

Weekly Insight

Interest rates continue to decline

Key messages of the today's comments

Ukrainian bond market

Interest rates continue to decline

Last week, the MoF decreased the cut-off rate for 18-month bills to 18.9% from 19.5% where they were at the beginning of June.

Eurobond prices edge lower

The Ukrainian Eurobonds rally may have ended last week with a subsequent slight price correction.

Foreign exchange market

NBU FX interventions up last week

The imbalance in the interbank FX market worsened last week, requiring greater interventions by the NBU. The cash market remains stable.

MONDAY, 24 JULY 2023

Banks' reserves market (21 July 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	25.00	+0bp	+0bp
ON rate (%)	9.76	+0bp	+0bp
Reserves (UAHm) ²	195,186	+2.05	+242.80
CDs (UAHm) ³	513,597	+3.53	+234.10

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) (21 July 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	691,846	+0.00	+30.88
Banks	557,540	-0.23	+9.30
Residents	115,166	-2.59	+82.59
Individuals	40,067	-7.85	+45.86
Foreigners ¹	50,611	+2.56	-29.32
Total	1,457,364	-0.42	+21.34

Source: NBU, ICU.

FX market indicators (21 July 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.7922	-0.47	+0.11
EUR/USD	1.1124	-0.93	+8.74
DXY	101.071	+1.16	-5.46
UAH TWI ¹	111.947	+1.15	-0.98

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes (24 July 2023)

Maturity	Bid	Ask
6m	18.00	16.00
12m	20.00	18.00
2y	21.00	19.50
3y	21.50	19.75
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Interest rates continue to decline

Last week, the MoF decreased the cut-off rate for 18-month bills to 18.9% from 19.5% where they were at the beginning of June.

At last week's primary auction, most securities sold were military and "reserve" bonds, and the MoF raised UAH5.7bn (US\$313m). The interest rate for military bills decreased and more than half of the demand for "reserve" notes was rejected. See details in the [auction review](#).

In the secondary bond market, trading of UAH bonds declined by 26% to UAH5.3bn (US\$156m), and was again concentrated in securities due February 2025, which represented 37% of total trades in UAH bonds.

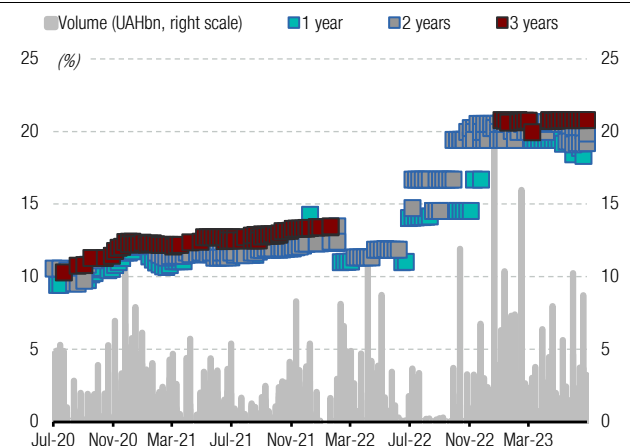
After the redemption of USD-denominated bonds' last week, portfolios of all investor groups declined, except foreign investors who usually do not buy such bonds. Foreigners increased their portfolios by UAH1.1bn (US\$34m) of UAH bonds.

ICU view: The trading pattern and changes in bond portfolios leads us to believe that foreigners continued to change the term structure of their portfolios to maximize the repatriation of invested funds. Foreigners likely decreased some bonds due in February 2025, and purchased new military and "reserve" bonds at the primary auction. Taking advantage of great demand, the MoF continued to decrease interest rates for ordinary and military bills while keeping rates for "reserve" bonds unchanged. Expectations of the NBU making its first move toward monetary policy easing this week may increase pressure on the interest rates at the primary auction tomorrow.

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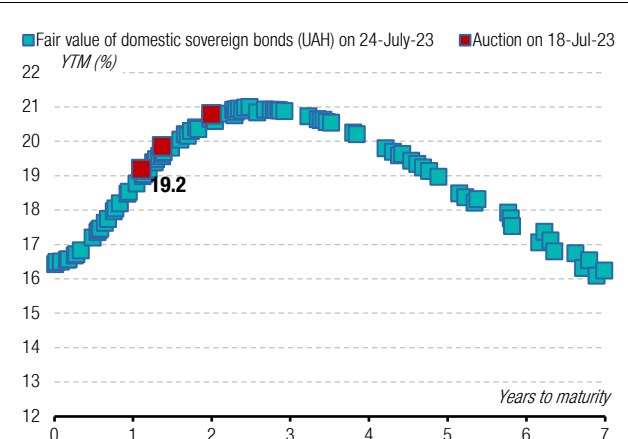
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

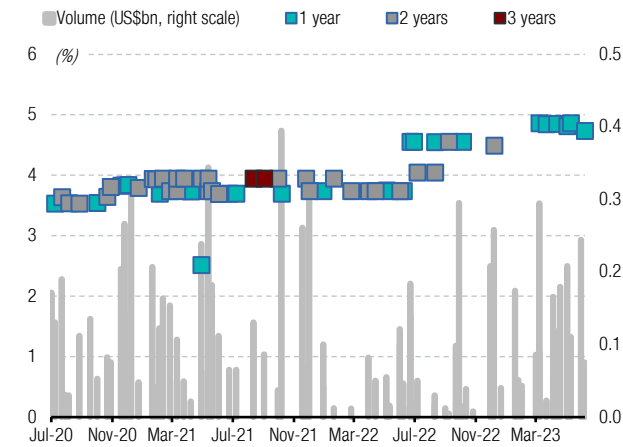
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

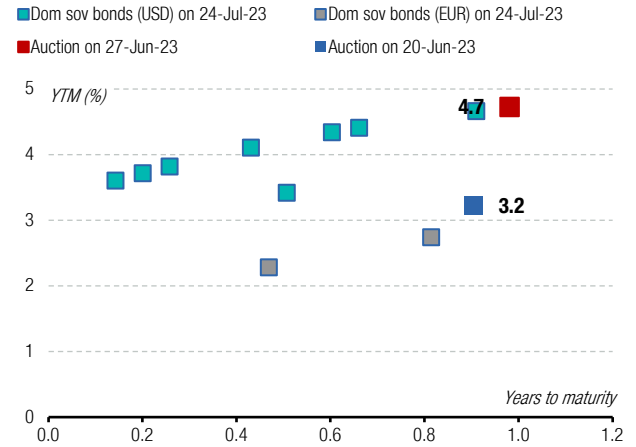
Chart 2. FX-denominated bonds

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 edge lower

The Ukrainian Eurobonds rally may have ended last week with a subsequent slight price correction.

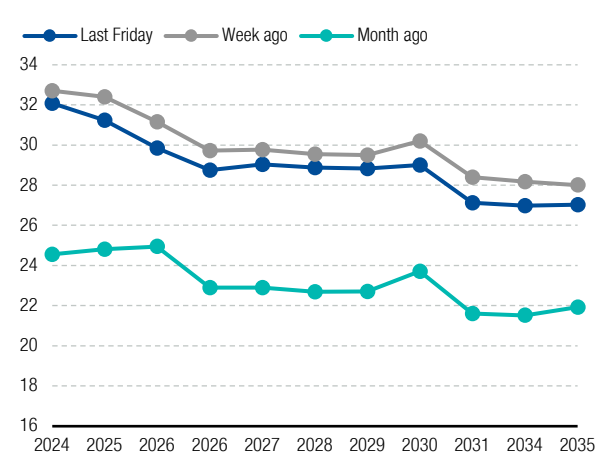
Last week, Ukrainian USD-denominated Eurobonds declined in price by around 3%, and prices moved to 27-32. The range of prices for instruments with different maturities widened to 8.8% from 7.9%. VRIs lost 1.5% and were quoted slightly below 45 cents per dollar of notional value.

ICU view: The impact of positive news from the NATO summit for Ukraine waned last week, and the prices of Ukrainian Eurobonds started to decline. Without important economic news or news from the battlefield, Ukraine Eurobonds are expected to drift in line with other EM bonds.

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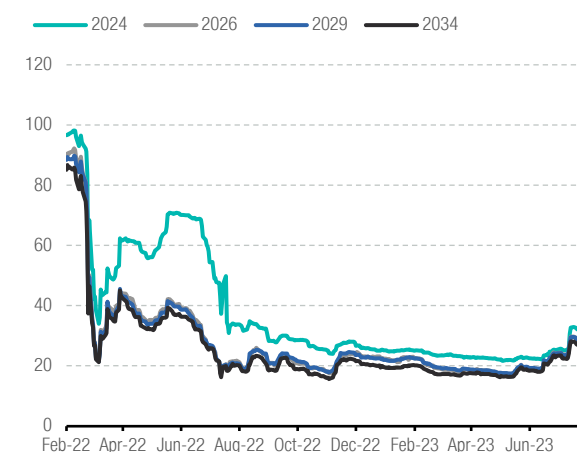
Chart 3. Ukrainian Eurobonds prices

Prices of USD-denominated Eurobonds as of last Friday, a week and a month ago



Source: Bloomberg, ICU.

Historical data since February, 2022



Source: Bloomberg, ICU.

Foreign exchange market

NBU FX interventions up last week

The imbalance in the interbank FX market worsened last week, requiring greater interventions by the NBU. The cash market remains stable.

In the interbank FX market, bank clients (legal entities) decreased sales of hard currency by 4%, while purchases were up by almost 10%. Therefore, demand for hard currency among bank clients exceeded supply by US\$206m, forcing the NBU to increase FX sale interventions by 48% to US\$595m, the largest amount since the end of February.

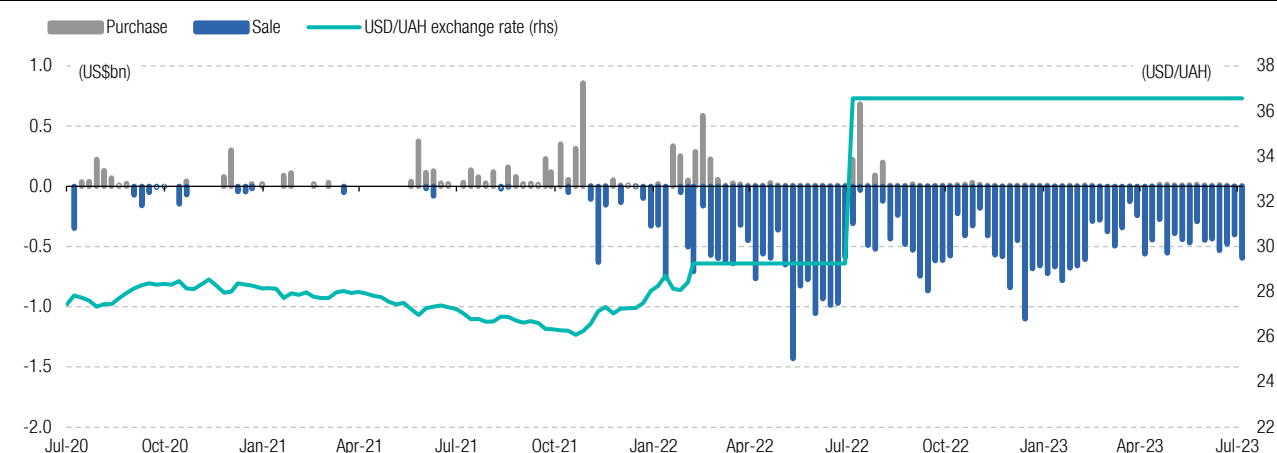
The retail FX market remains steady with exchange rate almost unchanged at UAH36.6–37.4/US\$.

ICU view: *The interbank FX market was likely under a psychological effect of the suspension of the Black Sea grain corridor deal by Russia. The supply of hard currency decreased as some sellers likely decided to delay conversions. However, NBU's sale interventions were still at an acceptable level.*

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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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