

# Weekly Insight

## Inflation reaches new war-period low

### Key messages of the today's comments

MONDAY, 11 DECEMBER 2023

### Ukrainian bond market

#### Investors increase investments in bonds

Last week, all groups of investors increased their investments in government bonds, in large part via purchase of securities maturing in 2025 and later.

#### Eurobond prices edge up following weeks of decline

After several weeks of decline, Ukrainian Eurobond prices rose slightly last week.

### Foreign exchange market

#### Hryvnia weakens on decline in interventions

Since the start of December, the NBU allowed the hryvnia exchange rate to have larger fluctuations and reduced the volume of interventions.

### Economics

#### Inflation reaches new war-period low

Ukraine's annual inflation edged down to 5.1% YoY in November from 5.3% in October, the lowest level in more than three years.

#### NBU reserves inch down in November

NBU gross international reserves were down 0.5% MoM in November to US\$38.8bn as FX market interventions remain significant.

### Banks' reserves market (8 December 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>	202,727	-0.6	+233.6
CDs (UAHm) <sup>3</sup>	522,293	+0.9	+37.1

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) (8 December 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	689,990	+0.0	+2.3
Banks	629,911	+1.2	+29.3
Residents	134,171	+3.3	+85.9
Individuals	51,416	+2.0	+65.0
Foreigners	44,495	+0.9	-23.1
<b>Total</b>	<b>1,552,007</b>	<b>+0.8</b>	<b>+17.2</b>

Source: NBU, ICU.

### FX market indicators (8 December 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.7500	+0.8	-0.5
EUR/USD	1.0763	-1.1	+2.0
DXY	104.010	+0.7	-0.7

Source: Bloomberg, ICU.

### Market gov't bond quotes (11 December 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 increase investments in bonds

Last week, all groups of investors increased their investments in government bonds, in large part via purchase of securities maturing in 2025 and later.

At the primary auction, the MoF attracted UAH12bn to the budget, almost half of which was from bonds maturing starting in 2025. Demand was the greatest for UAH and USD-denominated 12-month bills, but the MoF satisfied approximately only half of it. See details in the [auction review](#).

The total volume of trades in the secondary market decreased, and the most for UAH bonds - by 51% to UAH2.4bn. The most traded were notes maturing in February 2025 (28% of UAH bond trades), November 2026 (18%), and February 2027 (21%). Among FX-denominated bonds almost 55% of trades were in USD-denominated bills sold at last week's primary auction.

Bond portfolios of all groups of investors increased last week. Non-banking institutions and individuals were the most active buyers and increased their portfolios by 3% and 2%, respectively, during the week.

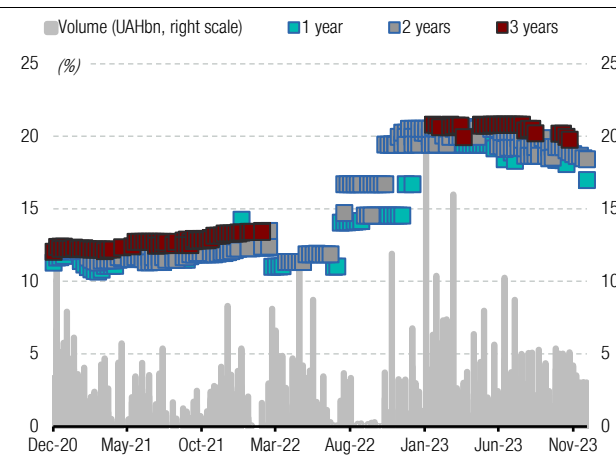
**ICU view: USD-denominated government bonds fuelled portfolio growth last week, as they are in high demand among investors hedging FX risks. The limited supply of FX-denominated bonds from the government caused imbalances at primary auctions and active trading of such bonds in the secondary market. Among UAH instruments, investors will continue to prefer longer maturities of a year or more to lock-in the current yield level.**

**Tomorrow and next week, the MoF will not offer FX-denominated instruments, but will increase the supply of one-year and two-year government bonds. We expect demand to exceed caps, so the MoF will raise the planned amount of funds. In addition, we do not rule out the possibility of a further reduction of rates on some bond issues.**

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

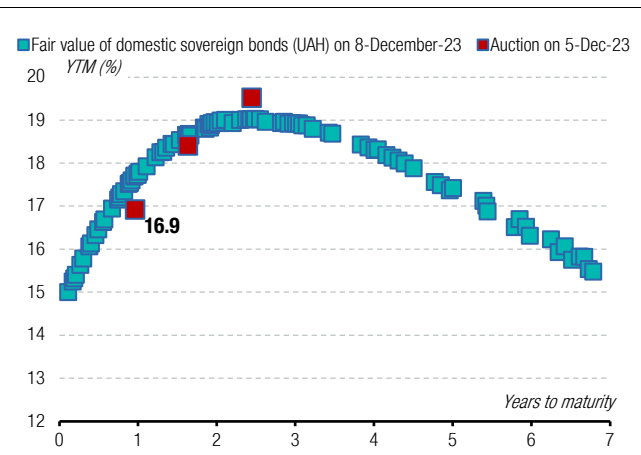
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

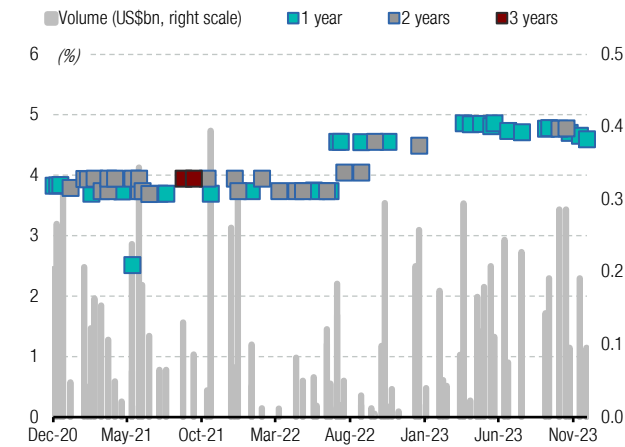
YTM's of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

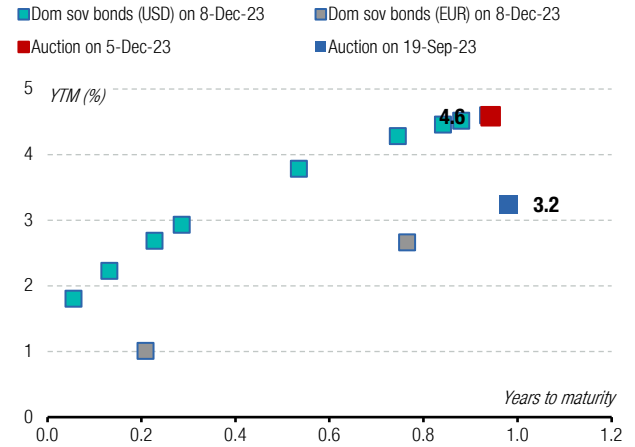
**Chart 2. FX-denominated bonds**

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 edge up following weeks of decline**

After several weeks of decline, Ukrainian Eurobond prices rose slightly last week.

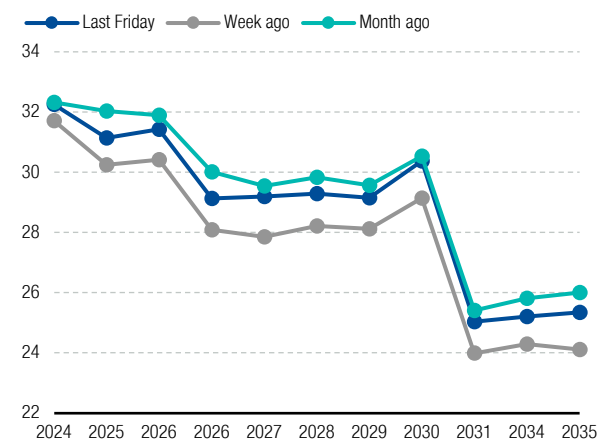
Ukrainian Eurobond prices rose over the past week by an average of almost 4% to 25–32 cents per dollar. The price range for Ukrainian Eurobonds with different maturities narrowed to 12.4%. The price of VRIs increased by 5% to almost 47 cents per dollar of notional value. The EMBI index increased by another 1% over the past week.

**ICU view:** For the first time in several weeks, Ukrainian Eurobonds followed the global trend of emerging markets, and their prices rose. The trend was likely reversed by the IMF's announcement that the Board will approve the second review of the EFF program and disburse the third loan tranche. However, in the coming weeks, the attention of Eurobond holders will remain primarily on new information regarding the volume and sustainability of financial assistance from the USA and other donors.

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

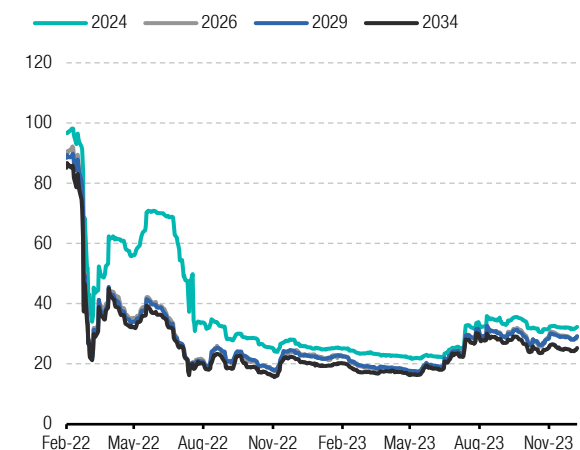
**Chart 3. Ukrainian Eurobonds prices**

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

## Hryvnia weakens on decline in interventions

Since the start of December, the NBU allowed the hryvnia exchange rate to have larger fluctuations and reduced the volume of interventions.

In the interbank FX market, the volume of transactions changed insignificantly, and government institutions did not make large payments on import contracts last week. NBU interventions declined to US\$546m, 26% less than the previous week. As a result, the official exchange rate weakened by 0.8% to UAH36.74/US\$.

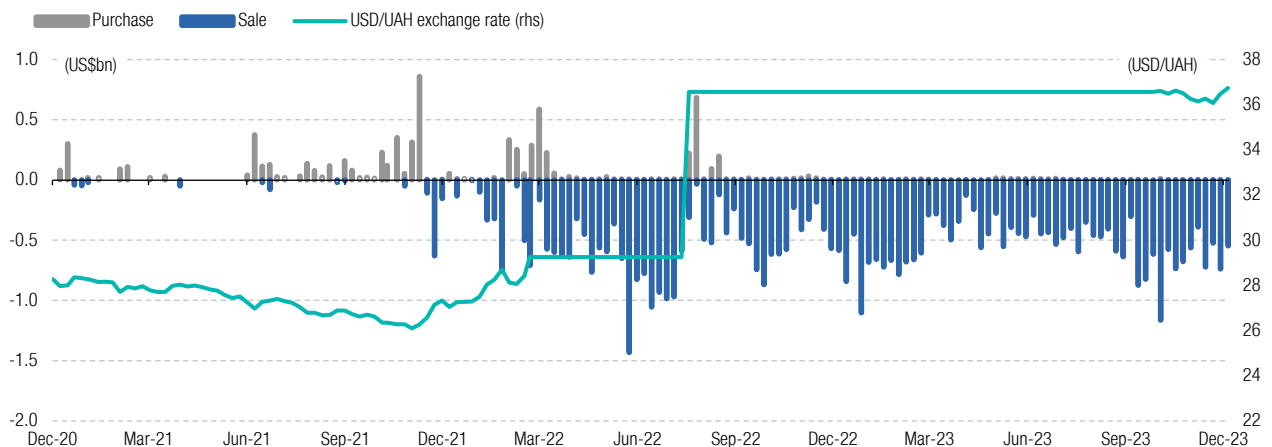
In systemically important banks, the UAH cash exchange rate slightly weakened to UAH36.7–37.4/US\$.

**ICU view: The National Bank maintains managed flexibility of the exchange rate, but allows a greater amplitude of fluctuations, and last week, for the first time, it allowed the official exchange rate to weaken beyond the level where the NBU abandoned the fixed exchange rate. This is supposed to demonstrate that the exchange rate can move in both directions and incentivise market participants to trade FX more actively.**

**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

### Inflation reaches new war-period low

Ukraine's annual inflation edged down to 5.1% YoY in November from 5.3% in October, the lowest level in more than three years.

Further deceleration in consumer prices is primarily attributed to this year's plentiful harvest of grains, oilseeds, fruits, and vegetables. In November, many food staple cost significantly less than in the same month in prior years. The pace of prices for other components of the consumer basket either decelerated or remained unchanged.

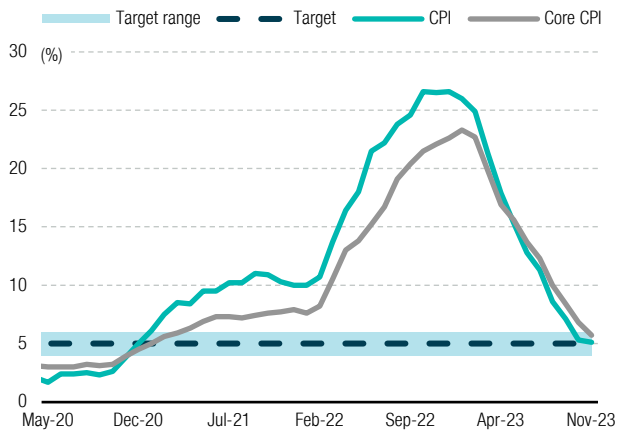
**ICU view: We expect the abundant harvest this year will have a lasting positive impact on consumer prices in the next couple of quarters, and we expect inflation to remain below 7% at least until the summer next year. However, we believe it will accelerate in**

**2H24 on normalization of the agricultural harvest next year and due to effects of a moderate hryvnia depreciation that we think is inevitable. Despite low inflationary pressures at the moment, the NBU is very unlikely to cut its key policy rate below 15% at least until 2H24. The central bank will remain in a wait-and-see mode for the next two quarters to assess mid-term inflationary risks and developments in the FX market.**

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

**Chart 5. CPI, core CPI and target, YoY, %**

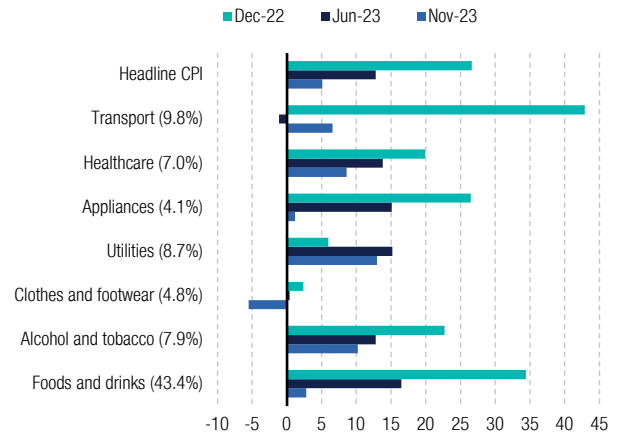
*Annual inflation keeps falling*



Source: Ukrstat, NBU, ICU.

**Chart 6. CPI and its main components, YoY, %**

*Prices for food decelerated considerably*



\* numbers in brackets indicate the share of the component in consumer basket

Source: Ukrstat, ICU.

**NBU reserves inch down in November**

NBU gross international reserves were down 0.5% MoM in November to US\$38.8bn as FX market interventions remain significant.

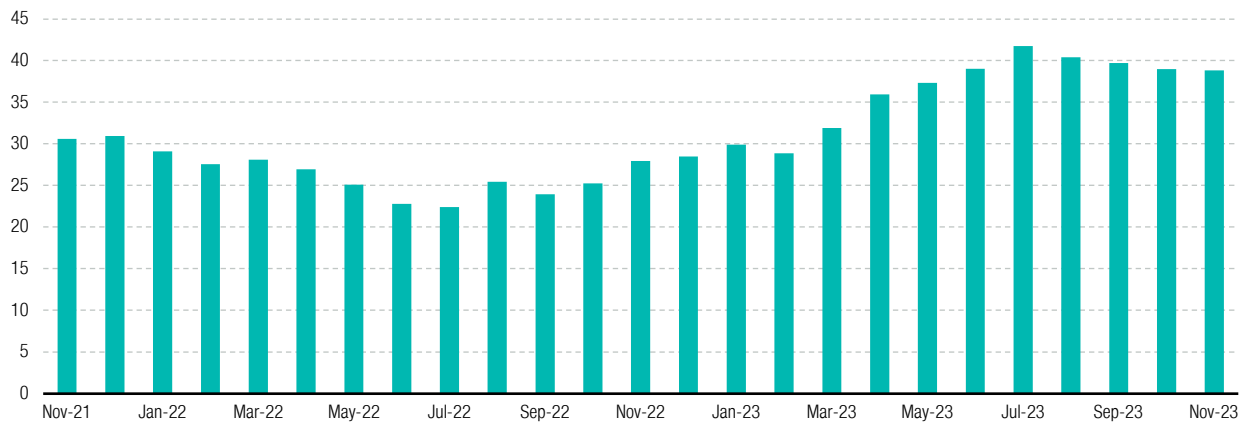
The NBU had to sell US\$2.5bn last month to alleviate significant imbalances in the interbank market. Government and the NBU also spent US\$0.36bn to repay debts to IFIs in November. Meanwhile, the reserves were supported with an EUR1.5bn loan tranche from the EU, US\$0.4bn loan from the World Bank, and net US\$0.3bn proceeds from placement of local FX government bonds.

**ICU view: Projections for NBU reserves heavily depend on assumptions on the outcome of US financial aid to Ukraine. At this point, we believe it's reasonable to assume the US Congress will eventually vote in favor of the aid package. Given this, we expect end-2023 NBU reserves of US\$42bn and see them marginally increase to US\$44bn in 2024. This level of reserves implies the central bank will remain fully in a position to keep the FX market under control and also take important FX liberalization steps.**

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

**Chart 7. NBU gross international reserves, US\$bn**

*NBU reserves down forth month in a row*



Source: NBU, 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](http://www.icu.ua)



## RESEARCH

### Vitaliy Vavryshchuk

Head of macro research  
[vitaliy.vavryshchuk@icu.ua](mailto:vitaliy.vavryshchuk@icu.ua)

### Taras Kotovych

Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

### Dmitriy Dyachenko

Financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

### Alexander Martynenko

Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

### Mykhaylo Demkiv

Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto: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.**

