



Focus  
**Ukraine**

Markets  
**Domestic liquidity,  
government bonds, FX  
market, and macro**

Research team  
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# Weekly Insight

## The NBU eases restrictions for cash FX market

### Key messages of the today's comments

MONDAY, 30 MAY 2022

### Ukrainian bond market

#### Investors prefer short-term bills for now

Last week, the largest amount of funds attracted to the budget was through sale of semi-annual bills. Securities maturing in 2023 amounted to only 14% of all funds raised at the auction.

#### Eurobond prices see correction

Following earlier hefty increases, Eurobond prices corrected slightly last week, falling by 1-3 cents.

### Foreign exchange market

#### NBU cancels some restrictions for cash FX market

From 21 May, the National Bank allowed commercial banks to set exchange rates for retail operations without any reference to the official exchange rate.

### Banks' reserves market (27 May 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	10.00	+0bp	+250bp
ON rate (%)	9.76	+0bp	+301bp
Reserves (UAHm) <sup>2</sup>	53,627	-2.77	-16.81
CDs (UAHm) <sup>3</sup>	183,212	-2.77	+39.50

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) (27 May 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	430,106	+0.00	+34.92
Banks	540,256	-0.38	+4.49
Residents	73,690	+0.28	+59.31
Individuals	28,429	+1.94	+66.32
Foreigners <sup>1</sup>	72,353	+0.00	-25.81
<b>Total</b>	<b>1,145,038</b>	<b>-0.09</b>	<b>+14.87</b>

Source: NBU, ICU.

### FX market indicators (27 May 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	29.4625	+0.21	+7.04
EUR/USD	1.0735	+1.62	-11.97
DXY	101.668	-1.44	+13.00
UAH TWI <sup>1</sup>	136.495	-0.78	+13.09

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes<sup>1</sup> (30 May 2022)

Maturity	Bid	Ask
6m	...	...
12m	...	...
2y	...	...
3y	...	...
12m (\$)	...	...
2y (\$)	...	...

Source: ICU.

# Ukrainian bond market

## Investors prefer short-term bills for now

Last week, the largest amount of funds attracted to the budget was through sale of semi-annual bills. Securities maturing in 2023 amounted to only 14% of all funds raised at the auction.

Investors concentrated demand on securities maturing in November this year – almost UAH9bn worth of bonds were sold. Other bills maturing in 2022 contributed UAH0.5bn and almost EUR52m. But the placement of instruments maturing in October next year fell to UAH90m or 43 times lower compared with the previous auction. More details in the [auction review](#).

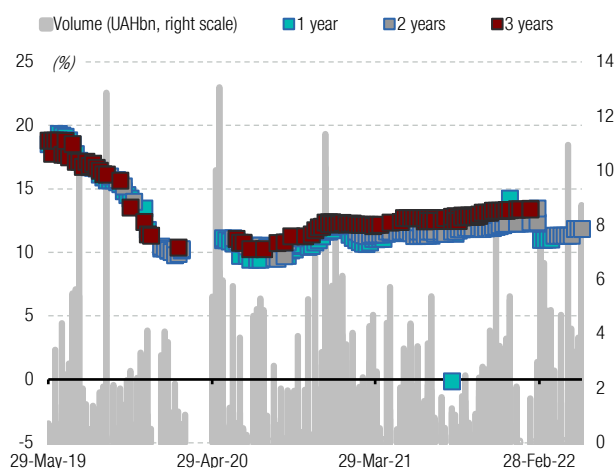
According to the NBU, last week, non-banking institutions and individuals continued to increase their portfolios, foreigners are still not interested in new bills, and banks have reduced local-currency bonds portfolio by UAH5.3bn.

**ICU view: Due to the large amount of borrowings last week, the total monthly amount raised in May is already at a record high this year and may increase further following tomorrow's auction. Although technically tomorrow's funds will be included in budget financing in June, the monthly volume of borrowings in May became the largest during war-time. In particular, this was due to the large amount of redemptions at the beginning of the month and last week, the total was UAH31bn. Yet, new borrowings in the local currency were still less than the amount of redemptions, so the total refinancing fell short of redemptions by UAH4.8bn in May and UAH22.3bn YTD.**

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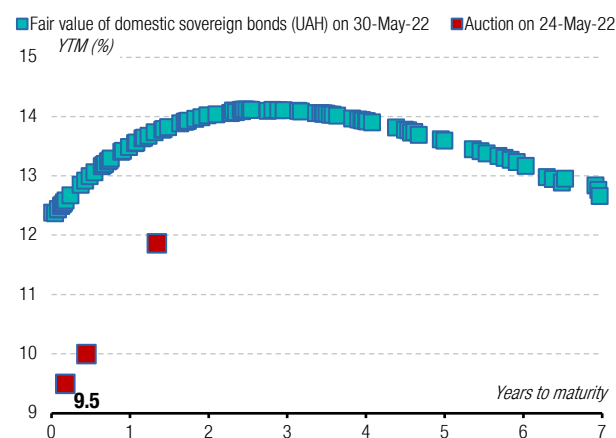
**Chart 1. Local-currency bonds**

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



Source: Ministry of Finance of Ukraine, ICU.

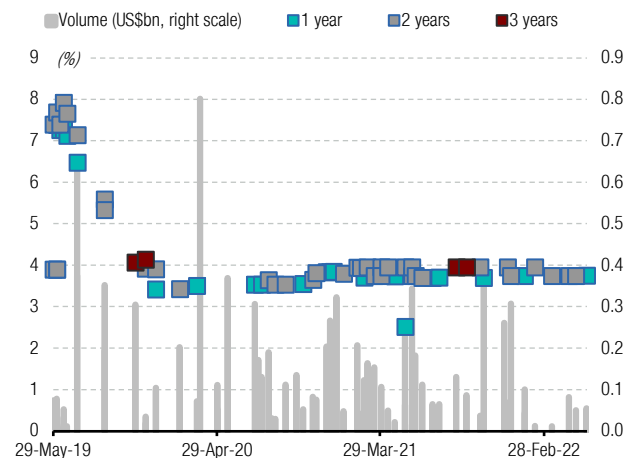
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

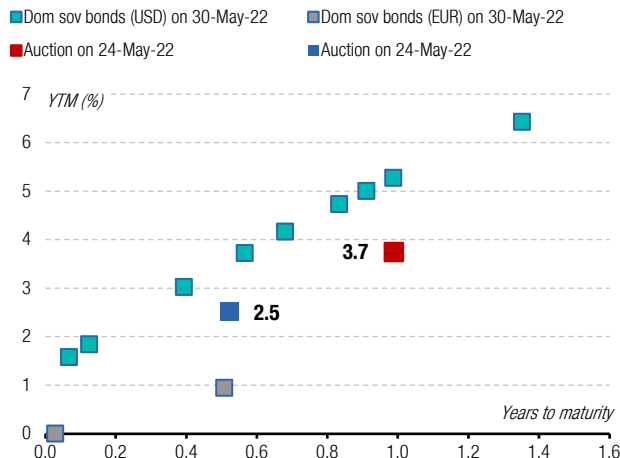
**Chart 2. FX-denominated bonds**

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



Source: Ministry of Finance of Ukraine, ICU.

*Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions*



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

**Eurobond prices see correction**

Following earlier hefty increases, Eurobond prices corrected slightly last week, falling by 1-3 cents.

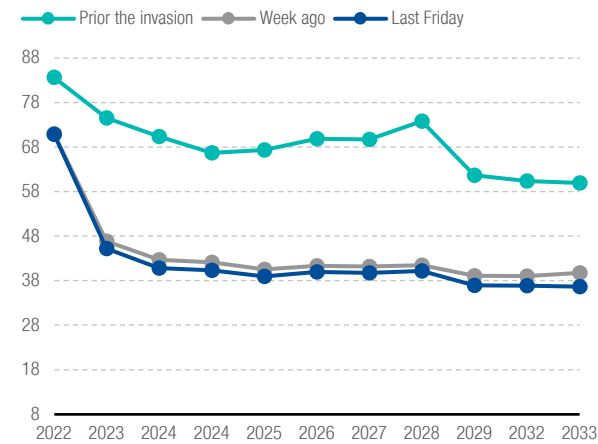
The decline in prices was minimal, but played out over the week. Eurobonds maturing in 2026-28 lost about one cent per dollar, and bonds due in 2029-33 lost about 2 cents per dollar. The issue maturing this September remained steady at about 71 cents per dollar.

**ICU view:** *Since the beginning of the full-scale russian invasion, investors have been following events on the battle frontline, news of financial aid to Ukraine, and statements by the Ministry of Finance about its intentions to service sovereign debt. As the reality of the last three months shows, in the absence of positive news for several days in a row, Eurobonds start to decline in price. A stream of significant positive news is needed to maintain stable prices, even more so to keep them growing, but it was absent last week. Investors' attention this week will undoubtedly be focused on battles in the eastern and south regions of Ukraine, as a possible temporary advance of the enemy may be another signal that the war may drag on for a long time. This will not add optimism for investors.*

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**Chart 3. Ukrainian Eurobonds prices**

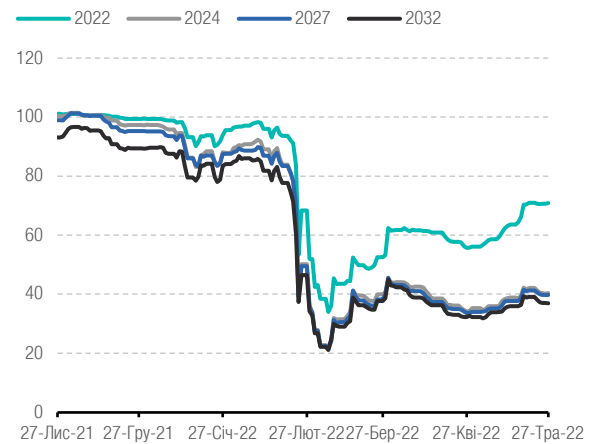
Prices of USD-denominated Eurobonds as of last Friday, a week ago and prior the russian invasion



Source: Bloomberg, ICU.

**Chart 4. Prices of selected Ukrainian Eurobonds**

Last six-month historical data



Source: Bloomberg, ICU.

## Foreign exchange market

### NBU cancels some restrictions for cash FX market

From 21 May, the National Bank allowed commercial banks to set exchange rates for retail operations without any reference to the official exchange rate.

The NBU maintained the rule whereby banks can only sell FX cash that they earlier purchased from their clients. At the same time, banks were allowed to set any hryvnia exchange rate against hard currencies. Earlier, hard currencies could not be sold at rates that deviated from official rates by more than 10%. After the ban was lifted, banks maintain two exchange rates for retail operations. Firstly, there is an exchange rate for cash exchange operations. Secondly, there is a rate at which the hryvnia is converted into FX via credit card operations. Today, these exchange rates differ by more than 10%. The purchase of non-cash hard currency is still prohibited.

Thus, before the decision of the NBU, the exchange rate of cash hryvnia to the US dollar was at about UAH32/US\$ (official + 10%). Last week, it weakened to UAH35.3-36.5/US\$. At the same time, rates for card transactions remain closer to the official rate than for cash, just about UAH30-32.8/US\$.

**ICU view: Banks' response to the NBU's decision was quite measured. Banks weakened the hryvnia exchange rate primarily for cash market, and it approached grey market rates. At the same time, for card transactions, mostly for Ukrainians who use cards abroad to pay for goods or services or withdraw cash at ATMs, exchange rates are much more favorable. The ability of banks to sell hard currency in cash remains limited. At the same time, there are no such restrictions on card transactions. The online sale of hard currency to retail clients is prohibited. Therefore, these segments of the FX market remain mostly unconnected, so the difference between them currently remains significant.**

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