

# Weekly Insight

## Investors lock in YTM's for longer

### Key messages of the today's comments

MONDAY, 20 NOVEMBER 2023

### Ukrainian bond market

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Last week, investors focused primarily on bonds due in 2025 and 2027 to lock in current yields for a longer term.

#### Eurobond prices fell despite improvement in global sentiment

Ukrainian Eurobond prices continued to decline despite improving global sentiment towards emerging markets and a successful review of the IMF program.

### Foreign exchange market

#### Exchange rate volatility is low after significant interventions

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### Banks' reserves market (17 November 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	16.00	+0bp	-900bp
ON rate (%)	16.00	+0bp	-700bp
Reserves (UAHm) <sup>2</sup>	210,159	+9.4	+195.1
CDs (UAHm) <sup>3</sup>	478,579	-6.1	+43.9

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 gov't bond holders (UAHm) (17 November 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	690,693	+0.0	+4.7
Banks	613,672	+1.1	+23.3
Residents	130,392	+1.9	+89.5
Individuals	49,358	+2.1	+59.1
Foreigners	45,754	+0.3	-24.0
<b>Total</b>	<b>1,531,597</b>	<b>+0.7</b>	<b>+16.2</b>

Source: NBU, ICU.

### FX market indicators (17 November 2023)

	Last	Weekly chg (%)	YoY chg (%)
<b>Market gov't bond quotes (20 November 2023)</b>			
Maturity	Bid (%)	Ask (%)	
6m	17.50	15.00	
12m	18.50	17.00	
2y	19.50	18.00	
3y	20.00	18.75	
12m (\$)	5.00	4.50	
2y (\$)	N/A	N/A	

Source: ICU.

# Ukrainian bond market

## Investors lock in YTM for longer

Last week, investors focused primarily on bonds due in 2025 and 2027 to lock in current yields for a longer term.

At the primary auction, the Ministry of Finance offered three bonds maturing in June next year, July 2025, and February 2027. As expected, demand again concentrates in the shortest bills, with over 3x oversubscription. However, the volume sold was much more significant for longer papers. Selling UAH9bn worth of bonds, the Ministry was able to lower interest rates on all three securities by approximately 10bp. See details in the [auction review](#).

Almost 30 UAH bonds were traded in the secondary market, but trading was concentrated in bonds maturing in February 2027 (30% of trading in UAH bonds) and in July 2025 (23%). The total volume of trades decreased by 24% to UAH5.5bn last week.

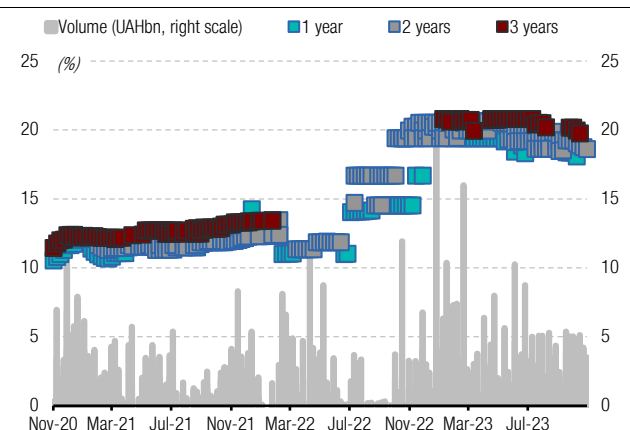
**ICU view: Investor focus on bonds maturing in two and three years largely reflects their intention to lock in the current YTM. After all, the tendency to lower rates persists. The low trading volume in seven-month bills in the secondary market may indicate slightly inflated demand for them in the primary market when investors submit several bids expecting the MoF to accept only one.**

**Tomorrow, the Ministry plans to issue the same seven-month bills and three-year notes again, but will replace the 1.5-year paper with a two-year instrument and add USD-denominated bills. Such a combination will allow it to raise more funds for the budget and also add more USD-denominated bills to the market. They are now in great demand among investors, especially individuals whose portfolios remain dominated by FX bills.**

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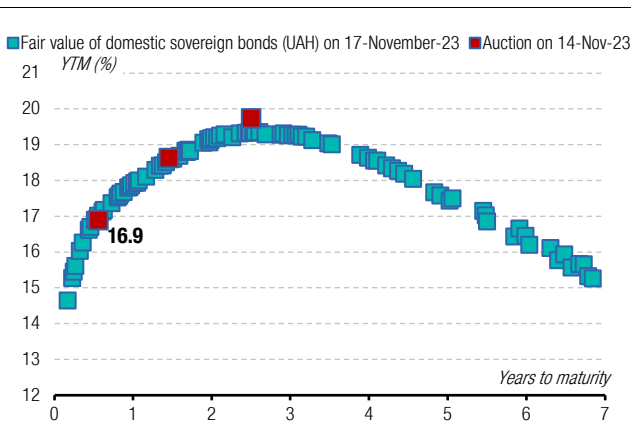
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

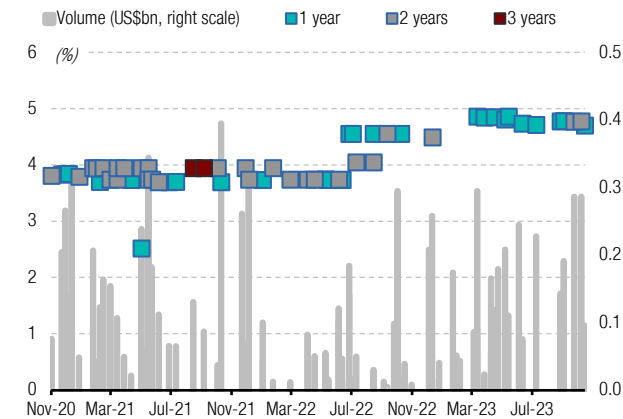
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

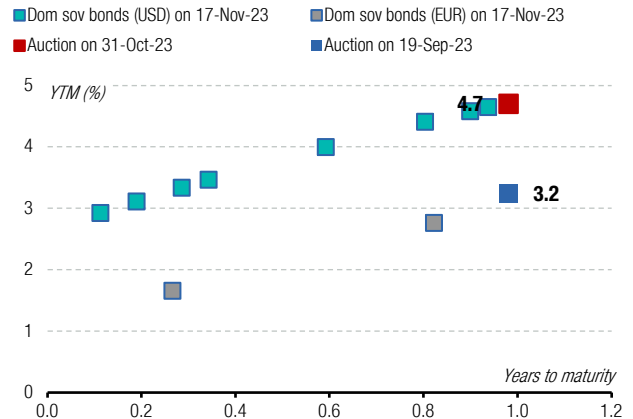
**Chart 2. FX-denominated bonds**

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

### Eurobond prices fell despite improvement in global sentiment

Ukrainian Eurobond prices continued to decline despite improving global sentiment towards emerging markets and a successful review of the IMF program.

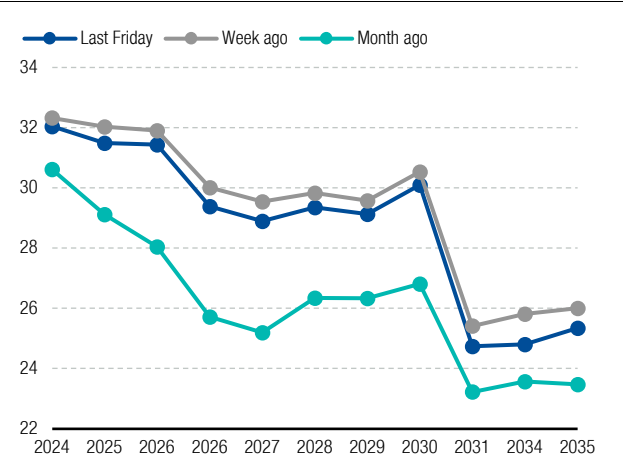
While the EMBI index increased by 1.5%, Eurobond prices fell again last week by 2% on average, remaining mainly in the range of 25–32 cents on the dollar. The price range for instruments with different maturities widened to 12.4%. VRI prices remain at around 42 cents per dollar of notional value for the third consecutive week.

**ICU view: The successful second review under the Ukraine-IMF EFF program has not had a significant positive impact on investors' perception of the sovereign risk. Approval of the US budget for two months reduces the chances for a quick vote on a new financial assistance package for Ukraine. Growing uncertainty about the volume and length of financial assistance from the US could worsen conditions for the restructuring of Eurobonds in 2024.**

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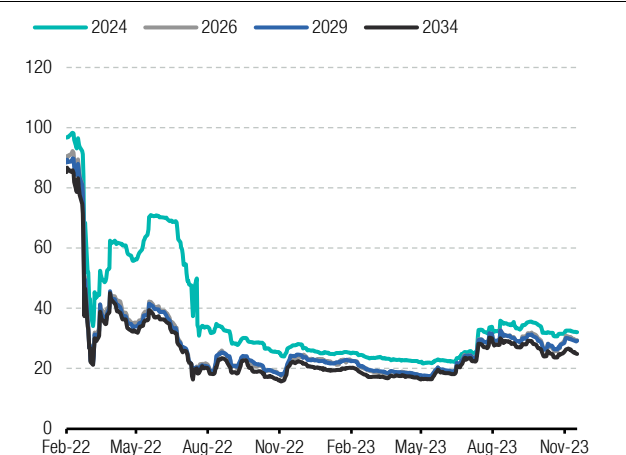
**Chart 3. Ukrainian Eurobonds prices**

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

## Exchange rate volatility is low after significant interventions

The official UAH exchange rate fluctuated slightly last week, but the NBU again significantly stepped up its interventions.

On the interbank market, the sale of hard currency by bank clients (legal entities) remained almost unchanged. Still, purchases increased by approximately 26% (for four business days compared with the same period of the previous week). Demand was incredibly high on Tuesday when the NBU sold roughly US\$300m from international reserves. The NBU's interventions for the week amounted to US\$721m, almost double from the previous week. This is above the average weekly volume of interventions since the managed exchange rate flexibility was introduced in October (US\$689m). The NBU set the official rate at UAH36.14/US\$, only 0.2% weaker than the week ago.

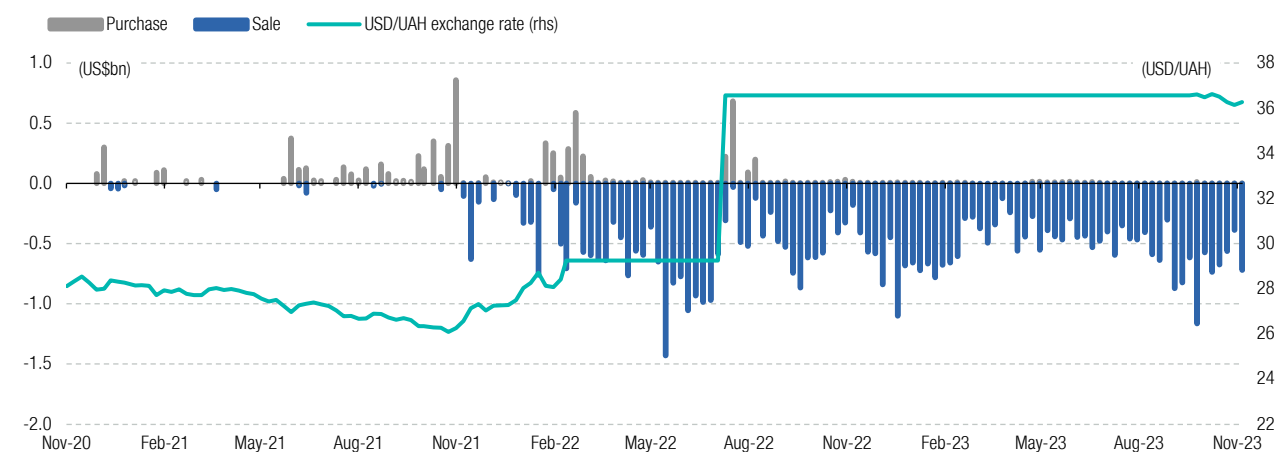
The hryvnia cash rate in systemically important banks weakened by approximately 0.3% to UAH37.2–37.8/US\$, but remained roughly 7% stronger than at the beginning of the year.

**ICU view: Demand for the hard currency has risen again. The imbalance between client transactions on the interbank market forced the NBU again to sell a large amount of hard currency from international reserves. Large amounts of hard currency purchases on Tuesday were probably due to operations of state-owned enterprises or government agencies related to imports for the military sector.**

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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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