

Weekly Insight

Current account improves in August

Key messages of the today's comments

Ukrainian bond market

Banks purchase more bonds to meet reserve requirements

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Eurobond prices keep edging higher

Ukrainian Eurobond prices are flattening across maturities, after most of them rose last week.

Foreign exchange market

NBU keeps hryvnia exchange rate steady

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Economics

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MONDAY, 7 OCTOBER 2024

Banks' reserves market (4 October 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	13.00	+0bp	-700bp
ON rate (%)	13.00	+1bp	-300bp
Reserves (UAHm) ²	239,986	-2.2	+14.6
CDs (UAHm) ³	466,265	+1.8	-0.1

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) (4 October 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	677,606	+0.0	-1.9
Banks	780,334	+0.0	+36.3
Residents	169,066	-2.7	+42.4
Individuals	71,226	+1.2	+45.4
Foreigners	24,121	-3.3	-48.5
Total	1,723,125	-0.3	+16.5

Source: NBU, ICU.

FX market indicators (4 October 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	41.1621	-0.1	+12.1
EUR/USD	1.0979	-1.6	+4.5
DXY	102.508	+2.1	-4.0

Source: Bloomberg, ICU.

Market gov't bond quotes (7 October 2024)

Maturity	Bid (%)	Ask(%)
6 months	15.00	14.00
12 months	15.75	15.00
2 years	16.75	15.50
3 years	17.75	16.50
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Banks purchase more bonds to meet reserve requirements

The NBU included several new issues into the list of designated reserve bonds, and the MoF started offering new papers that can also be added to the list later.

The NBU allowed banks to use UAH bonds UA4000232607 and UA4000232615 (due in 2026 and 2027) to partly meet the mandatory reserve requirements. Banks purchased these bonds in the primary market in September, expecting the NBU would add them to the designated bond list.

The total amount of deals in the secondary market doubled to UAH11.3bn, with FX-denominated bonds accounting for 42% of the total. Deals with UAH reserve bonds due in August 2025 totalled UAH2.6bn and made up 23% of the total amount.

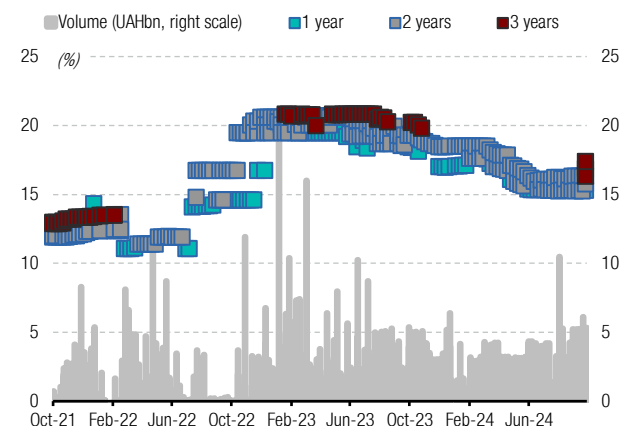
In the primary auction, the MoF offered new two and three-year bonds, which the NBU may also add to the designated reserve bond list. Therefore, these instruments were oversubscribed, and the MoF sold each paper in the amount of UAH5bn. Also, the MoF offered new 1.5 and 2.5-year bills, setting cut-off rates at 15.1% and 16.1% or with 45bp and 50bp premiums to 12-month and two-year securities, respectively. However, new maturities received low demand, accounting for only 2% of last week's proceeds. See details in the [auction review](#).

ICU view: The state budget is still receiving most of the new borrowings via placement of bonds that are already included or likely to be included in the designated reserve bond list. New higher mandatory reserve requirements for banks will become effective this Friday, and we expect trading in bonds will be up this week. The NBU will likely allow new two and three-year bonds to cover reserve requirements soon, so they are likely to be oversubscribed tomorrow. Due to competition, interest rates may adjust by a few basis points.

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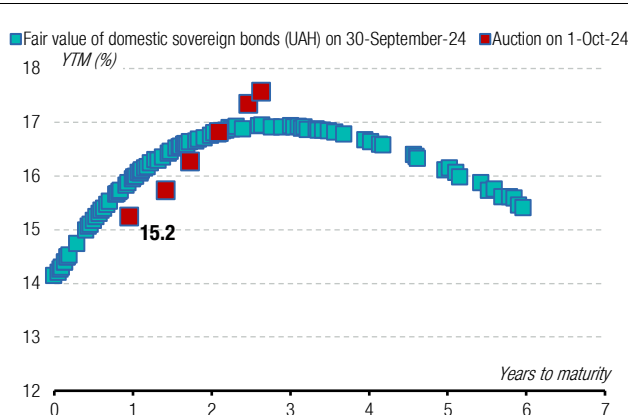
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

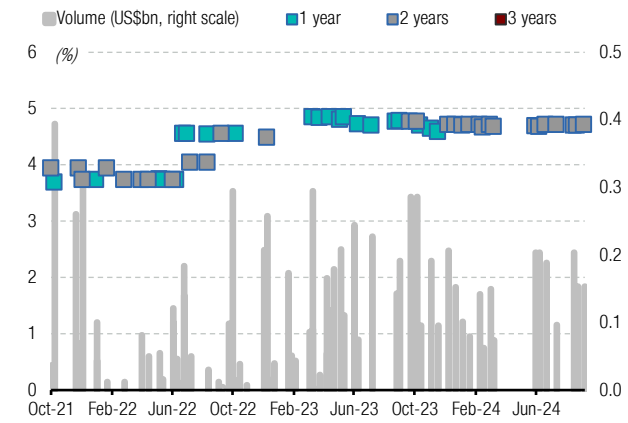
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

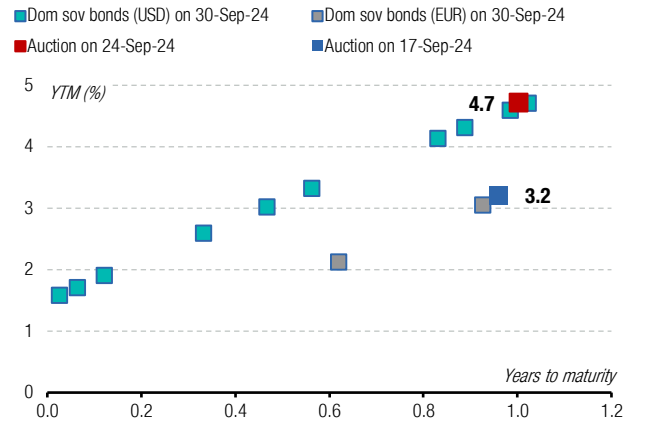
Chart 2. FX-denominated bonds

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

Eurobond prices keep edging higher

Ukrainian Eurobond prices are flattening across maturities, after most of them rose last week.

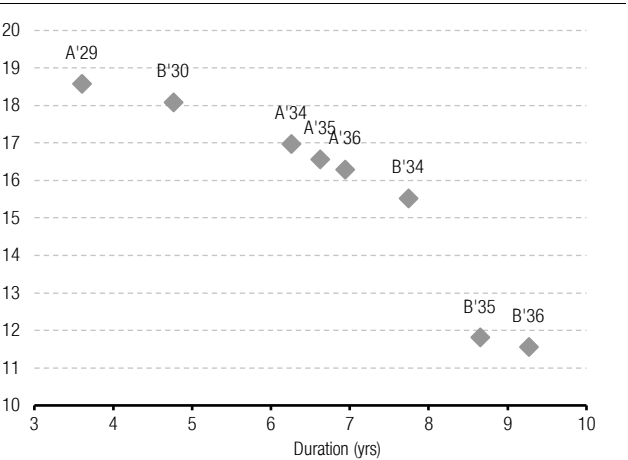
Last week, Eurobond prices rose by 1% on average, but the dynamics varied across issues. Step Up bonds series B, due in 2034-2036, rose the most, by 2-3%, while the price of Step Up bonds A, due in 2029, slid by 1%. The price of VRIs slid by 0.8% to 70.4 cents per dollar of notional value. The EMBI index slid by 0.8% last week.

ICU view: Eurobond prices flattened during active trading while there was no important news from or about Ukraine. Prices will move insignificantly during the following few weeks until the elections in the US. These elections will be decisive for international support in 2025, which will have a direct impact on economic recovery and Ukraine's support in its fight against the russian invasion.

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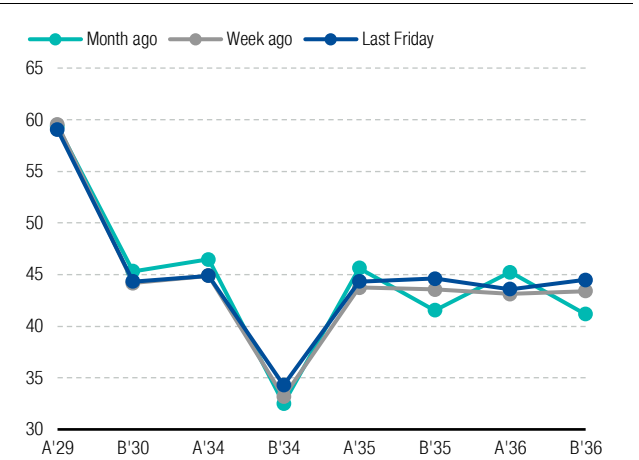
Chart 3. Ukrainian Eurobond YTM's and prices

Eurobonds yield map



Source: Bloomberg, ICU.

Prices of Eurobonds as of last Friday, a week and a month ago



Source: Bloomberg, ICU.

Foreign exchange market

NBU keeps hryvnia exchange rate steady

The NBU decreased interventions marginally and even though the FX market deficit was slightly up, the hryvnia exchange rate was little changed.

The total FX market deficit rose by about one-third in four business days last week. Net foreign currency purchases rose by 37% to US\$549m. At the same time, the NBU decreased interventions by 5% to US\$721m.

In the interbank FX market segment net hard currency purchases rose by 24% to US\$261m and in the retail FX market segment by 53% to US\$288m.

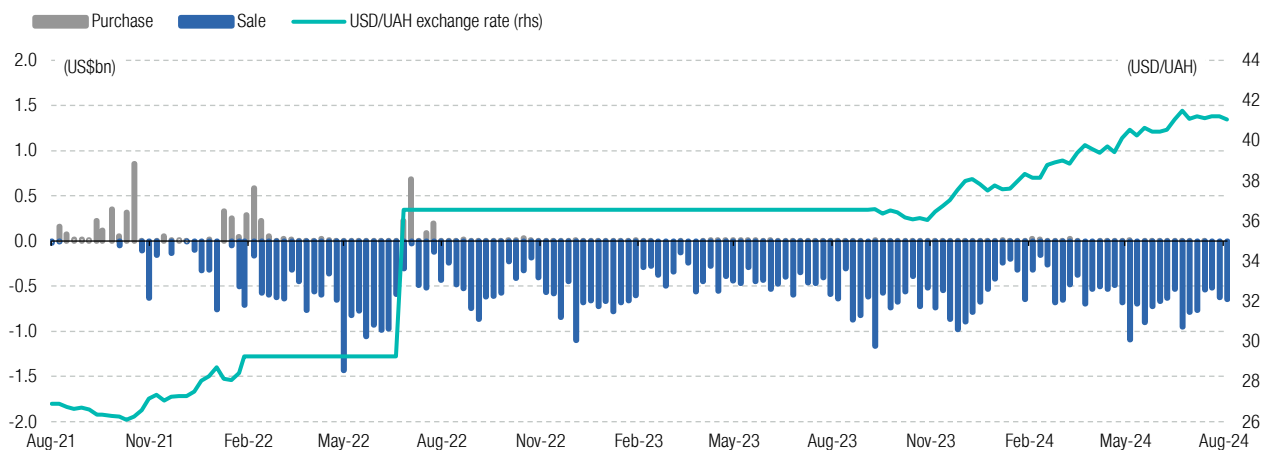
The official exchange rate fluctuated within the UAH0.1 range last week, ending at UAH41.19/US\$. The cash exchange rate remains unchanged at UAH41–41.5/US\$.

ICU view: Last Monday, the FX interbank market was nearly balanced as exporters likely sold more hard currency for tax payments. However, the daily FX market deficit then increased again to above US\$100m since Tuesday. The market also likely felt an impact of new monthly and quarterly limits for dividends and interest payments on foreign capital ([according to May's FX restrictions easing](#)). However, the NBU remained determined to satisfy excess market demand and keep the hryvnia fairly stable.

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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

Current account balance improves in August on foreign aid

The monthly current account (C/A) turned positive at US\$3.2bn after 15 consecutive months of deficits. The improvement came on the back of significant budgetary grants provided by Ukraine's allies.

The trade-in-goods deficit narrowed notably to US\$2.5bn after deteriorating in June and July. The key reasons were an increase in exports as Ukraine started to deliver fresh grain harvest to international markets, and a downward adjustment in imports. The deficit of trade in

services remained little changed from July and was a quarter larger than monthly average YTD. The negative surprise came on the side of primary income as it turned negative, which is an atypical situation for Ukraine. The deterioration is explained by an upsurge in investment income of foreigners, a larger part of which was likely repatriated abroad. The significant inflows of foreign budgetary grants were a game changer for Ukraine's current account in August. The country received a US\$3.9bn grant from the US and a EUR1.5bn grant from the EU – both were recorded on the secondary income line of the current account. Thanks to an abnormally good C/A balance in August, the YTD deficit improved to US\$8.6bn.

Like the current account, financial account also registered significant inflows of foreign aid in the form of an EUR3.0bn loan from the EU. This was more than enough to offset private capital outflows, of which the most significant channel was the increase of FX cash out of banks by US\$1.1bn (withdrawal of FX cash by the population from bank accounts or direct purchases of FX cash from banks).

Overall, the combined surplus of the current and financial account reached an impressive US\$4.9bn (net of loans from the IMF) in August thanks to foreign financial aid. Nonetheless, the YTD balance for 8M24 was still negative at US\$0.5bn. NBU reserves were up 14% MoM in August to US\$42.3bn.

ICU view: The improvement in the balance of payments in August was mostly driven by an upsurge in inflows of foreign financial aid from other governments and IFIs. The inflows of grants and loans should remain significant in 4Q if all the committed financial facilities are provided on time by Ukraine's partners. If that is the case, we expect only marginal deterioration in the C/A from the 8M level and expect it to land at 5-6% of GDP. The financial account should also improve by the end of the year. All in, this should take the end-2024 NBU reserves close to US\$44bn. This, in turn, implies the NBU will remain in a fully comfortable position to maintain its presence and interventions in the FX market to the extent needed. We expect only marginal UAH depreciation of about 3% vs US\$ through end-2024.

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Chart 5. Key balance of payment components, \$m

Current account improves in August on budgetary grants

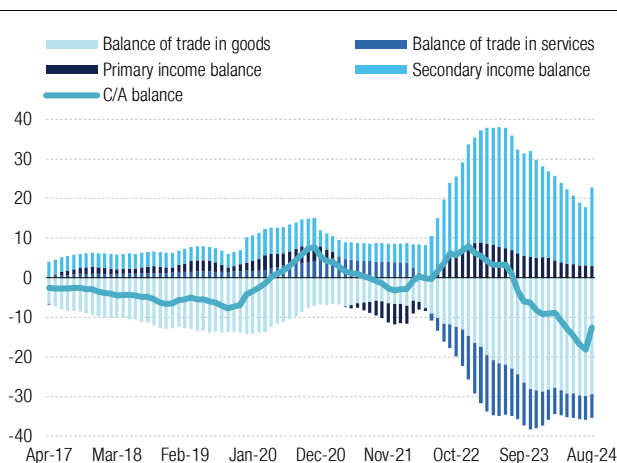
	Aug.24	Jul.24	Aug.23
Current account	3,197	-2,242	-2,350
Trade in goods	-2,472	-3,042	-2,995
Trade in services	-579	-574	-571
Primary income	-38	420	136
incl. migrant income	692	704	909
Secondary income	6,286	954	1,080
incl. transfers to gov't	5,655	119	1,506
Financial account*	-1,720	731	-1,178
Change in trade credits	-496	-649	215
Change in cash out of banks	1,093	1,441	650
Net loans to government	-2,856	52	-1,564
Other	539	-113	-479

* negative numbers in financial account indicate increase in liabilities (cash inflow)

Source: NBU, ICU.

Chart 6. Current account, 12-month trailing, \$bn

Deterioration of 12-month current account balance reversed



Source: NBU, ICU.

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