

Weekly Insight

NBU reserves down 6% in September

Key messages of the today's comments

MONDAY, 10 OCTOBER 2022

Ukrainian bond market

Investors await signals from new NBU governor

The activity in the domestic bond market fell significantly in anticipation of signals from the new NBU governor.

Eurobond market stabilizes

The lack of significant news last week contributed to stability of prices of Ukrainian Eurobonds at the level of 18–29 cents.

Foreign exchange market

Hryvnia strengthens in the cash market

The weakening of psychological factors and the NBU's efforts to fill the cash market with hard currency helped strengthen the hryvnia exchange rate at bank cash desks.

Economics

NBU reserves down 6% in September

The NBU gross international reserves declined 5.9% in September to \$23.9bn as FX sale interventions increased against the backdrop of lower inflow of international financial aid.

Banks' reserves market (7 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,650bp
ON rate (%)	9.76	+0bp	+166bp
Reserves (UAHm) ²	70,424	+15.71	+72.99
CDs (UAHm) ³	256,603	-3.29	+68.63

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) (7 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	619,570	+0.00	+98.20
Banks	500,807	-0.02	-0.22
Residents	68,270	-0.04	+31.14
Individuals	32,102	+1.30	+45.05
Foreigners ¹	68,228	+0.18	-30.10
Total	1,289,994	+0.03	+30.79

Source: NBU, ICU.

FX market indicators (7 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9322	+0.18	+40.39
EUR/USD	0.9744	-0.59	-15.65
DXY	112.795	+0.60	+19.72
UAH TWI ¹	116.514	+0.13	-10.01

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (10 October 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

Investors await signals from new NBU governor

The activity in the domestic bond market fell significantly in anticipation of signals from the new NBU governor.

During the past week, the volume of trading in UAH bonds stood at just UAH1.2bn (US\$32m), and trading in USD-denominated bills stood at around US\$26m. In the primary market, the amount raised by the Ministry of Finance — UAH45m (US\$1.2m) — was the lowest in more than two years (see [auction review](#)).

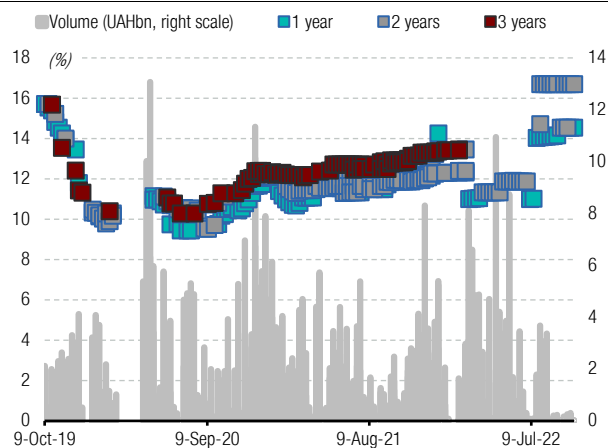
Trading in UAH military bonds was close to summer lows, and over the past week, only UAH252m (US\$7m) of deals were concluded. The remaining UAH903m (US\$25m) of deals were with ordinary (non-military) bills, which is the lowest since the secondary market was unblocked in August.

ICU view: *In the segment of local-currency government bonds, the market seems to have adopted a waiting mode. Last week, demand declined again, as the market stood by when Chairman of the National Bank of Ukraine K. Shevchenko resigned. Participants were waiting for a new appointment, which may open a new chapter in discussions with the Ministry of Finance about NBU's financing of the budget deficit and the increase in interest rates on military bills. Demand for hryvnia government bonds may increase in the primary market tomorrow due to Wednesday's redemption of UAH16bn (US\$0.4bn) of local currency securities.*

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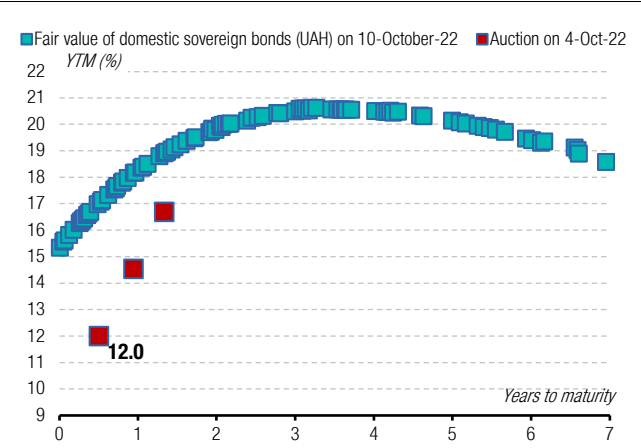
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

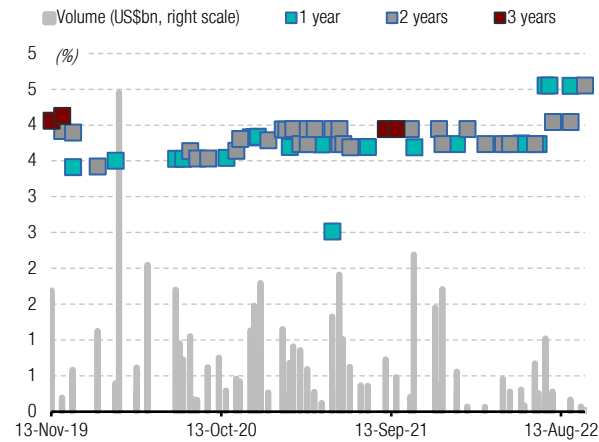
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

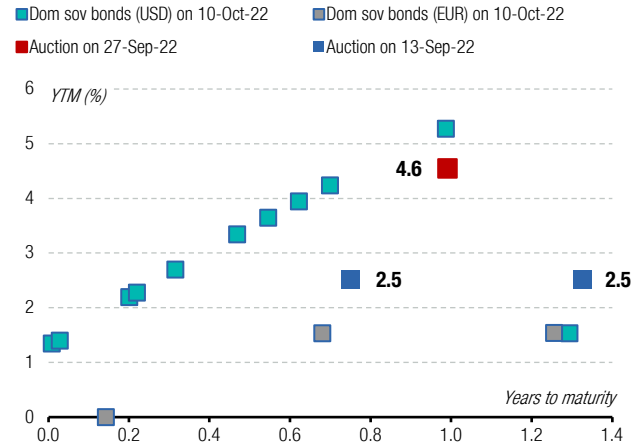
Chart 2. FX-denominated bonds

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

Eurobond market stabilizes

The lack of significant news last week contributed to stability of prices of Ukrainian Eurobonds at the level of 18–29 cents.

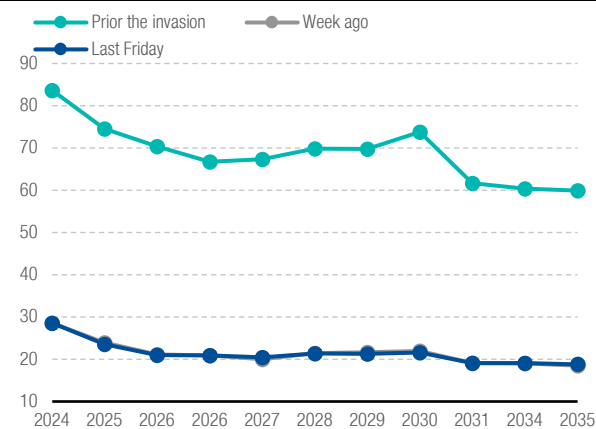
The volatility caused by russia's attempts to escalate the war has played out. The prices of Ukrainian Eurobonds fluctuated at levels close to last week's prices. Price changes were multidirectional and did not exceed a cent on the dollar.

ICU view: russia's attempts to escalate the war and the successes of the Ukrainian military have already been fully priced in by investors. This week, the market will be digesting the news of massive missile strikes of Ukraine's civil infrastructure. We thus expect some volatility of Eurobond prices.

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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

Hryvnia strengthens in the cash market

The weakening of psychological factors and the NBU's efforts to fill the cash market with hard currency helped strengthen the hryvnia exchange rate at bank cash desks.

Over the past week, the hryvnia exchange rate in the leading retail banks increased to UAH40.2–41.0/US\$ from UAH40.4–41.4/US\$ a week ago. It is important that the spread between banks' rates to buy and sell hard currency tightened from one hryvnia to UAH0.8, or by 20%.

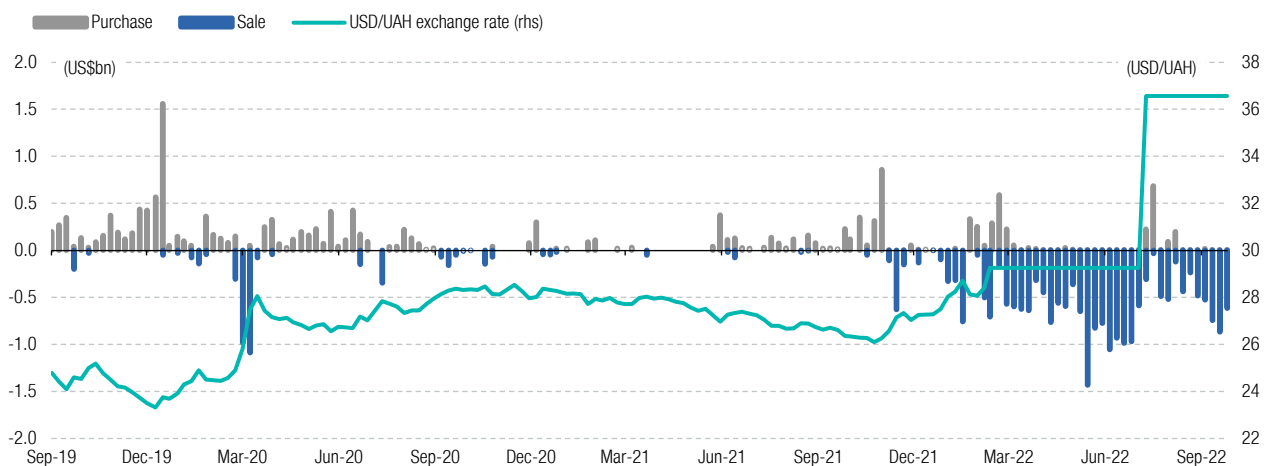
The balance in the non-cash FX market improved somewhat. The excess of demand over supply for hard currency among bank clients narrowed and did not exceed US\$67mn, while in the previous week, it reached US\$155m on one day. Therefore, the interventions of the NBU decreased to US\$609m.

ICU view: The NBU's efforts to supply the market with cash hard currency has produced noticeable results, which were reinforced by a decrease in anxiety from russia's attempts to escalate the war. However, massive missile attack today caused new wave of panic and cash FX exchange rate increased again. We expect further volatility 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.

Economics

NBU reserves down 6% in September

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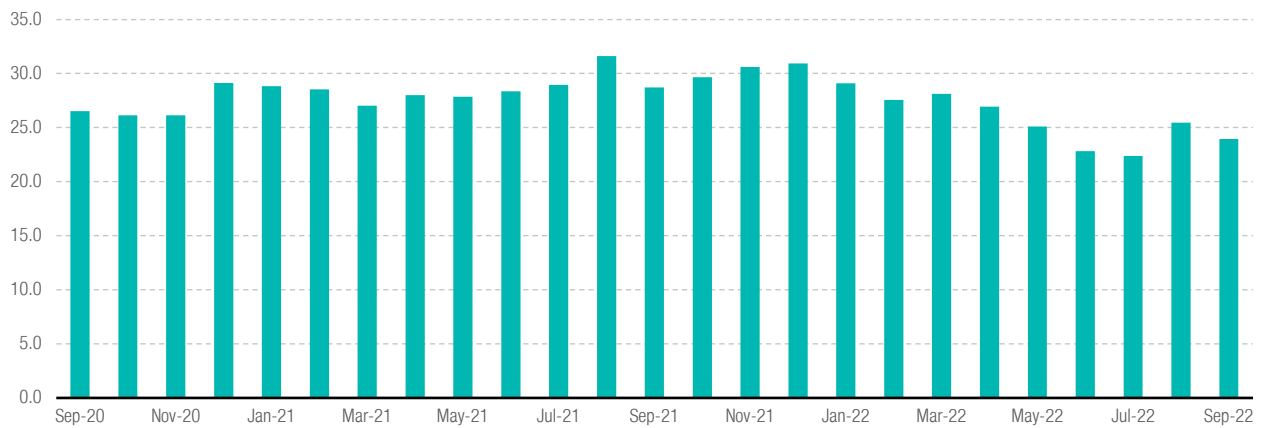
The NBU sold net US\$2.7bn in the FX interbank market to cover the excess demand for hard currency at a fixed exchange rate. The repayment of US\$625mn in loans to the IMF was also a significant drag on the central bank's reserves. Meanwhile, reserves were replenished with a US\$1.5bn grant from the US and a US\$0.5bn loan from the EU.

ICU view: The volatility of NBU reserves is due to uneven inflow of international financial aid and the growing need for FX interventions as shortages in the FX market widened significantly in recent weeks. Ukraine is scheduled to receive up to US\$10bn by the end of 2022, if the EU manages to pass all the procedures related to the remaining EUR8bn loan tranches promised to Ukraine. The inflow of international financial aid is likely to be larger than our current projection, which means NBU reserves may exceed our current forecast of US\$23.3bn.

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Chart 5. NBU gross international reserves, US\$bn

NBU reserves down on heavy FX sale interventions



Source: NBU, ICU.

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