



Focus
Ukraine

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

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Weekly Insight

Trade in UAH bonds intensifies

Key messages of the today's comments

TUESDAY, 20 DECEMBER 2022

Ukrainian bond market

Trade in UAH bonds intensifies

Investor activity increased last week. The Ministry of Finance sold over UAH14bn worth of UAH bills, and trading on the secondary market also increased.

Minor changes in Eurobond prices

During the past week, the situation in global debt markets was relatively steady, so the prices of Ukrainian Eurobonds changed insignificantly.

Foreign exchange market

Cash hryvnia rate is stable

The USD/UAH cash exchange rate in banks remained almost intact last week, and in the interbank FX market, the demand for hard currency from bank clients increased.

Banks' reserves market (19 December 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,600bp
ON rate (%)	9.76	+0bp	+155bp
Reserves (UAHm) ²	77,383	-41.96	+36.48
CDs (UAHm) ³	417,999	+25.42	+200.71

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) (19 December 2022)

	Last	Weekly chg (%)	YoY chg (%)
NBU	704,570	+2.18	+109.02
Banks	483,778	-0.98	+46.21
Residents	78,173	+7.33	+199.69
Individuals	31,072	-1.79	+222.79
Foreigners ¹	58,260	+1.04	-50.04
Total	1,356,874	+1.18	+65.35

Source: NBU, ICU.

FX market indicators (19 December 2022)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9335	+0.00	+35.52
EUR/USD	1.0607	-0.24	-5.63
DXY	104.721	+0.71	+8.45
UAH TWI ¹	111.869	+0.09	-14.76

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (20 December 2022)

Maturity	Bid	Ask
6m	23.00	18.00
12m	24.00	19.00
2y	25.00	20.00
3y	25.50	21.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Trade in UAH bonds intensifies

Investor activity increased last week. The Ministry of Finance sold over UAH14bn worth of UAH bills, and trading on the secondary market also increased.

At last week’s primary auction, for the first time this year, the volume of bond sales was nearly sufficient to ensure full refinancing of the week’s redemptions. Before last week, the maximum YTD level of weekly refinancing was just below 70%. Nearly half of the funds were raised through a two-year regular (non-military) paper with an interest rate of 19.5%, implying a 20.5% YTM. See details in the [auction review](#).

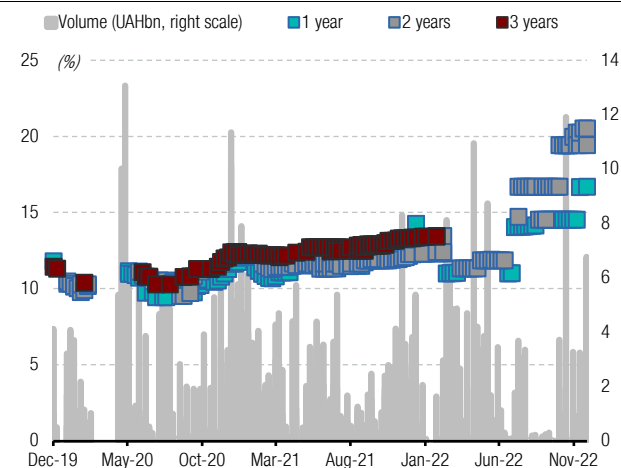
The total volume of UAH bonds traded on the secondary market doubled to UAH5.3bn. Secondary-market trades were mostly in different bonds than those placed on Tuesday.

ICU view: Large players with ample free liquidity likely contributed to the increase in borrowing since UAH6.8bn of funds were raised for two years via just three bids and another UAH4.1bn for one year via four bids. Small investors preferred the secondary market, concluding 5,090 deals last week. This split explains the wider choice and higher returns in the secondary market for small players.

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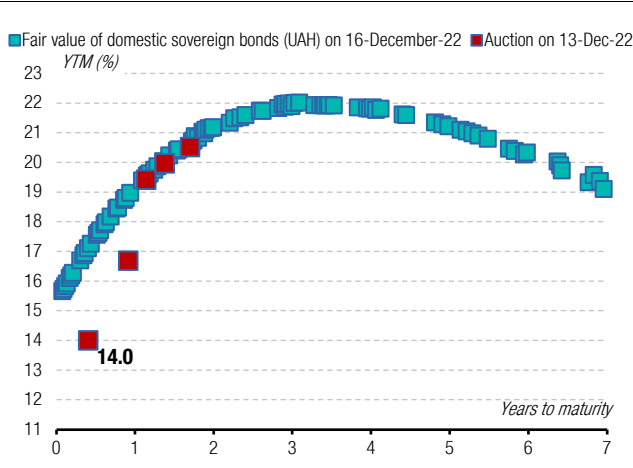
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

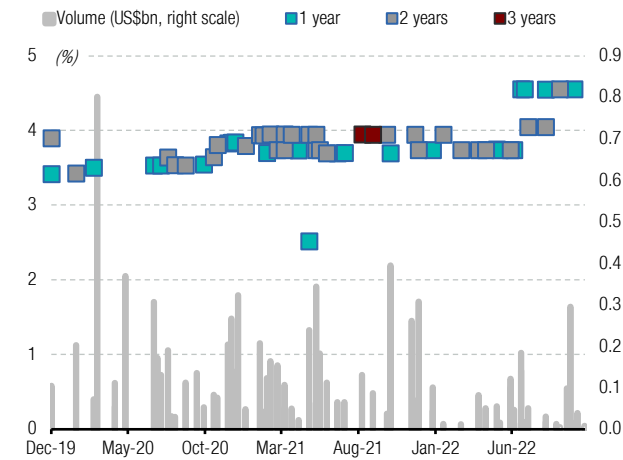
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

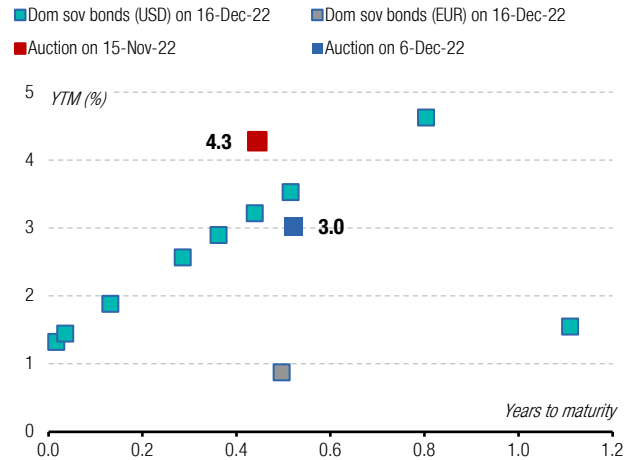
Chart 2. FX-denominated bonds

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.

Minor changes in Eurobond prices

During the past week, the situation in global debt markets was relatively steady, so the prices of Ukrainian Eurobonds changed insignificantly.

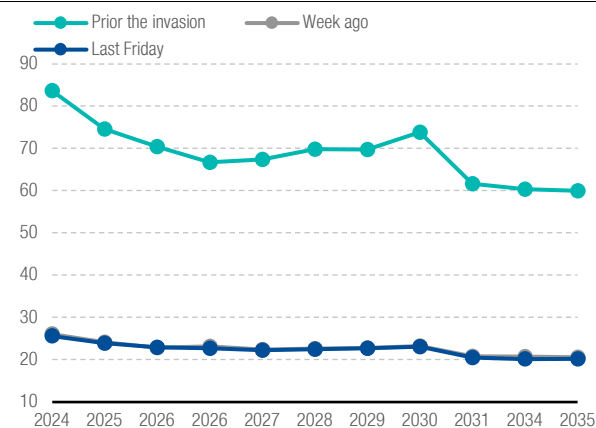
Spreads of Ukrainian Eurobonds to the benchmark widened again, but changes in prices and yields of Ukrainian Eurobonds were insignificant. Over the last week, prices changed by no more than 1% in both directions. Prices ranged remained between 20–26 cents.

ICU view: Global debt-market sentiment remained calm. Positive price dynamics of the benchmark, US Treasuries, compensated for the lack of important news from Ukraine.

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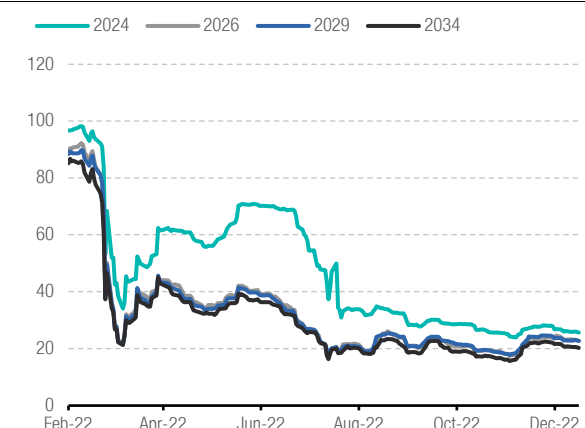
Chart 3. Ukrainian Eurobonds prices

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

Cash hryvnia rate is stable

The USD/UAH cash exchange rate in banks remained almost intact last week, and in the interbank FX market, the demand for hard currency from bank clients increased.

In the leading retail banks, the hryvnia exchange rate fluctuated insignificantly last week and remained roughly unchanged over a five-day period. Banks increased the bid price by UAH0.01 and the offer price by UAH0.08 for US dollars.

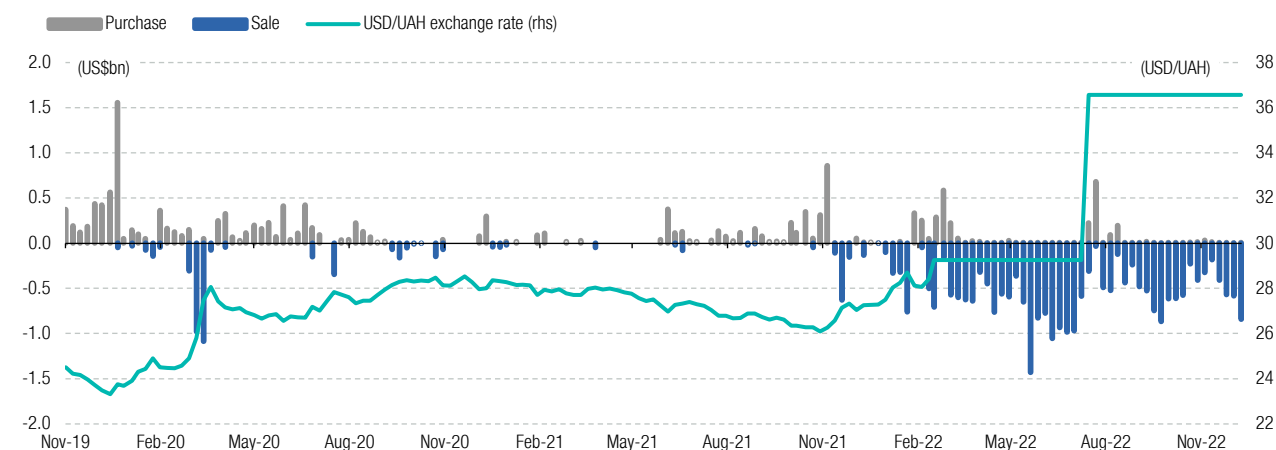
But on the interbank market, demand for hard currency increased, prompting the NBU interventions increase last week to US\$841m, which is US\$258m more than the week before and is the highest amount since the end of September.

ICU view: The cash market remained largely balanced. At the same time, the need for FX increased in the interbank market. This could have been due to concentrated hard currency purchases for equipment to restore the energy infrastructure. Growing imbalances in the interbank FX market at the end of the year are totally expected. NBU interventions will, thus, be elevated in the coming weeks.

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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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