

# Weekly Insight

## The hryvnia losing positions

### Key messages of the today's comments

MONDAY, 26 SEPTEMBER 2022

### Ukrainian bond market

#### Bond trading volumes decline

Borrowings in local currency at the primary auction increased slightly last week, but activity in the secondary bond market was even lower than in the previous two months.

#### Negative news from russia lowers Eurobond prices

Russia's announcement of referendums in the occupied Ukrainian territories and the start of mobilization worsened investor sentiment and lowered the prices of Ukrainian Eurobonds.

### Foreign exchange market

#### The hryvnia losing positions

The NBU's efforts to provide the market with extra FX cash have so far proved insufficient to stabilize the market, primarily due to worsening sentiment on the back of war escalation.

### Banks' reserves market (23 September 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	25.00	+0bp	+1,650bp
ON rate (%)	9.76	+0bp	+186bp
Reserves (UAHm) <sup>2</sup>	62,754	-12.78	+10.36
CDs (UAHm) <sup>3</sup>	249,188	+1.31	+90.62

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 gov't bond holders (UAHm) (23 September 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	619,570	+0.00	+98.20
Banks	502,393	-0.12	-0.69
Residents	66,789	+0.72	+25.67
Individuals	31,621	+1.17	+47.70
Foreigners <sup>1</sup>	67,983	-0.11	-28.45
<b>Total</b>	<b>1,289,372</b>	<b>+0.03</b>	<b>+30.50</b>

Source: NBU, ICU.

### FX market indicators (23 September 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.7170	-0.20	+37.86
EUR/USD	0.9687	-3.28	-17.48
DXY	113.192	+3.12	+21.60
UAH TWI <sup>1</sup>	116.958	+2.04	-8.15

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes<sup>1</sup> (26 September 2022)

Maturity	Bid	Ask
6m	21.00	16.00
12m	21.00	17.00
2y	23.00	18.00
3y	25.00	19.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## Bond trading volumes decline

Borrowings in local currency at the primary auction increased slightly last week, but activity in the secondary bond market was even lower than in the previous two months.

At the primary auction, the Ministry of Finance raised UAH718m (US\$19.6m), including just UAH280m (US\$7.2m) in local currency and the rest UAH453m (US\$12.4m) in USD. At the same time, the largest part of funds in local currency was raised through semi-annual bills, UAH254m (US\$6.9m). Interest rates for all offered bills remained unchanged. See details in the [auction overview](#).

According to NBU data, most of UAH-denominated funds raised last week came from municipalities whose portfolios increased by UAH260m (US\$6.9m) at par value. Last week, total volume of UAH bonds in issue increased by UAH280m (US\$7.2m).

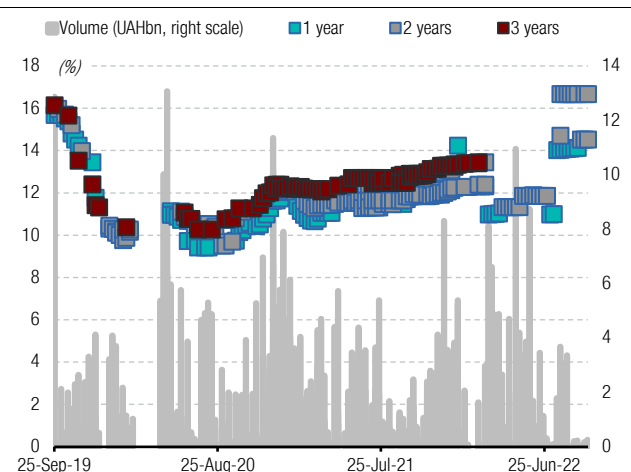
Individuals were the most active last week in the bond market. Their portfolios grew by UAH211m (US\$5.8m), which is about 2/3 of the trading in military bills on the secondary market, amounting to UAH307m (US\$8.4m). Just banks and foreigners reduced their portfolios of UAH-denominated bonds by UAH416m (US\$11.4m) and UAH105m respectively US\$2.9m).

**ICU view: The bond market remains inactive awaiting for a possible revision of rates by the Ministry of Finance, at least for local currency securities. In addition, last week, news about the escalation of the war by russia also negatively impacted the willingness to invest in new bonds. Trading volumes traditionally decrease during periods of material negative war-related news, so we expect that most investors will take a break this week as well.**

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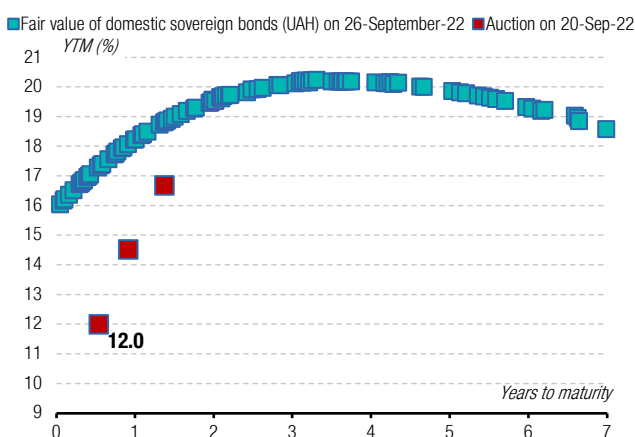
**Chart 1. Local-currency bonds**

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.

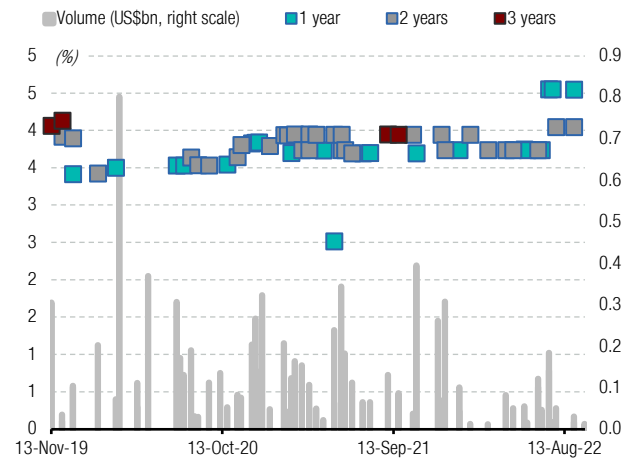
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

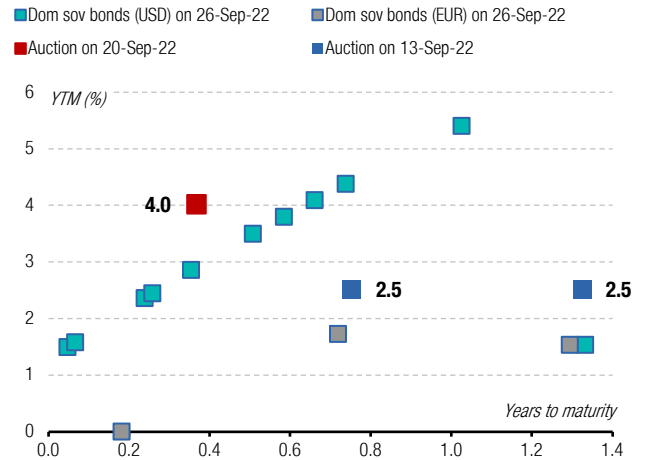
**Chart 2. FX-denominated bonds**

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.

**Negative news from russia lowers Eurobond prices**

russia's announcement of referendums in the occupied Ukrainian territories and the start of mobilization worsened investor sentiment and lowered the prices of Ukrainian Eurobonds.

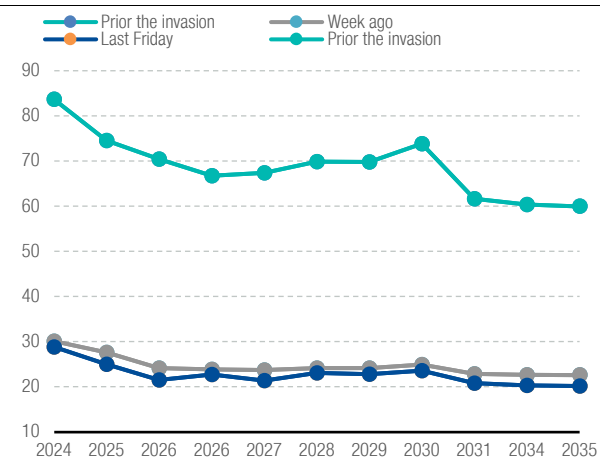
Investors were inspired by the success of the Ukrainian military two weeks ago, but their mood changed last week as russia made it clear it plans to escalate the war. Eurobond prices started to decline, but they have not yet lost all the gains of the previous two weeks. Overall, prices were down 1–3 cents after rising 2–4 cents during the previous week and ended last week at 20–29 cents on the dollar.

**ICU view:** *The announcement of sham referendums in the occupied territories and mobilization in russia is the most significant attempt to escalate the war in recent months. Therefore, that news turned out to be quite significant for investors, as russia's steps will delay the prospects of ending the war, in which the initiative clearly shifted to Ukraine's side in recent weeks. These factors had a key impact on the price fluctuations of Eurobonds last week. This week, the information background may worsen further as the announcement of the results of sham referendums are expected and russia will clearly make steps to annex more Ukrainian territories.*

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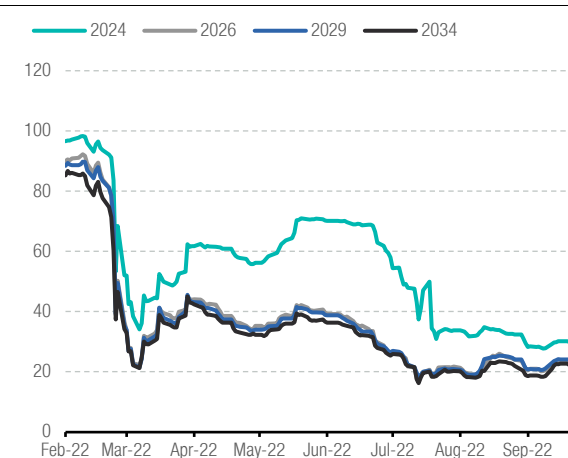
**Chart 3. Ukrainian Eurobonds prices**

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



Source: Bloomberg, ICU.

*Last eight-month historical data*



Source: Bloomberg, ICU.

## Foreign exchange market

### The hryvnia losing positions

The NBU's efforts to provide the market with extra FX cash have so far proved insufficient to stabilize the market, primarily due to worsening sentiment on the back of war escalation.

The NBU sold almost US\$100m of cash for non-cash hard currency last Monday, but this volume fell significantly short of satisfying the customer demand for FX cash. Most banks stopped selling FX cash to customers, and only use it to return FX deposits. Over the past week, the hryvnia exchange rate at the 10 leading banks weakened from UAH39.4–40.4/US\$ to UAH40.6–41.6/US\$.

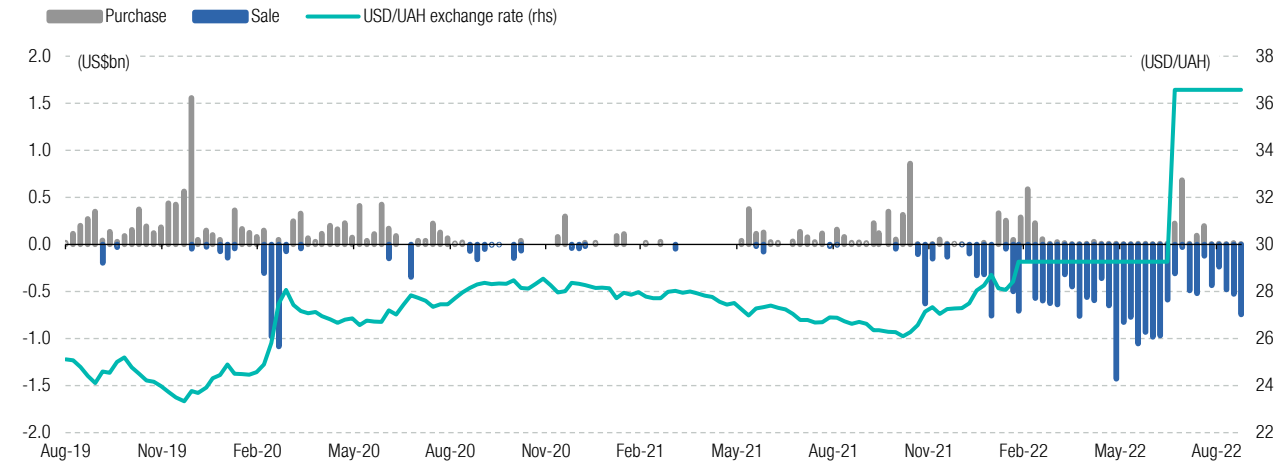
On the interbank market, the demand for hard currency increased, as well, and the NBU had to increase sale interventions to US\$737m, the largest amount since the second week of July.

**ICU view:** *The mood of the population worsened after russia announced referendums in the occupied Ukrainian territories and started mobilization. The National Bank of Ukraine again emphasized last week that despite the growing imbalances in the market, it does not intend to revise the official hryvnia exchange rate anytime soon. The NBU considers the current level of FX reserves sufficient to smooth out current imbalances. We also do not expect it to reset the official rate in the near future. The cash market will continue to be influenced by news about russia's attempts to annex the occupied Ukrainian territories. So, nervousness will persist, and psychological factors will continue prevail in the market in the coming weeks.*

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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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