Focus
Ukraine

Markets
Government bonds, FX market, and macro

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Weekly Insight

NBU reserves boosted by foreign aid

Key messages of the today's comments

MONDAY, 8 APRIL 2024

Ukrainian bond market

MoF continues to cut interest rates

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Investors in wait-and-see mode

Without important news last week, investors are waiting for the start of restructuring negotiations. Therefore, Eurobond prices moved in line with the trend of emerging markets and declined slightly.

Foreign exchange market

Imbalances in FX market narrow somewhat

The hard currency deficit in the FX market declined last week, allowing the hryvnia to strengthen and the NBU to decrease interventions.

Economics

NBU reserves boosted by foreign aid

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Banks' reserves market (5 April 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%)[1]	14.50	+0bp	-1,050bp
ON rate (%)	14.50	+0bp	-850bp
Reserves (UAHm)[2]	215,638	-1.1	+15.0
CDs (UAHm)[3]	534,719	-1.7	+51.9

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 April 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	680,490	+0.0	-2.4
Banks	683,214	+0.4	+26.9
Residents	155,248	+1.3	+38.0
Individuals	59,110	+1.6	+63.9
Foreigners	42,210	-0.6	-25.5
Total	**1,622,036**	**+0.3**	**+12.3**

Source: NBU, ICU.

FX market indicators (5 April 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	38.8326	-0.7	+5.1
EUR/USD	1.0837	+0.4	-0.6
DXY	104.298	-0.2	+2.4

Source: Bloomberg, ICU.

Market gov't bond quotes (8 April 2024)

Maturity	Bid (%)	Ask(%)
6 months	17.00	15.00
12 months	17.50	16.50
2 years	19.00	17.50
3 years	19.75	18.50
12 months ($)	5.00	4.50
2 years ($)	N/A	N/A

Source: ICU.

Ukrainian bond market

MoF continues to cut interest rates

Last week, the MoF took advantage of healthy demand and decreased interest rates in the primary bond market. In the secondary market, investors' demand concentrated in three-month and 12-month bills.

At last week's primary auction, demand was the largest for 12-month bills, almost twice as large as the cap. This allowed the MoF to decrease the cut-off rate by 10bp to 16.25%. The overall decrease in the rate reached 55bp since the NBU revised down its key policy rate and interest rates for CDs. For two-year bills, the Ministry lowered the cut-off rate by 10bp to 17.1% and rejected almost one-quarter of demand. However, the MoF decided to keep rates for three-year notes unchanged and satisfied all demand. See details in the auction review.

In the secondary bond market, total turnover declined by about 7% to UAH6.5bn. The share of FX-denominated bonds in total trading slid to 18% from 20% a week ago. The most traded were three-month and 12-month UAH bills, with about 36% share in total secondary market turnover.

Individuals increased their bond portfolios by 1.6% and the total volume returned to the level last seen before significant redemptions in March. At the same time, foreigners decreased their portfolios by 0.6% after two weeks of growth.

ICU view: The MoF continued to take advantage of high competition for shorter bills and decreased interest rates. At the same time, terms in demand for three-year notes remains nearly the same from all bidders, and the MoF is not able to decrease rates. Therefore, the yield curve became steeper, and the YTM premium for a three-year paper over one-year bills increased to 205bp from 180bp before the NBU restarted its monetary policy easing cycle in mid-March. High demand for 12-month bills may allow further rate cuts for the MoF at the primary auction tomorrow, while interest rates for two-year and three-year securities will likely remain steady.

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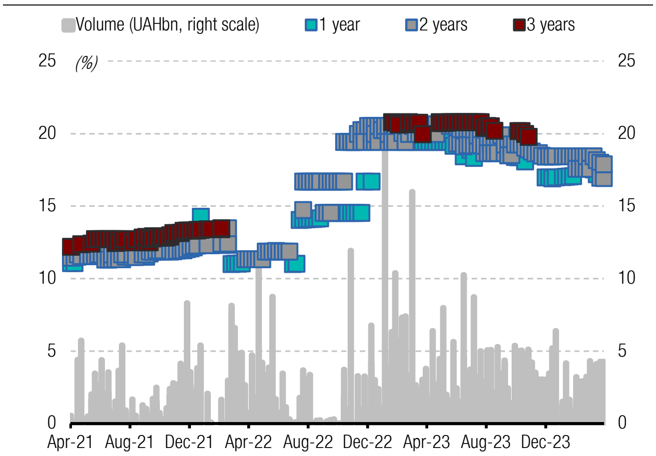
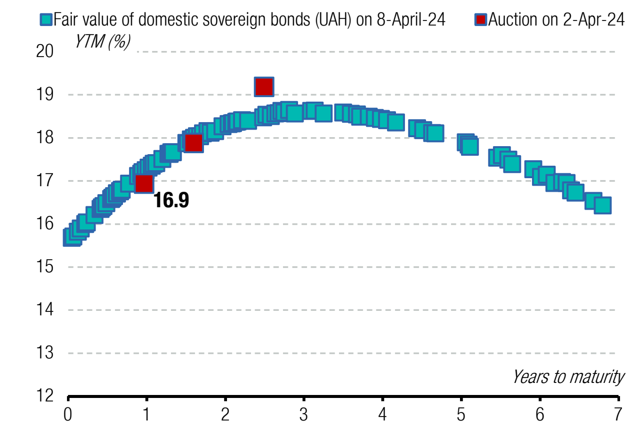
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

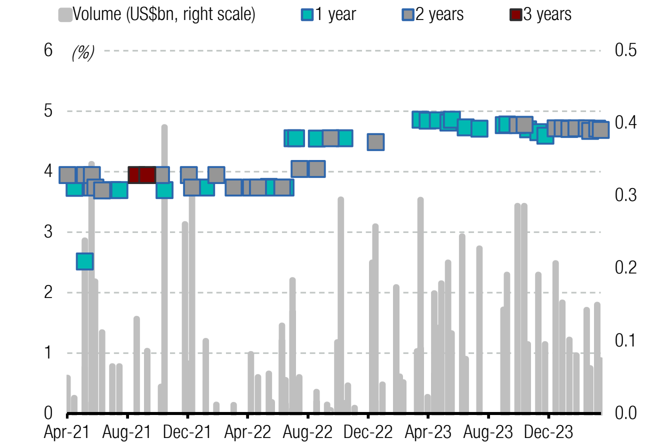
YTMs *of domestic government bonds as calculated by NBU versus placements via primary market auctions*



Source: NBU, MFU, ICU.

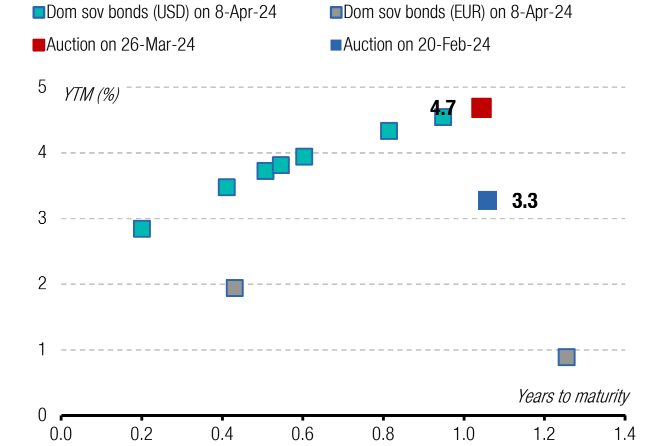
Chart 2. FX-denominated bonds

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

Investors in wait-and-see mode

Without important news last week, investors are waiting for the start of restructuring negotiations. Therefore, Eurobond prices moved in line with the trend of emerging markets and declined slightly.

Last week, Ukrainian Eurobond prices declined by 1.4% or 2.9% from the rally peak two weeks ago. Prices moved to 28.5–37.5, with the price range widened to 13.4%. At the same time, the VRI price slid by 0.6%, staying above 55 cents per dollar of notional value. EMBI index declined by 0.8% last week.

ICU view: Investors kept a close eye on the debates in the US Congress regarding the aid package for Ukraine and are waiting for the House of Representatives to resume work tomorrow. The Ministry of Finance is very unlikely to start restructuring talks before a final decision is reached in the US Congress. Therefore, without important news, investors will remain in a wait-and-see mode in the coming weeks.

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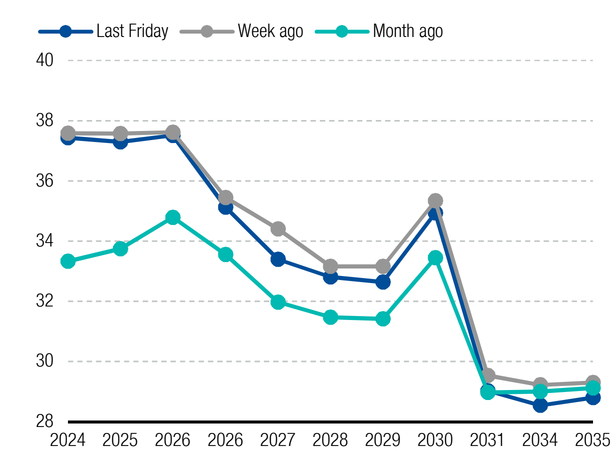
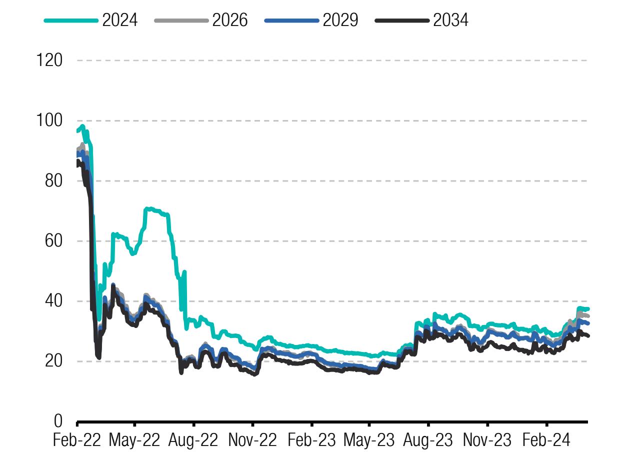
Chart 3. Ukrainian Eurobonds prices

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

Imbalances in FX market narrow somewhat

The hard currency deficit in the FX market declined last week, allowing the hryvnia to strengthen and the NBU to decrease interventions.

Bank clients' (legal entities) operations have become better balanced since last Wednesday, as their net purchases were just US$20m on Wednesday and net sales at US$48m last Thursday. In four business days last week, their net purchases stood at just US$205m or one third less than in the same period of the previous week. Therefore, after weakening to UAH39.23/US$ on Tuesday, the hryvnia appreciated until the end of last week by 1.2% to UAH38.84/US$.

In the retail segment, net foreign currency purchases almost doubled to US$151m mostly due to a sharp increase in online purchases. In four business days, households' net online purchases amounted to US$35m, compared with US$8m of net sales in the same period of the previous week. The cash exchange rate strengthened by 0.3% to UAH38.8–39.3/US$.

Larger purchases in the retail segment did not prevent the overall improvement in the FX market, which allowed the NBU to decrease interventions by 26% to US$484m.

ICU view: On Tuesday, the FX market saw delayed demand from Friday and Monday, as some countries had holidays with no cross-border transactions. Therefore, last Tuesday, the hard currency deficit was the largest for three months. From Wednesday, the deficit declined, along with falling trading volumes, causing UAH appreciation. An increase in online purchases in the retail segment is usual for the beginning of the month as monthly FX purchases limits, set by the NBU for households, are reset.

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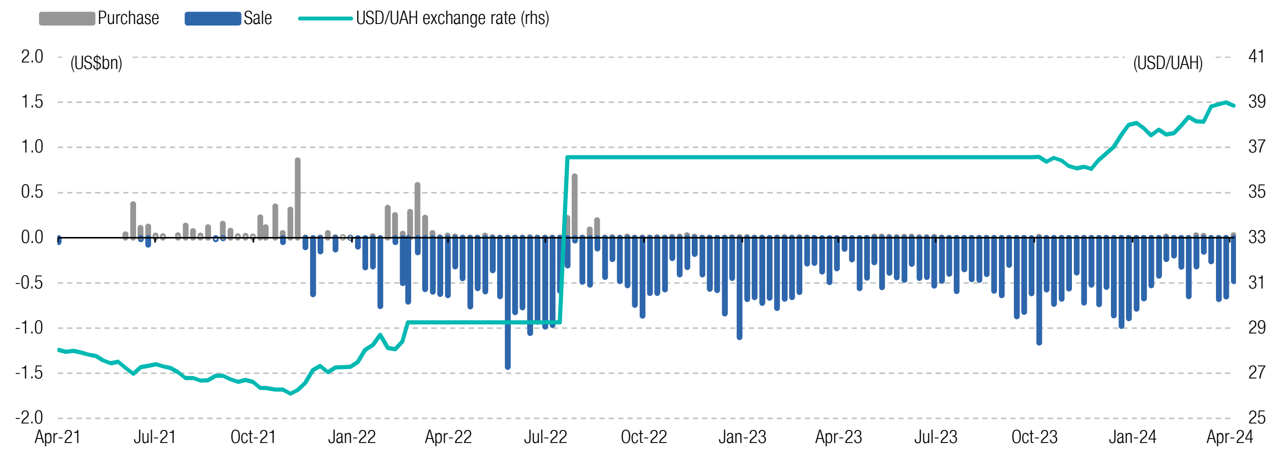
Chart 4. FX market indicators, 3-year history

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market and NBU interventions (weekly data)



Source: NBU, Bloomberg, ICU.

Economics

NBU reserves boosted by foreign aid

The NBU gross international reserves spiked 18% in March and 8% YTD to US$43.8bn as foreign partners provided a record volume of new loans to Ukraine.

The largest credit facilities provided to Ukraine in March included a EUR4.5bn tranche from the EU, US$1.6bn loan from Japan, US$1.5bn from Canada, and US$0.9bn from the IMF. Meanwhile, the NBU spent US$1.8bn in FX interventions to keep the hryvnia exchange rate under control. Also, Ukraine repaid US$1.0bn in external loans over the month, mostly to the IMF.

ICU view: March inflows of foreign financial aid were extremely high and will decline considerably in the coming months. The current level of reserves, which is historically high, is unlikely to be sustained and will also decline gradually. Nevertheless, we believe reserves will remain above US$40bn through end-2024 and will finish the year above the end-2023 level of US$40.5bn.

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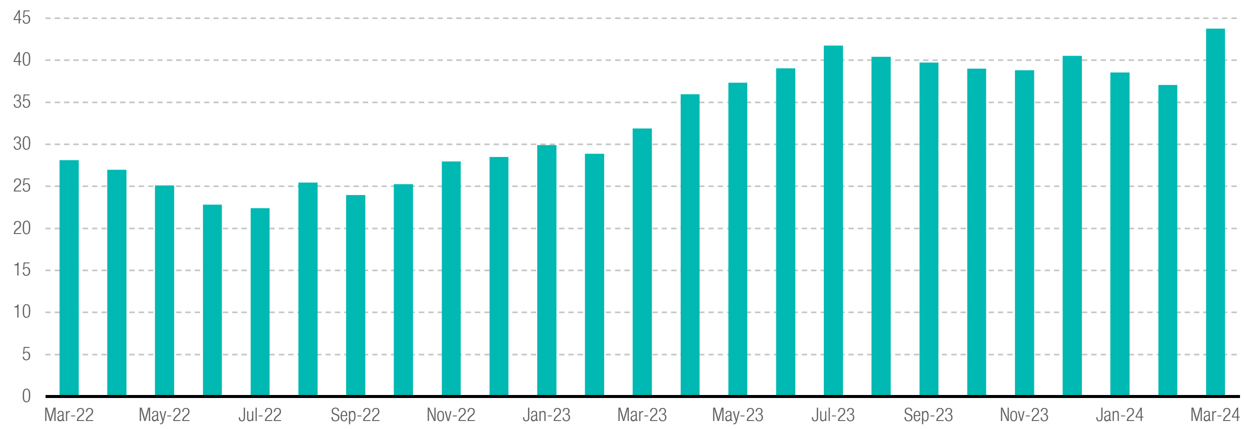
Chart 5. NBU gross international reserves, US$bn

NBU reserves jump in March on inflows of international aid



Source: NBU, ICU.

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