



Focus  
Ukraine

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

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# Weekly Insight

## Foreigners' bond portfolios decrease sharply

### Key messages of the today's comments

MONDAY, 24 APRIL 2023

### Ukrainian bond market

#### Foreign investors' bond portfolios decrease sharply

Last week, foreigners' bond portfolios shrank after scheduled redemptions and new purchases were pragmatic.

#### Eurobond prices weighed by global impact

Ukrainian Eurobonds prices continued to decline under negative global sentiment.

### Foreign exchange market

#### Hard-currency deficit in the interbank market increased sharply

The supply of hard currency on the interbank market declined, pushing the NBU to increase FX sale interventions. In contrast, supply remains at the usual level in the cash market.

### Banks' reserves market (21 April 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	25.00	+0bp	+1,500bp
ON rate (%)	9.76	+0bp	+0bp
Reserves (UAHm) <sup>2</sup>	189,426	-7.31	+274.16
CDs (UAHm) <sup>3</sup>	408,893	+5.09	+137.46

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) (21 April 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	696,919	-0.01	+88.30
Banks	531,603	+0.08	-2.29
Residents	112,316	+2.43	+48.78
Individuals	36,880	-0.40	+47.48
Foreigners <sup>1</sup>	49,618	-8.94	-32.73
<b>Total</b>	<b>1,430,665</b>	<b>-0.12</b>	<b>+31.45</b>

Source: NBU, ICU.

### FX market indicators (21 April 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9320	-0.05	+25.65
EUR/USD	1.0986	-0.05	+1.40
DXY	101.822	+0.27	+1.24
UAH TWI <sup>1</sup>	109.962	+0.12	-18.44

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes<sup>1</sup> (24 April 2023)

Maturity	Bid	Ask
6m	20.00	17.00
12m	22.00	18.00
2y	24.00	21.00
3y	25.00	22.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## Foreign investors' bond portfolios decrease sharply

Last week, foreigners' bond portfolios shrank after scheduled redemptions and new purchases were pragmatic.

The Ministry of Finance borrowed UAH10.9bn last week, which refinanced most of the debt redemptions that came due. All four bonds, including two military bills, one ordinary bill, and one "reserve" security, were sold at unchanged yields. See details in the [auction review](#).

While the refinancing level was high, the structure of investors changed noticeably. The portfolios of foreign investors decreased significantly by almost UAH6bn on Wednesday and by UAH5.1bn over the last week. At the same time, banks increased their portfolios by UAH3.3bn last Wednesday.

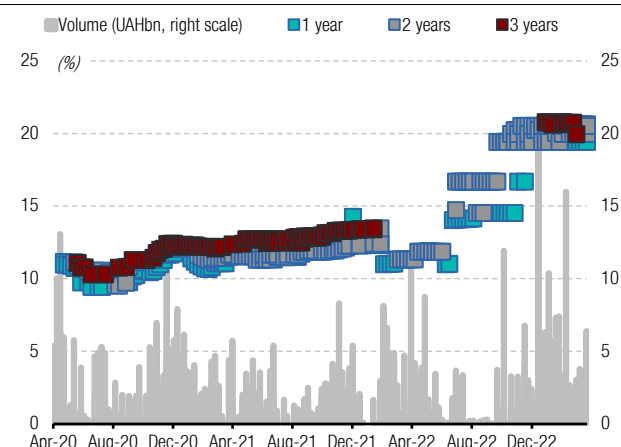
Trading volumes of UAH government bonds on the secondary market tripled to UAH10.7bn. The most traded instruments were securities with coupon payments scheduled for May of this year.

**ICU view: During winter and early spring, foreigners actively bought bonds maturing in April and May as they hoped to repatriate the funds upon redemption. However, after the NBU postponed the possibility for repatriating principal, foreign investors shifted their focus to bonds with coupon payments scheduled for the near term. This led to foreign investors having a significant stake in last week's redemption. Immediately after receiving repayments, foreigners started to purchase new bonds with coupon payments scheduled in the coming weeks that will allow them to repatriate new portions of funds soon. Such transactions will keep trading volumes on the secondary market relatively high and concentrated in a few instruments with coupon payments next month.**

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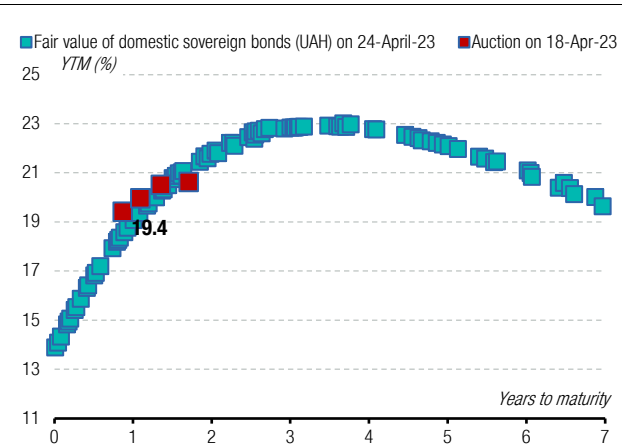
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

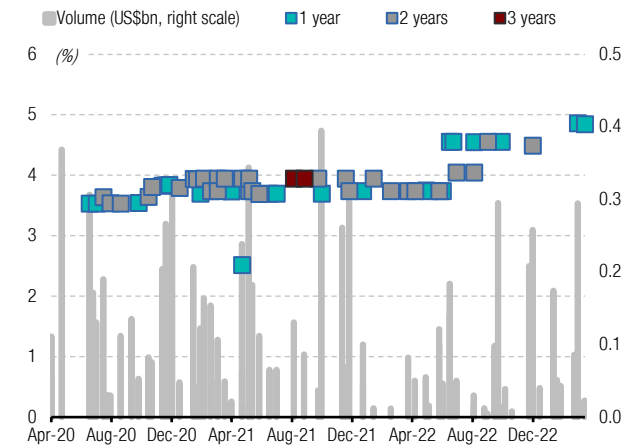
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

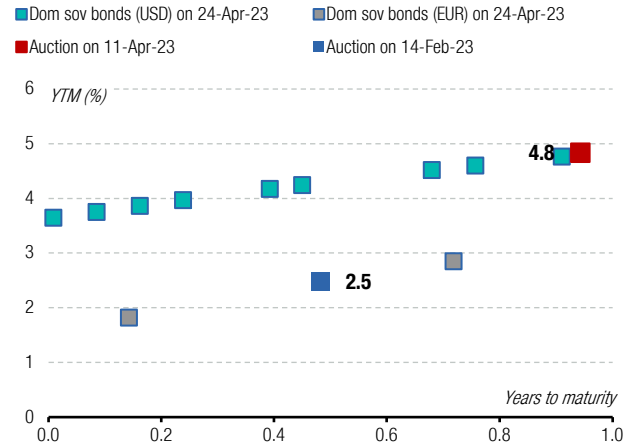
**Chart 2. FX-denominated bonds**

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.

**Eurobond prices weighed by global impact**

Ukrainian Eurobonds prices continued to decline under negative global sentiment.

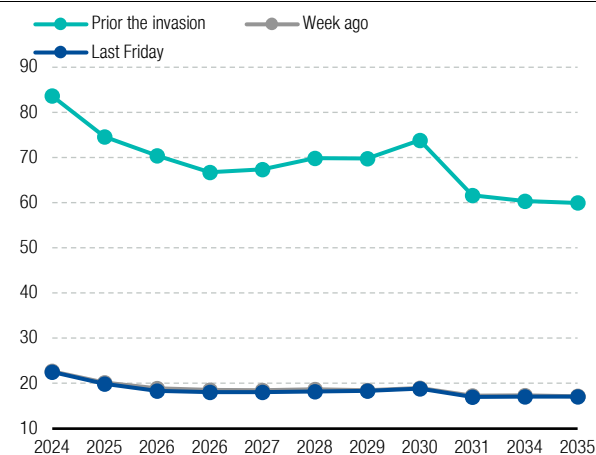
During the past week, sovereign Eurobond quotes were off slightly, generally by 1-3%, and they ended the week within 17–22 cents. VRI prices slid to 26 cents per dollar of notional value.

**ICU view: Global interest in emerging markets again diminished as indicated by a decline in the EMBI index. Without important news from the battlefield and a lack of information about the conditions of debt restructuring, Ukrainian Eurobonds were predominantly impacted by global sentiment.**

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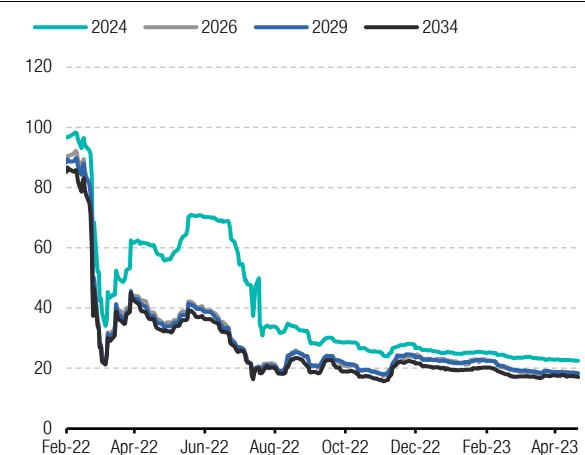
**Chart 3. Ukrainian Eurobonds prices**

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

## Hard-currency deficit in the interbank market increased sharply

The supply of hard currency on the interbank market declined, pushing the NBU to increase FX sale interventions. In contrast, supply remains at the usual level in the cash market.

In the interbank market, the supply of hard currency from bank clients (legal entities) decreased last week while the volume of purchases increased. In previous weeks, clients sold approximately US\$1bn per week and bought slightly more (up to US\$1.2bn). But in only four days last week, they sold only US\$0.7bn and bought US\$1bn. Therefore, the NBU had to double its FX sale interventions last week vs the previous week to US\$560m. This level of intervention is unusual in recent weeks and is comparable to January–February 2023.

The retail FX market was calmer. In four days, households sold more non-cash hard currency than they bought (by US\$0.3m) for the second week in a row. In contrast, they purchased US\$27m more of cash hard currency than they sold, less than a week ago.

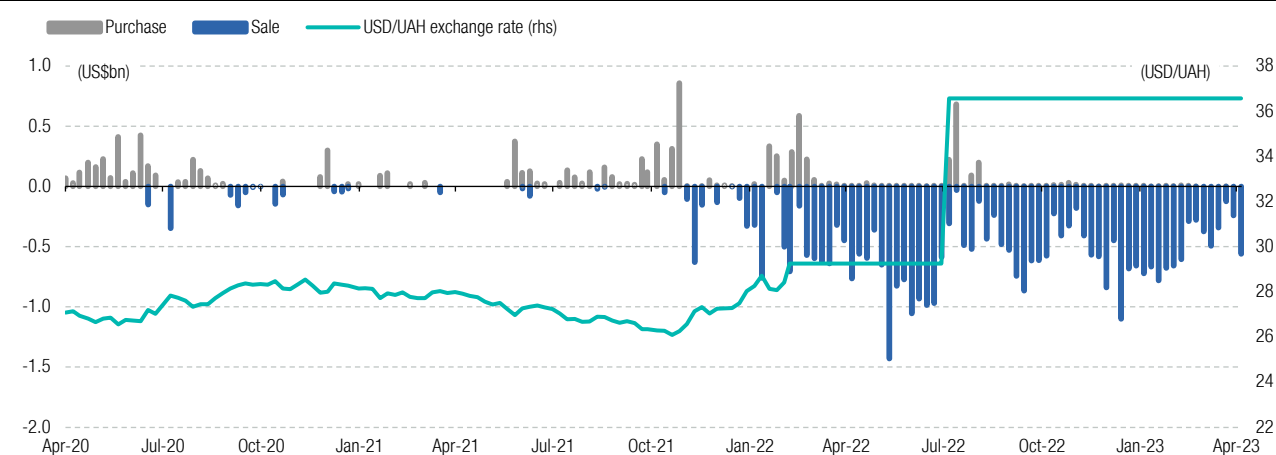
During the week, the cash exchange rate in systemically important banks slightly weakened by almost 1% to UAH37.7–38.3/US\$.

**ICU view: Suspended grain imports and transit from Ukraine by several European countries likely had an impact on hard currency inflows and led to a decline in the hard currency supply on the interbank market. Problems with agricultural exports could also have a psychological effect, increasing expectations of hryvnia weakening in the retail market which, in turn, led to further exchange rate correction in the cash segment.**

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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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