

# Weekly Insight

## MoF raises rates again

### Key messages of the today's comments

MONDAY, 21 NOVEMBER 2022

### Ukrainian bond market

#### Selective rate hikes in the primary market continue

The Ministry of Finance again agreed to raise rates for several bills where demand exceeded UAH1bn (US\$27m), which allowed it to rise UAH5bn (US\$137m). But rate increases remain selective.

#### Ukrainian Eurobonds supported by positive news

The prices of Ukrainian Eurobonds continued to rise last week. This trend was supported by positive news about new international financial assistance planned for Ukraine along with improving global sentiment towards developing markets.

### Foreign exchange market

#### FX market remains stable

Fluctuations in the hryvnia cash exchange rate remain insignificant, so the situation on the FX market remains broadly stable.

### Banks' reserves market (18 November 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	25.00	+0bp	+1,650bp
ON rate (%)	9.76	+0bp	+198bp
Reserves (UAHm) <sup>2</sup>	70,544	-14.11	+6.85
CDs (UAHm) <sup>3</sup>	340,458	+5.69	+111.22

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) (18 November 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	659,570	+2.33	+110.99
Banks	497,590	+0.83	-0.61
Residents	68,867	+2.55	+27.96
Individuals	31,295	+2.25	+34.62
Foreigners <sup>1</sup>	60,107	-0.77	-36.87
<b>Total</b>	<b>1,318,449</b>	<b>+1.65</b>	<b>+33.82</b>

Source: NBU, ICU.

### FX market indicators (18 November 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9322	+0.48	+39.31
EUR/USD	1.0325	-0.21	-9.20
DXY	106.930	+0.60	+11.92
UAH TWI <sup>1</sup>	113.484	-0.20	-13.57

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes<sup>1</sup> (21 November 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

## Selective rate hikes in the primary market continue

The Ministry of Finance again agreed to raise rates for several bills where demand exceeded UAH1bn (US\$27m), which allowed it to raise UAH5bn (US\$137m). But rate increases remain selective.

Last week, the MoF offered both UAH and USD-denominated bills, but the demand for FX-denominated paper was insignificant. The largest amount of funds, UAH3.3bn (US\$89m), was raised from the 1.5-year ordinary (non-military) paper and another UAH1.2bn (US\$31.5m) from four-month military bills. But to receive these funds, the Ministry had to accept bids with a higher interest rate than a week before: rates rose to 14% for military bonds maturing in April next year and 19% for 1.5-year non-military paper. See details in the [auction review](#).

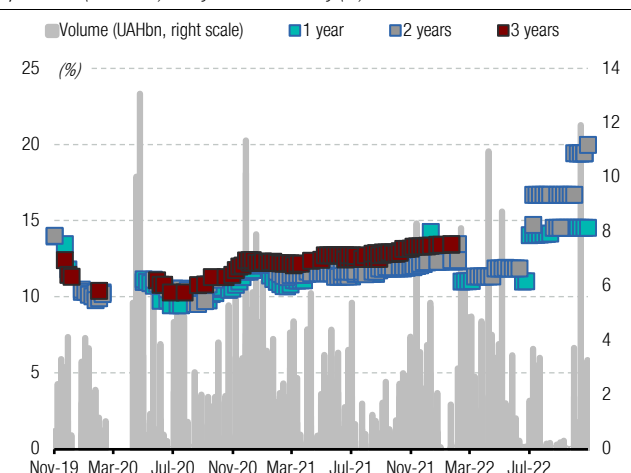
Last week, the volume of trades on the secondary market was UAH4.1bn (US\$111m), including almost UAH3bn (US\$80m) of trades in ordinary and UAH1.1bn (US\$31m) in military bonds. This is the largest volume of trades in military bonds on the secondary market since August. But it was due to the transfer of bonds purchased in the auction last Tuesday from the primary dealer to its client for UAH1.06bn (US\$30m).

**ICU view: Investors tried to get higher rates from the Ministry of Finance by submitting large bids with slightly higher interest rates. This move paid off, and the Ministry accepted these bids by increasing the cut-off rates by 50bp for two local-currency securities. On Wednesday, another domestic debt repayment of almost UAH20bn (US\$546m) will take place, of which UAH15bn (US\$410m) will be the principal redemption. So, we can expect bids in larger volume and with higher rates tomorrow. Still, most likely, investors will prefer the secondary market that offers a broader selection of instruments.**

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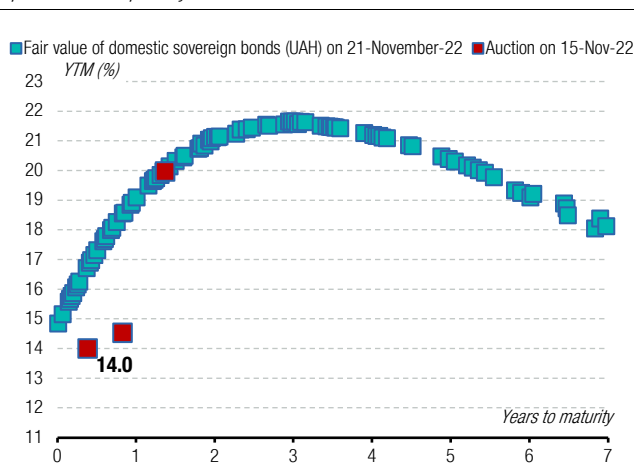
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

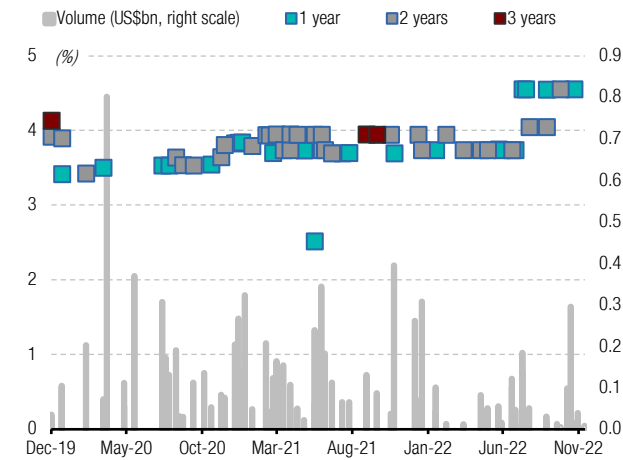
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

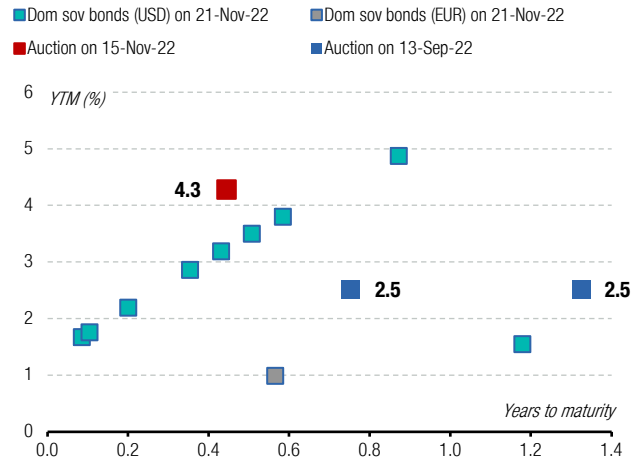
**Chart 2. FX-denominated bonds**

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.

**Ukrainian Eurobonds supported by positive news**

The prices of Ukrainian Eurobonds continued to rise last week. This trend was supported by positive news about new international financial assistance planned for Ukraine along with improving global sentiment towards developing markets.

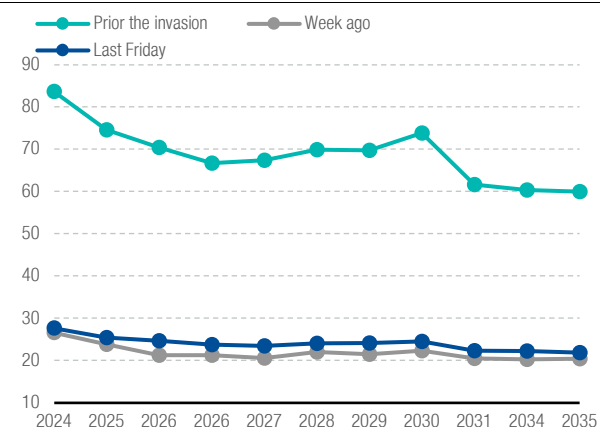
Spreads of Ukrainian Eurobonds to the benchmark narrowed by 211-465bp, and prices increased by 4-16% or 1-3 cents to 22-28 cents. Such prices correspond to September levels, or before large-scale missile attacks and the destruction of energy infrastructure happened. The prices of VRIs increased by 9% or almost three cents to 31 cents.

**ICU view:** *The news about the readiness of Western partners, in particular the EU, to maintain substantial financial support for Ukraine until the end of the current year and in 2023 likely contributed to the increase in Eurobond prices. Last week's shelling and damage to the energy infrastructure did not have an immediate material impact on the perception of Ukrainian risk by investors. Another important positive factor is the general improvement in the attitude of investors towards emerging markets. However, it is still too early to assume this trend is sustainable.*

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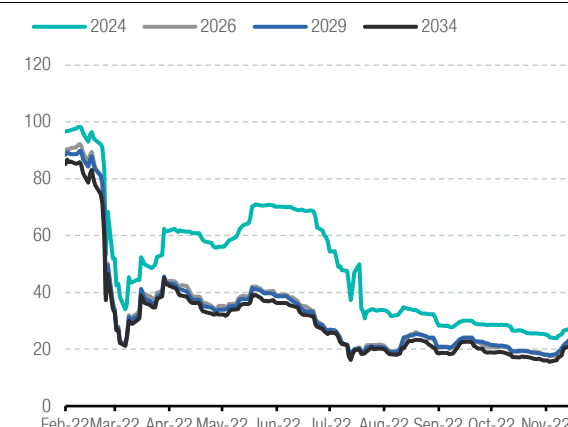
### Chart 3. Ukrainian Eurobonds prices

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

### FX market remains stable

Fluctuations in the hryvnia cash exchange rate remain insignificant, so the situation on the FX market remains broadly stable.

The leading retail banks strengthened the hryvnia cash exchange rate over the past week to UAH39.7–40.4/US\$ from UAH39.8–40.5/US\$ the previous Friday. Such a change is insignificant and within 0.2% range.

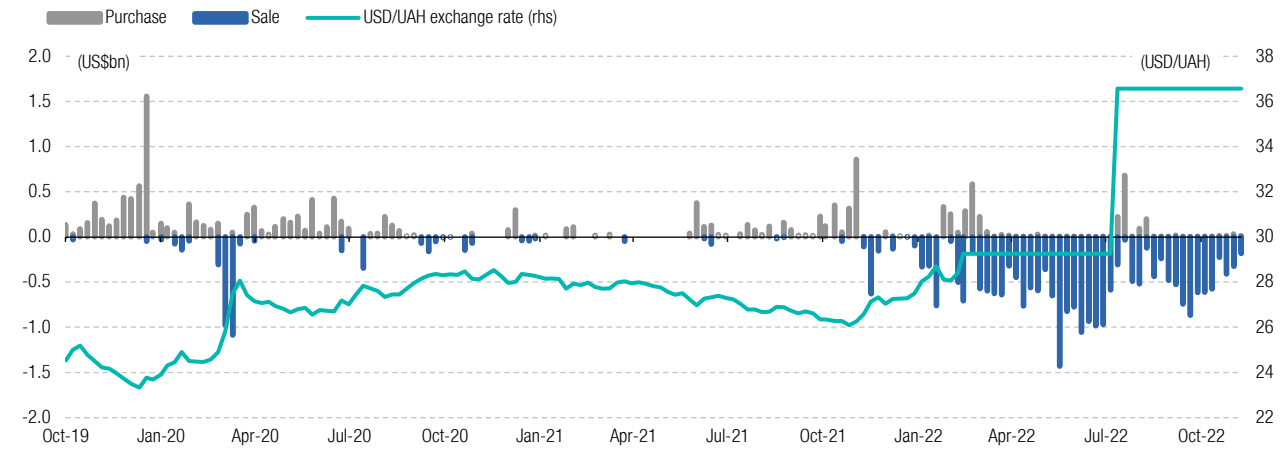
The situation improved in the interbank market, and the NBU reduced interventions to US\$182m. This was due to the stable and sizable supply of hard currency from banks' clients, including from the Ministry of Finance.

**ICU view: The cash market continues to balance the exchange rate around UAH40/US\$ thanks to the saturation of the market with cash and the absence of panic sentiment. The interbank market remains under the complete control of the NBU, which took advantage of larger FX supply in the market and reduced its interventions.**

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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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