further.

ICU view: The new 3.7-year notes draw decent demand, but investors expectedly required substantial compensation for longer maturity. As early as tomorrow, the Ministry of Finance may attempt to lower the interest rate on this instrument from the current 16.8%. We don't expect any material changes in short-term yields as the market is likely to take a pause until the NBU provides its updated key policy rate forecast at the end of July.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

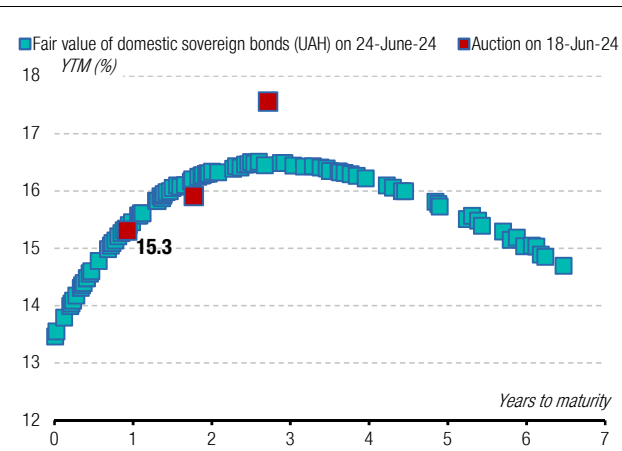
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

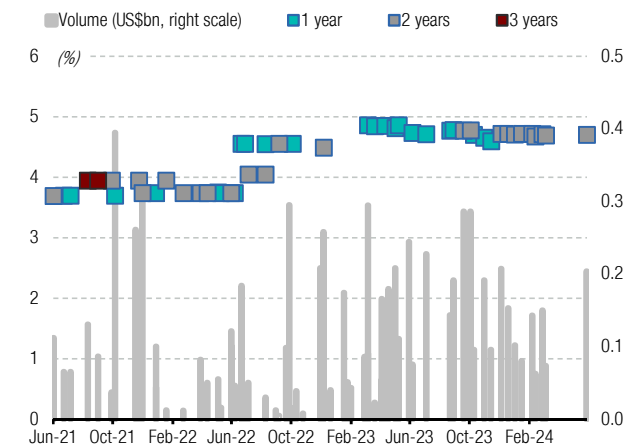
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

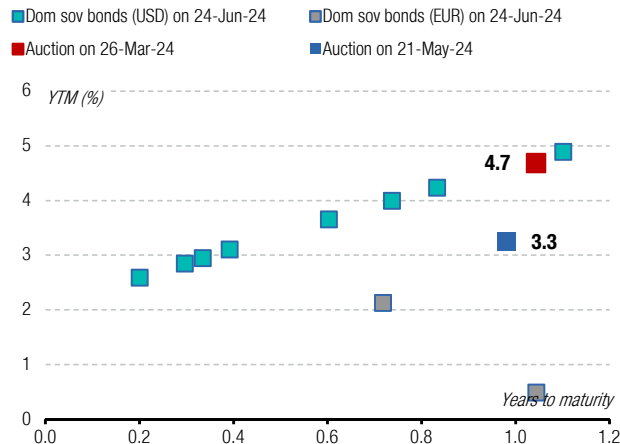
Chart 2. FX-denominated bonds

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.

Market withstands unsuccessful round of negotiations

Last week, Eurobond holders were busy assessing the terms of Eurobond restructuring proposed by the government and the counter offer from the Creditors’ Committee.

Last week opened with a decline in Eurobond prices. The decline started at the end of the previous week, apparently in response to rumours that the MoF and the creditor committee were far from an agreement. Release of public information led to lower prices last Monday by almost 2% to 26.4–30.4.

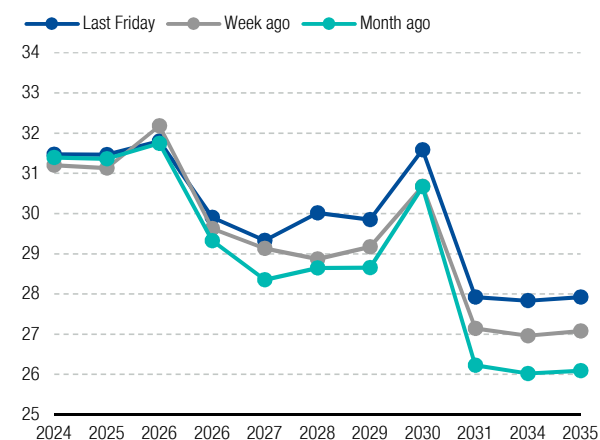
At the end of last week Eurobond prices were up by almost 2%, thus nearly fully recovering the losses of the beginning of the week. The range of prices for instruments with different maturities narrowed to 6.6% after hovering close to 8% during the week. Prices shifted to 27.8-31.8. VRI's price fell by 6% to 48.7 cents per dollar of notional value last week. The EMBI index slid by 0.1% last week.

ICU view: The initial market reaction to the news of an unsuccessful first round of negotiations was broadly negative. The gap between the government proposal and investors’ expectations seemed to be huge. During the week, the market was assessing the odds that the MinFin will be prepared to improve its offer in the coming weeks so as to ensure completion of the restructuring by the end of July. It now looks certain that the government’s updated proposal will never meet the optimistic expectations that many investors had, including decent coupon payments in the nearest years. Yet, the chances for restructuring terms that offer some upside to the current valuations seem significant. This drove Eurobond prices up by the end of the last week. We expect heightened volatility in the coming weeks as the parties continue to look for a middle ground.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

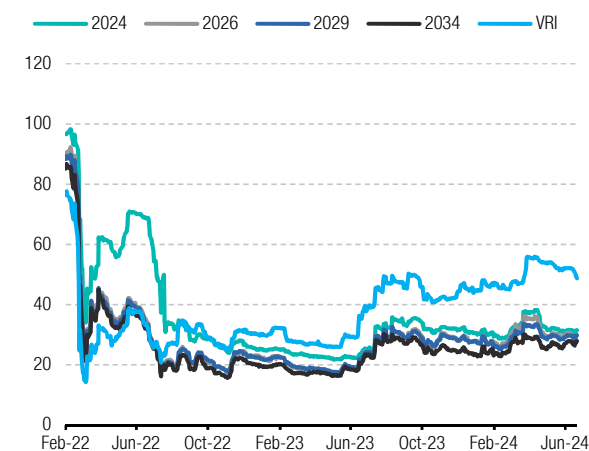
Chart 3. Ukrainian Eurobonds and VRI prices

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

Hryvnia strengthens marginally as FX market imbalances narrow

The deficit in the FX market remains large, but, still, it narrowed last week, and the NBU reacted with strengthening the official hryvnia exchange rate to UAH40.45/US\$.

In the interbank segment of the FX market, bank clients (legal entities) sold US\$0.8bn in four days, which is equal to the same period of the previous week, and bought US\$1.04bn of foreign currency (15% less than in the same period of the previous week). Thus, the net purchase of hard currency almost halved to US\$247mn. At the same time, in the retail segment of the FX market, households' net purchase of foreign currency decreased by 17% to US\$162m.

In four days, the hard currency deficit fell by a third to US\$409m, allowing the NBU to reduce interventions by 20% to US\$723m.

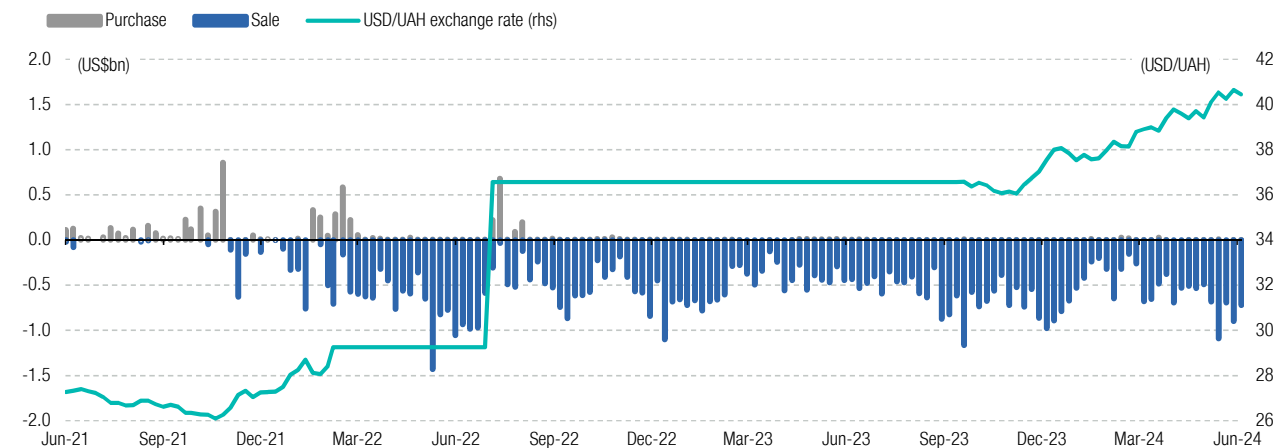
At the end of the week, the official hryvnia exchange rate increased by 0.5% to UAH40.45/US\$, and the cash exchange rate appreciated by approximately 1% to UAH40.4–40.8/US\$.

ICU view: The deficit in the FX market remains significantly above the YTD weekly average, and this requires massive interventions from the NBU. We don't expect the imbalance in the FX market will narrow in the coming weeks. The exchange rate will thus be determined by the NBU's intervention approach.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

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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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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