

Weekly Insight

Cash hryvnia appreciates again

Key messages of the today's comments

TUESDAY, 21 FEBRUARY 2023

Ukrainian bond market

Portfolios of UAH bonds shrinking

Last week, a significant amount of local-currency bonds were redeemed, which led to reduction in portfolios of most groups of investors.

Eurobonds continue to lose in price

Ukrainian Eurobonds continued to fall in price last week as they were influenced mostly by Ukrainian news and risks.

Foreign exchange market

Cash hryvnia appreciates again

The hryvnia exchange rate continued to strengthen last week on the cash market; buy-sell spreads also continued to narrow.

Banks' reserves market (20 February 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,500bp
ON rate (%)	9.76	+0bp	+33bp
Reserves (UAHm) ²	202,523	+9.12	+266.05
CDs (UAHm) ³	305,133	-4.85	+0.00

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 February 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	699,470	+0.00	+107.49
Banks	522,360	+0.66	+39.84
Residents	108,446	-1.11	+316.49
Individuals	32,311	-0.59	+321.52
Foreigners ¹	58,931	-5.42	+326.70
Total	1,424,257	-0.09	+87.86

Source: NBU, ICU.

FX market indicators (20 February 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9160	+0.42	+29.93
EUR/USD	1.0686	-0.48	-5.62
DXY	103.862	+0.61	+8.14
UAH TWI ¹	111.455	-0.18	-10.74

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes¹ (21 February 2023)

Maturity	Bid	Ask
6m	20.00	15.00
12m	24.00	18.00
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

Portfolios of UAH bonds shrinking

Last week, a significant amount of local-currency bonds were redeemed, which led to reduction in portfolios of most groups of investors.

Last Wednesday, the Ministry of Finance paid off UAH12.1bn of UAH bonds, but sold new bills with a face value of only UAH7.2bn (see details in the [auction review](#)). Therefore, total outstanding UAH bonds declined by UAH4.9bn. Only banks and municipalities increased their portfolios by UAH1.0bn and UAH0.2bn, respectively. Meanwhile, non-banking institutions, individuals, and foreign investors reduced their portfolios significantly by UAH2.0bn, UAH1.0bn, and UAH3.1bn, respectively.

By the end of the week, non-banking institutions and individuals resumed purchases and increased their holdings by a net UAH0.1bn and UAH0.5bn, respectively, over the week. However, foreigners continued to reduce investments in UAH bonds by UAH3.7bn last week.

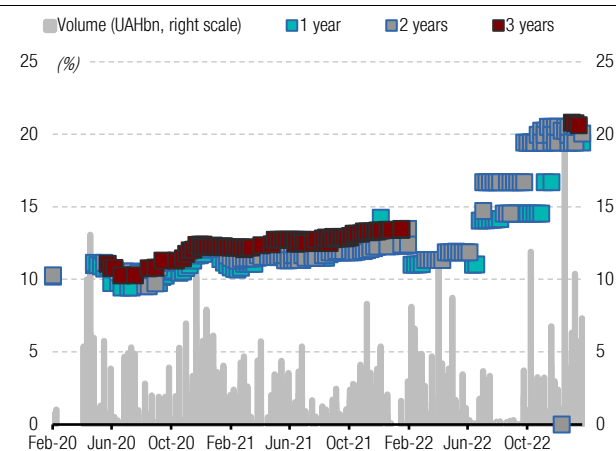
On the secondary market, trading amounted to UAH3bn last week, including the most actively traded securities maturing in February 2025 for UAH1.2bn, in May 2026 for UAH0.5bn and "reserve" paper maturing in December 2024 in the amount of UAH0.4bn, or 40%, 18% and 14% of the total trading volume, respectively.

ICU view: Most likely, banks purchased the majority or even the entire volume of bonds that are allowed to be used to meet reserve requirements. Banks, thus, slightly increased their portfolios of UAH government bonds. At the same time, non-banking institutions and individuals prefer purchases on the secondary market where paper offers higher yields than in the primary segment. However, foreigners keep selling bonds, especially those maturing in February 2025. Foreign investors are probably waiting for additional confirmation that the NBU will not push back the time window for repatriation of their investments into government debt.

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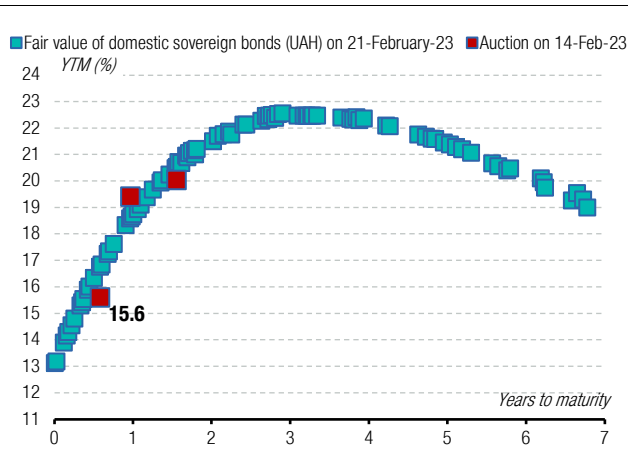
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

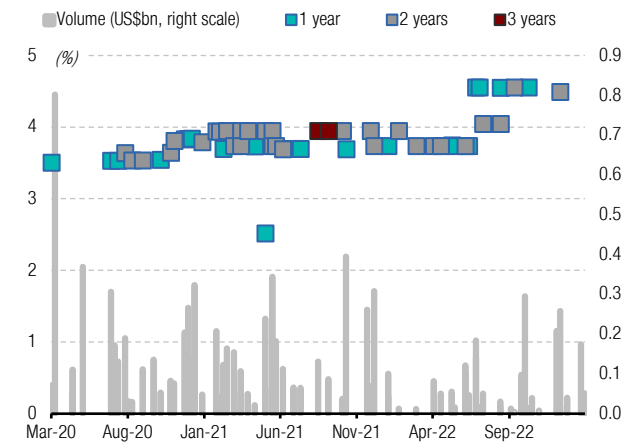
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

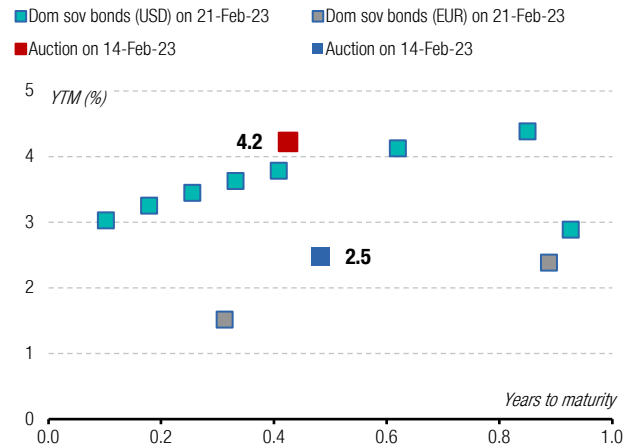
Chart 2. FX-denominated bonds

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.

Eurobonds continue to lose in price

Ukrainian Eurobonds continued to fall in price last week as they were influenced mostly by Ukrainian news and risks.

Over the past week, Eurobonds continued to lose in price after a significant price correction on the Friday a week before. In total, during these eight days, prices lost 7–9% or up to two cents, except for the shortest two issues that lost about 3% or less than one cent. Eurobonds were priced at 18–24% of the face value last Friday.

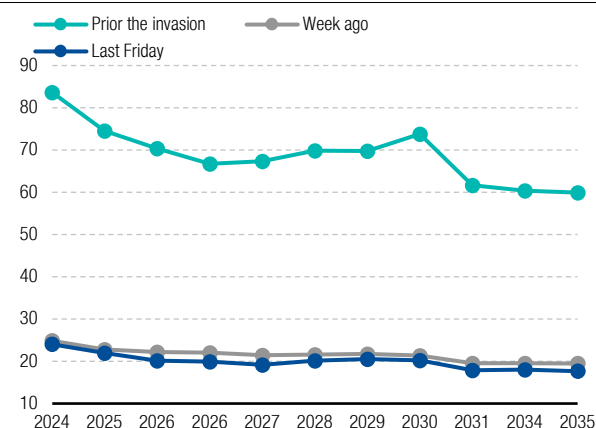
The VRI remained steady last week at about 28 cents on the dollar of notional face value, having lost almost 12%, or about 4 cents since the previous Thursday.

ICU view: Ukrainian Eurobonds continued to be mainly affected by local news rather than global sentiment. Moody's decision to downgrade Ukraine's sovereign rating was yet another negative factor against the backdrop of world media reports about intensified battles on the frontline.

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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.

Historical data since February, 2022



Source: Bloomberg, ICU.

Foreign exchange market

Cash hryvnia appreciates again

The hryvnia exchange rate continued to strengthen last week on the cash market; buy-sell spreads also continued to narrow.

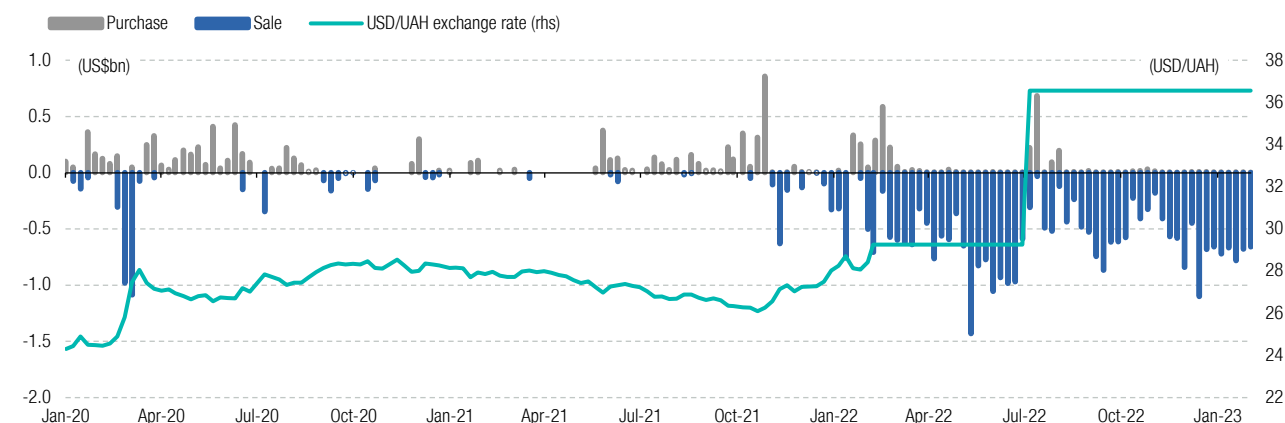
Over the past week, cash hryvnia strengthened by more than 0.5% or UAH0.21 from UAH39.43–40.16/US\$ to UAH39.22–39.95/US\$ in the leading retail banks. Since the beginning of the year, cash hryvnia has strengthened by almost 2%. The spread between buy and sell rates narrowed to UAH0.73 from UAH0.95 at the beginning of January 2023.

ICU view: Last week, leading retail banks once more reset the cash exchange rate to lower levels for retail customers, which underscores the situation in the cash market, which remains broadly stable. According to the NBU, bank clients continue to buy more hard currency than they sell, but this does not affect the overall situation since banks have enough cash to meet demand. Large amounts of US dollars and euros may come from individuals' deposits for which they purchased hard currency at favourable rates.

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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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