

Weekly Insight

Foreigners becoming more active

Key messages of the today's comments

MONDAY, 23 JANUARY 2023

Ukrainian bond market

Foreigners becoming more active in primary market

Activity in the secondary market decreased last week, but primary placements were quite active with visible participation of non-residents.

Ukrainian Eurobonds trade in line with global trend

World markets were in a positive trend last week, and the yields of Ukrainian Eurobonds decreased, albeit insignificantly.

Foreign exchange market

Cash hryvnia continues to strengthen

The FX market remains flush with cash, and the value of a hard currency is gradually declining. The interbank market remains under the control of the NBU.

Banks' reserves market (20 January 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,600bp
ON rate (%)	9.76	+0bp	+125bp
Reserves (UAHm) ²	124,941	+1.74	+104.44
CDs (UAHm) ³	393,696	+2.82	+150.49

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) (20 January 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	704,470	-0.01	+127.17
Banks	499,420	-0.15	-8.62
Residents	109,536	+0.80	+32.08
Individuals	31,963	+1.56	+24.35
Foreigners ¹	60,098	+3.84	-29.95
Total	1,408,038	+0.25	+33.98

Source: NBU, ICU.

FX market indicators (20 January 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9243	+0.13	+30.33
EUR/USD	1.0856	+0.24	-4.03
DXY	102.012	-0.19	+6.56
UAH TWI ¹	110.478	-0.08	-11.60

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (23 January 2023)

Maturity	Bid	Ask
6m	21.00	16.00
12m	24.00	19.00
2y	25.00	21.00
3y	25.00	21.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Foreigners becoming more active in primary market

Activity in the secondary market decreased last week, but primary placements were quite active with visible participation of non-residents.

Trading volumes on the secondary market declined to UAH4.4bn last week after reaching UAH6.8bn, a record high since the start of the full-scale russian invasion. At the same time, the number of transactions with UAH bonds slid from 5,993 to 5,230. Foreigners focused on bills maturing in April and May of this year and on February 2025 paper to which they have a large exposure. Their activity partially compensated decline in trades with bills that banks can use to meet reserve requirements.

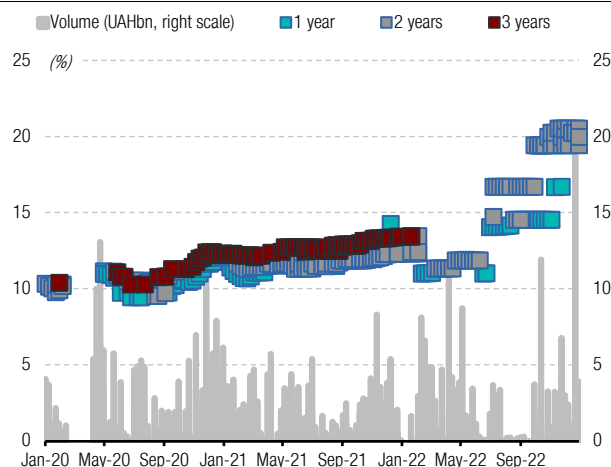
Foreigners participated in the primary market, too. After last Tuesday’s primary auction, their portfolios increased by UAH2.4bn, which implies they might have bought more than half of the offered bonds maturing in July this year. It is possible that the bids with the quite low rate of 13.25% were submitted by foreigners. See auction details in our [review](#).

ICU view: The MinFin did not offer bills that banks can use to meet reserve requirements and this has reduced demand and borrowings. At the same time, the activity of foreign investors is becoming more visible with focus on bonds maturing in July. The secondary market is seeing a shortage of bonds maturing in April–May, so foreigners sought to purchase the shortest bonds available on the primary market. According to NBU regulations, non-residents will be able to repatriate their investments in government debt if such debt is redeemed after April 1, 2023. In December, the NBU confirmed its intention to keep this rule, but it is important to get the same message clearly this week when the next Monetary Policy meeting of the NBU Board is scheduled. Tomorrow, the Ministry of Finance plans to place two new issues of bills with a maturity of about two years.

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

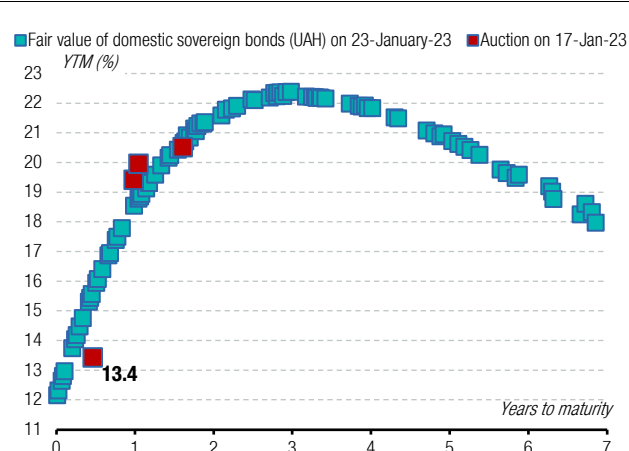
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

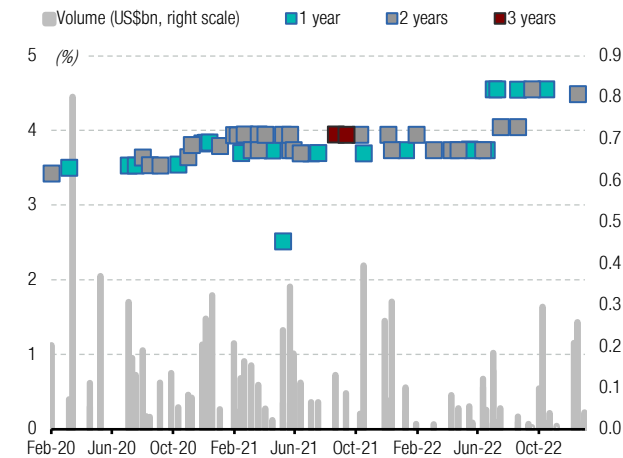
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

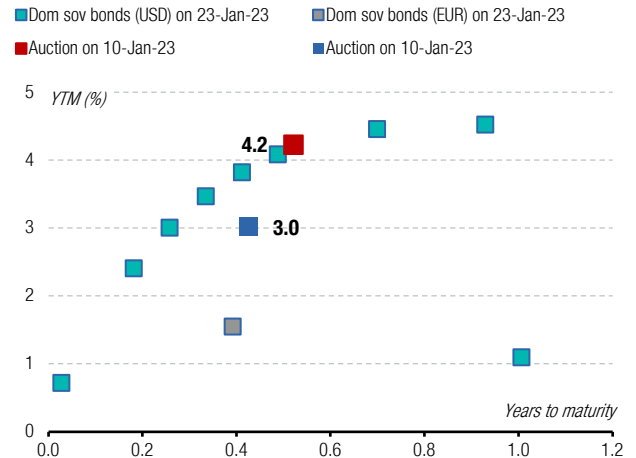
Chart 2. FX-denominated bonds

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.

Ukrainian Eurobonds trade in line with global trend

World markets were in a positive trend last week, and the yields of Ukrainian Eurobonds decreased, albeit insignificantly.

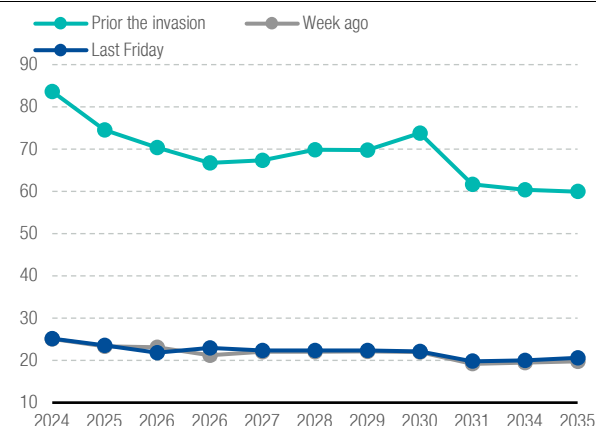
There were no noticeable changes during the week. Spreads of Ukrainian Eurobonds tightened marginally and the yields of US Treasuries decreased somewhat. So, Ukrainian Eurobonds mostly rose in price, but by no more than 1%, and remained almost at the same level of about 19–25 cents. Only VRIs rose in price more noticeably, from 30 to 32 cents per dollar of notional value.

ICU view: Ukrainian Eurobonds continue to drift in the general trend with little price change.

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

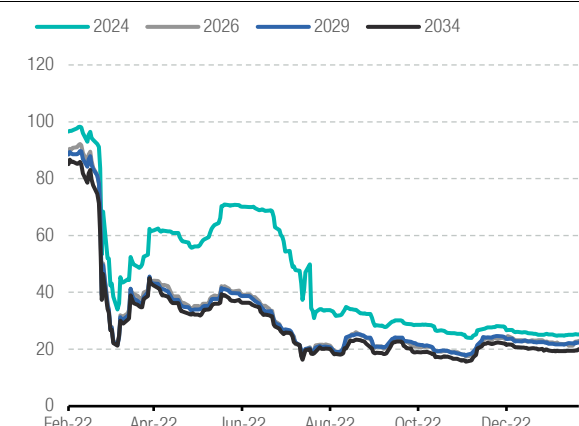
Chart 3. Ukrainian Eurobonds prices

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

Cash hryvnia continues to strengthen

The FX market remains flush with cash, and the value of a hard currency is gradually declining. The interbank market remains under the control of the NBU.

On the cash market, the hryvnia exchange rate at the leading retail banks generally strengthened for the second week in a row, last week by more than 10 kopecks, from UAH39.86–40.59/US\$ to UAH39.75–40.45/US\$.

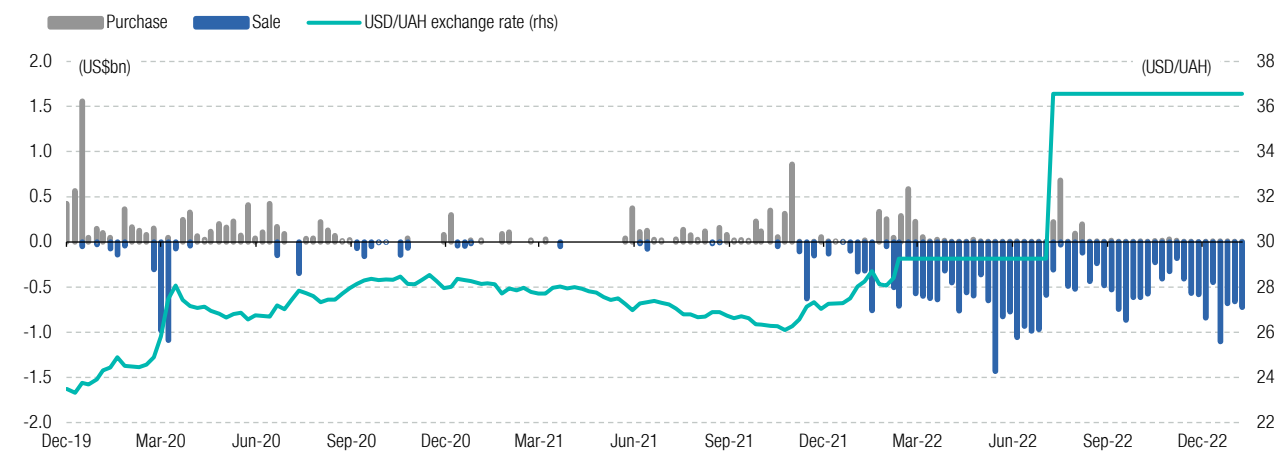
There are no significant changes in the interbank market, the demand for hard currency prevails, and the NBU sold US\$722m last week, which is US\$63m more than the week before.

ICU view: *The general situation on the FX market remains stable, and the NBU is maintaining its grip on the interbank market. Last week, the EU provided its first EUR3bn tranche of financial assistance to Ukraine, and it came in strictly according to schedule. We expect that Ukraine will fulfil its obligations on time under the EU-Ukraine assistance package, and the remaining EUR15bn will arrive without significant delays, unlike last year. We also expect timely arrival of financial aid from other Western partners. Thanks to this, the NBU will have enough resources to support the market through interventions and should be able to keep the exchange rate of the hryvnia to the US dollar stable for the foreseeable future.*

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.

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

WEB www.icu.ua




RESEARCH

Vitaliy Vavryshchuk
Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych 
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko, CFA
Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko 
Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv 
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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