

# Weekly Insight

## Repatriation for bond coupons limited

### Key messages of the today's comments

MONDAY, 22 MAY 2023

### Ukrainian bond market

#### Repatriation rules for government bond coupons tighten

The NBU imposed an additional condition for repatriation of interest received by foreign investors on domestic bonds. From now on, investors are only allowed to transfer earnings if they owned the securities for at least 90 days before redemption.

#### Only a few bonds trade actively

Last week, only a few instruments, likely those that were interesting for banks and foreigners, had large trading volumes.

#### Eurobonds prices increase situationally

Last week, the prices of Ukrainian Eurobonds increased, and the range of prices for various maturities narrowed further.

### Foreign exchange market

#### Hryvnia cash rate hits new YTD high

Over the past week, the situation in the FX market improved, and the cash hryvnia strengthened to the maximum level YTD.

### Banks' reserves market (19 May 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>	198,087	-0.60	+265.19
CDs (UAHm) <sup>3</sup>	424,331	-0.56	+120.74

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 May 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	694,419	+0.00	+61.45
Banks	548,596	+0.68	+1.18
Residents	116,668	+1.09	+59.15
Individuals	39,919	+3.15	+43.48
Foreigners <sup>1</sup>	56,111	+0.96	-23.03
<b>Total</b>	<b>1,459,072</b>	<b>+0.47</b>	<b>+27.32</b>

Source: NBU, ICU.

### FX market indicators (19 May 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9480	+0.04	+25.68
EUR/USD	1.0805	-0.41	+2.05
DXY	103.198	+0.50	+0.46
UAH TWI <sup>1</sup>	111.012	+0.46	-19.30

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes (22 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

## Repatriation rules for government bond coupons tighten

The NBU imposed an additional condition for repatriation of interest received by foreign investors on domestic bonds. From now on, investors are only allowed to transfer earnings if they owned the securities for at least 90 days before redemption.

The new regulation takes effect beginning May 22, so from today, foreigners will only be able to repatriate the interest on bonds they've owned continuously for at least 90 days before the payment date.

***ICU view: The NBU changed repatriation rules just ahead of this week's large interest repayment on bonds, a significant part of which likely is owed to foreigners. Some investors bought these bonds as recently as last week. The new restrictions will reduce the activity of foreign investors in the market. Most of them will likely choose securities with longer tenors and will purchase bonds with coupon payments scheduled in just over 90 days' time. In general, the new NBU decision was expected. The previous format left gaps in cross-border currency control regulations, so it was only a matter of time before the gaps were closed.***

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

## Only a few bonds trade actively

Last week, only a few instruments, likely those that were interesting for banks and foreigners, had large trading volumes.

During the week, banks purchased the vast majority of bonds offered at the primary auction in both local and hard currency. In general, banks' portfolios are up by UAH4.3bn (US\$117m) to UAH548.7bn (US\$15bn). Individuals and non-banks also significantly increased portfolios by UAH1bn (US\$29m) and UAH1.1bn (US\$31m). They purchased mostly FX-denominated bonds.

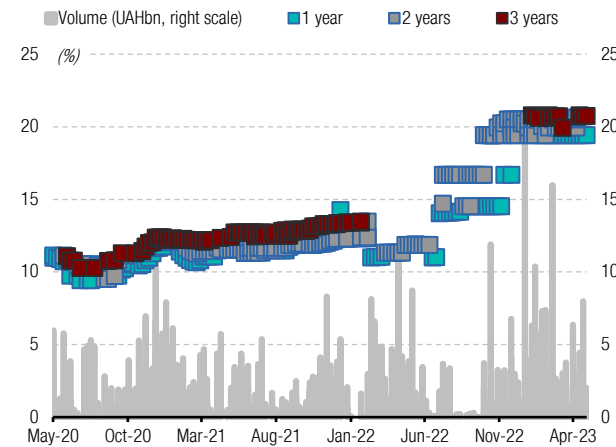
In the secondary market, trading was concentrated in three UAH bills: those maturing this Wednesday (UAH2.5bn or the equivalent of US\$67m) and two "reserve" bonds maturing in April and November 2025 (UAH1.4bn (US\$40m) and UAH1.3bn (US\$35m)). The total volume of trading in UAH government bonds on the secondary market amounted to UAH7.8bn (US\$214m), almost 25% more than in the previous week.

***ICU view: Given that the most actively traded paper is maturing this week, foreigners seem to have been the most active buyers so as to be able to repatriate coupons. At the same time, banks focused on "reserve" bonds as they can use them to cover part of the required reserves. Individuals once again focused on FX bonds, which offer a significantly higher rate than bank deposits.***

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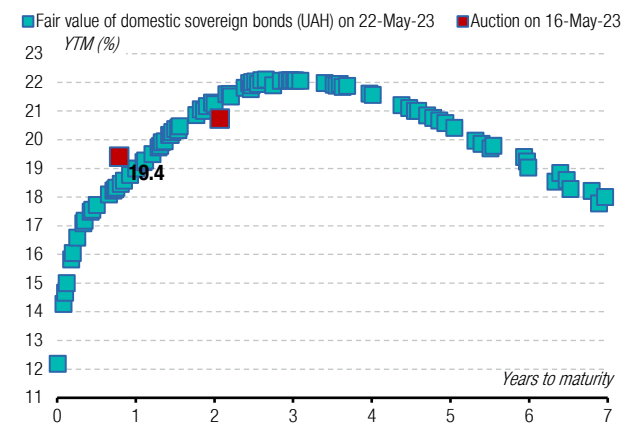
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

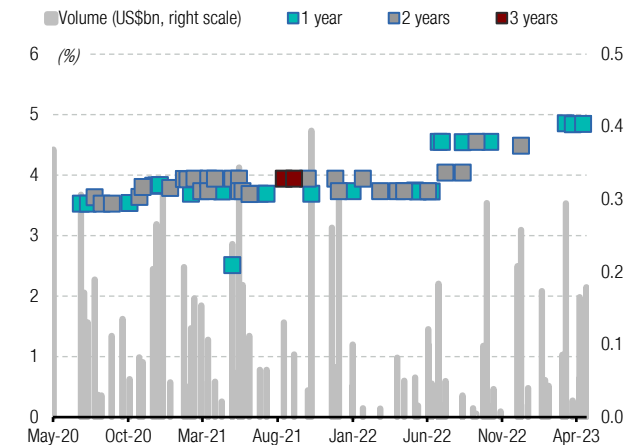
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

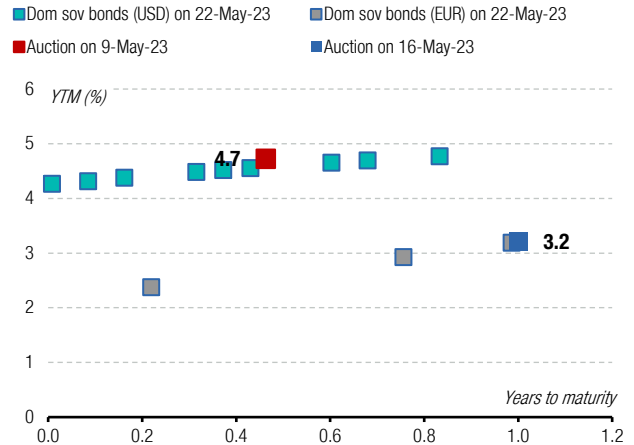
**Chart 2. FX-denominated bonds**

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 prices increase situationally**

Last week, the prices of Ukrainian Eurobonds increased, and the range of prices for various maturities narrowed further.

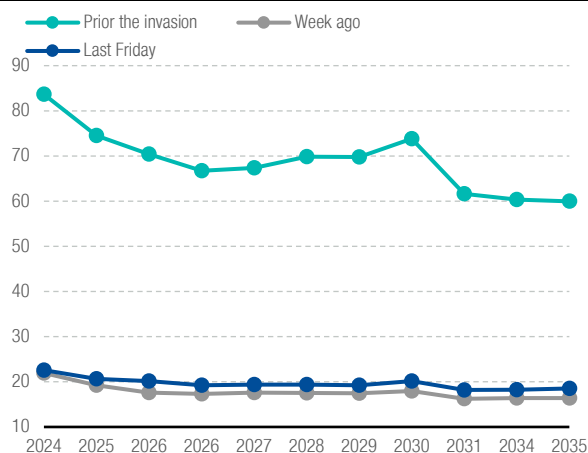
At the end of last week, Ukrainian Eurobonds were quoted in the range of 18–23 cents per dollar. That is about two cents or 10–15% more than a week before. UKRAIN'24 and UKRAIN'25 remain exceptions; their prices increased only 3% and 7%, or by about one cent. VRIs also rose in price by three cents to almost 29 cents per dollar of notional value.

**ICU view: The increase in prices of Ukrainian Eurobonds was most likely temporary and caused by interest of a large buyer or several buyers. Overall, interest in emerging markets slightly weakened. Prices for securities of different maturities are now traded within a range of 11% vs 15% a week before.**

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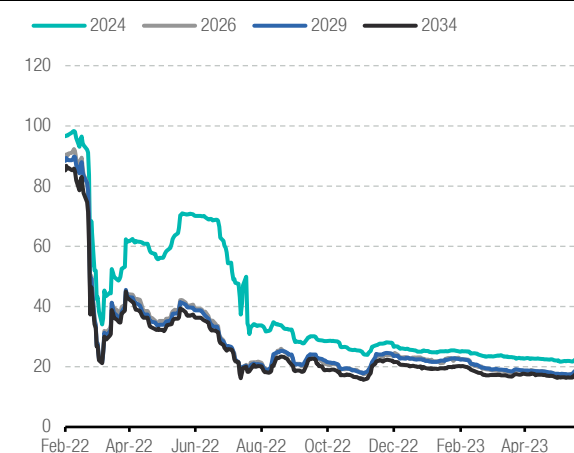
### Chart 3. Ukrainian Eurobonds prices

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 rate hits new YTD high

Over the past week, the situation in the FX market improved, and the cash hryvnia strengthened to the maximum level YTD.

On the interbank FX market, in four business days bank clients (legal entities) bought US\$167m more hard currency than they sold, which was 28% less than in the previous week. Accordingly, the NBU reduced interventions by US\$160m to US\$392m over the week.

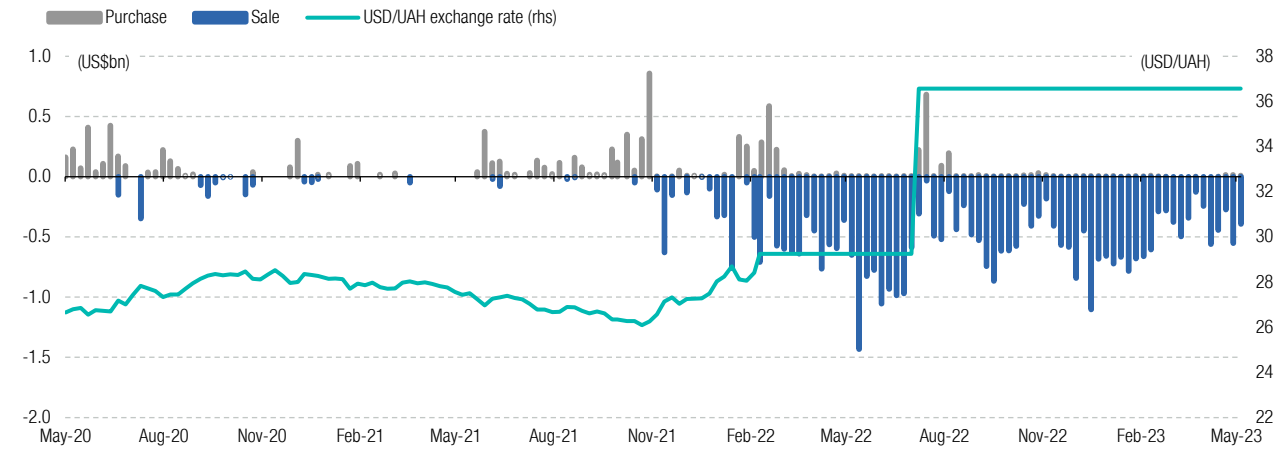
At the same time, the supply of hard currency increased in the retail market. As a result, the hryvnia cash rate strengthened by about 0.5% or UAH0.20 to UAH37.1–37.7/US\$, which is the new high of the year. Hryvnia thus strengthened more than 7% and the bid–offer spread narrowed by UAH0.3 to UAH0.56 YTD.

**ICU view: The interbank FX market remains under the NBU control without significant changes in the volume of hard currency trading. At the same time, the supply of hard currency is improving in the cash market, which favours strengthening the hryvnia cash exchange rate.**

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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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