

Weekly Insight

NBU interventions remain large

Key messages of the today's comments

MONDAY, 27 NOVEMBER 2023

Ukrainian bond market

Investors actively reinvest redemption proceeds

Investors actively reinvested funds from last week's bond redemption and bought bonds in the primary and secondary markets.

Eurobond prices slightly down in absence of significant news

Ukrainian Eurobond prices saw insignificant fluctuations last week and slightly declined despite improving global sentiment towards emerging markets.

Foreign exchange market

NBU interventions remain large

The need for significant NBU interventions in the FX market remains, but they were somewhat lower last week.

Banks' reserves market (24 November 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	16.00	+0bp	-900bp
ON rate (%)	16.00	+0bp	-700bp
Reserves (UAHm) ²	215,452	+2.5	+135.5
CDs (UAHm) ³	480,036	+0.3	+31.2

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) (24 November 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	689,990	-0.1	+4.6
Banks	620,246	+1.1	+27.4
Residents	127,329	-2.3	+87.2
Individuals	48,963	-0.8	+59.6
Foreigners	42,844	-6.4	-26.6
Total	1,531,155	+0.0	+17.4

Source: NBU, ICU.

FX market indicators (24 November 2023)

	Last	Weekly chg (%)	YoY chg (%)
Market gov't bond quotes (27 November 2023)			
Maturity	Bid (%)	Ask (%)	
6 months	17.50	15.00	
12 months	18.50	17.00	
2 years	19.50	18.00	
3 years	20.00	18.75	
12 months (\$)	5.00	4.50	
2 years (\$)	N/A	N/A	

Source: ICU.

Ukrainian bond market

Investors actively reinvest redemption proceeds

Investors actively reinvested funds from last week’s bond redemption and bought bonds in the primary and secondary markets.

At the primary auction, the Ministry of Finance placed UAH8.2bn (US\$224m) of bonds in local currency and US\$200m of USD-denominated bonds for a total of UAH15bn (US\$416m). Rates continued to decline for all maturities and instruments, including FX-denominated bills. See details in the [auction review](#). Meanwhile, MoF paid over UAH20bn (US\$555m) last week, including UAH15bn (US\$416m) of UAH bonds redemption.

In the secondary bond market, the total trading of UAH bonds amounted to UAH6.3bn (US\$174m), which is 14% more than the previous week. Among UAH bonds, the most traded were those placed at the auction with a maturity of six months to three years (together 29% of the total volume of trades). Still, the stand-alone leader was the "reserve" note maturing in September 2026, which was 33% of trades in UAH bonds. The volume of trading in FX-denominated securities almost doubled compared with the previous week, to UAH6.3bn (US\$174m), and was split mainly between two USD-denominated bills maturing in October (30% of trading in currency bonds) and November (60%) next year.

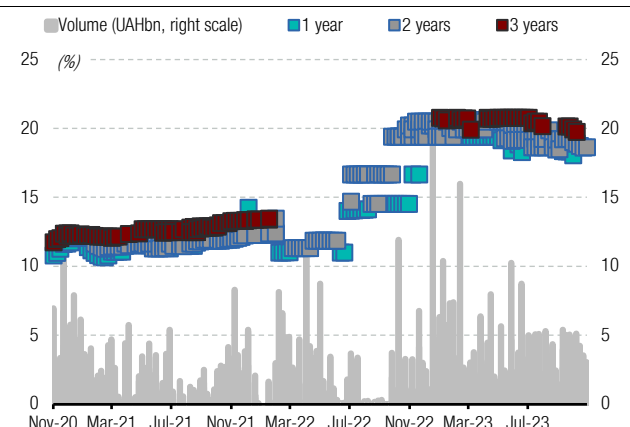
ICU view: *In the primary market, expectedly, banks purchased most of the bonds, but they immediately traded them with their clients, which increased trading volumes in the secondary market on Wednesday after several days of low activity. Investors purchased relatively short-term securities maturing next year and also longer-term instruments maturing in 2026-27, thus locking in high yields. Part of the proceeds from the UAH debt repayments was likely invested in FX-denominated bills in the secondary market to hedge the FX risk that may materialize next year.*

Tomorrow, the Ministry of Finance plans to place only UAH bonds, the same as last Tuesday. We expect demand to again concentrate on six-month and two-year bills, which will see significant oversubscription. In contrast, demand for three-year notes may remain relatively weak until the NBU adds them to the list of designated "reserve" bonds. Further reductions in interest rates are possible for all three instruments.

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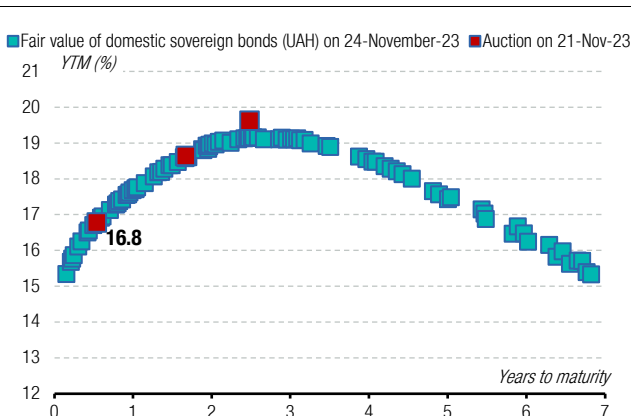
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

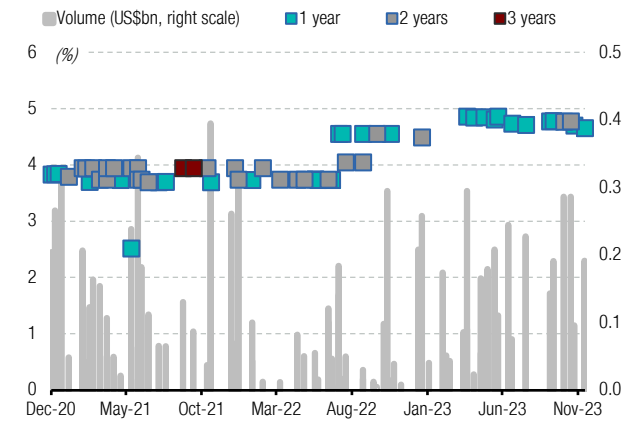
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

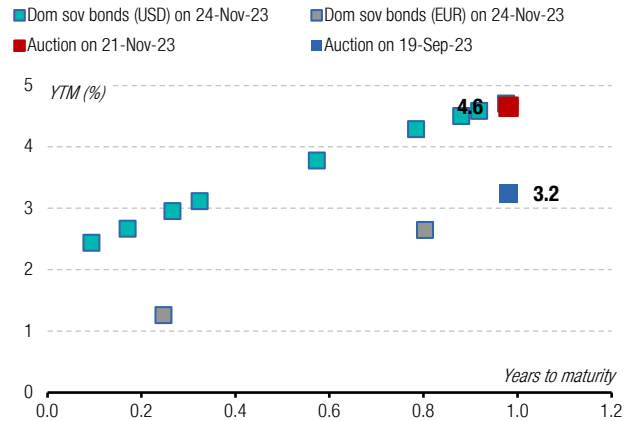
Chart 2. FX-denominated bonds

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



Source: MFU, ICU.

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



Source: NBU, MFU, ICU.

Eurobond prices slightly down in absence of significant news

Ukrainian Eurobond prices saw insignificant fluctuations last week and slightly declined despite improving global sentiment towards emerging markets.

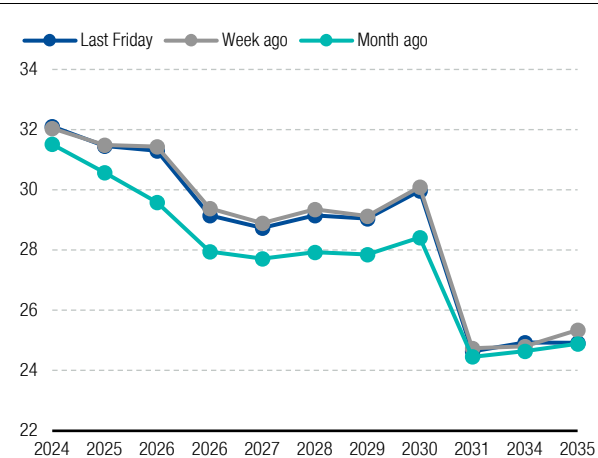
Eurobond prices remained mainly in the range of 25–32 cents per dollar, slightly widening the price range for instruments with different maturities to 12.8%. On average, Eurobond prices slid by 0.4%. The price of VRIs remains close to 42 cents per dollar of notional value. At the same time, the EMBI index increased by another 1.1% over the past week.

ICU view: Last week didn't see any unexpected or significant news for Ukraine. Therefore, the uncertainty regarding the volume and duration of financial assistance from the USA remains decisive for investors when evaluating Ukrainian Eurobonds.

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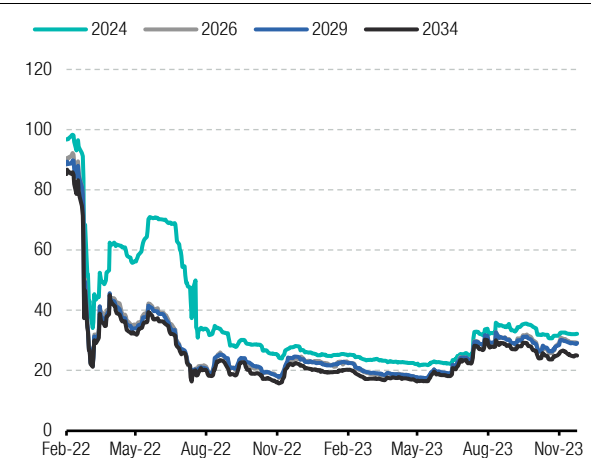
Chart 3. Ukrainian Eurobonds prices

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 interventions remain large

The need for significant NBU interventions in the FX market remains, but they were somewhat lower last week.

The imbalance of operations of bank clients (legal entities) in the interbank market remains high. Their hard currency purchases for four business days last week amounted to US\$1bn, which is 12% less than in the same period of the previous week. At the same time, their purchases were without peaks as in the previous week. On the other hand, their sales of hard currency slid just by 0.6% to US\$796m. So, the NBU interventions declined by 28% to US\$522m, which is US\$5m below average weekly interventions YTD.

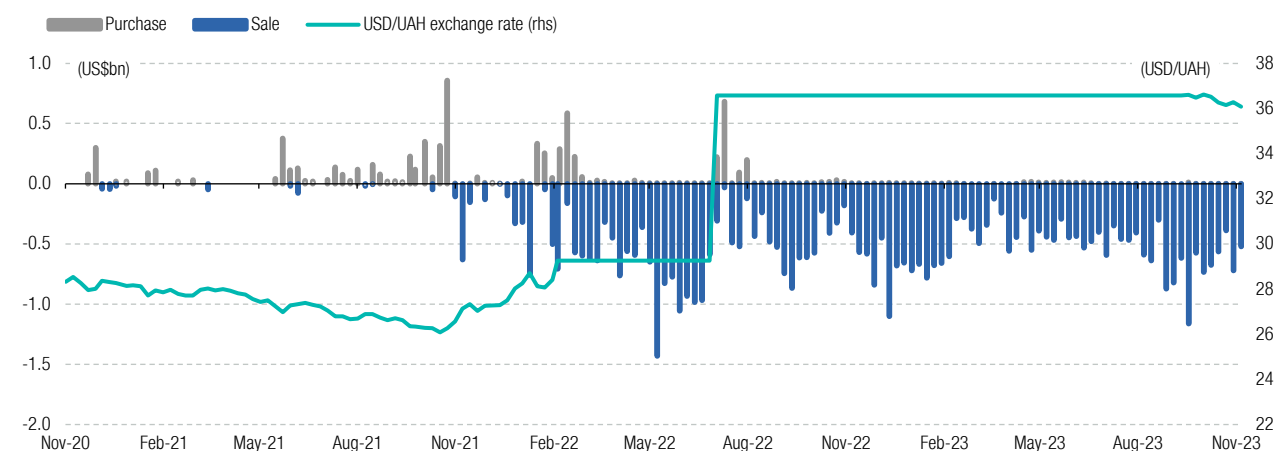
In the retail market, the hryvnia appreciated approximately by 0.3% to UAH37.2–37.8/US\$ in systemically important banks.

ICU view: In contrast to last week, there were no unusual hard currency purchases by government entities in the interbank market, so the NBU did not have to perform outsized daily interventions. The volume of interventions, thus, decreased last week. The relative stability in daily FX trading in the interbank market kept the official exchange rate almost unchanged at approximately UAH36.04/US\$ during the week.

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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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