

Weekly Insight

NBU maintains full control of FX market

Key messages of the today's comments

MONDAY, 23 OCTOBER 2023

Ukrainian bond market

Trading concentrates in FX bonds again

Last week, trading in FX-denominated instruments again dominated the market.

Eurobond prices decline on global sentiment

Ukrainian Eurobonds declined on worsening global sentiment.

Foreign exchange market

NBU maintains full control of FX market

Last week, the official exchange rate slightly weakened, returning close to the level that existed before the NBU's transition to a flexible exchange-rate regime.

Banks' reserves market (20 October 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	20.00	+0bp	-500bp
ON rate (%)	9.76	+0bp	+0bp
Reserves (UAHm) ²	209,741	-1.86	+229.89
CDs (UAHm) ³	459,535	+0.58	+60.60

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) (20 October 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	690,693	+0.00	+8.84
Banks	593,400	+0.73	+19.62
Residents	127,020	+3.38	+86.34
Individuals	48,529	+2.03	+48.70
Foreigners ¹	47,184	+0.28	-23.69
Total	1,508,323	+0.64	+16.54

Source: NBU, ICU.

FX market indicators (20 October 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.6270	+0.41	-0.82
EUR/USD	1.0594	+0.80	+8.26
DXY	106.163	-0.45	-5.95
UAH TWI ¹	115.624	-0.90	-0.56

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes (23 October 2023)

Maturity	Bid	Ask
6m	18.00	16.00
12m	19.50	18.00
2y	20.00	18.75
3y	20.25	19.25
12m (\$)	5.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Trading concentrates in FX bonds again

Last week, trading in FX-denominated instruments again dominated the market.

The MoF sold only UAH-denominated bonds at the primary auction last Tuesday and borrowed more than UAH9.2bn (US\$254m) with only minor changes in interest rates. See details in the [auction review](#).

In the secondary market, investors focused on FX-denominated bills for the second consecutive week, and trading in FX instruments exceeded that of UAH papers by 56%. The largest volume of transactions was with USD-denominated paper due February 29, 2024—UAH5.9bn (US\$161m), or almost 65% of all trades with FX-denominated bonds. Trading in the USD-denominated paper issued two weeks ago amounted to UAH1.8bn (US\$49m), or 19% of all transactions with FX-denominated bills.

Non-banking investors (legal entities) bought FX-denominated bonds last week for UAH2.2bn (US\$60m).

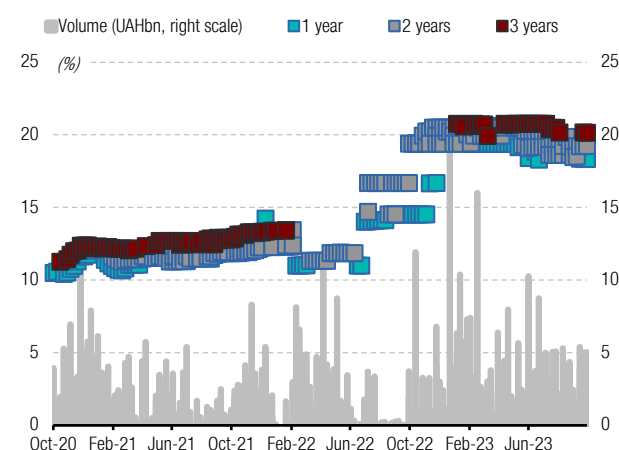
ICU view: Investors continue investing in FX-denominated instruments to reinvest proceeds received via redemption of similar bonds three weeks ago.

Tomorrow, the MoF will offer two new military bills denominated in local currency and US dollars. Given strong interest in FX-denominated securities, there may be an oversubscription for new paper, and the MoF will be able to sell the planned volume (US\$300m), and receive sufficient funds to repay this week’s US\$345m redemption.

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

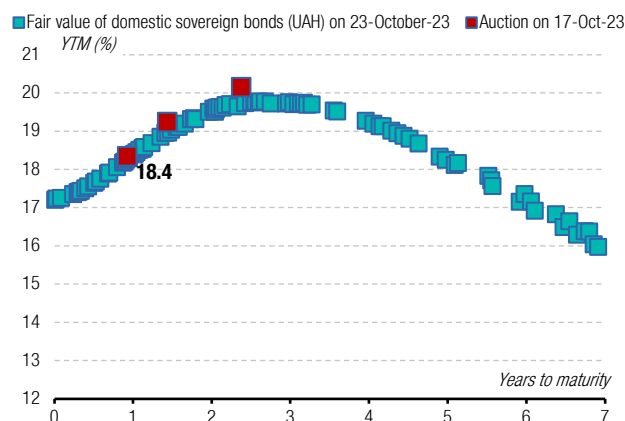
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

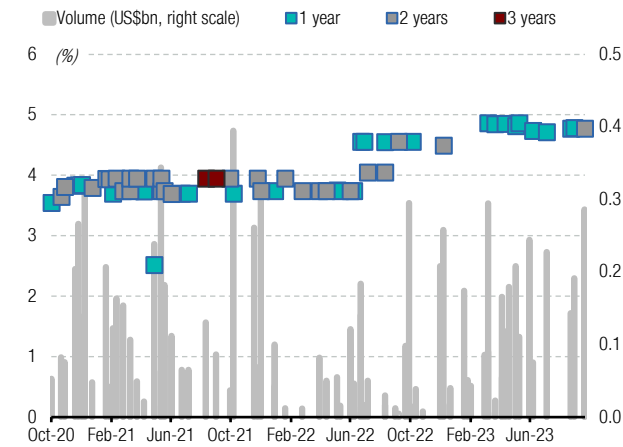
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

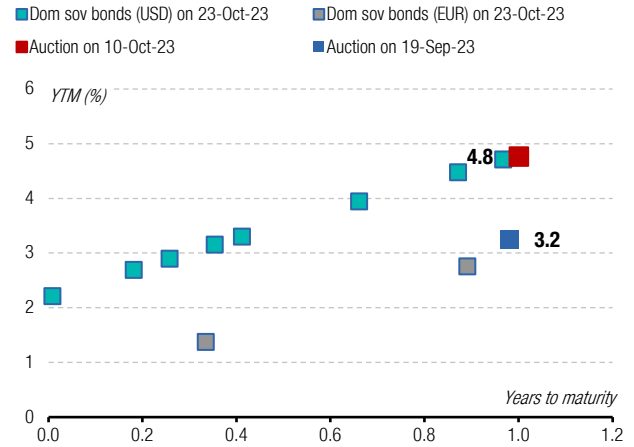
Chart 2. FX-denominated bonds

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 decline on global sentiment

Ukrainian Eurobonds declined on worsening global sentiment.

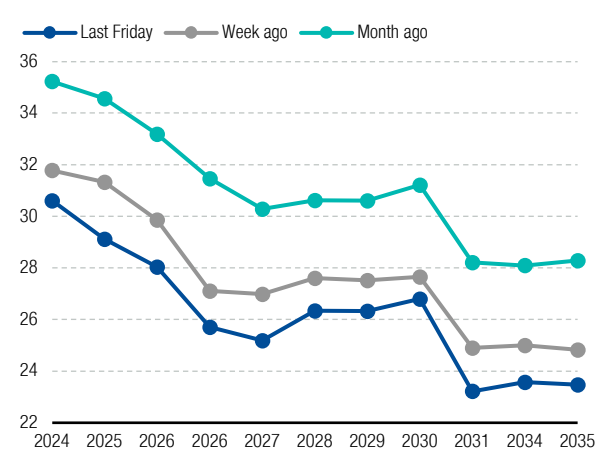
Last week, Eurobond prices lost an average of 5%, falling to 23–31 cents per dollar, with the price range for instruments with different maturities widening to 14%. VRI prices slid by 4% to below 41 cents per dollar of notional value.

ICU view: Sentiment for emerging markets worsened as the EMBI index slid by 1.4%. The adjustment in prices of Ukrainian Eurobonds was more significant due to lingering uncertainty regarding the fate of US financial assistance for Ukraine. We expect high volatility in Ukrainian Eurobond prices and continued negative sentiment until the House of Representatives resumes its work and reviews President Joe Biden’s large aid package for Ukraine and Israel.

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

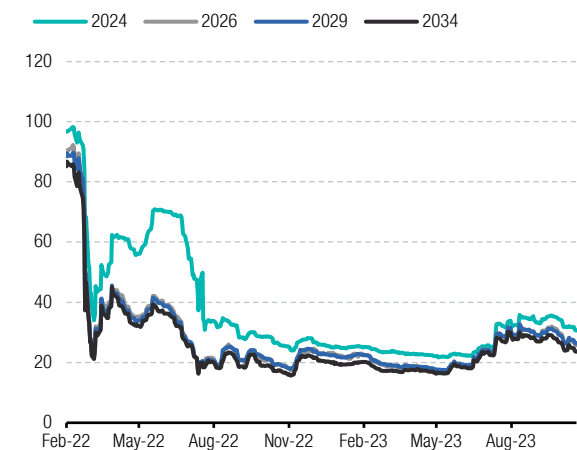
Chart 3. Ukrainian Eurobonds prices

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

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Last week, the official exchange rate slightly weakened, returning close to the level that existed before the NBU's transition to a flexible exchange-rate regime.

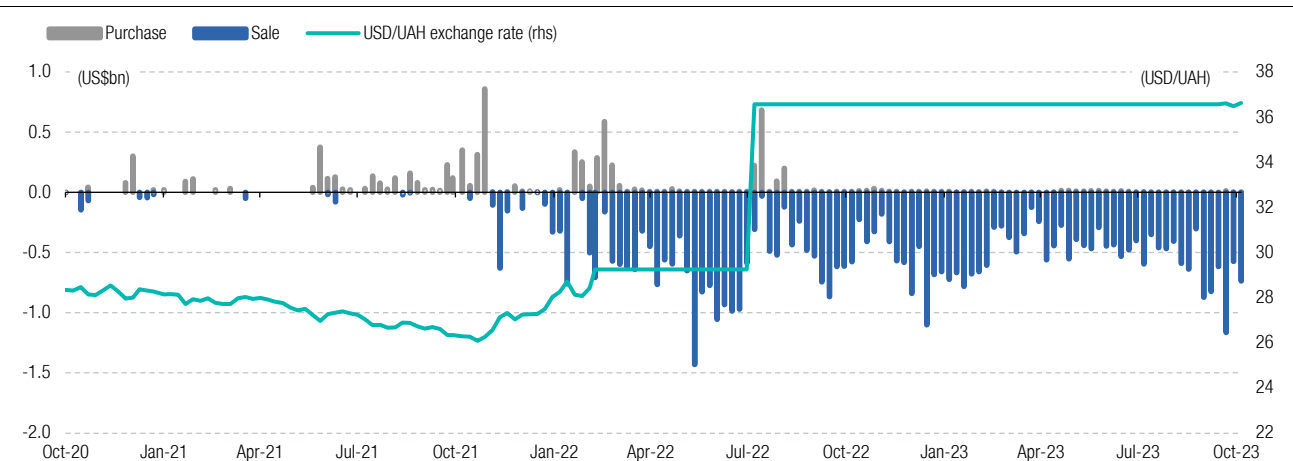
In the interbank market, bank clients (legal entities) increased hard-currency purchases by approximately 10%, with slight decline in the sales volume by 2% (in four business days). Therefore, the NBU had to increase weekly interventions by 28% to US\$735m.

ICU view: Legal entities increased their hard-currency purchases pushing the official USD/UAH exchange rate slightly down. The NBU continued to use international reserves extensively to meet excessive demand. Slight fluctuation in the interbank market had minimal impact on the exchange rate in the retail market.

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.

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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

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

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