

Weekly Insight

UAH bonds now available for foreign individuals

Key messages of the today's comments

MONDAY, 25 SEPTEMBER 2023

Ukrainian bond market

Government bonds now available for foreign individuals

Since last week, foreign retail investors are now able to buy Ukrainian domestic government bonds remotely.

Decline in UAH bond rates marginal

After the NBU reduced the key policy rate, the MoF only marginally decreased the cut-off rate for only the shortest UAH instrument offered last week.

Fluctuations in Eurobonds prices tiny

The prices of Ukrainian Eurobonds slightly declined last week, and the range of prices for different maturities widened.

Foreign exchange market

Demand for hard currency significantly exceeds supply

The hard-currency deficit in the interbank market remains at a high level, prompting significant interventions by the NBU.

Economics

GDP surges YoY in 2Q23 on low base

In 2Q23, Ukraine's GDP increased 19.5% YoY, but was up only 0.8% QoQ in seasonally adjusted terms.

Banks' reserves market (22 September 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	20.00	+0bp	-500bp
ON rate (%)	9.76	+0bp	+0bp
Reserves (UAHm) ²	235,844	+52.46	+289.72
CDs (UAHm) ³	457,082	-14.15	+78.05

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) (22 September 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	690,693	+0.00	+11.48
Banks	574,292	+0.87	+14.23
Residents	121,024	+2.06	+82.34
Individuals	48,950	+4.43	+55.15
Foreigners ¹	48,729	-0.27	-28.43
Total	1,486,012	+0.65	+15.28

Source: NBU, ICU.

FX market indicators (22 September 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9506	+0.05	+0.05
EUR/USD	1.0653	-0.04	+8.31
DXY	105.583	+0.25	-5.18
UAH TWI ¹	114.492	+0.00	-0.82

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes (25 September 2023)

Maturity	Bid	Ask
6m	18.00	16.00
12m	20.00	18.00
2y	20.25	19.00
3y	20.50	19.25
12m (\$)	5.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Government bonds now available for foreign individuals

Since last week, foreign retail investors are now able to buy Ukrainian domestic government bonds remotely.

Thanks to joint efforts of the [MoF](#), NSSMC and the NBU, the ICU Group launched a platform, [ICU Trade](#), that enables foreign individuals register remotely and buy UAH and USD-denominated bonds online. Previously, only Ukrainian citizens could buy domestic government bonds. The minimum investment is approximately UAH1,000 (equivalent to US\$26 or EUR24) or US\$1,000. UAH-denominated government bonds currently yield 13–20%, depending on the maturity.

ICU view: Due to the low minimum investment, the service is available to a wide range of individual investors, not only high-net-worth individuals. For foreign citizens, investing in bonds is an opportunity to support the Ukrainian government in its efforts to finance critical budget expenditures during the war, particularly social expenditures. At the same time, foreign investors should be mindful of important risks, specifically FX risk and temporary restrictions on cross-border movement of capital. FX risk entails the probable devaluation of the hryvnia after the funds are invested in the UAH bonds. Also, current NBU rules only allow the repatriation of coupon payments for bonds that have been owned for at least 90 days. Repatriation of the principal has been temporarily suspended by the NBU. The NBU will gradually ease this restriction when favourable macroeconomic conditions are in place. However, while there are temporary restrictions on repatriation, investors can reinvest their funds in other government securities or transfer funds to their accounts in Ukrainian banks if such accounts are available.

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

Decline in UAH bond rates marginal

After the NBU reduced the key policy rate, the MoF only marginally decreased the cut-off rate for only the shortest UAH instrument offered last week.

The Ministry of Finance placed bonds in all three currencies in the primary market: UAH, USD, and EUR. Although FX-denominated bills brought the most funds to the budget—UAH8.9bn (US\$243m) out of UAH14.8bn (US\$404m) of the total volume of proceeds—key attention was focused on UAH instruments.

After the NBU cut its key policy rate to 22% from 25% and the overnight rate to 18% from 20% in July, the MoF decreased cut-off rates on UAH government bonds by approximately 50bp. After the recent cut of the key policy rate to 20% and the overnight rate to 16%, the market tried to predict the next steps of the Ministry of Finance.

At last Tuesday's auction, the bid structure allowed the Ministry of Finance to marginally decrease the cut-off rate only for the shortest instrument by 2bp to 17.78%. For the rest of the UAH bonds, the bulk of demand came in at maximum submitted interest rates. Thus, the Ministry decided to satisfy all bids, keeping interest rates on longer bonds unchanged. See details in the [auction review](#).

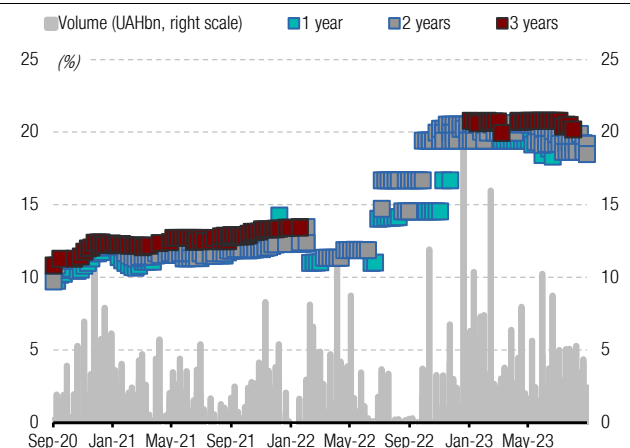
ICU view: Currently, interest rates for UAH bonds are already above the overnight rate, which is the only short-term pricing benchmark since the banks' ability to invest in three-month CDs is very limited. So, after the NBU's latest decision to reduce the overnight rate to 16%, the premium for investments in 12-month bills over the overnight rate is now 178bp. This spread is comparable to 190-200bp of the premiums

before the start of the great war (premium to yields on two-week CDs which existed then). We expect the maturity premium to remain roughly at the current level, and only a slight narrowing is likely.

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

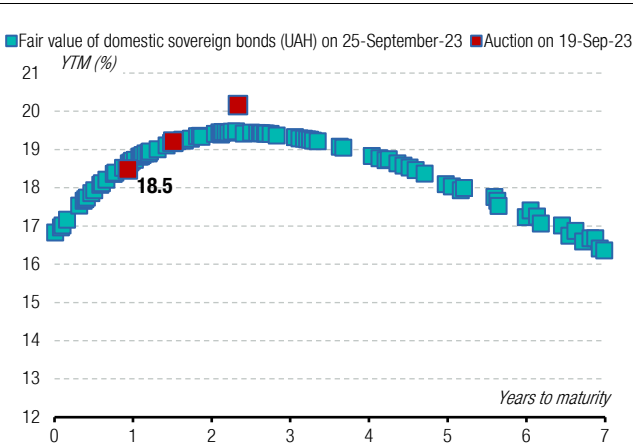
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

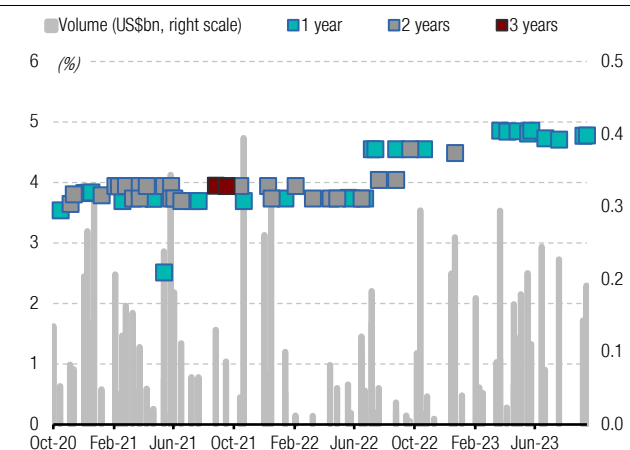
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

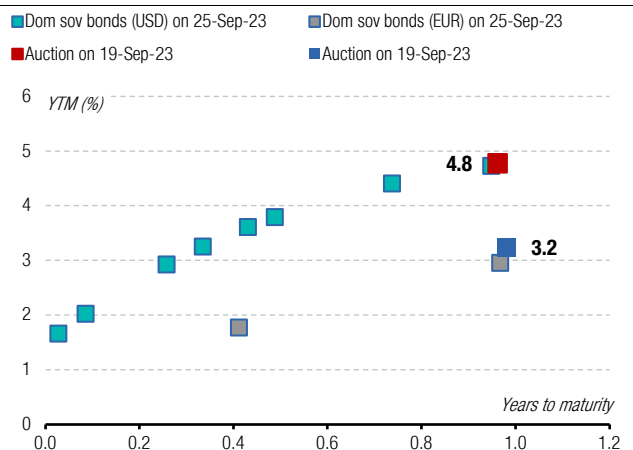
Chart 2. FX-denominated bonds

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.

Fluctuations in Eurobonds prices tiny

The prices of Ukrainian Eurobonds slightly declined last week, and the range of prices for different maturities widened.

For most of last week, Ukrainian Eurobonds were quoted with minor fluctuations near the levels where they ended the previous week. But at the end of last week, prices changed more noticeably. Longer maturities of Eurobonds fell the most. On average, Eurobonds prices fell by 1.5%, and the price range widened to 11.7% from 10.7%, and to 28–35 from 29–35. VRI prices slid by 1.4% to 49 cents per dollar of notional value.

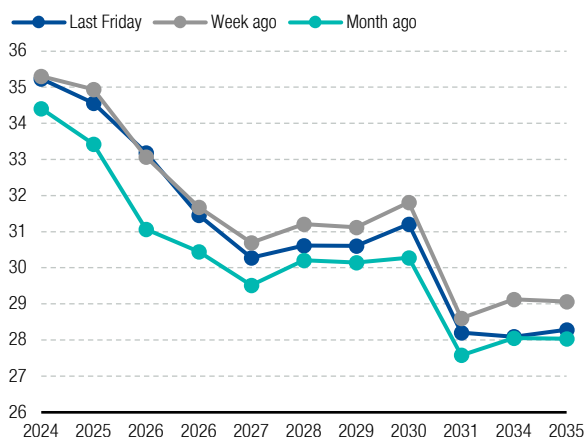
ICU view: Last week's greatest concern for investors was uncertainty over the timing and amount of US financial support for Ukraine. Currently, various groups of

congressmen are still debating this issue. If a final confirmation is given that the US will maintain its financial support for Ukraine for 2024 close to the current level, it will likely have a noticeable positive impact on the value of Ukrainian debt.

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

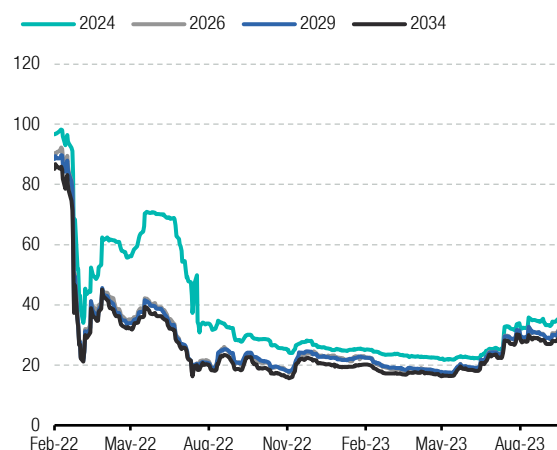
Chart 3. Ukrainian Eurobonds prices

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

Demand for hard currency significantly exceeds supply

The hard-currency deficit in the interbank market remains at a high level, prompting significant interventions by the NBU.

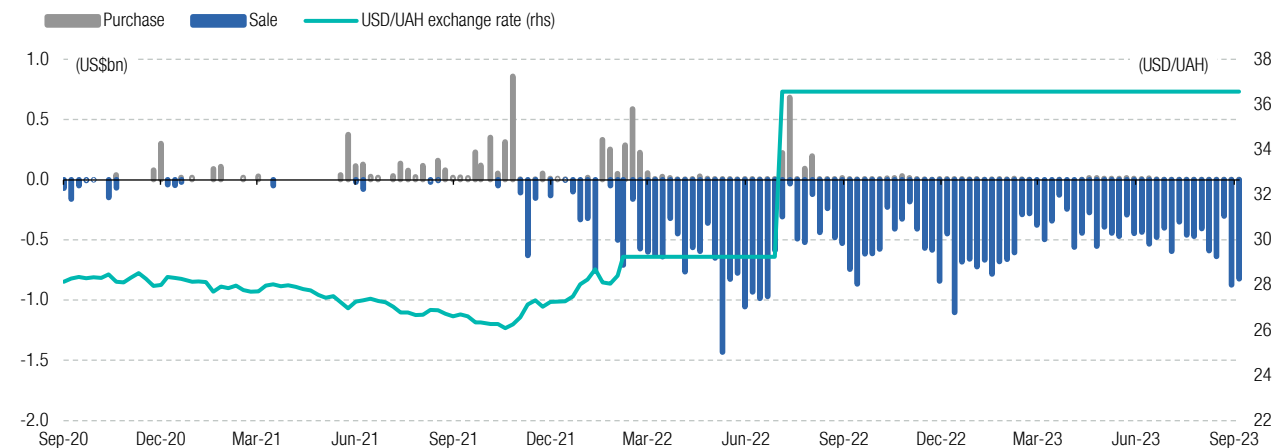
On the interbank market, hard-currency purchases and sales by bank clients (legal entities) decreased by approximately 10%, but the demand was almost two thirds higher than the supply. The NBU reduced interventions by only 6% WoW to US\$823m.

ICU view: The FX market remained significantly unbalanced last week, so NBU interventions remained at near their highest level YTD. Market players formed their expectations about when the NBU may move away from the fixed exchange-rate regime and what the consequences of the change in FX policy will be for the value of the hryvnia. The NBU maintains uncertainty with regard to the timing for the transition to a flexible exchange-rate regime. Meanwhile, the NBU keeps assuring the market that a flexible exchange rate will not result in a significant devaluation of the hryvnia and that the deficit on the interbank market will continue to be compensated by the sale of international reserves. The NBU has enough resources to fully control the FX market under any exchange-rate regime.

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.

Economics

GDP surges YoY in 2Q23 on low base

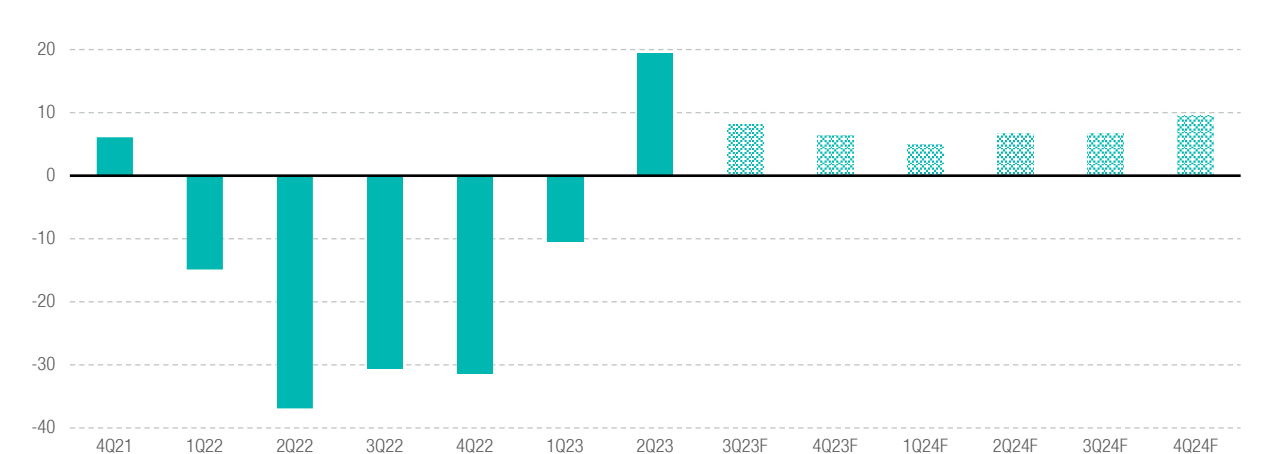
In 2Q23, Ukraine’s GDP increased 19.5% YoY, but was up only 0.8% QoQ in seasonally adjusted terms.

ICU view: Impressive YoY growth comes against the backdrop of a huge 36.9% decline in 2Q22, when the Ukrainian economy took the largest hit from russia’s invasion. Economic growth for 2Q23 was broadly in line with our expectations and implies the economy was 25% below the pre-war level of 2Q21 in real terms. We maintain our projection of 5.8% YoY economic growth for full 2023. Recovery is supported by strengthening domestic demand on improved household sentiment and a hefty agricultural harvest.

Vitaliy Vavryshchuk, Kyiv, (044) 377-7040 ext.721

Chart 5. Real quarterly GDP, chg, YoY

Real GDP surges 19.5% YoY in 2Q23



Source: Ukrstat, 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.

