

Weekly Insight

FX market under psychological influence

Key messages of the today's comments

MONDAY, 21 AUGUST 2023

Ukrainian bond market

Locals active in bond market

Last week, domestic investors were the most active participants in the government bond market, while foreigners traded much less and reduced their investments in UAH securities.

Eurobond prices correct

Last week, Ukrainian Eurobond prices slid somewhat, which reflected the global trend towards developing markets.

Foreign exchange market

FX market under negative psychological influence

Cash hryvnia continued to weaken last week, and households once again bought more hard currency than they sold. In the interbank market, supply also decreased.

Banks' reserves market (18 August 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	22.00	+0bp	-300bp
ON rate (%)	9.76	+0bp	+0bp
Reserves (UAHm) ²	184,290	-14.49	+174.90
CDs (UAHm) ³	511,266	+4.65	+190.96

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) (18 August 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	691,846	+0.00	+23.64
Banks	567,260	+0.78	+10.20
Residents	122,230	+0.27	+84.40
Individuals	47,826	+2.95	+59.13
Foreigners ¹	50,525	-0.71	-27.93
Total	1,481,851	+0.40	+19.39

Source: NBU, ICU.

FX market indicators (18 August 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.8653	-0.19	+0.75
EUR/USD	1.0873	-0.69	+7.79
DXY	103.375	+0.52	-3.82
UAH TWI ¹	113.247	+0.68	-0.99

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes (21 August 2023)

Maturity	Bid	Ask
6m	18.00	16.00
12m	20.00	18.00
2y	20.50	19.00
3y	21.00	19.50
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Locals active in bond market

Last week, domestic investors were the most active participants in the government bond market, while foreigners traded much less and reduced their investments in UAH securities.

At the primary auction, the MoF raised UAH6.4bn, including UAH5bn from "reserve" notes. Yields for all UAH instruments remained unchanged, as most of the demand was at yields close to the cut-off rates of the previous placement. See details in the [auction review](#).

Reserve bonds were actively traded on the secondary market and accounted for 60% of total trades in UAH bonds. Notes maturing in July 2026, which the MoF sold at the auction last Tuesday, were the most actively traded: UAH1.5bn or 56% of UAH bond trades last week.

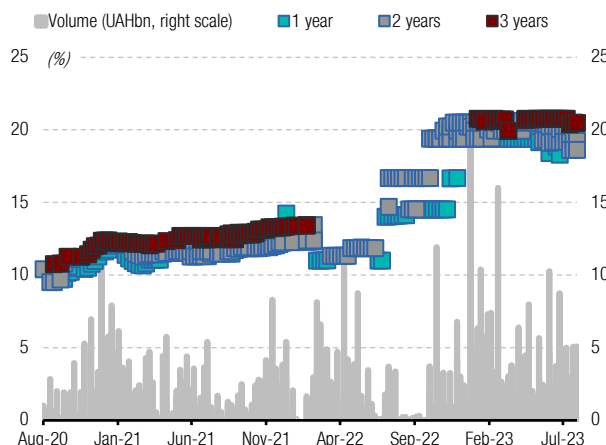
Banks, expectedly, increased their portfolios last week, buying and trading "reserve" bonds. Individuals also increased their portfolios. At the same time, foreign investors have reduced their portfolios for two consecutive weeks.

ICU view: Banks have stepped up the purchase of "reserve" bonds, as the NBU designated the new issue as eligible for meeting required reserves since August 11. Therefore, at two recent auctions, banks aimed to purchase as much reserve paper as possible. Since the Ministry of Finance accepted only 2/3 of the bids for this instrument, some banks probably sought to buy notes on the secondary market. Meanwhile, foreigners are waiting for debt repayments this week and in September to repatriate coupon payments abroad and reinvest redemptions into other instruments that will allow the repatriation in three months or more.

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

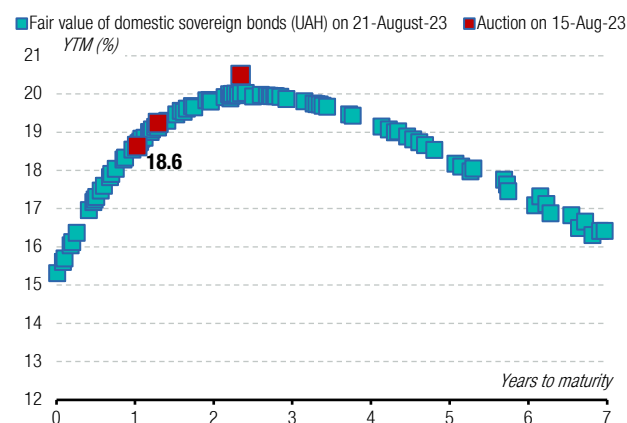
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

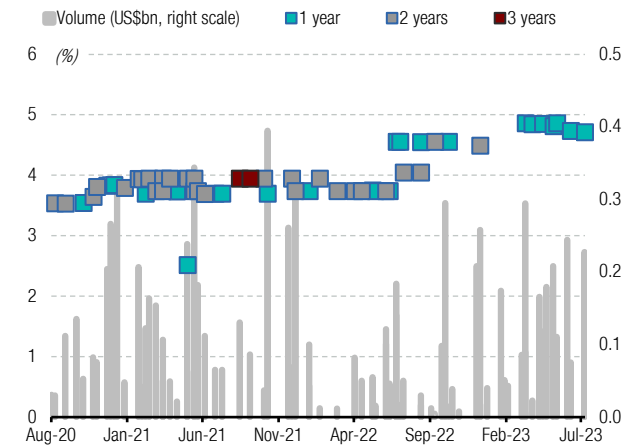
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

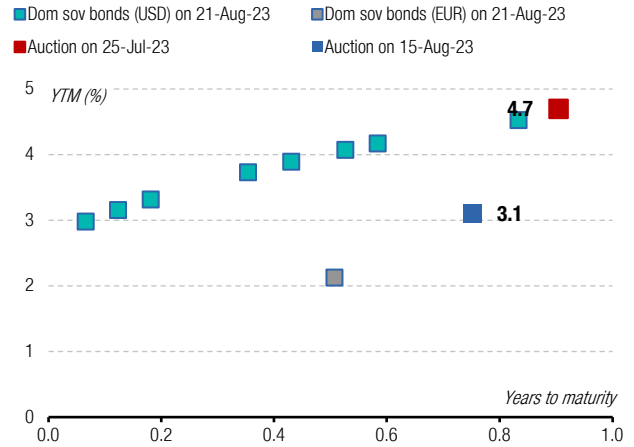
Chart 2. FX-denominated bonds

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 correct

Last week, Ukrainian Eurobond prices slid somewhat, which reflected the global trend towards developing markets.

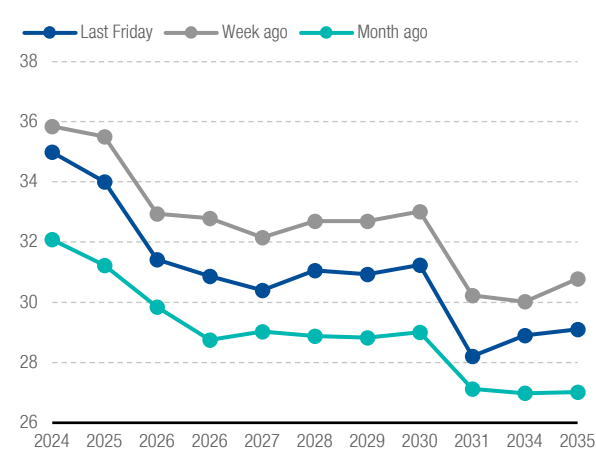
Ukrainian Eurobond prices declined over the past week by an average of almost 5% to 28-35 cents, with the widening of the price range for instruments with different maturities from 8.9% to almost 11%. VRIs fell in price by 3.9% to 47.7 cents per dollar of notional value. The EMBI index slid by 2%.

ICU view: The prices of Ukrainian Eurobonds have been moving along an upward trajectory for two months but with a visible volatility. Any price increase is followed by a correction of a smaller size, after which prices receive a new impulse for growth. Investors are gradually reassessing the present value of Eurobonds upward in anticipation of a restructuring in 1H24.

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

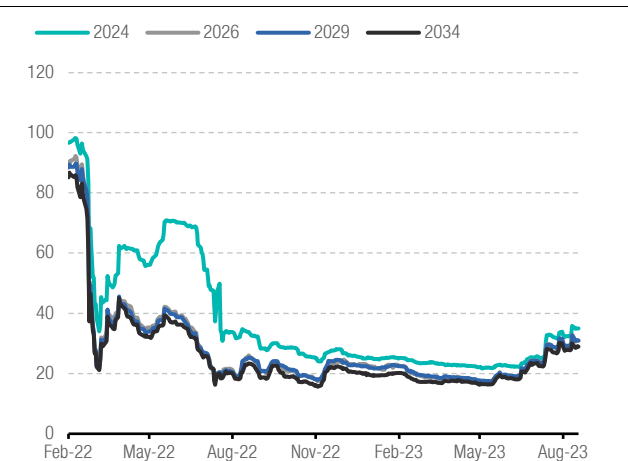
Chart 3. Ukrainian Eurobonds prices

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

FX market under negative psychological influence

Cash hryvnia continued to weaken last week, and households once again bought more hard currency than they sold. In the interbank market, supply also decreased.

In the retail market, the overall balance shifted again in favour of buying. In four business days, households bought more US\$7m of hard currency than they sold. The increase in the purchase of cash hard currency played a role here, along with a decrease in the sale of non-cash.

Over the past week, the hryvnia exchange rate in systemically important banks weakened by 1.4% to UAH37.4–38.2/US\$.

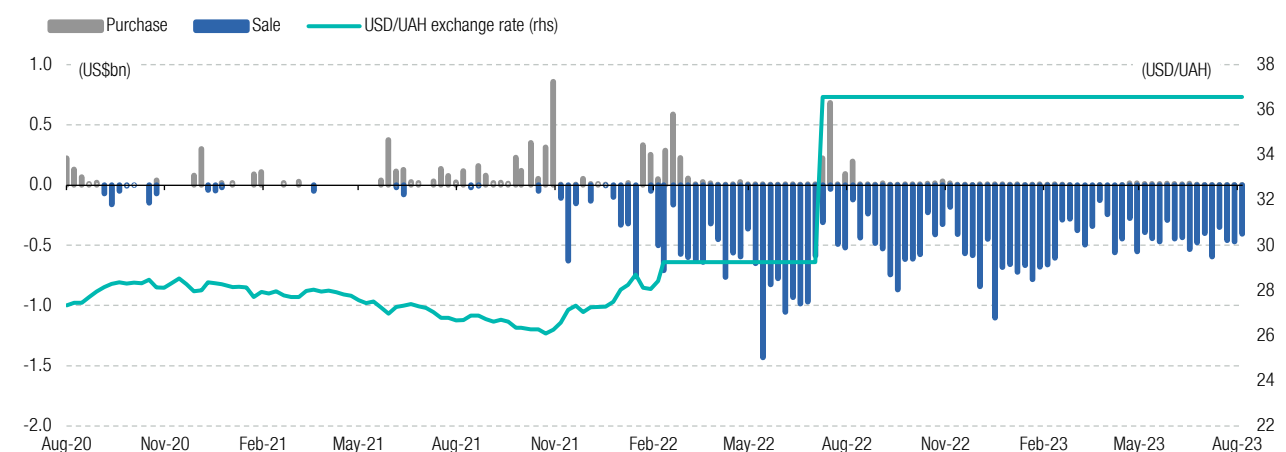
On the interbank market, bank clients (legal entities) increased their sales and purchases of hard currency. In four business days, they sold US\$903m, which is 27% more than in the same period of the previous week. At the same time, they bought US\$1bn, which is just 21% more than for the same period of the previous week. Therefore, the NBU decreased interventions by 13% to US\$407m.

ICU view: The interbank market continues to be affected by problems with grain exports and an unstable supply of hard currency from bank customers. At the same time, the retail market is under the psychological influence of recent exchange-rate fluctuations and expectations that the hryvnia will weaken further due to the NBU's plans to switch to a flexible exchange rate regime gradually. The NBU did not provide any timeline for such a move, so market players make their own predictions, adding volatility to the market and negatively affecting the current cash exchange rate.

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

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.

This page is intentionally left blank



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko, CFA

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

