

Weekly Insight

Annual inflation falls in April

Key messages of the today's comments

MONDAY, 15 MAY 2023

Ukrainian bond market

MoF refinances all redemptions

The initiative in the domestic bond market remains with the banks, which increased their portfolios the most over the past week.

Eurobond prices continue to decline

Ukrainian Eurobonds continued to fall in price last week, losing approximately one percent of their value.

Foreign exchange market

Hryvnia cash exchange rate almost unchanged

Over the past week, the hryvnia cash rate weakened insignificantly due to the deterioration of the balance of the cash segment of the FX market.

Economics

Annual inflation falls in April on high comparison base

Ukraine's consumer prices continue to decelerate sharply with annual CPI falling to 17.9% in April from 21.3% in March on lower price pressures and high comparison base.

Banks' reserves market (12 May 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+1,500bp
ON rate (%)	9.76	+0bp	+0bp
Reserves (UAHm) ²	199,281	+11.08	+228.61
CDs (UAHm) ³	426,702	-0.84	+130.10

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) (12 May 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	694,419	+0.00	+69.33
Banks	544,969	+0.71	+1.53
Residents	115,748	-0.81	+58.51
Individuals	38,700	+1.79	+44.17
Foreigners ¹	55,156	+2.50	-23.74
Total	1,452,352	+0.36	+29.83

Source: NBU, ICU.

FX market indicators (12 May 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9322	+0.00	+24.99
EUR/USD	1.0849	-1.54	+4.52
DXY	102.681	+1.45	-2.07
UAH TWI ¹	110.508	+0.69	-19.96

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes (15 May 2023)

Maturity	Bid	Ask
6m	18.00	16.00
12m	21.00	18.00
2y	23.00	21.00
3y	24.00	21.50
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

MoF refinances all redemptions

The initiative in the domestic bond market remains with the banks, which increased their portfolios the most over the past week.

At last week's primary auction, the Ministry of Finance sold all offered bonds and raised UAH28.5bn (US\$779m) for the budget, including EUR296m (UAH12bn), US\$179m (UAH6.6bn), and UAH9.9bn (US\$271m) in local currency. See details in the [auction review](#).

During the last week, the portfolio of banks grew the most, by UAH4.4bn (US\$120m), mainly due to purchases of UAH bonds. Individuals and foreigners also increased their portfolios by UAH0.7bn (US\$19m) and UAH1.1bn (US\$30m), respectively.

With last week's borrowings, total budget proceeds MTD reached UAH40.5bn (US\$1.1bn), including UAH17.6bn (US\$481m), US\$297.5m, and EUR296.6m. Such borrowings allowed the MoF to refinance redemptions of UAH6.7bn (US\$183m) in local currency and most of the EUR382m of FX-denominated bills repaid in May. Proceeds in USD will be almost enough to repay US\$312m next week.

Trading volumes in the secondary market halved last week to UAH6.3bn (US\$172m). Bonds maturing next week and in May 2024, which will have a coupon payment next week, were those mainly traded last week for a total of UAH2.1bn (US\$57m) or 34% of weekly trading volume. Also, a "reserve" bond maturing in 2025 had a large volume of trades, almost UAH2.1bn (US\$57m) or 33% of all trades in UAH securities per the week.

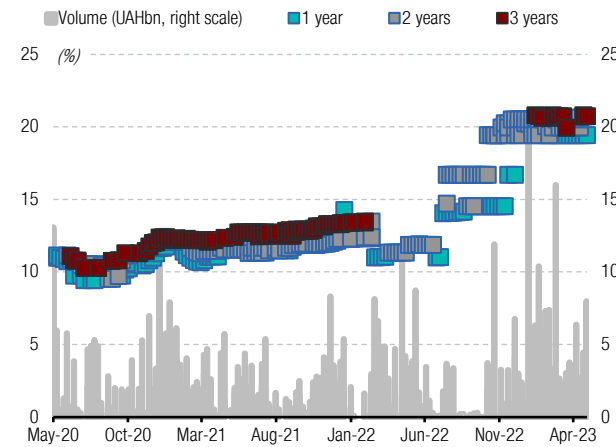
ICU view: Banks remained the biggest buyer of T-bills in the primary market, reinvesting almost all proceeds from last week's redemptions. On the secondary market, it is likely that banks and foreign investors were responsible for the bulk of the trading because the most actively traded were "reserve" bonds and securities with a coupon payments in the near term.

The Ministry of Finance refinanced almost the entire volume of redemptions in May, and the refinancing rate should stay above 100% in 5M23. There will be three more auctions offering FX-denominated bonds in USD and euros by the end of the month. This will enable the Ministry of Finance to accumulate hard currency to redeem FX-denominated bills in June, whose volumes are also significant: EUR143m and US\$431m.

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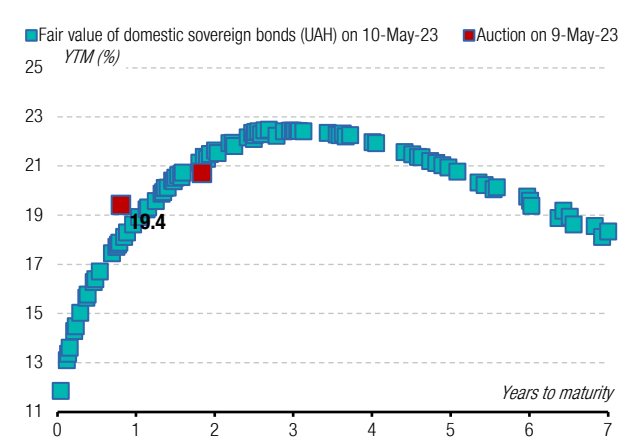
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

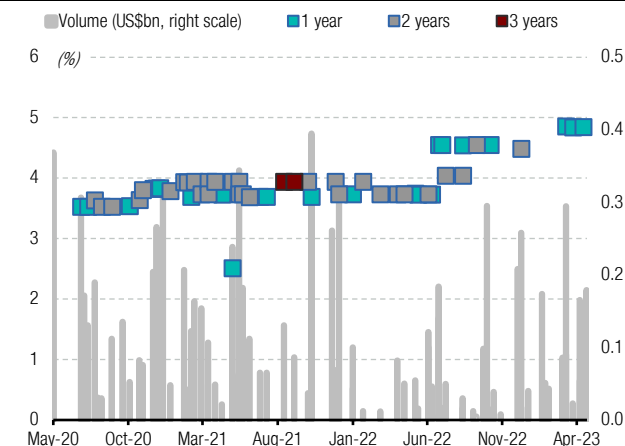
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

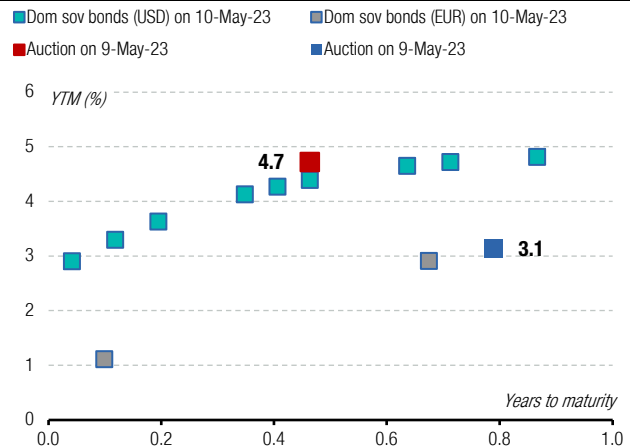
Chart 2. FX-denominated bonds

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 continue to decline

Ukrainian Eurobonds continued to fall in price last week, losing approximately one percent of their value.

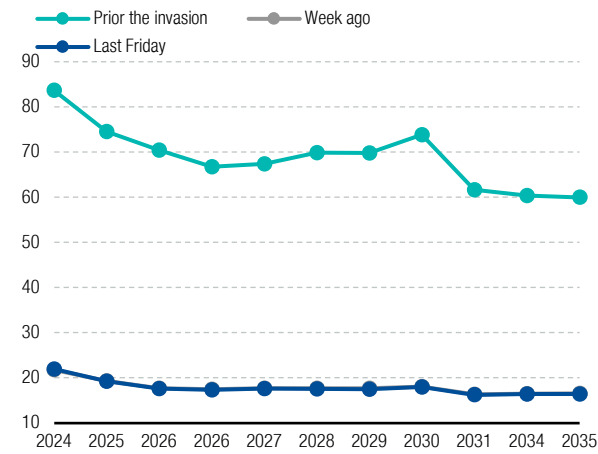
Most Eurobonds were down about one percent last week, staying in the range of 16–18 cents on the dollar. Only the two shortest instruments, UKRAIN'24 and UKRAIN'25, were quoted a little more expensive and barely fell in price: UKRAIN'24 was quoted slightly below 22 cents, up by 0.8% by the end of last week, while UKRAIN'25 decreased in price by 0.4% and remained above 19 cents.

ICU view: Global interest in emerging markets has changed mixed, and the EMBI index insignificantly up by the end of the week. But this did not positively affect Ukrainian securities, which continued to drift down against the background of restructuring expectations.

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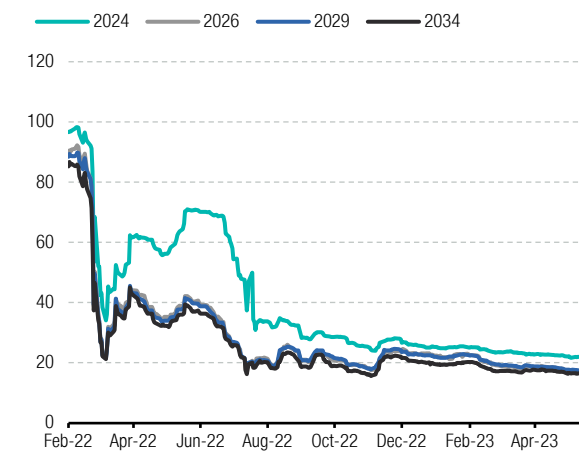
Chart 3. Ukrainian Eurobonds prices

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

Hryvnia cash exchange rate almost unchanged

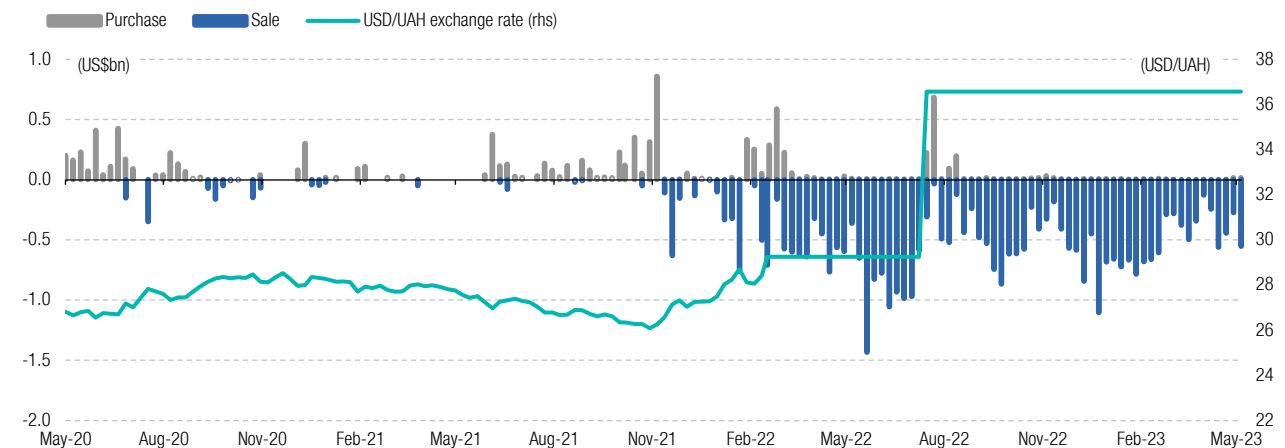
Over the past week, the hryvnia cash rate weakened insignificantly due to the deterioration of the balance of the cash segment of the FX market.

In the cash market, net purchases of hard currency were up to US\$52m in four days of last week. Accordingly, at the end of the week, the hryvnia exchange rate on average in systemically important banks weakened from UAH372–37.9/US\$ to UAH37.3–37.9/US\$, with the bid-offer spread tightening by UAH0.02 to UAH0.59.

Hard-currency sales volume remained approximately the same on the interbank market as in the previous week. But, bank clients (legal entities) increased purchases, so the NBU had to double its interventions to US\$552m, from the unusually low level.

ICU view: The increase in hard currency purchases in the cash market did not create excessive fluctuations in the exchange rate nor its significant weakening. At this time, the situation in the interbank FX market has weakened but remained under the NBU control.

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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.

Economics

Annual inflation falls in April on high comparison base

Ukraine's consumer prices continue to decelerate sharply with annual CPI falling to 17.9% in April from 21.3% in March on lower price pressures and high comparison base.

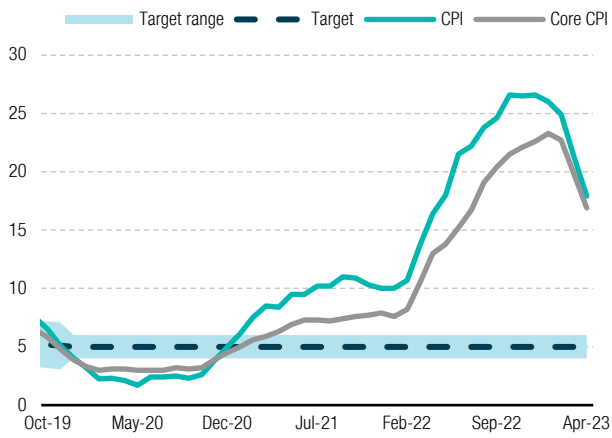
Monthly inflation stood at just 0.2%, which contrasts to surging numbers last year. Price deceleration is a broad-based phenomenon with nearly every single component of the consumer basket affected.

ICU view: A rapid deceleration in inflation is explained by the favourable comparison base as prices accelerated notably last year due to the effects of Russia's invasion of Ukraine. This year, a number of factors supportive of slow-price increase are in place, including weak domestic demand, stable exchange rate, fixed utility tariffs, and improved logistics. We expect end-year CPI at 15.4% YoY while in summer, annual inflation may temporarily fall below 13%. While inflation keeps decelerating, we note that economic imbalances remain significant and would have manifested themselves via much higher inflation if not for the generous financial aid that Ukraine continues to receive from its international partners.

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Chart 5. CPI, core CPI and target, YoY, %

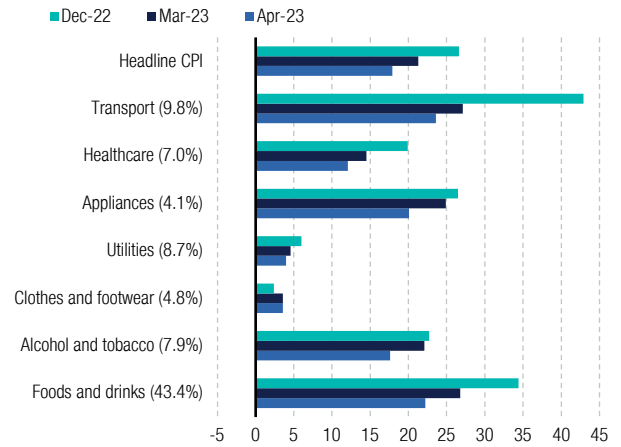
Annual inflation keeps decelerating sharply



Source: Ukrstat, NBU, ICU.

Chart 6. CPI and its main components, YoY, %

Deceleration is observed across the board



* numbers in brackets indicate the share of the component in consumer basket

Source: Ukrstat, ICU.

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