

# Weekly Insight

## Foreigners renew investments

### Key messages of the today's comments

MONDAY, 22 AUGUST 2022

### Ukrainian bond market

#### Foreigners renew investments in local-currency debt

Now that trade in T-bills issued before the Russian invasion (non-military T-bills) has been unblocked, foreigners have resumed investments in government UAH-denominated securities, but in very small volumes.

#### Eurobond market is dormant

Trade in Ukrainian Eurobonds was inactive and prices inched up after investors agreed to defer payments.

### Foreign exchange market

#### Hryvnia weakening on cash market

The cash exchange rate for major currencies continues to grow even though demand is moderate.

### Banks' reserves market (19 August 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	25.00	+0bp	+1,700bp
ON rate (%)	9.76	+0bp	+238bp
Reserves (UAHm) <sup>2</sup>	72,680	+14.17	+35.89
CDs (UAHm) <sup>3</sup>	171,797	-7.79	+28.22

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) (19 August 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	559,570	+0.00	+78.43
Banks	514,395	-0.28	+4.16
Residents	66,101	+0.66	+32.30
Individuals	30,137	+0.93	+54.42
Foreigners <sup>1</sup>	70,432	+0.69	-30.58
<b>Total</b>	<b>1,241,177</b>	<b>-0.02</b>	<b>+26.86</b>

Source: NBU, ICU.

### FX market indicators (19 August 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.6225	-0.59	+37.45
EUR/USD	1.0037	-2.16	-14.03
DXY	108.169	+2.40	+15.60
UAH TWI <sup>1</sup>	114.650	+2.06	-10.35

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes<sup>1</sup> (22 August 2022)

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

Source: ICU.

# Ukrainian bond market

## Foreigners renew investments in local-currency debt

Now that trade in T-bills issued before the Russian invasion (non-military T-bills) has been unblocked, foreigners have resumed investments in government UAH-denominated securities, but in very small volumes.

The secondary bond market remains segmented into military and ordinary bonds, where trading patterns are very different. There is a very large number of small deals with military bonds in local currency — 3,361 deals for UAH130m (US\$3.6m) last week—while the number of deals with ordinary securities remains small so far — 391 deals last week, but the volume was up at UAH3.5bn (US\$95.5m). These figures are close to those of the week before.

Foreigners have resumed activity in ordinary (non-military) bonds. For more than five months, they have been in a wait-and-see mode. First, they waited for an increase in interest rates, which happened after the secondary market was unblocked. Second, many investment funds have restrictions on investing in securities designated as military. So, after the secondary market trading restrictions were lifted and non-military bonds are back on offer, non-residents became more active. Buying new securities is a rational strategy for them because they cannot repatriate funds from Ukraine until April 1, 2023. In two weeks, they increased their portfolios of local-currency bonds by UAH1bn, to UAH70.5bn (US\$1.9bn). The current portfolio is still much smaller than day prior the Russian invasion (UAH74.8bn or equivalent of US\$2.6bn), but foreigners' presence increases trading activity and contributes to the formation of the secondary market yield curve.

During the past week, the yields of non-military instruments on the secondary market fluctuated close to 20%. The bulk of trading was in bonds maturing this year and next with YTM's from 17 to 23% and drifting to 20%.

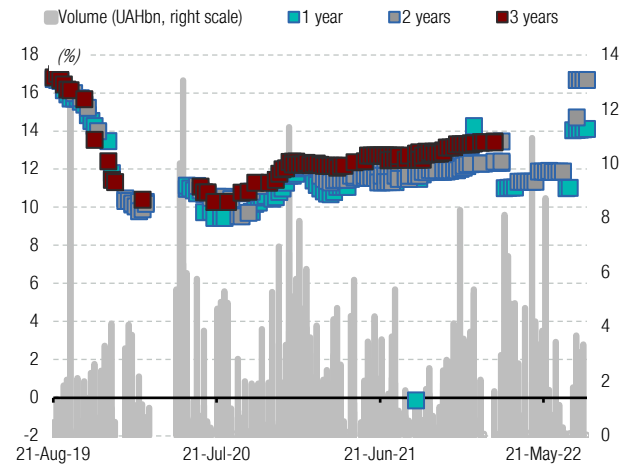
On the primary market, interest in military bonds fell to the lowest level during the six months of the full-scale war with Russia. The MoF raised only UAH72m (US\$2m) at the auction. Demand was almost UAH1.2bn (US\$34m), but the Ministry of Finance rejected bids above 14% and up to 20%, which is close to rates in the secondary market. See details in the [auction overview](#).

***ICU view: The segmentation of the bond market will persist since foreigners wish to trade specifically in non-military bonds due to internal regulations. At the same time, only military bills are available for individuals who joined the market after February 24, 2022. Therefore, activity and volumes will remain similar to those of previous weeks. According to statements made by the Ministry of Finance, we should not expect notable changes in the terms of military bonds on the primary market in the next few weeks. Also, the Ministry does not plan to offer non-military government bonds at the moment.***

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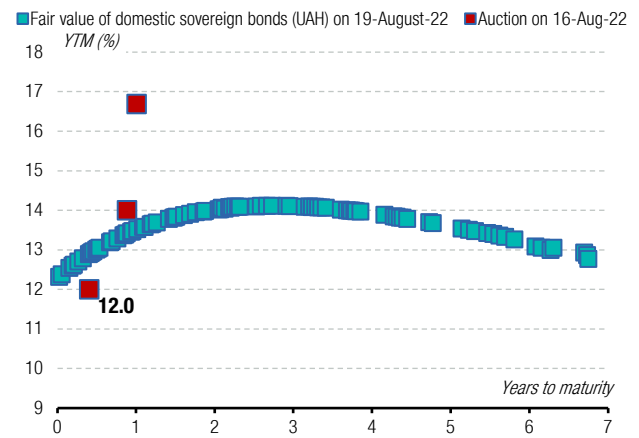
**Chart 1. Local-currency bonds**

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.

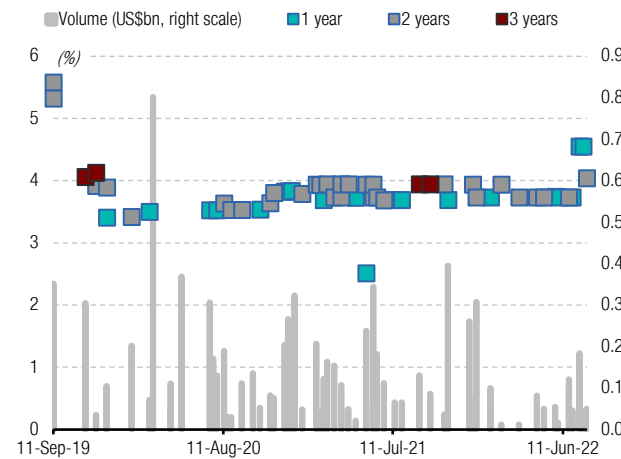
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

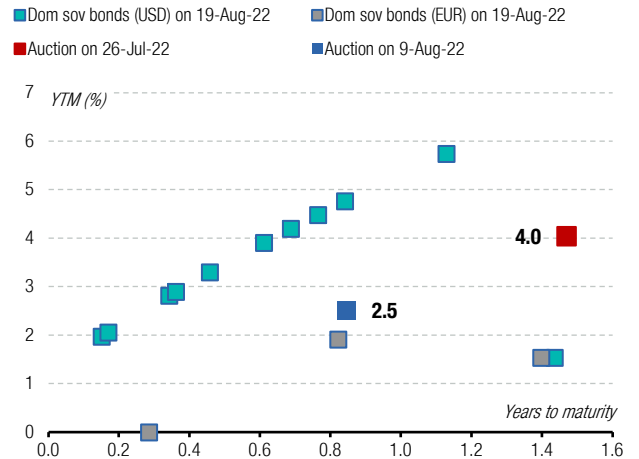
**Chart 2. FX-denominated bonds**

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 market is dormant**

Trade in Ukrainian Eurobonds was inactive and prices inched up after investors agreed to defer payments.

Eurobonds rose in price by a few cents over the past week, mostly up to 23-30 cents per dollar. Only the price of the Eurobond originally due September 1 of this year slid a mere by one cent to 34 cents.

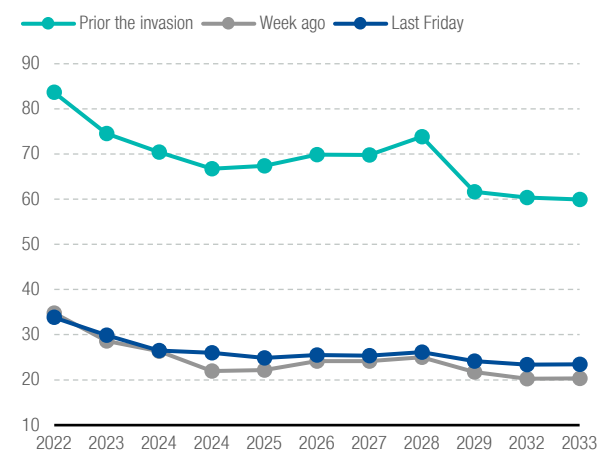
The prices of VRIs increased by 1.5 cents and approached 35 cents per dollar of notional value.

**ICU view:** Investors are currently in no rush to sell Ukrainian Eurobonds, but, equally, they show no particular interest in buying them. We do not expect news noteworthy enough that would prompt reassessment of the fair value of Ukrainian Eurobonds any time soon. However, their price may partially increase due to general increase in appetite for emerging markets risk.

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**Chart 3. Ukrainian Eurobonds prices**

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



Source: Bloomberg, ICU.

*Last six-month historical data*



Source: Bloomberg, ICU.

## Foreign exchange market

### Hryvnia weakening on cash market

The cash exchange rate for major currencies continues to grow even though demand is moderate.

On the cash FX market, the hryvnia weakened from UAH38.7–39.6/US\$ to UAH39.0–39.9/US\$ according to the data of the 10 leading retail banks.

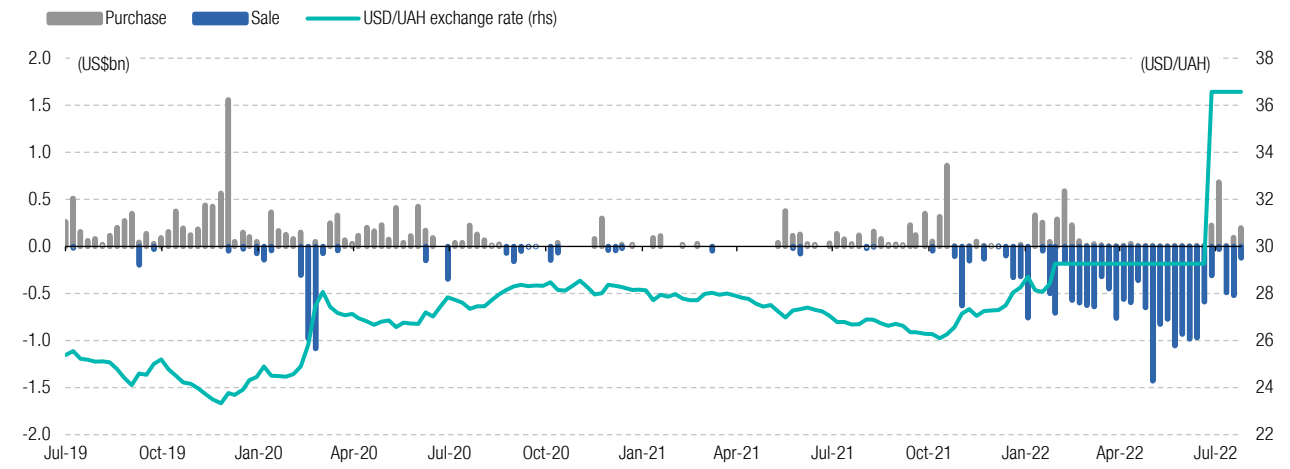
According to the NBU, the interbank market is also relatively balanced such that the NBU had to sell only US\$122m of hard currency and bought almost US\$198m. It looks like all purchases of hard currency by the National Bank are nothing but flow of funds from the Ministry of Finance account into NBU reserves.

**ICU view:** *The NBU's moves to balance the cash FX market did not restrain the weakening of the hryvnia cash exchange rate. Demand for cash continues to exceed supply, albeit the volumes are not excessively high. At the same time, a significant difference between the official and cash exchange rates is likely to activate the flow of hard currency from the non-cash to the cash segment, probably through gray channels, which may reduce pressure on the hryvnia exchange rate.*

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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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