

# Weekly Insight

## Solid dollar supply helps UAH again

### Key messages of the today's comments

MONDAY, 28 NOVEMBER 2022

### Ukrainian bond market

#### Ministry of Finance prefers financing from NBU

Last week, the Ministry of Finance refused to satisfy demand for military bills for over UAH5bn (US\$137m), instead borrowing UAH15bn (US\$410m) from the NBU.

#### Prices unchanged in absence of important news

The prices of Ukrainian Eurobonds remained almost unchanged compared with the previous week due to the lack of important Ukraine-related news.

### Foreign exchange market

#### Solid dollar supply helps UAH again

Supply of hard currency prevails in the cash market, while the interbank market again needed larger support from the NBU.

### Banks' reserves market (25 November 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	25.00	+0bp	+1,650bp
ON rate (%)	9.76	+0bp	+199bp
Reserves (UAHm) <sup>2</sup>	101,819	+44.33	+112.91
CDs (UAHm) <sup>3</sup>	358,402	+5.27	+137.12

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) (25 November 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	674,570	+2.27	+115.79
Banks	487,101	-2.10	-3.12
Residents	68,303	-0.49	+15.44
Individuals	30,759	-1.71	+28.33
Foreigners <sup>1</sup>	58,174	-4.07	-37.53
<b>Total</b>	<b>1,319,928</b>	<b>+0.11</b>	<b>+33.17</b>

Source: NBU, ICU.

### FX market indicators (25 November 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9650	+0.09	+36.58
EUR/USD	1.0395	+0.68	-7.26
DXY	105.959	-0.91	+9.49
UAH TWI <sup>1</sup>	113.145	-0.30	-13.40

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes<sup>1</sup> (28 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

## Ministry of Finance prefers financing from NBU

Last week, the Ministry of Finance refused to satisfy demand for military bills for over UAH5bn (US\$137m), instead borrowing UAH15bn (US\$410m) from the NBU.

At last Tuesday's auction, several bids for a total of UAH5bn (US\$137m) were rejected by the Ministry of Finance. These aggressive bids were submitted at rates significantly higher than in the previous auction, and the Ministry believed they were unacceptable. See details in the [auction review](#).

At the same time, last Thursday, the Ministry of Finance made the second issue of military bonds for the NBU in November and attracted another UAH15bn (US\$410m) to the budget. Since the beginning of the full-scale war, the total amount of the NBU's financing of the state budget reached UAH370bn (US\$11.7bn).

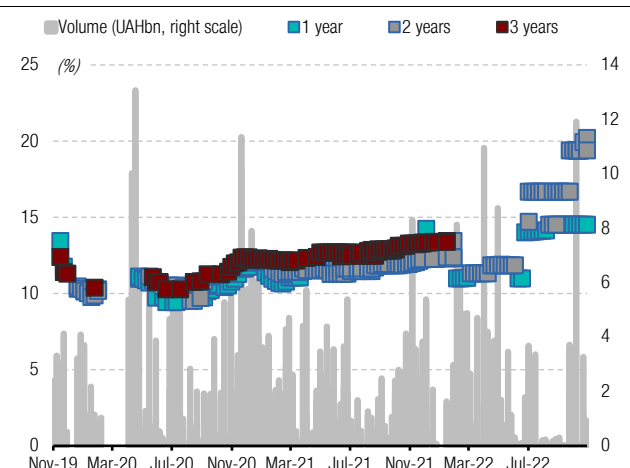
The secondary market reacted weakly to last Wednesday's large debt redemption. The total volume of trades on the terms of DVP amounted to UAH3.76bn (US\$103m), of which only UAH61m (US\$1.7m) were military bills.

**ICU view: The MoF repeatedly rejected a sharp rate hike, apparently signalling it does not plan to raise rates every week and may do so only in small steps. But last week's rejected demand could not move to the secondary market due to new damage to the energy infrastructure by russian missiles, which temporarily disrupted functioning of the capital market. That is why trading volumes remained low for most of the week and slightly increased only on Friday. Therefore, trading will likely shift to this week and be active even without large payouts.**

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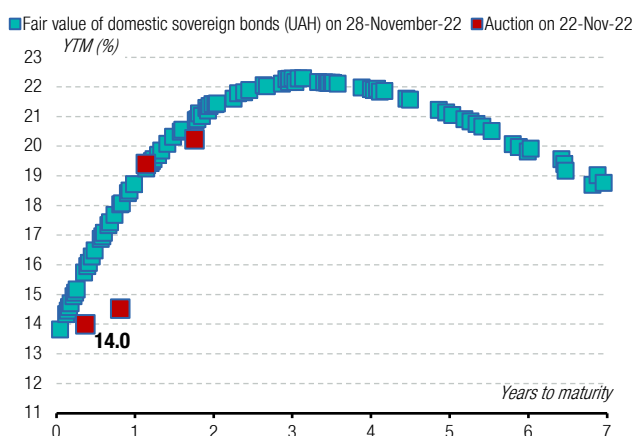
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

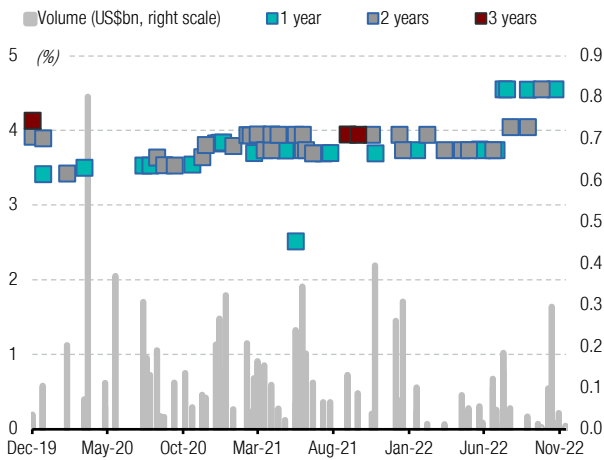
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

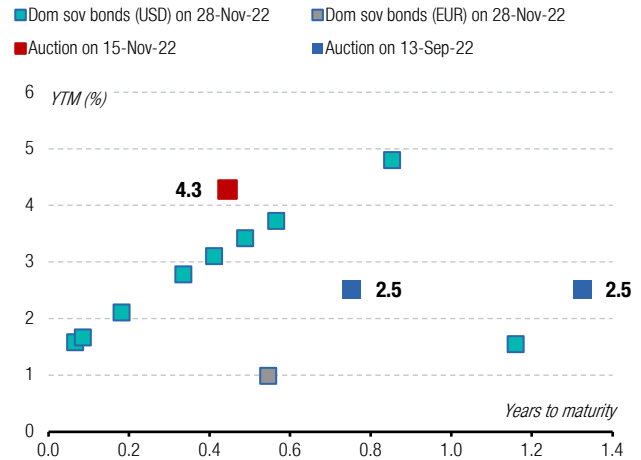
**Chart 2. FX-denominated bonds**

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.

**Prices unchanged in absence of important news**

The prices of Ukrainian Eurobonds remained almost unchanged compared with the previous week due to the lack of important Ukraine-related news.

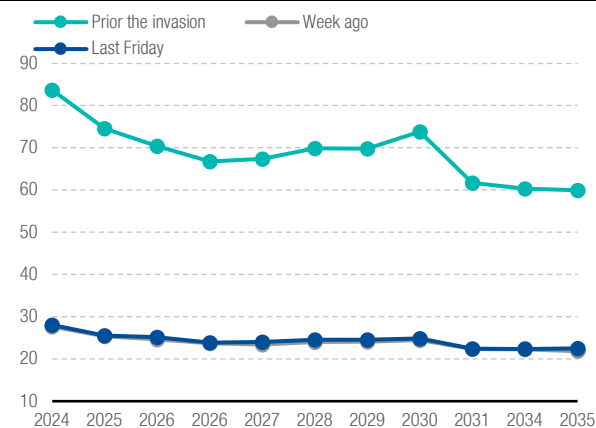
Last week's price change was less than 2% or no more than half of a cent, so prices remained in the range of 22–28 cents on the dollar. The price of VRIs did not change, either, and VRIs were traded at 31 cents per dollar of notional value.

**ICU view: Global bond-market sentiment was little changed. Foreign investors barely reacted to the new damage done to Ukrainian infrastructure. Information about reaching a staff-level agreement with the IMF about the new monitoring program did not affect investors' perception as well.**

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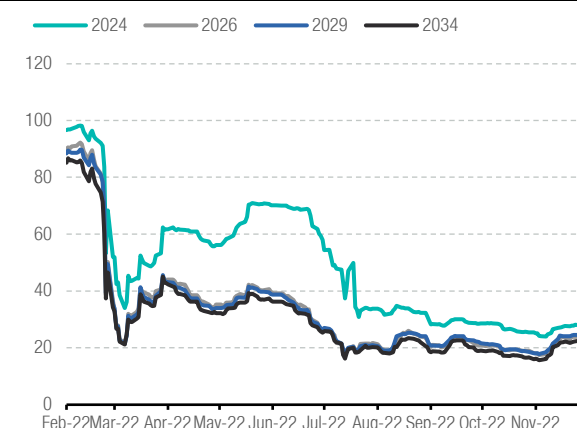
**Chart 3. Ukrainian Eurobonds prices**

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

## Solid dollar supply helps UAH again

Supply of hard currency prevails in the cash market, while the interbank market again needed larger support from the NBU.

On the cash FX market, the situation looks similar to the end of October when the supply of hard currency increased and caused additional upward pressure on the hryvnia exchange rate. So far, the exchange rate strengthened at the leading retail banks by almost half a percent last week to UAH39.5–40.25/US\$ compared with UAH39.7–40.4/US\$ on the previous Friday.

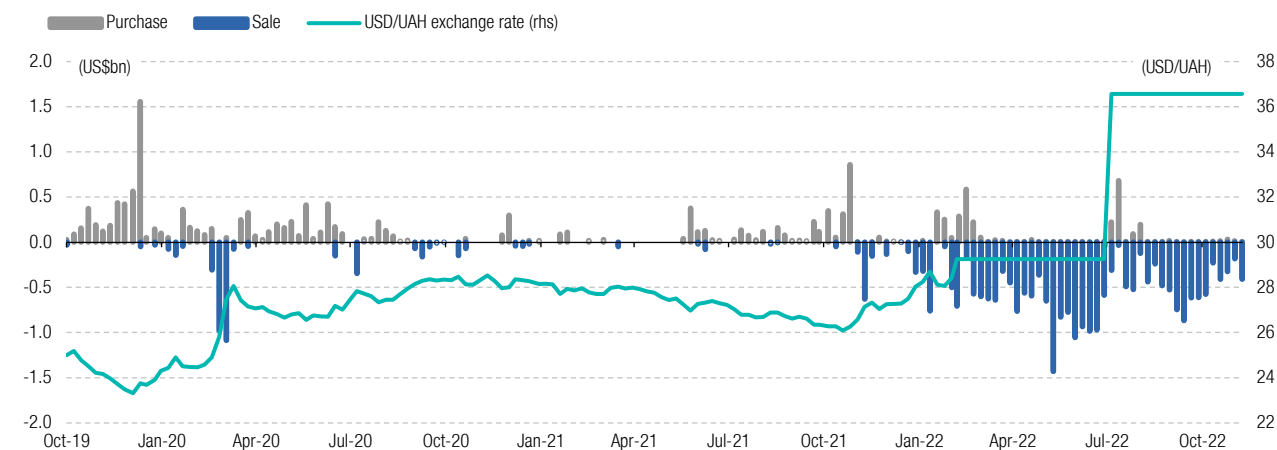
Hard currency supply again dominated the interbank market most of last week, likely thanks to the MoF selling its FX holdings at banks. But at the end of the week, the demand for hard currency increased, so the NBU had to more than double its selling interventions WoW to US\$408m.

**ICU view: The cash FX market remains unresponsive to missile attacks on infrastructure. Fluctuations have been caused by temporary supply and demand factors. The interbank market saw higher supply from bank clients, likely from the Ministry of Finance, for the second consecutive week. But such supply did not allow the NBU to reduce its sale interventions again.**

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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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