



Focus
Ukraine

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

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Weekly Insight

Eurobond prices at a new low

Key messages of the today's comments

Ukrainian bond market

Placement of FX-denominated bills up

Last Tuesday, the Ministry of Finance raised UAH9.8bn (US\$335m), and almost all of these funds came from the placement of FX-denominated bills, on which rates were up.

Eurobond prices at a new low

Over the past week, the prices of Ukrainian Eurobonds fell further, setting new lows since the beginning of the full-scale russian invasion.

Foreign exchange market

Hryvnia keeps weakening

Last week, the hryvnia continued to weaken in both the cash market and for card transactions.

MONDAY, 18 JULY 2022

Banks' reserves market (15 July 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,750bp
ON rate (%)	9.76	+0bp	+287bp
Reserves (UAHm) ²	62,995	+29.86	+12.65
CDs (UAHm) ³	151,691	-19.58	-3.23

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) (15 July 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	528,606	-0.47	+66.61
Banks	519,648	-1.16	+1.83
Residents	65,520	-2.03	+34.25
Individuals	27,988	-3.63	+52.43
Foreigners ¹	71,453	-0.01	-34.21
Total	1,213,653	-0.90	+20.96

Source: NBU, ICU.

FX market indicators (15 July 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	29.5360	-0.01	+8.33
EUR/USD	1.0080	-1.03	-14.66
DXY	108.063	+0.99	+16.67
UAH TWI ¹	141.528	+0.60	+13.65

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (18 July 2022)

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

Source: ICU.

Ukrainian bond market

Placement of FX-denominated bills up

Last Tuesday, the Ministry of Finance raised UAH9.8bn (US\$335m), and almost all of these funds came from the placement of FX-denominated bills, on which rates were up.

The Ministry of Finance again satisfied a small part of the demand for UAH government bonds, only those which were submitted at the same rates as in previous months. All bids at higher rates were rejected, and they accounted for 96% of the total demand for UAH instruments. Instead, the Ministry of Finance raised interest rates on USD-denominated paper by 50–80bp to 3.5–4.5% and attracted US\$330m (UAH9.7bn) or 98.5% of all proceeds from the auction. See details in the [auction review](#).

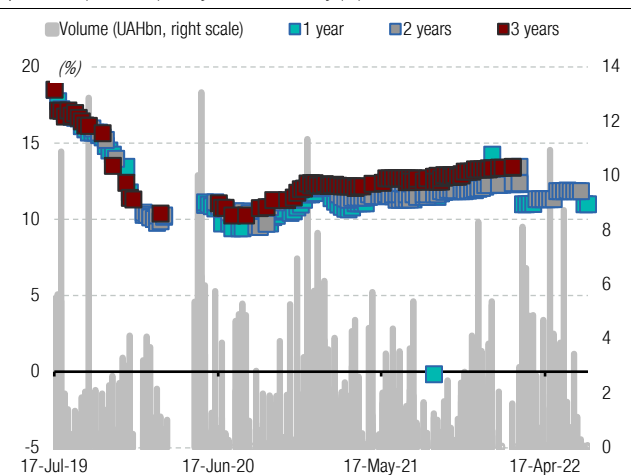
As a result, the volume of trading on the secondary market with USD-denominated bills increased last week, while activity declined for UAH bills again. Last week, 11 deals worth UAH504m were concluded with USD-denominated securities, vs 44 deals worth UAH122m a week before. Trades of UAH military bills fell from UAH487m to UAH308m, and the number of deals fell from 6,606 to 5,208 in a week.

ICU view: The Ministry of Finance continued to insist on unchanged rates for military government bonds in local currency in the primary market, rejecting demand at higher yields and, effectively, failing to attract financing in hryvnia. This week, a large repayment of UAH bonds is scheduled, and it is again unlikely to be fully refinanced. However, the borrowings may increase from last week's minimal volumes. The Ministry of Finance is planning to offer tomorrow an expanded set of bills both in hryvnia and hard currency. The market continues to expect that the Ministry of Finance will gradually reduce its dependence on direct financing from the NBU and will likely consider raising rates on UAH-denominated instruments to increase reliance on market borrowings.

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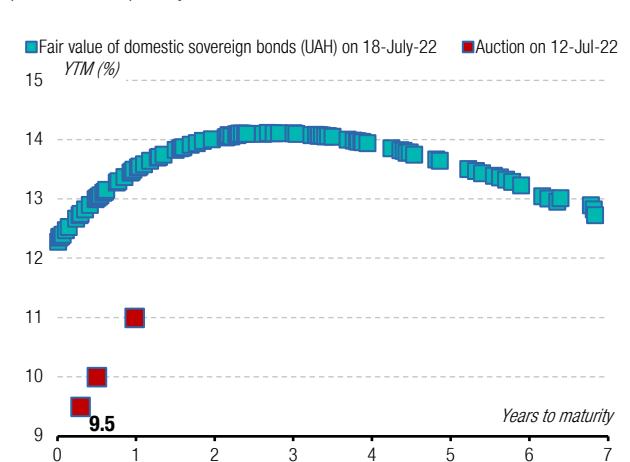
Chart 1. Local-currency bonds

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.

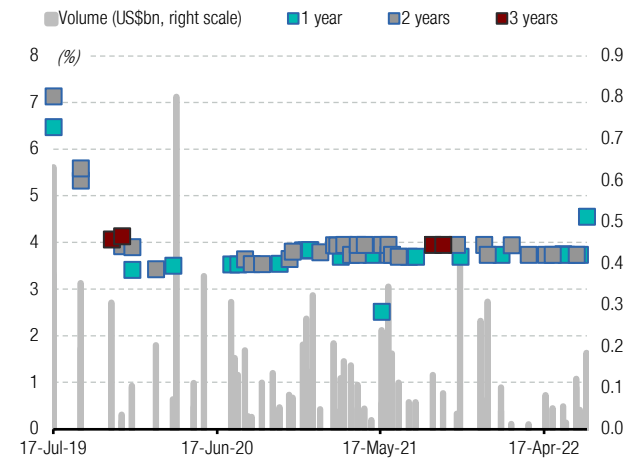
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

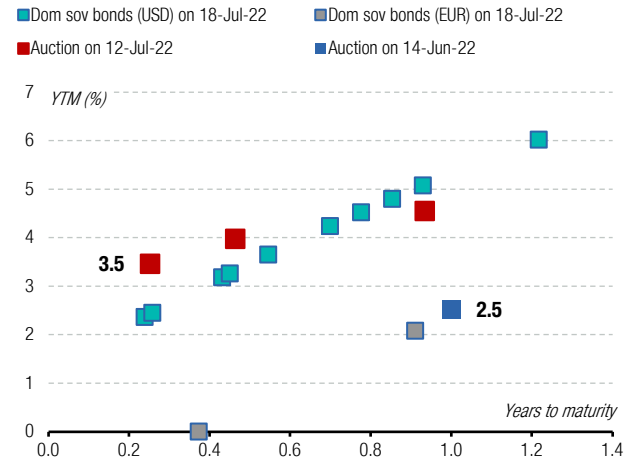
Chart 2. FX-denominated bonds

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 at a new low

Over the past week, the prices of Ukrainian Eurobonds fell further, setting new lows since the beginning of the full-scale russian invasion.

Last week, markets continued to digest information about Naftogaz’s intentions to restructure its own Eurobonds. The company officially asked bondholders to approve the postponement of the repayment of each of three series by two years. The market interpreted the intentions of Naftogaz as a clear signal that sovereign Eurobonds will be restructured, too.

On Tuesday, almost all Eurobonds fell below 20 cents; on Wednesday, they reached a minimum of 17–18 cents. Instruments maturing this year and in 2023 were exceptions as on Wednesday they fell to 37 and 25 cents, respectively.

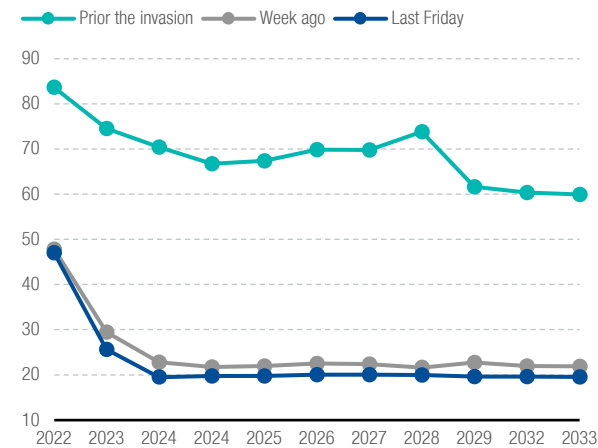
Later in the week, the IMF representative said that Ukraine is servicing its debt in an orderly way, and the IMF expects that to continue. Against this backdrop, prices rose, but mostly reached no higher than 20 cents.

ICU view: Investors are becoming increasingly convinced that Ukraine will initiate official talks on Eurobonds restructuring to preserve its hard currency liquidity. Although the statement of the IMF representative was somewhat encouraging, market generally did not perceive it as an unequivocal recommendation of the IMF to the Ukrainian government to redeem the bonds on time under any circumstances. Ukraine does not have an active program with the IMF, so the Fund’s statements do not currently have any formal weight.

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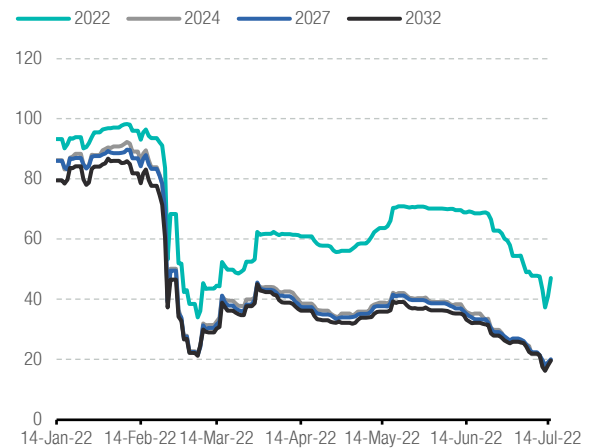
Chart 3. Ukrainian Eurobonds prices

Prices of USD-denominated Eurobonds as of last Friday, prior the russian invasion and the lowest prices seen on 7 March, 2022



Source: Bloomberg, ICU.

Last six-month historical data



Source: Bloomberg, ICU.

Foreign exchange market

Hryvnia keeps weakening

Last week, the hryvnia continued to weaken in both the cash market and for card transactions.

Over the past week, the hryvnia cash exchange rate against the US dollar weakened from UAH35.6–36.7/US\$ on Monday to UAH36.3–37.2/US\$ by the weekend. At the same time, the exchange rate for cards' payments in banks generally moved from UAH31.2–33.7/US\$ on Monday to UAH31.6–34.4/US\$ over the weekend.

On the interbank market, the demand and supply from banks' clients was better balanced and the NBU sold only US\$588m through interventions, which is only 60% of average interventions in the previous four weeks.

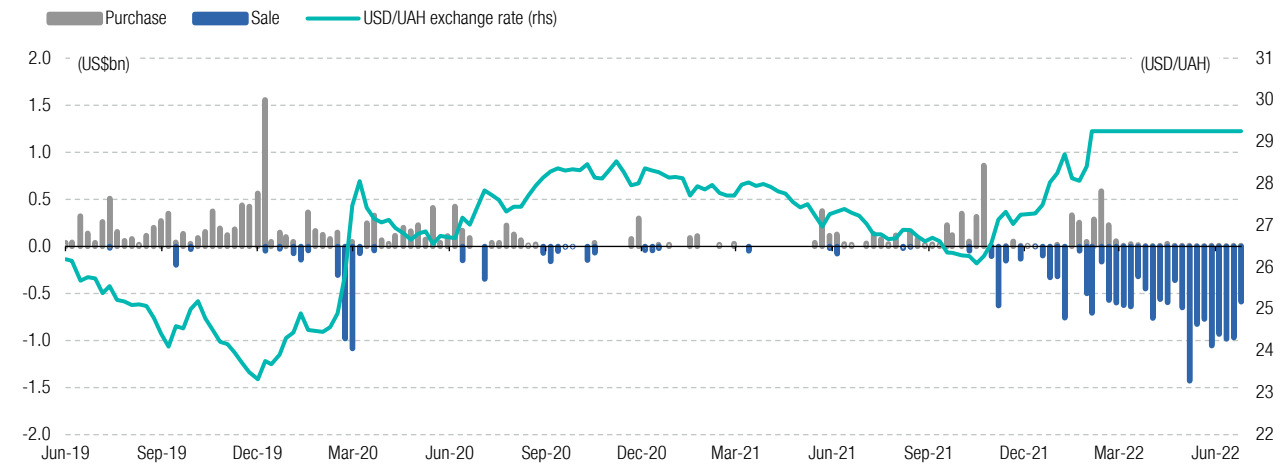
ICU view: *The exchange rate was up slightly after Privatbank's recent decision to align the exchange rate for card transactions with cash exchange rate. This also temporarily lifted the exchange rate for cash transactions, but at the end of last week, the dynamics of hryvnia weakening stopped. So, the exchange rates are likely to be less volatile this week.*

A sharp decrease in NBU interventions last week should not be perceived as a significant improvement in the situation in the interbank FX market. It is very likely that the decline in excess demand was temporary and it will return to its usual level of about US\$1bn as soon as this week.

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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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