Focus
Ukraine

Markets
Government bonds, FX market, and macro

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Weekly Insight

Financial account significantly negative

Key messages of the today's comments

TUESDAY, 5 MARCH 2024

Ukrainian bond market

Debt rollover ratio remains decent YTD

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Investors wait for signals from MoF

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Foreign exchange market

FX market balance improves again

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Economics

Financial account significantly negative on lack of foreign aid

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Ukraine's public debt little changed in January

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Banks' reserves market (4 March 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%)[1]	15.00	+0bp	-1,000bp
ON rate (%)	15.00	+0bp	-800bp
Reserves (UAHm)[2]	204,461	-2.6	+31.9
CDs (UAHm)[3]	566,912	-2.0	+0.0

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 March 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	682,490	+0.0	-2.1
Banks	668,372	+0.6	+29.2
Residents	143,457	-5.6	+30.6
Individuals	56,873	-5.8	+74.3
Foreigners	43,339	-0.3	-23.1
Total	**1,596,646**	**-0.5**	**+12.8**

Source: NBU, ICU.

FX market indicators (4 March 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	38.3339	+0.1	+3.8
EUR/USD	1.0856	+0.1	+2.1
DXY	103.832	+0.0	-0.7

Source: Bloomberg, ICU.

Market gov't bond quotes (5 March 2024)

Maturity	Bid (%)	Ask(%)
6 months	17.00	15.00
12 months	18.00	17.00
2 years	19.25	18.25
3 years	20.00	19.00
12 months ($)	5.00	4.50
2 years ($)	N/A	N/A

Source: ICU.

Ukrainian bond market

Debt rollover ratio remains decent YTD

The Ministry of Finance refinanced 90% of debt redemptions in February in all currencies; however, the rollover ratio YTD exceeds 100%.

At last week's primary auction, the MoF raised UAH11bn (US$287m) without changes in interest rates. This was one of the largest weekly borrowings this year. Last week's proceeds were split almost equally between local and hard currencies. See details in the auction review.

Thanks to large volumes of UAH borrowings in February, the total monthly refinancing level in all currencies was 90%. YTD, the total rollover rate stood at 119%, including 88% in US dollars and 93% in euros. Borrowings continue to exceed repayments only in local currency. The rollover ratio was 138% in February and 190% YTD.

Due to significant redemptions of USD-denominated securities last week, the volume of domestic bonds outstanding slid in February by 0.2%. Except for banks, portfolios of all bondholder groups declined.

During March, the Ministry must repay UAH18bn (approximately US$467m) of UAH debt (including UAH16bn next week and UAH2bn at the end of the month) and US$430m in FX-denominated bills (in two weeks). So, in preparation for significant repayments, the MoF has added a new US dollar issue to today's offering and will, thus, offer USD-denominated bills three times in March.

ICU view: The MoF has already refinanced all scheduled for January and February domestic debt redemptions, largely thanks to UAH notes. It will likely try to step up FX borrowings in view of upcoming sizeable redemptions in March to ensure the rollover for FX instruments is at least 100%. April's schedule is very light on redemptions with only UAH2.5bn scheduled, so the Ministry will be accumulating liquidity for May repayments when UAH40bn (about US$1bn) and EUR277m are to be redeemed.

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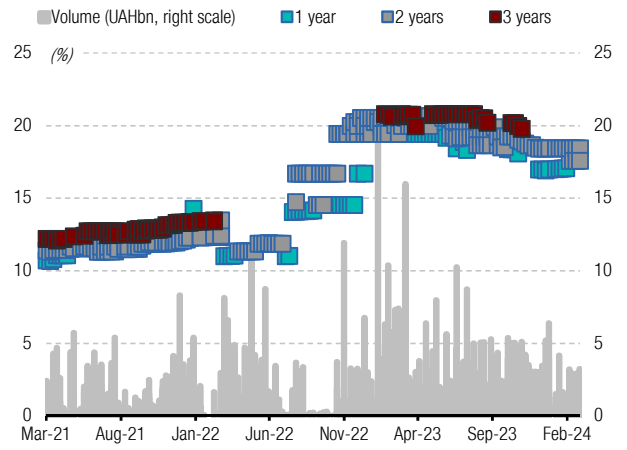
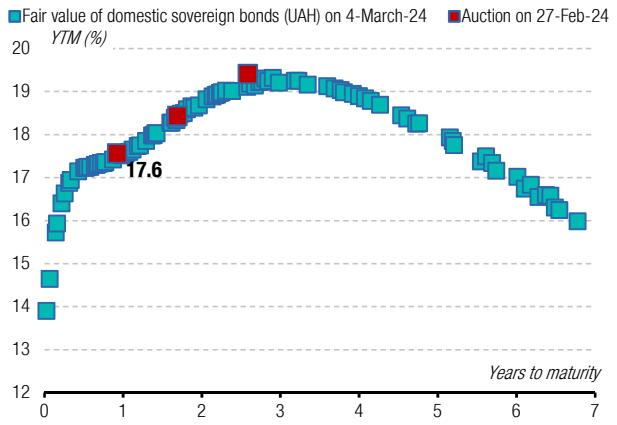
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

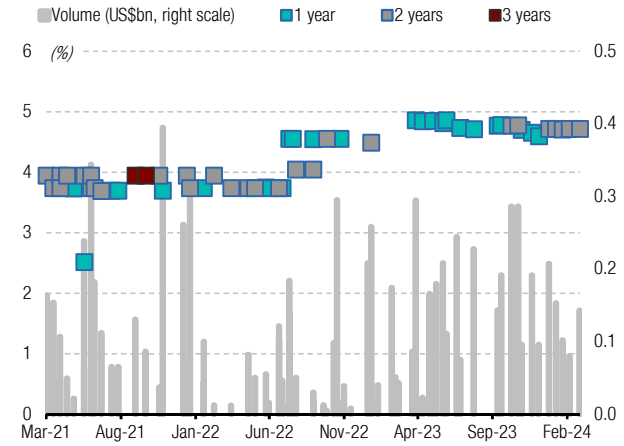
YTMs of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

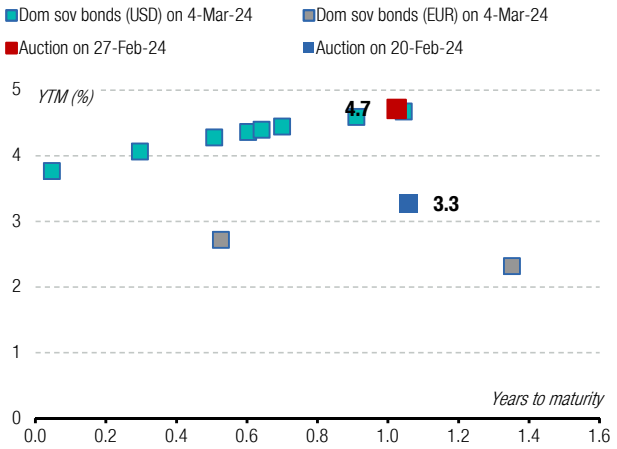
Chart 2. FX-denominated bonds

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 wait for signals from MoF

Ukrainian Eurobond prices rose significantly last week in anticipation of the start of debt restructuring negotiations.

Last week, Ukrainian Eurobond prices rose by an average of 9.6%. The prices shifted to 26–32 cents per dollar, and the price range for Ukrainian Eurobonds with different maturities narrowed to 11.3%. The VRI's price increased by 4% to 47 cents per dollar of notional value. The EMBI index increased by 0.2% last week.

ICU view: Last week, investors were actively discussing rumours of an imminent start to negotiations on restructuring Eurobonds. Despite lack of new material information about possible restructuring terms, bondholders were broadly optimistic and took the rare signals from the government as a sign that a full-fledged restructuring rather than extension of a standstill agreement looms.

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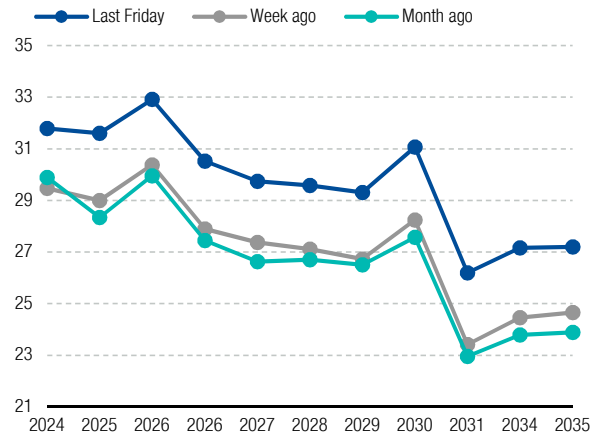
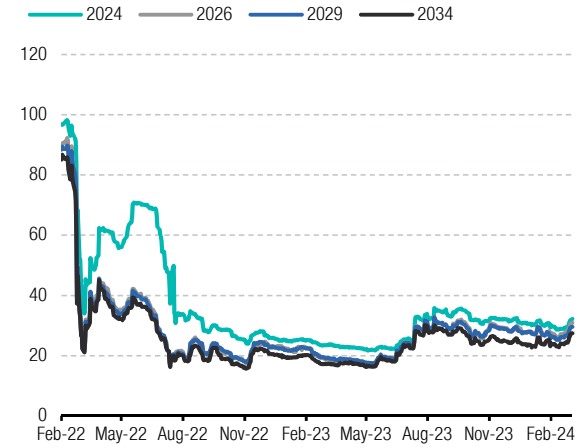
Chart 3. Ukrainian Eurobonds prices

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

FX market balance improves again

The demand for hard currency decreased last week, which allowed the NBU to reduce its interventions and strengthen the official hryvnia exchange rate.

In the interbank FX market, the purchase of foreign currency by bank clients (legal entities) decreased by 20% last week. At the same time, hard currency sales increased by 13%, implying net sale of foreign currency of US$38m. The official hryvnia exchange rate strengthened by 0.5% last week to UAH38.16/US$ for yesterday.

Net purchases of hard currency in the retail FX market decreased to US$203m. The cash exchange rate in systemically important banks strengthened by 0.2% to UAH38.0–38.6/US$.

The overall improvement in the FX market balance allowed the NBU to reduce its FX sale interventions to US$321m.

ICU view: With no significant demand for hard currency from government entities for import contracts, the FX market balance improved. Despite the relatively favourable situation and below-average deficit in the market, the NBU gives little room to the hryvnia to strengthen, likely indicating its strong preference for gradual hryvnia depreciation in the mid-term.

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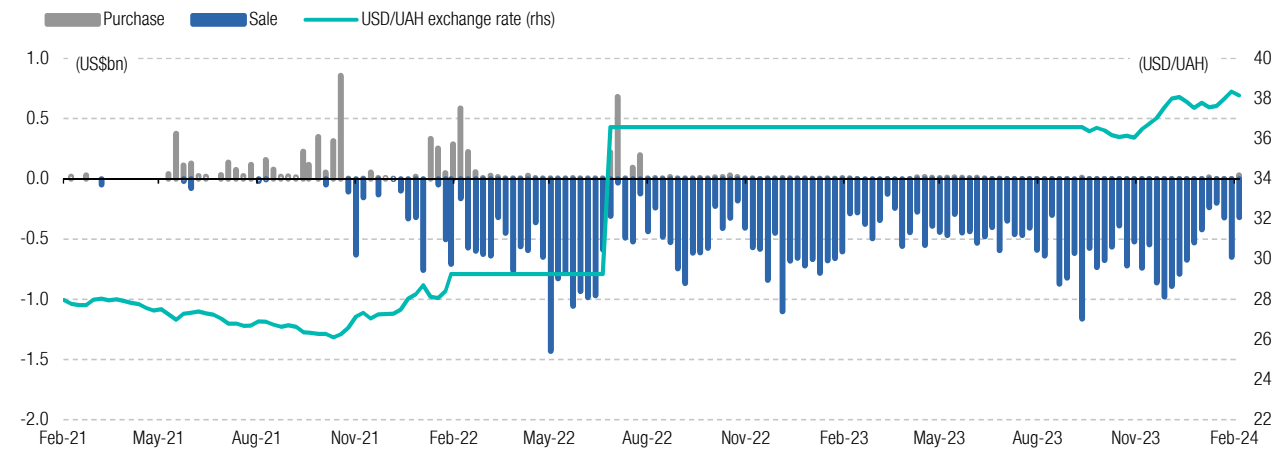
Chart 4. FX market indicators, 3-year history

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



Source: NBU, Bloomberg, ICU.

Economics

Financial account significantly negative on lack of foreign aid

In January, Ukraine's financial account turned significantly negative while the current account balance improved markedly.

The current-account deficit improved to US$0.5bn in January thanks to a better balance of trade in goods. Export of goods was up 12% YoY while imports surprisingly declined 1%. The balance of trade in services was little changed in December, but improved substantially vs January 2023, which reflects a decline in expenditures of Ukrainian refugees abroad. Migrant

incomes fell 17% YoY, but still offset more than a third of the trade deficit. Transfers to government were insignificant as Ukraine did not receive any new grant funding from the US.

The financial account was negative at US$1.4bn, the largest deficit since September 2022. FX cash outflows from banks (the largest channel of private capital flight) increased in January, while flows through other channels remained little changed. Unlike in previous months, Ukraine did not receive any sizeable loans in January 2024, as Ukraine's allies were finalizing formalities to unlock funding in the following months.

ICU view: January balance-of-payments data are not indicative of the trends through end-2024. We expect the current account deficit to widen in money terms in subsequent months on the growing shortfall of external trade. Meanwhile, the financial account is expected to turn positive as of March as Ukraine is expected to receive the first tranche of the EU loan. We project Ukraine's 2024 current-account deficit at 5.2% of GDP, little changed vs 2023. At the same time, it is going to be fully covered by the financial account surplus. We, thus, expect relatively stable NBU reserves and exchange rate during 2024.

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Chart 5. Key balance of payment components, $m

Financial account turns negative in January

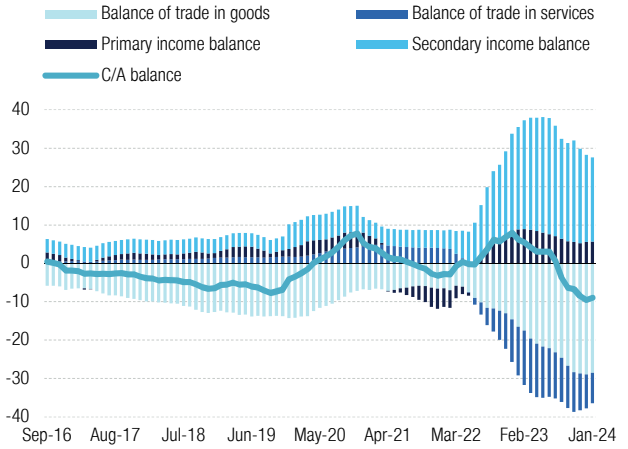
	Jan 2024	Dec 2023	Jan 2023
Current account	**-510**	**-728**	**-1,135**
Trade in goods	-1,737	-3,179	-2,159
Trade in services	-517	-529	-1,414
Primary income	698	1,039	542
incl. migrant income	844	943	1,020
Secondary income	1,046	1,941	1,896
incl. transfers to gov't	296	948	1,164
Financial account*	**1,382**	**-1,815**	**-2,331**
Change in trade credits	-59	345	-233
Change in cash out of banks	1,649	1,536	1,012
Net loans to government	-261	-3,831	-3,218
Other	53	135	108

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

Source: MoF, ICU.

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

12-month current account balance improves marginally



Source: NBU, ICU.

Ukraine's public debt little changed in January

Ukraine's public debt was down 0.3% in US$ terms in January to US$144.9bn.

The government raised only nominal volume of new debt from its foreign partners in January and also marginally increased local debt.

ICU view: January statistics are not indicative of a further trend through end-2024. While the public debt is also likely to stay nearly flat in February, it will start growing from March as Ukraine is scheduled to receive sizeable loans from the EU and other international partners. We expect an end-2024 debt-to-GDP level close to 90%, up from about 83–84% at end-2023.

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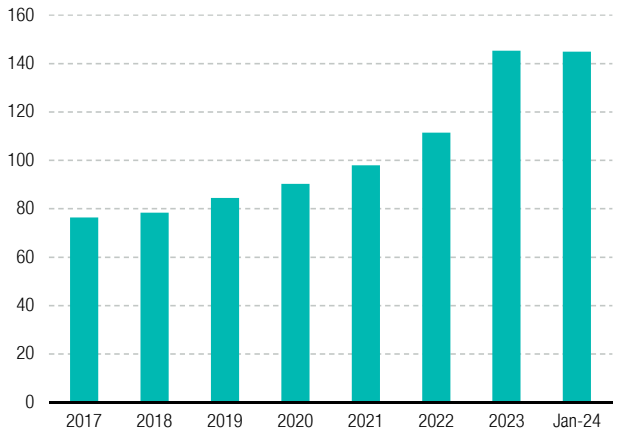
Chart 7. Ukraine's public debt, $bn

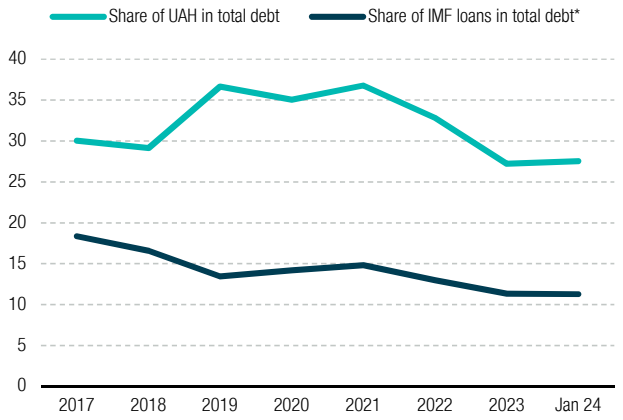
Public debt nearly flat in January 2024



Source: MoF, ICU.

Chart 8. Share of UAH and IMF loans* in total public debt, %

Share of hryvnia debt continues to decline due to external borrowings



* includes IMF SDR allocation

Source: MoF, ICU.

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