



Focus  
Ukraine

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

Research team  
Vitaliy Vavryshchuk  
Alexander Martynenko  
Taras Kotovych  
Mykhaylo Demkiv

# Weekly Insight

## NBU again keeps rate unchanged

### Key messages of the today's comments

MONDAY, 24 OCTOBER 2022

### Ukrainian bond market

#### MoF and NBU: new round of dialogue about interest rates

The National Bank seeks to maintain a discussion with the Ministry of Finance regarding interest rates for local-currency bonds while the market is making guesses about what further steps the MoF will take.

#### Eurobonds drift amid global uncertainty

Prices of Ukrainian Eurobonds continued to decline last week under the influence of general market sentiment.

### Foreign exchange market

#### NBU keeps exchange rate fixed and unchanged

The National Bank announced that it plans to keep the exchange rate fixed at UAH36.6/US\$, positively impacting the FX market, especially the cash segment.

### Economics

#### NBU again keeps rate unchanged

At its recent meeting, the regulator decided to keep the interest rate at 25%, which was in line with the expectations.

### Banks' reserves market (21 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	25.00	+0bp	+1,650bp
ON rate (%)	9.76	+0bp	+152bp
Reserves (UAHm) <sup>2</sup>	66,251	-23.75	+15.73
CDs (UAHm) <sup>3</sup>	291,721	+8.97	+86.63

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) (21 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	634,570	+2.42	+102.99
Banks	497,969	+1.46	-0.82
Residents	65,494	-3.56	+21.76
Individuals	30,508	-4.86	+36.49
Foreigners <sup>1</sup>	61,284	-1.14	-36.86
<b>Total</b>	<b>1,290,843</b>	<b>+1.38</b>	<b>+30.70</b>

Source: NBU, ICU.

### FX market indicators (21 October 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.7170	-0.58	+39.24
EUR/USD	0.9862	+1.44	-15.15
DXY	112.012	-1.15	+19.45
UAH TWI <sup>1</sup>	116.598	-0.05	-9.59

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes<sup>1</sup> (24 October 2022)

Maturity	Bid	Ask
6m	23.00	18.00
12m	24.00	19.00
2y	28.00	20.00
3y	25.50	21.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

## Ukrainian bond market

### MoF and NBU: new round of dialogue about interest rates

The National Bank seeks to maintain a discussion with the Ministry of Finance regarding interest rates for local-currency bonds while the market is making guesses about what further steps the MoF will take.

Last week, the NBU announced that it does not plan to sell government bonds from its portfolio now. They will keep budget financing at up to UAH30bn (US\$0.8bn) per month, and kept the key policy rate at 25% (see [comment below](#)). The new NBU governor thus revealed his position on the key issues related to the dialog with the MinFin.

At the same time, the Ministry of Finance sold large volumes of bills last week at interest rates between 14–18.5%, which is 200–250bp higher than interest rates for similar instruments were earlier (see details in the [auction review](#)). The new NBU Chairman praised such a step. Market participants seem to be trying to understand the meaning of last week's developments and to predict the possible next moves of the Ministry of Finance.

It is clear from the auction results and portfolio changes that a few banks bought paper with higher rates. Their portfolios of UAH bonds increased by UAH6.6bn (US\$0.2bn) over the past week. Meanwhile, foreigners reduced their investments in local-currency securities. The hryvnia-denominated portfolios of domestic non-banking institutions and individuals continued to grow smoothly.

The placement of bonds with higher rates did not affect the secondary market. The general activity in local-currency bonds increased, but for earlier-sold securities.

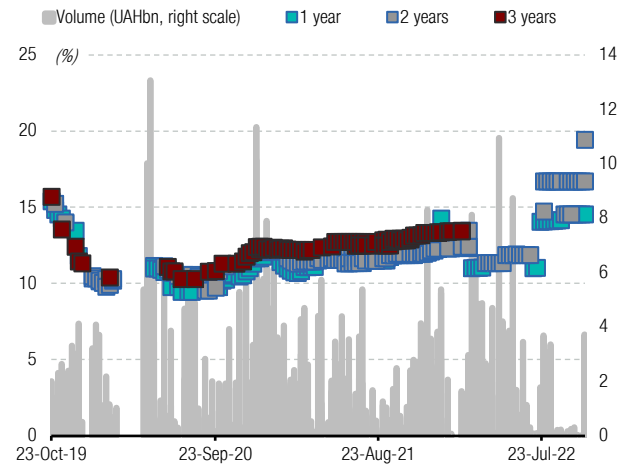
***ICU view: The messages from the debut press conference of the new Chairman of the NBU indicated that the NBU continues to expect an increase in interest rates for local currency bills and considers such an increase necessary to improve the efficiency of the transmission mechanism. At the same time, all messages were delivered in a soft and constructive manner, so it is most likely that the NBU and the Ministry of Finance will try to avoid heated public discussions about interest rates in the future and will hold talks in a closed format. Given the considerable volume of international aid, the Ministry of Finance can be totally fine with not increasing new borrowings significantly and thus avoid further increases in interest rates in the near future. Therefore, we should not expect a significant activation of the primary market soon.***

***Tomorrow's offerings include the usual list of military bills, which the MoF sold last week at unchanged rates of 12–16%. However, the MinFin may still expand the list of bonds on offer thus shedding some light on its vision of further interest-rate development.***

**Taras Kotovych, Kyiv, (044) 377-7040 ext.724**

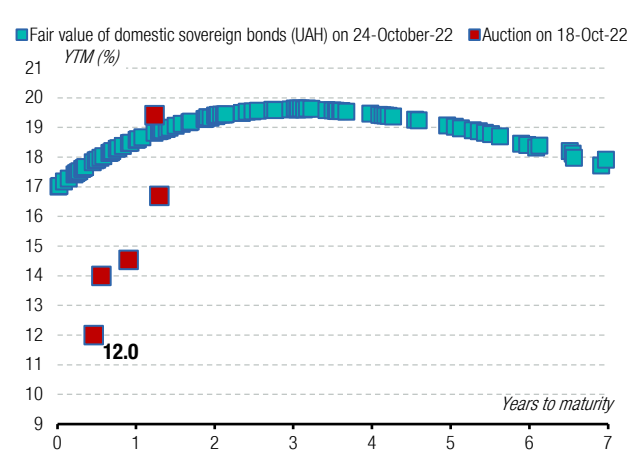
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

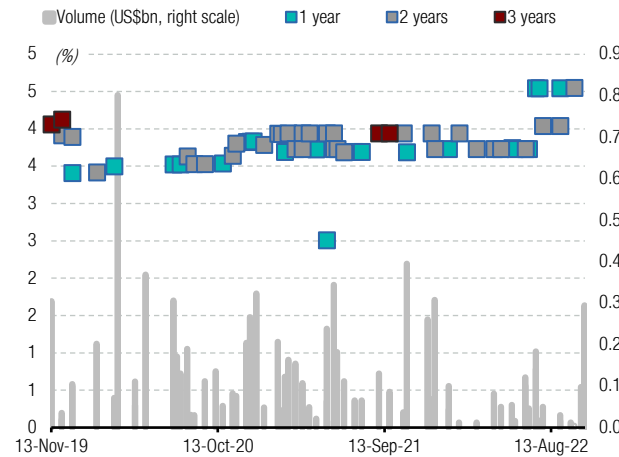
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

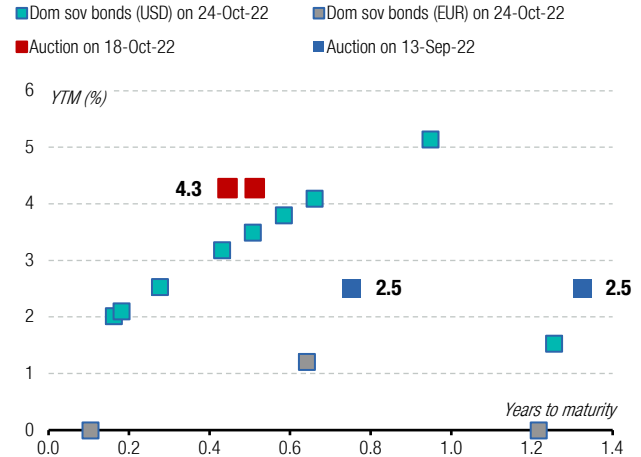
**Chart 2. FX-denominated bonds**

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.

**Eurobonds drift amid global uncertainty**

Prices of Ukrainian Eurobonds continued to decline last week under the influence of general market sentiment.

US treasury yields continued to rise last week. But the spreads of Ukrainian Eurobonds to the benchmark remained broadly unchanged. Hence, increase in their YTM is comparable to the change in the YTM of US treasuries.

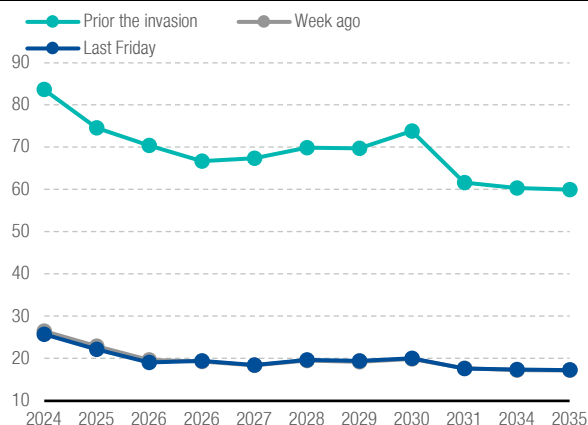
Accordingly, prices for the shortest Eurobonds lost about 3% or almost 1 cent over the past week, with some of them hitting a new record low. However, price fluctuations for the rest of the papers were symbolic and have not hit the lows of the mid of July. The price of VRIs barely changed, staying slightly above 26 cents per dollar of notional value.

**ICU view: Investors have kept their view of Ukrainian risks relatively unchanged amid scarce news from the battlefield. So, Ukrainian Eurobonds remain primarily under the influence of the global mood on the debt markets.**

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

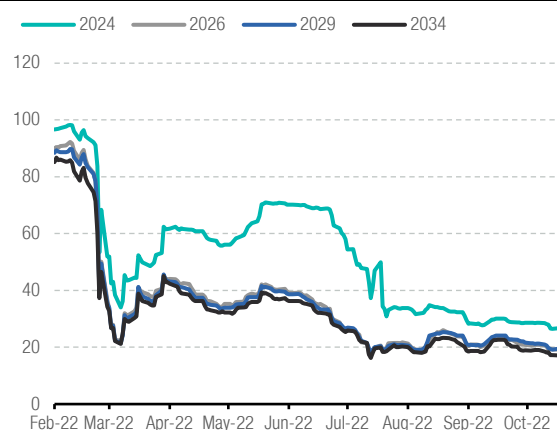
### Chart 3. Ukrainian Eurobonds prices

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

### NBU keeps exchange rate fixed and unchanged

The National Bank announced that it plans to keep the exchange rate fixed at UAH36.6/US\$, positively impacting the FX market, especially the cash segment.

The NBU carried out a one-time hryvnia depreciation in late July and kept that official exchange rate unchanged since that time. Last week, the NBU reconfirmed it intends to maintain the fixed exchange rate at the current level. The switch to a flexible exchange rate regime is not on the agenda as of now.

In the official interbank market, demand continues to exceed supply significantly. On some days, imbalances reached almost US\$170m, with slight improvement since Thursday. The NBU interventions for the week declined to US\$570m from US\$603–608m in the previous two weeks.

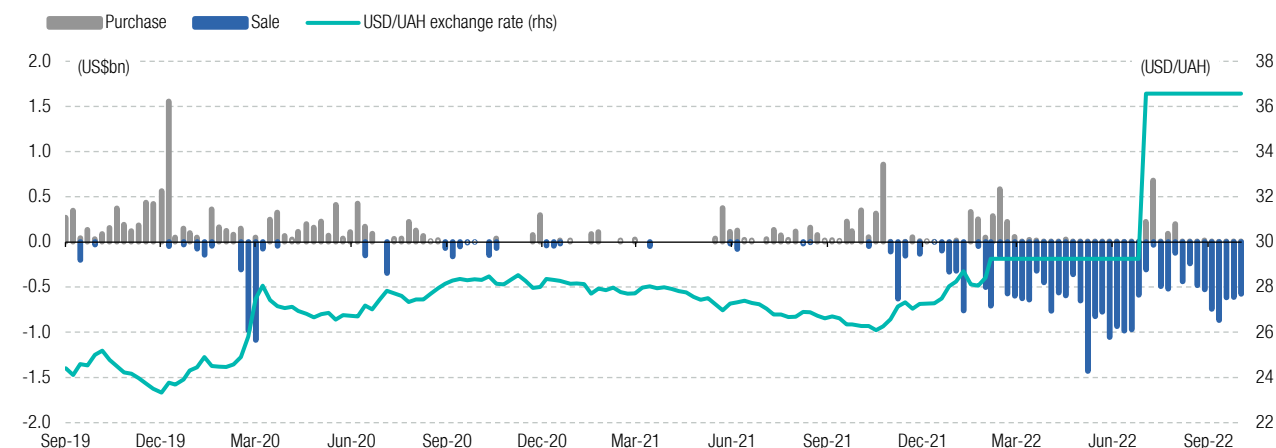
However, the cash market reacted very positively to NBU's statement. The hryvnia exchange rate appreciation sped up at many banks, mostly by UAH0.2-0.4 and bid-offer spreads tightened. In the leading retail banks US\$ strengthened to UAH39.89-40.65/US\$ last Friday compared with UAH39.92-40.7/US\$ a week ago.

**ICU view:** *The cash market has remained relatively saturated for the past couple of weeks. The NBU's signal that the official exchange rate would not change became another catalyst that reduced negative sentiment and led to cash exchange rate appreciation. But in the non-cash segment of the market, the situation remains tense and may worsen. The needs of importers are growing, especially since the start of the heating season and given the need to restore damaged energy infrastructure. At the same time Russia is also slowing down Ukraine's export flows through the grain corridor and threatening to terminate the grain agreement in general, which will reduce the inflow of hard currency. The NBU is already spending significant amounts of reserves to keep the official exchange rate unchanged. If interventions grow further, the NBU may have to reconsider the feasibility and possibility of maintaining the official exchange rate unchanged, even amid generous inflows of international financial aid.*

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

**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 again keeps rate unchanged

At its recent meeting, the regulator decided to keep the interest rate at 25%, which was in line with the expectations.

This decision was the first under the leadership of the newly appointed Governor Andriy Pyshnyy. NBU has provided its new macro forecast where it has confirmed its earlier forecast of the unchanged key rate until the 2Q24.

The national bank will abstain from the idea of selling the bonds off its balance sheet in order to boost the rates on the secondary market.

***ICU view: CPI is accelerating, but slightly below the NBU’s forecasts. Yet, a rate increase is still more likely than an early decrease in the rate. The updated macro forecast surprised with the lack of significant downside revision of the key figures despite the massive attack of russian on Ukrainian infrastructure in October.***

*Mykhaylo Demkiv, Kyiv, (044) 377-7040 ext.723*

This page is intentionally left blank



11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kyiv, 01030 Ukraine  
Phone/Fax +38 044 3777040

WEB [www.icu.ua](http://www.icu.ua)



## RESEARCH

### Vitaliy Vavryshchuk

Head of macro research  
[vitaliy.vavryshchuk@icu.ua](mailto:vitaliy.vavryshchuk@icu.ua)

### Taras Kotovych

Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

### Dmitriy Dyachenko, CFA

Financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

### Alexander Martynenko

Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

### Mykhaylo Demkiv

Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

## DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

**Additional information is available upon request.**

