



Focus
Ukraine

Markets
Domestic liquidity,
government bonds, FX
market, and macro

Research team
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Weekly Insight

Inflation accelerates to 24.6% in September

Key messages of the today's comments

MONDAY, 17 OCTOBER 2022

Ukrainian bond market

Conditions for debt refinancing deteriorate

Despite significant redemptions of UAH government bonds last week, new purchases remained moderate.

Eurobond prices decline significantly

The prices of Ukrainian Eurobonds decreased last week after a large-scale missile attack on Ukrainian civilian infrastructure.

Foreign exchange market

The hryvnia is strengthening

Despite the massive missile attacks on infrastructure on Monday, the cash FX market remained relatively calm.

Economics

Inflation accelerates to 24.6% in September

Annual inflation accelerated to 24.6% YoY in September from 23.8% in August. Core CPI reached 20.4% YoY.

Banks' reserves market (14 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,650bp
ON rate (%)	9.76	+0bp	+156bp
Reserves (UAHm) ²	86,891	+23.38	+199.07
CDs (UAHm) ³	267,696	+4.32	+84.46

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) (14 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	619,570	+0.00	+126.40
Banks	490,643	-2.09	+483.60
Residents	67,903	-0.64	+390.92
Individuals	32,067	-0.11	+4,188.29
Foreigners ¹	61,837	-9.28	+218.73
Total	1,273,038	-1.32	+225.00

Source: NBU, ICU.

FX market indicators (14 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9322	+0.00	+40.20
EUR/USD	0.9722	-0.23	-16.17
DXY	113.311	+0.46	+20.60
UAH TWI ¹	116.659	+0.12	-9.77

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (17 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

Conditions for debt refinancing deteriorate

Despite significant redemptions of UAH government bonds last week, new purchases remained moderate.

Last Tuesday, the government managed to borrow UAH3.6bn (US\$98.5m), the largest amount in a month and a half. However, most of the borrowings were via FX-denominated bills, and only UAH11.8m (US\$0.3m) was raised in local currency. This was the lowest amount this year despite the fact that the MoF repaid more than UAH16bn (US\$437m) of domestic debt last week, including almost UAH15bn (US\$410m) of principal.

On foreign currency bonds with a six-month maturity the interest rate was up 25bp to 4.25%, while rates for UAH bills remain unchanged. See details in the [auction review](#).

For UAH-denominated bonds, repayments exceeded new borrowings by more than UAH100bn (US\$2.7bn), with the refinancing rate declining to 52% YTD. The MoF covered these repayments with funds from the NBU, which lent the government UAH315bn (US\$8.6bn) since the full-scale russian invasion.

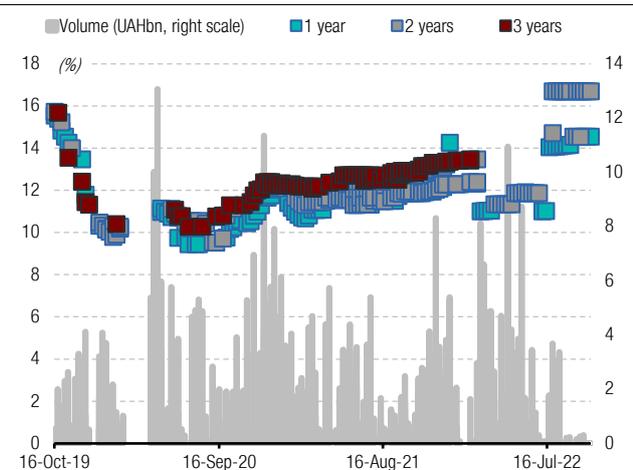
For FX-denominated bills, the level of refinancing was not much better than for local-currency redemptions. Almost US\$1bn or 44% of the repayments were not refinanced for bonds in USD.

ICU view: The keeping of low rates by the Ministry of Finance at primary auctions does not contribute to the building of demand in significant amounts because the rates on the secondary market are much higher. Therefore, in terms of financing the budget deficit, the government has critical dependence on financing from the NBU and international partners.

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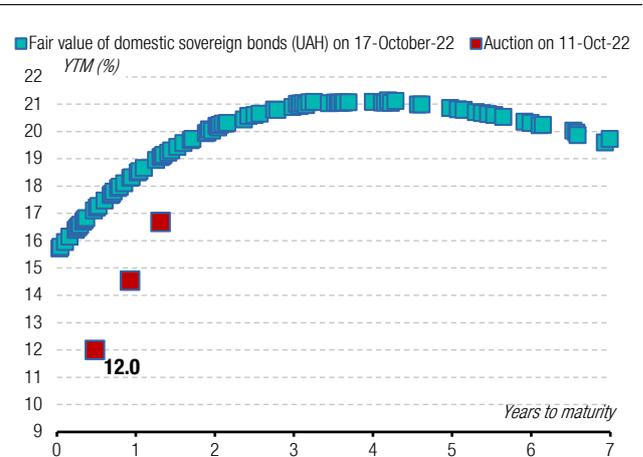
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

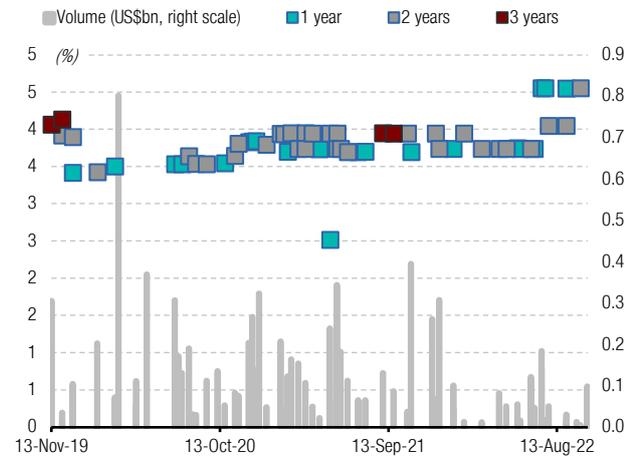
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

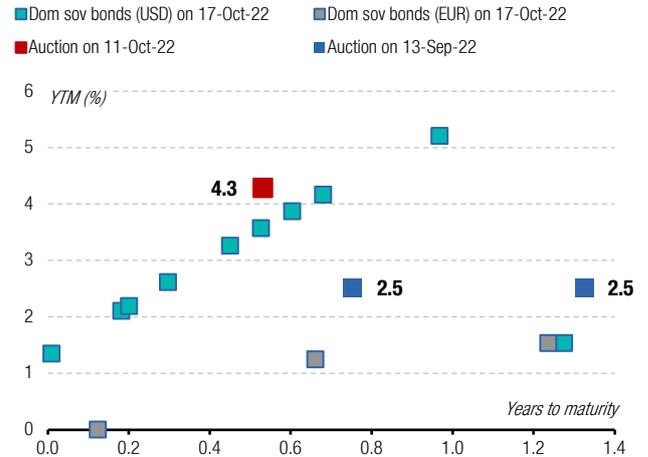
Chart 2. FX-denominated bonds

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 prices decline significantly

The prices of Ukrainian Eurobonds decreased last week after a large-scale missile attack on Ukrainian civilian infrastructure.

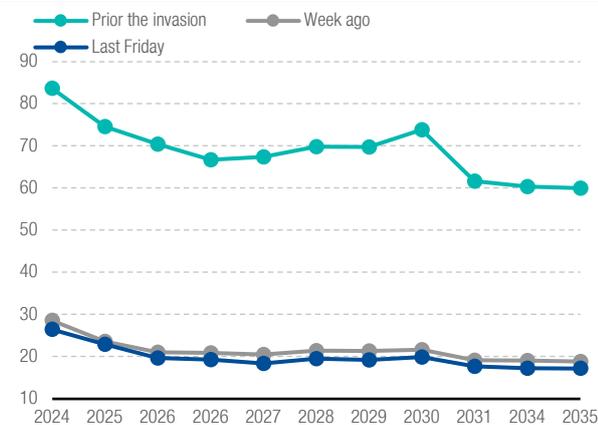
Over the past week, prices decreased by 1-2 cents, or 3-10%, to 17-26 cents. The price of VRIs fell by almost 5%, or 1.5 cents, to less than 27 cents on the dollar of notional value.

ICU view: russia's large-scale missile attack on Ukrainian infrastructure has led to problems in the energy sector, further destruction of physical assets, and a temporary reduction in production of several large industrial enterprises. In addition, investors are clearly aware of the risks of possible repeated strikes, which may cause additional damage to the Ukrainian economy. Therefore, investors reassessed the value of Ukrainian debt against the background of cautious global sentiment towards high-risk debt securities.

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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 is strengthening

Despite the massive missile attacks on infrastructure on Monday, the cash FX market remained relatively calm.

The supply of cash to the market has improved, gradually reducing the effect of panic and thus slashing excess demand. So, even despite the large-scale missile attacks on Ukraine on Monday, the hryvnia exchange rate in banks and non-bank exchange outlets continued to strengthen since Tuesday.

As a result, the hryvnia exchange rate in the 10 leading retail banks strengthened from UAH40.2-41.0/US\$ to UAH39.9-40.7/US\$.

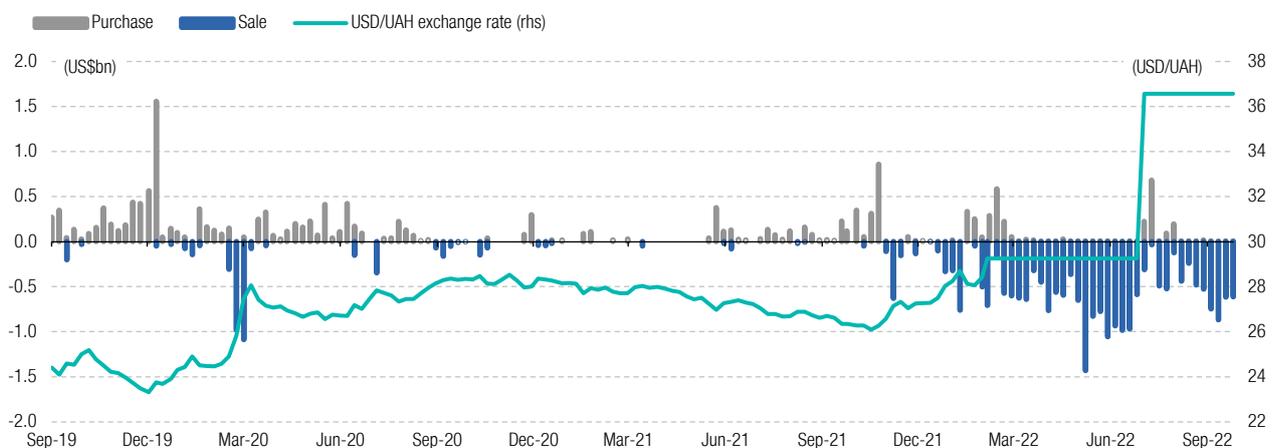
The interbank market did not seem to react to the missile attacks and required US\$605m of NBU interventions, which is almost the same as the previous week.

ICU view: Last week and today clearly showed the FX cash market has become much less sensitive to missile strikes on Ukraine's large cities. New attacks do not force population to purchase FX at any price anymore, thus helping reduce exchange rate volatility.

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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

Inflation accelerates to 24.6% in September

Annual inflation accelerated to 24.6% YoY in September from 23.8% in August. Core CPI reached 20.4% YoY.

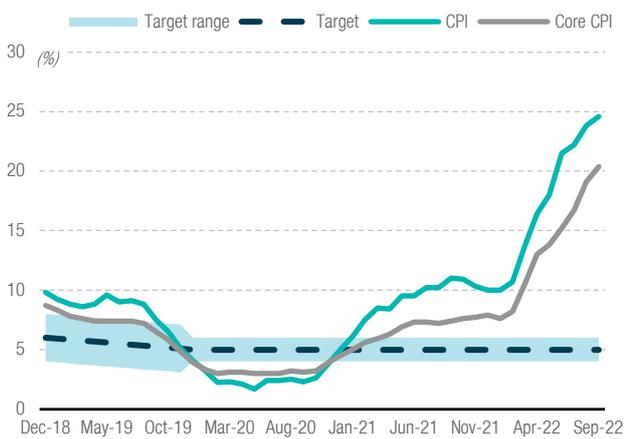
Price growth continued to accelerate across the board but food prices remained the key inflation driver given the sizable share of food (41%) in consumer basket. Prices for clothes and footwear remained nearly flat YoY reflecting the deteriorating purchasing power of the population, while slow growth in utilities' tariffs reflects caps on gas and electricity prices imposed by the government during the wartime.

ICU view: The pace of inflation acceleration is consistent with our projection of CPI reaching 29.5% YoY by the end of 2022. Inflation will further reach the peak close to 32% in February before it embarks on a decelerating trend in March 2023.

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Chart 5. CPI, core CPI and target, YoY, %

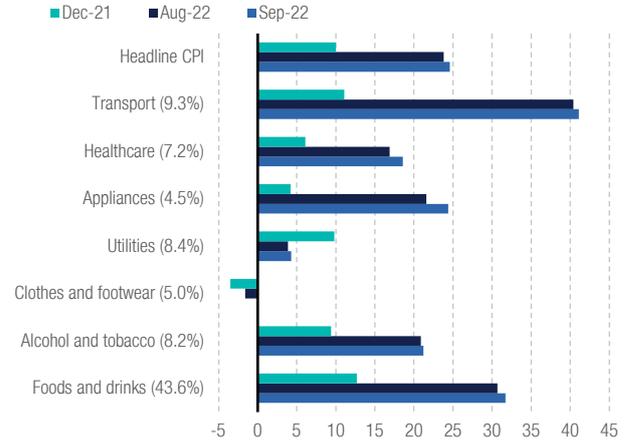
Inflation expectedly accelerates further



Source: Ukrstat, NBU, ICU.

Chart 6. CPI and its main components, YoY, %

Prices keep accelerating across the board



Source: Ukrstat, ICU.

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