

# Weekly Insight

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### Key messages of the today's comments

MONDAY, 8 JULY 2024

### Ukrainian bond market

#### Bond market in summer lull

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#### MoF strives to agree on debt restructuring in July

According to information circulating in the market, the MoF intends to agree on Eurobond restructuring as soon as possible, with minimal concessions vs previously announced terms. The MoF also wants to restructure VRIs, but this will be a parallel process along with Eurobond restructuring. Investors took this news negatively.

### Foreign exchange market

#### NBU continues to smooth imbalances in FX market

The NBU's interventions remain significantly higher than the average weekly level of 1H24, which allows the hryvnia exchange rate to remain relatively stable.

### Economics

#### NBU reserves down 3% in June on FX interventions

NBU gross international reserves edged down 2.9% in June to US\$37.9bn on heavy FX market interventions by the NBU.

### Banks' reserves market (5 July 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	13.00	+0bp	-1,200bp
ON rate (%)	13.00	+0bp	-700bp
Reserves (UAHm) <sup>2</sup>	227,332	-4.7	+23.7
CDs (UAHm) <sup>3</sup>	545,026	+7.4	+12.6

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) (5 July 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-2.1
Banks	710,276	-0.6	+29.7
Residents	157,678	-0.4	+34.8
Individuals	59,660	+2.8	+40.9
Foreigners	34,481	+6.3	-32.2
<b>Total</b>	<b>1,640,240</b>	<b>+0.0</b>	<b>+12.9</b>

Source: NBU, ICU.

### FX market indicators (5 July 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	40.5816	+0.1	+10.1
EUR/USD	1.0840	+1.2	-0.1
DXY	104.875	-0.9	+1.5

Source: Bloomberg, ICU.

### Market gov't bond quotes (8 July 2024)

Maturity	Bid (%)	Ask (%)
6 months	14.50	12.50
12 months	15.75	14.75
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

## Bond market in summer lull

With no new important macroeconomic data or messages from the NBU, investors are in no hurry to reinvest funds into new government bonds, therefore, the Ministry of Finance is not in a position to reduce yields further.

Last week, for the second time in a row, yields in the primary bond market remained steady, and demand exceeded supply only for two-year bills. Investors submitted bids with terms broadly the same as in the previous week. The MoF satisfied most of them without notable changes in interest rates. So, for now, the cut-off rates stay at 14.74% for one-year bills and 15.4% for two-year paper, which are 126bp and 60bp below interest rates for three-month NBU CDs. See details in the [auction review](#).

In the secondary market, the trading decreased by about a third to UAH7bn. Again, the most traded securities were UAH bills maturing in October this year, and February and July 2025.

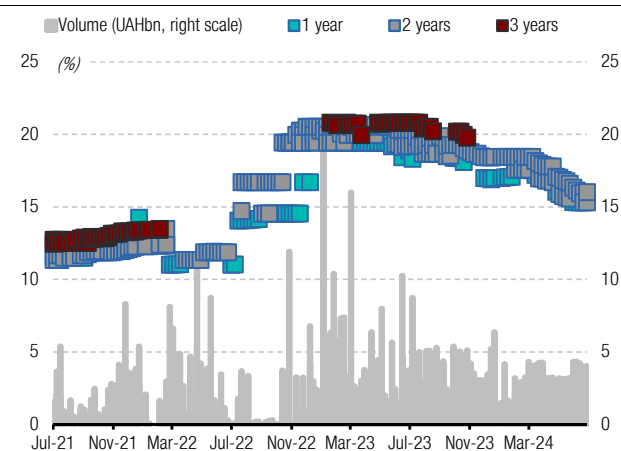
Foreign investors partially recovered portfolios after recent redemptions, increased total holding by 5% to UAH34.7bn. Individuals increased portfolio by 2.5% to almost UAH60bn.

**ICU view: The bond market is inactive. Demand in the primary auctions rarely exceeds supply. Investors do not expect a decrease in bond yields in the next few weeks, so they are in no hurry to increase their portfolios. Current purchases seem to be nothing but gradual reinvestments of funds received from recent redemptions. Foreigners remain active, probably purchasing bonds that allow repatriating coupon payments within the shortest period possible. Most likely foreigners' demand led to an oversubscription for two-year papers. At the end of July, the NBU's decisions and communications on monetary policy may revive investors' interest in domestic bonds and push rates down again. Until then, the market will remain in a summer lull.**

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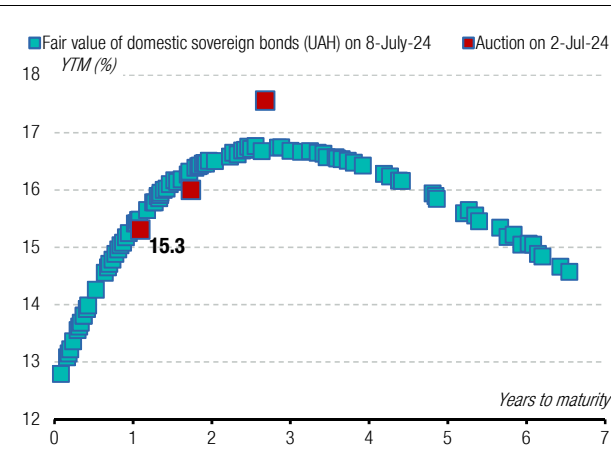
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

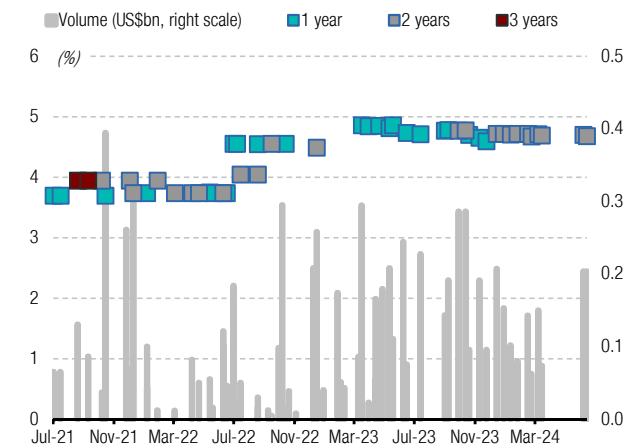
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

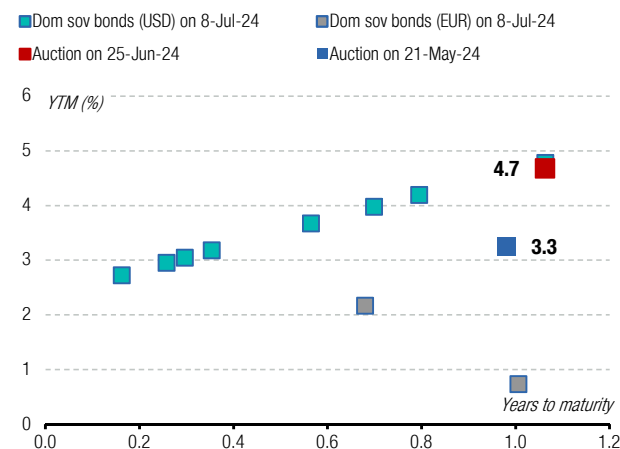
**Chart 2. FX-denominated bonds**

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.

**MoF strives to agree on debt restructuring in July**

According to information circulating in the market, the MoF intends to agree on Eurobond restructuring as soon as possible, with minimal concessions vs previously announced terms. The MoF also wants to restructure VRIs, but this will be a parallel process along with Eurobond restructuring. Investors took this news negatively.

After the IMF board approved the fourth review of the EFF program that includes revised targets for Ukraine's public debt, the Ministry immediately held a call with investors. During the call, IMF representatives emphasized the need to achieve the program targets related to the public debt sustainability (by 2033, the debt-to-GDP ratio should decrease to 65%, financing needs should be below 8% of GDP per year in 2028-2033, after the end of the current IMF program, and debt service flow relief on external obligations should be in the range of 1–1.8% of GDP per year). The representatives of official creditors emphasized that the government financing needs for critical outlays is high, so payments to private investors will not be significant in the coming years.

However, the main news on the call was the message about a probable restructuring of VRIs. No possible parameters were revealed. VRI restructuring will be a parallel process. Formally, it will not become part of the Eurobond restructuring.

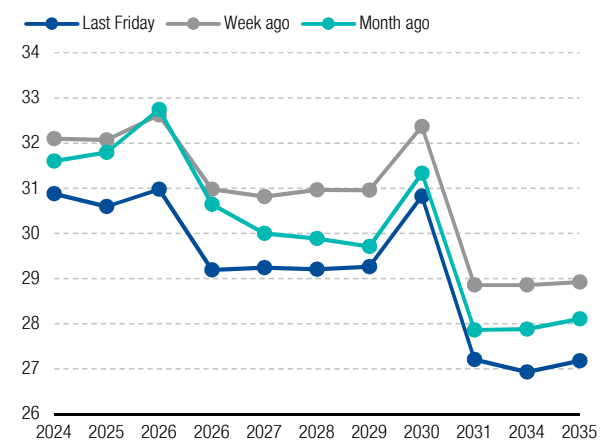
So, by the end of the week, on average, Eurobond prices fell by more than 5% to 26.9-31.0, and the range of prices for instruments with different maturities widened to 6.9%. VRIs' price slid to 47.7 cents per dollar of notional value, losing 3% during the week. The EMBI index was up 0.1% last week.

**ICU view: The position of the two sides in the negotiations still seems to be wide apart. The MoF's desire to restructure Eurobonds with a significant haircut and also to restructure VRIs has worsened investors' sentiment. The MinFin made it clear that easing of restructuring conditions would increase the risks of failing to meet debt sustainability targets, and is not supported by the IMF and official creditors. However, the parties still have a few weeks to agree on a compromise and proceed to the signing of the agreement in the coming month.**

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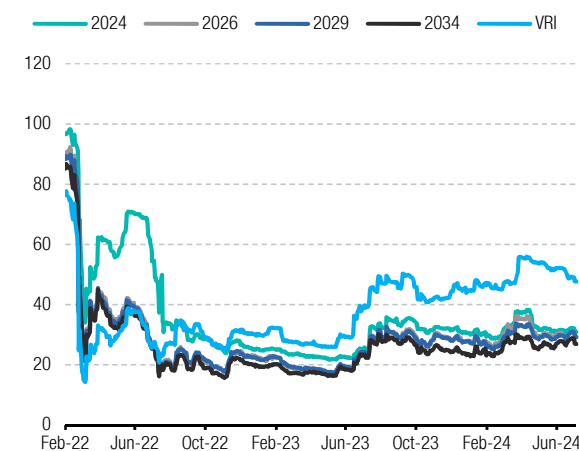
**Chart 3. Ukrainian Eurobonds and VRI prices**

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 continues to smooth imbalances in FX market

The NBU's interventions remain significantly higher than the average weekly level of 1H24, which allows the hryvnia exchange rate to remain relatively stable.

Hard currency trading decreased in the interbank market with imbalance widening. Bank clients (legal entities) sold US\$0.8bn of foreign currency in four days (-12% compared with the same period of the previous week) and bought US\$1bn of foreign currency (-7%). So, net purchases of hard currency increased slightly to US\$248m. In the retail segment of the FX market, net household purchases of hard currency increased by 17% to US\$192m.

Hard currency deficit rose by 13% to US\$440m. To satisfy the increased need for foreign currency, the NBU had to keep interventions high, reducing them by just 6% to US\$632m.

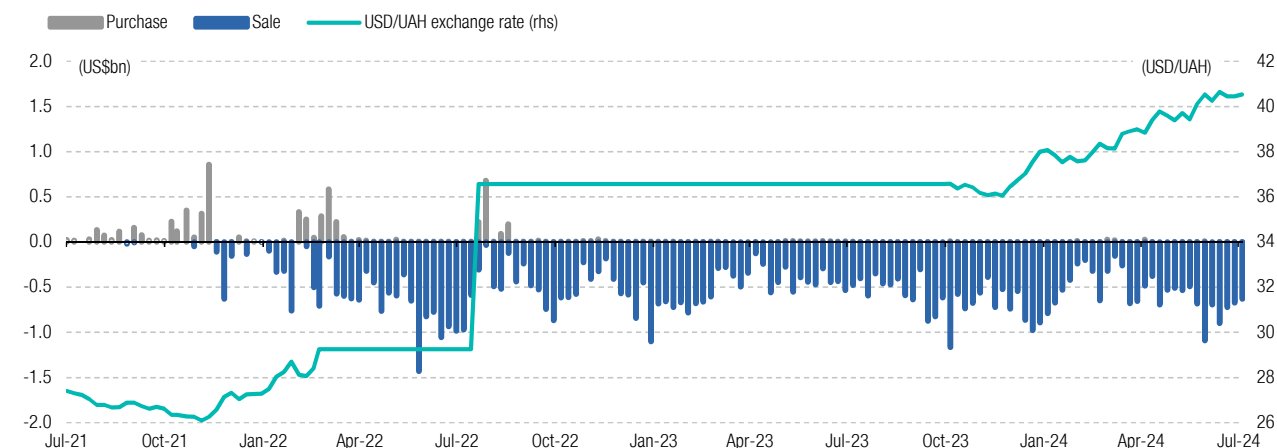
The hryvnia exchange rate weakened by 0.2% to UAH40.54/US\$ last week, and the cash exchange rate in systemically important banks weakened by 0.2% to UAH40.4–40.9/US\$.

**ICU view: The hard currency deficit in the market widened last week, which did not allow the NBU to reduce interventions. The Independence Day holiday in the US last Thursday could have helped maintain trading amounts in the interbank FX market low by shifting trades to Friday or this week. An increase in the households' hard currency purchases in the first week of the month is a typical phenomenon, and banks most likely prepared for this surge in advance and did not need increased NBU interventions.**

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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

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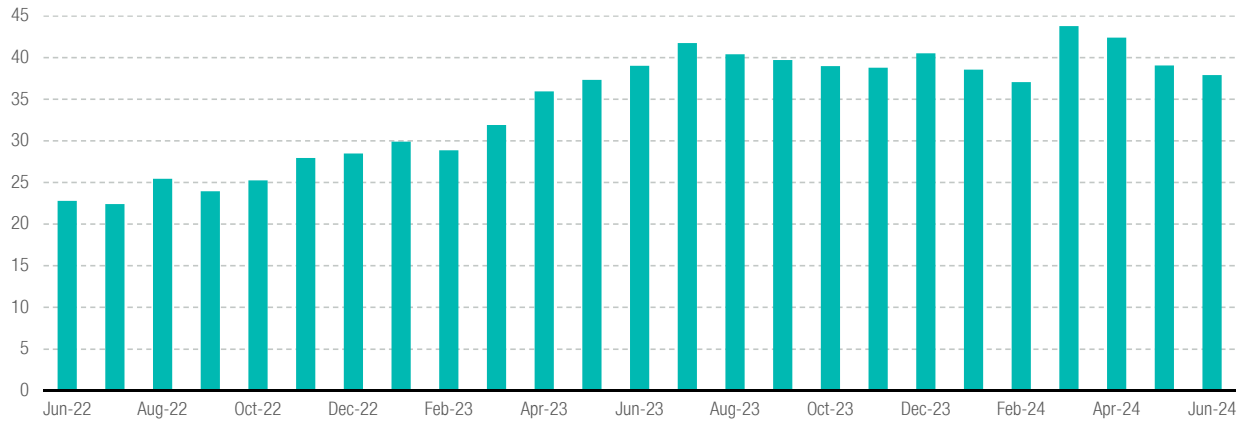
The NBU sold net US\$3.0bn to smooth out imbalances in the FX market in June. This is the 7th largest monthly volume of interventions since the start of Russia's full scale invasion. Meanwhile, reserves were replenished thanks to an EUR1.9bn loan tranche from the EU within the Ukraine Facility. Repayments of debt to IFIs stood at US\$0.4bn in June.

**ICU view:** *With receipt of the IMF's USD2.2bn loan tranche in early July, NBU reserves likely recovered to above US\$40bn for a couple of days. Reserves are set to remain volatile through end-2024, as the inflows of foreign financial aid will be staggered during the year with the most significant remaining tranches likely scheduled for autumn. Nevertheless, such volatility poses little risks as the current level of international reserves fully enables the NBU to intervene in the FX market to the extent needed. If all the scheduled financial aid facilities arrive to Ukraine as planned, the NBU reserves are likely to reach US\$44-45bn by the end of 2024.*

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**Chart 5. NBU gross international reserves, US\$bn**

*NBU gross reserves down 2.9% in June*



Source: NBU, ICU.

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