



Focus  
Ukraine

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

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# Weekly Insight

## Bond market changing focus

### Key messages of the today's comments

#### Ukrainian bond market

##### Bond market changing focus

Foreigners reacted to the new NBU regulations on repatriation of coupons on local-currency bonds. The focus of trading in the secondary market trades shifted to instruments with coupons scheduled from September.

##### Eurobond prices stabilize after rapid growth a week before

The temporary spike in demand for Ukrainian Eurobonds ran out, and prices declined at the end of the week.

#### Foreign exchange market

##### Cash hryvnia stabilizes

The hryvnia cash exchange rate fluctuated only marginally last week and did not change WoW.

### MONDAY, 29 MAY 2023

#### Banks' reserves market (26 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>	211,804	+6.92	+304.86
CDs (UAHm) <sup>3</sup>	409,049	-3.60	+116.45

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) (26 May 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	694,346	-0.01	+61.44
Banks	547,530	-0.38	+1.72
Residents	112,189	-3.56	+52.79
Individuals	38,480	-3.60	+36.59
Foreigners <sup>1</sup>	43,675	-21.38	-39.03
<b>Total</b>	<b>1,439,633</b>	<b>-1.33</b>	<b>+26.10</b>

Source: NBU, ICU.

#### FX market indicators (26 May 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9505	+0.01	+24.89
EUR/USD	1.0723	-0.76	-0.02
DXY	104.206	+0.98	+2.33
UAH TWI <sup>1</sup>	111.456	+0.40	-18.20

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Market gov't bond quotes (29 May 2023)

Maturity	Bid	Ask
6m	18.00	16.00
12m	21.00	18.00
2y	23.00	20.00
3y	23.50	20.50
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## Bond market changing focus

Foreigners reacted to the new NBU regulations on repatriation of coupons on local-currency bonds. The focus of trading in the secondary market trades shifted to instruments with coupons scheduled from September.

At the primary auction, the Ministry of Finance borrowed UAH10.8bn of which only UAH3.2bn was in local currency. The MoF sold three UAH bonds, including new "reserve" bond maturing in 2026. The majority of proceeds, US\$208m (UAH7.6bn), was raised in hard currency. See details in the [auction review](#).

The portfolios of almost all groups of investors decreased last week. Foreigners' portfolios shrank the most, by UAH11.6bn. Only municipalities increased their portfolios marginally.

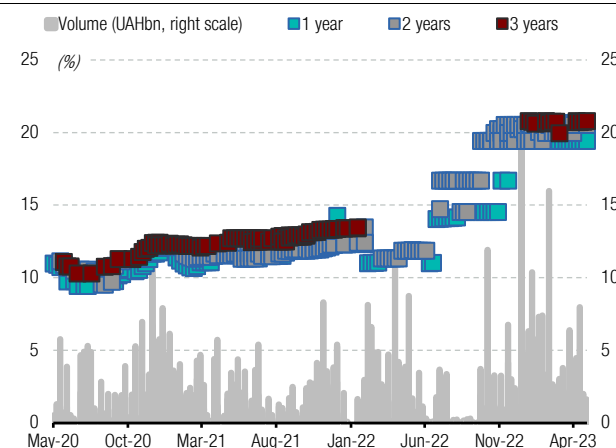
Trading in UAH government bonds on the secondary market rose WoW both in terms of volume and number of deals: UAH8.8bn in 7,000 deals last week vs UAH7.8bn in 6,100 deals a week before. But the list of the most traded instruments changed. The largest amount of trades (UAH2.1bn or 24% of total trades in UAH bonds) was in bonds maturing in September this year. "Reserve" bond maturing in April 2025 (UAH1.2bn or 14%) and bond maturing at the end of October 2024, which the Ministry of Finance again sold at last week's auction after a month's break (UAH1.3bn or 15%) were also actively traded.

**ICU view: A significant reduction in the portfolios of foreign investors indicates that they could own approximately half of the bonds redeemed last week. They likely expected to repatriate the coupons. Portfolios of foreigners were also shrinking on other days, so they sold bonds with coupon payments in the coming months, as they may no longer be able to repatriate these funds after the NBU changed its regulation a week ago. At the same time, more active trading in bonds with coupons scheduled for autumn—so that the requirements for repatriation are met—indicates that foreign investors could buy these instruments.**

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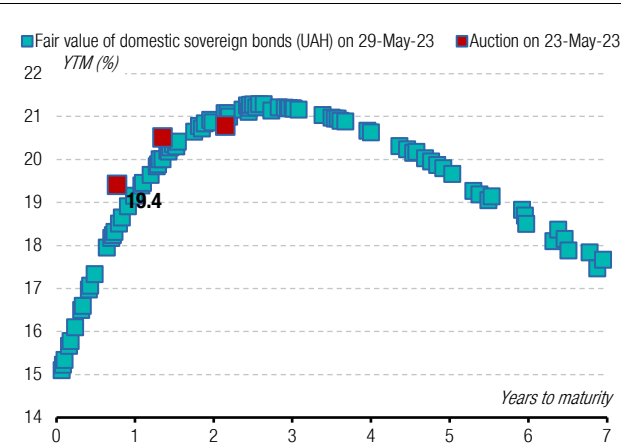
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

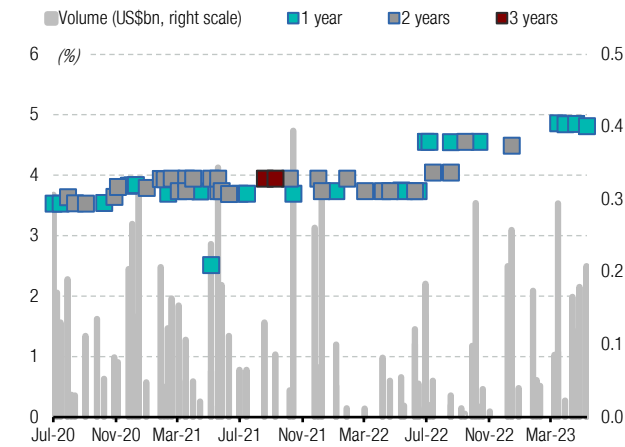
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

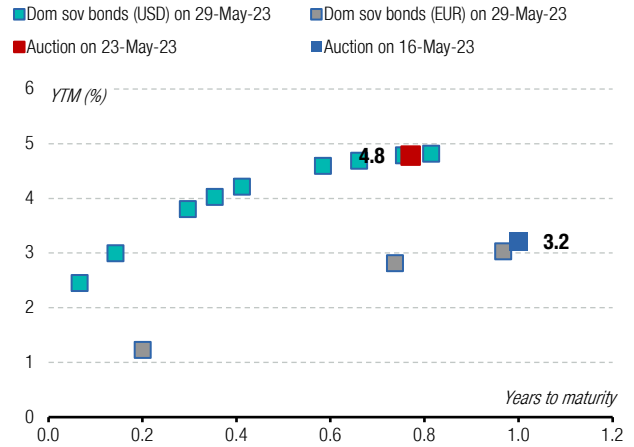
**Chart 2. FX-denominated bonds**

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 stabilize after rapid growth a week before**

The temporary spike in demand for Ukrainian Eurobonds ran out, and prices declined at the end of the week.

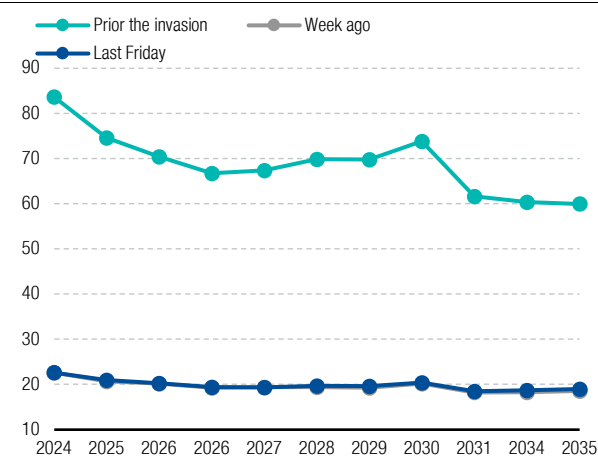
Last Tuesday, Eurobond prices reached a local maximum of 19–23 cents and the range of prices for different maturities narrowed to 8% vs the mid-price. On Wednesday, prices started to decline, and by the end of the week, they returned to approximately the level as the previous Friday, but with a slightly narrower range: 10% vs 11% the week before. VRIs traded at 30 cents on the notional dollar last Tuesday, but fell 2% to 29 cents by the end of the week.

**ICU view: As situational demand came from one or more market participants and was not supported broadly by the market, the price rally was short-lived, lasting only about a week. However, thanks to this rally, the prices of Eurobonds converged and settled in a much narrower range than at the beginning of May.**

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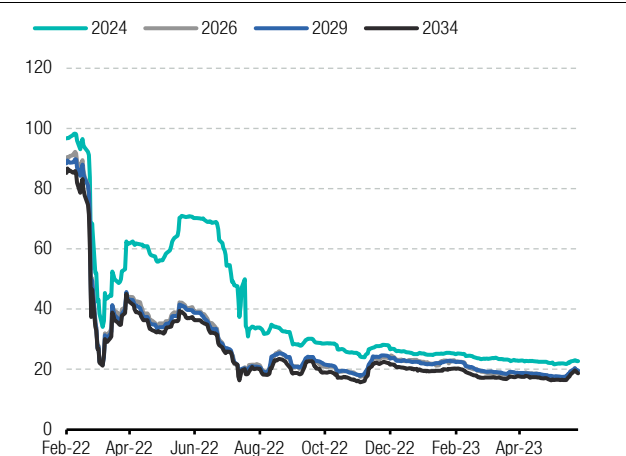
**Chart 3. Ukrainian Eurobonds prices**

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 stabilizes

The hryvnia cash exchange rate fluctuated only marginally last week and did not change WoW.

In systemically important banks, the hryvnia exchange rate remained at the same level as the previous Friday: UAH37.09-37.65/US\$. The volume of hard currency purchases and sales by households last week barely changed.

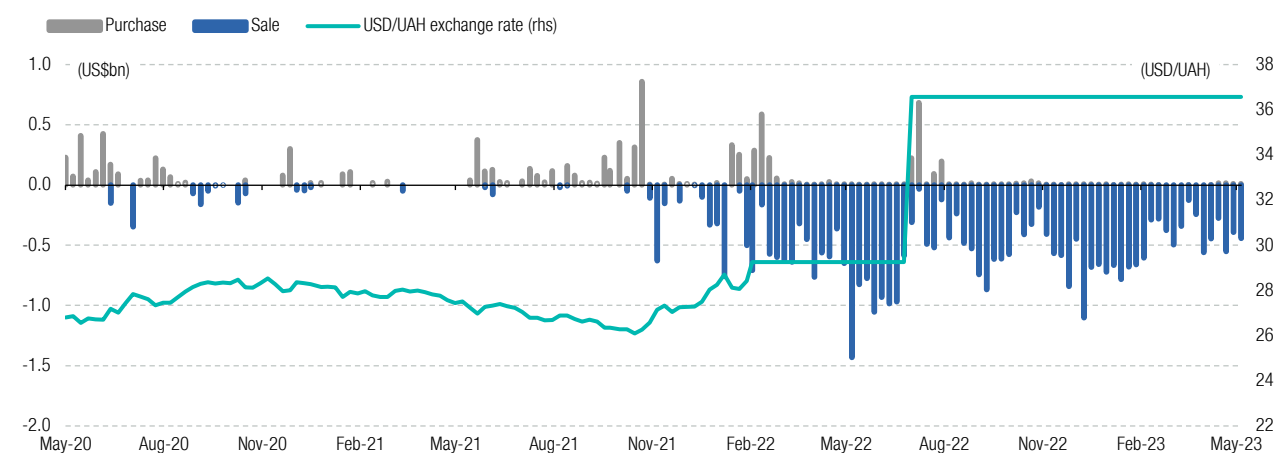
At the same time, on the interbank market, the demand for hard currency from bank clients (legal entities) exceeded supply more than a week before, and in four days, they purchased US\$188m more than sold (up 13% WoW). To cover this extra demand, the NBU had to increase the volume of interventions to US\$442m, (+13%), compared with the previous week.

**ICU view: The retail market is currently fully saturated with hard currency, so the hryvnia exchange rate stabilized after having converged to the official exchange rate as much as possible. The hryvnia cash rate fluctuates insignificantly and is currently at the maximum level since July of last year when the NBU reset the official hryvnia rate in a one-off depreciation. The interbank market remains under the control of the NBU with minor situational fluctuations in weekly interventions.**

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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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