

# Weekly Insight

## NBU reserves down 5% in January

### Key messages of the today's comments

MONDAY, 12 FEBRUARY 2024

### Ukrainian bond market

#### Domestic borrowing increases

Last week, the MoF stepped up placement of bonds and a large volume spilled into the secondary market.

#### Market conditions last week pessimistic

Last week, prices of Ukrainian Eurobond declined again, with a sharp fall on Friday.

### Foreign exchange market

#### NBU limits hryvnia appreciation

The hryvnia exchange rate remained almost unchanged last week even though the imbalance in the interbank market remains very low for the second consecutive week.

### Economics

#### NBU reserves down 5% in January

NBU gross international reserves decreased 4.9% in January to US\$38.5bn as inflow of foreign financial aid paused temporarily.

#### Inflation edges down further in January

Ukraine's annual inflation slowed further to 4.7% YoY in January from 5.1% at end-2023.

### Banks' reserves market (9 February 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	15.00	+0bp	-1,000bp
ON rate (%)	15.00	+0bp	-800bp
Reserves (UAHm) <sup>2</sup>	220,135	-3.1	+72.3
CDs (UAHm) <sup>3</sup>	575,544	+3.9	+61.0

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) (9 February 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	684,990	-0.4	-2.1
Banks	663,877	+0.3	+28.5
Residents	150,802	+2.8	+39.9
Individuals	59,095	+1.7	+99.5
Foreigners	44,212	+0.9	-29.5
<b>Total</b>	<b>1,605,091</b>	<b>+0.3</b>	<b>+13.1</b>

Source: NBU, ICU.

### FX market indicators (9 February 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	37.7460	+0.6	+2.6
EUR/USD	1.0784	+0.0	+0.4
DXY	104.111	+0.2	+0.9

Source: Bloomberg, ICU.

### Market gov't bond quotes (12 February 2024)

Maturity	Bid (%)	Ask(%)
6 months	17.00	15.00
12 months	18.00	17.00
2 years	19.25	18.25
3 years	20.00	19.00
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## Domestic borrowing increases

Last week, the MoF stepped up placement of bonds and a large volume spilled into the secondary market.

At last week's primary bond auction, the MoF replaced existing 10-month military bills with a new 13-month military paper. Also, the MoF added an offering of USD-denominated instruments. With this set of bonds, the MoF raised UAH8.4bn (US\$223m), including US\$80m (UAH3bn) in hard currency and UAH3.2bn (US\$85m) from the new 13-month paper. See details in the [auction review](#).

In the secondary bond market, approximately 24% of UAH bond trades were in the newly issued bond. Among FX-denominated bills, the most traded remains paper maturing in two weeks with a 45% share. The total amount of bond trades rose by about 58% for UAH bonds and 59% for FX-denominated instruments.

Last week, non-banking entities increased portfolios the most by 2.8%. Individuals and foreigners continued to increase portfolios by 1.6% and 0.9%, respectively.

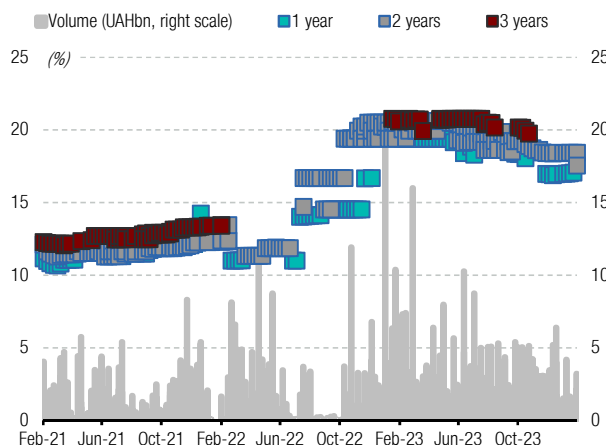
Last week, the MoF redeemed bonds for UAH2.5bn (US\$66m), which were in the NBU portfolio. This week, they will repay UAH10bn (US\$265m) to various groups of investors.

**ICU view: Last week, MoF borrowings in UAH exceeded redemptions by more than twice, but this week's redemption is significantly larger. The MoF has to double borrowings to refinance redemptions. Therefore, the MoF will offer only UAH bonds tomorrow, including new a two-year military paper and a three-year note, which later may be added to the list of "reserve" bonds. New securities may see high demand as investors may choose to reinvest redemptions in longer instruments.**

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

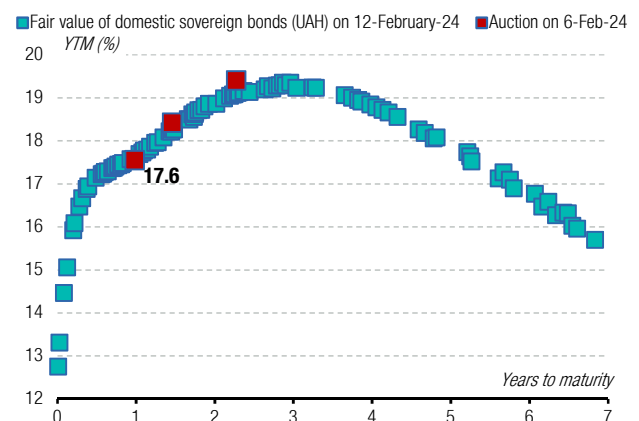
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

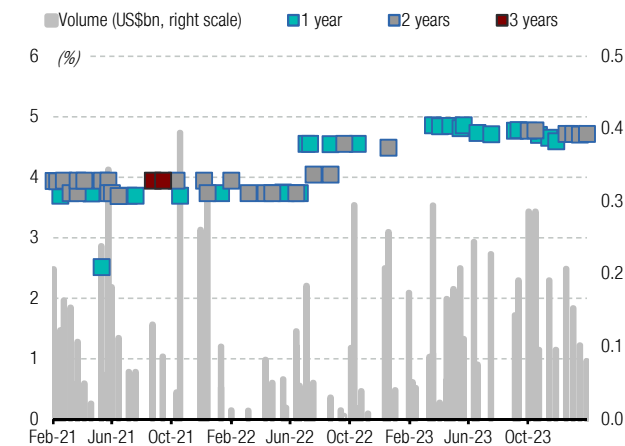
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

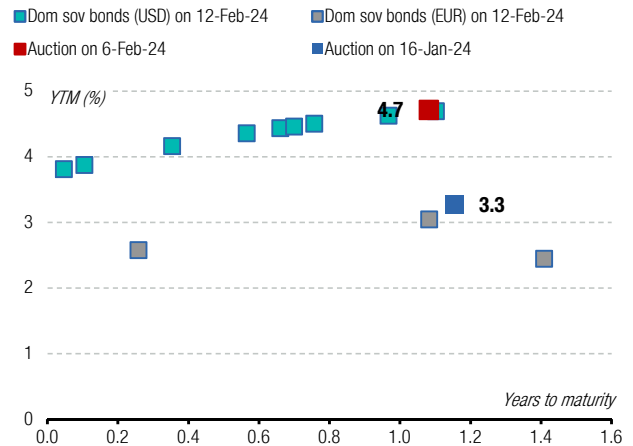
**Chart 2. FX-denominated bonds**

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.

**Market conditions last week pessimistic**

Last week, prices of Ukrainian Eurobond declined again, with a sharp fall on Friday.

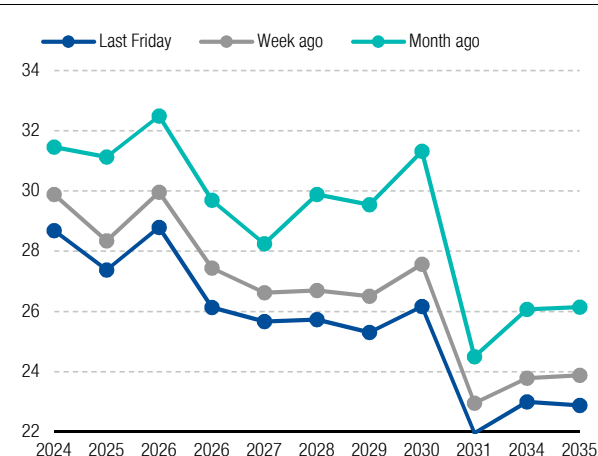
The prices of Ukrainian Eurobonds slid by 4.1% on average during the week, with 2/3 of the decline happening last Friday. Prices moved to 22–29, as the price range for Eurobonds with different maturities widened to 13.3%. The price of VRIs fell by 3% to below 46 cents per dollar of notional value. The EMBI index slid by 0.3% last week.

**ICU view:** Last week, the US Senate failed to approve a legislative package that included both the border issue and aid to Ukraine, Israel, and Taiwan. However, the Senate is making progress on the aid draft, excluding migration policy, which signals that the chances of a positive outcome remain relatively high. However, bondholders remain cautious. In addition, investors cautiously took note of the changes in the leadership of Ukraine's Armed Forces. Still, a calm and orderly leadership transition is likely to alleviate the concerns of external observers.

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

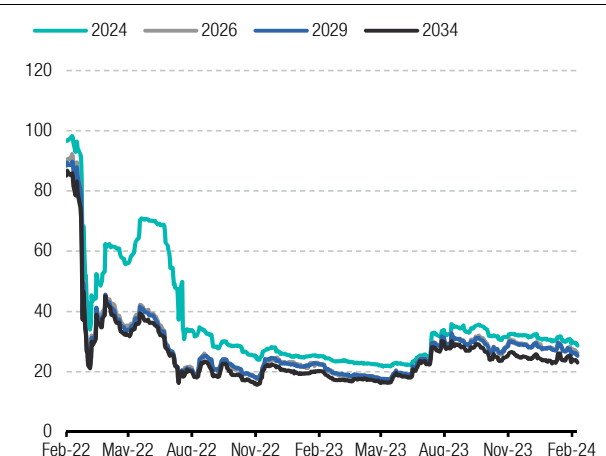
**Chart 3. Ukrainian Eurobonds prices**

Prices of USD-denominated Eurobonds as of last Friday, two weeks and a month ago



Source: Bloomberg, ICU.

Historical data since February, 2022



Source: Bloomberg, ICU.

# Foreign exchange market

## NBU limits hryvnia appreciation

The hryvnia exchange rate remained almost unchanged last week even though the imbalance in the interbank market remains very low for the second consecutive week.

Trading in the FX market remains active. Overall, net sale of foreign currency by legal entities amounted to US\$133m. The official UAH exchange rate weakened by just 0.1% to UAH37.62/US\$ last week.

FX trades in the retail market slightly declined. The average exchange rate in systemically important banks remains at UAH37.5–38.1/US\$.

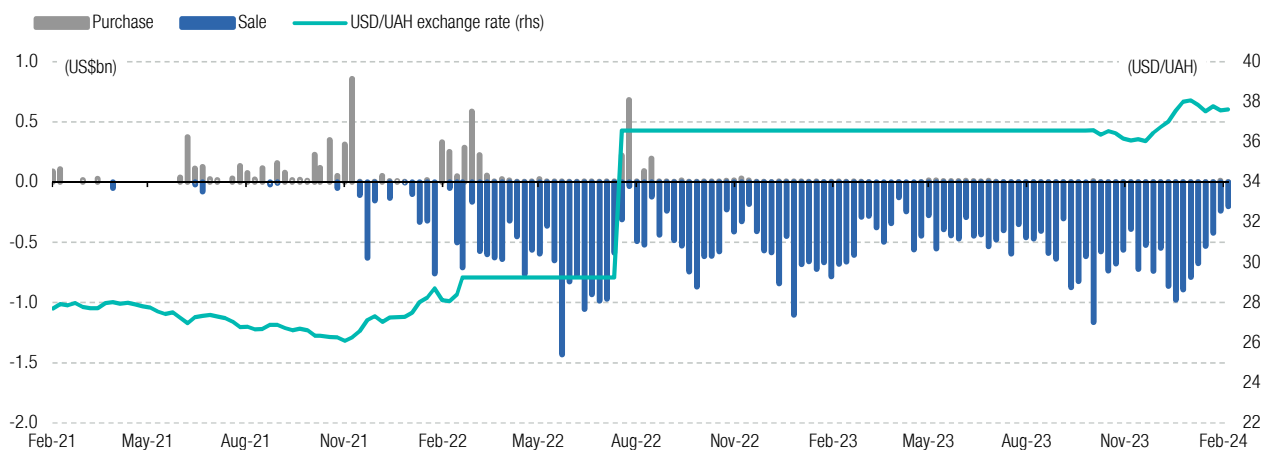
So, last week, the FX market balance slightly improved, with a US\$71m deficit (up 12% from previous week), allowing the NBU to decrease interventions to US\$201m.

**ICU view:** *In the recent two weeks, the FX market has seen the lowest imbalances in the last seven months, but the UAH exchange rate hardly changed. This may signal that the NBU has a clear preference to limit hryvnia appreciation. We expect a slight weakening of the hryvnia this year against the backdrop of low volatility and exchange rate movements in both directions. The yield on UAH instruments will be sufficient to compensate for FX risks.*

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

### NBU reserves down 5% in January

NBU gross international reserves decreased 4.9% in January to US\$38.5bn as inflow of foreign financial aid paused temporarily.

The NBU had to spend US\$2.5bn in FX sale interventions to maintain exchange rate stability. That is close to a monthly average of US\$2.4bn in 2023 and down 29% vs. December. Meanwhile, inflows of foreign financial aid paused in January, Ukraine only received US\$0.4bn from Japan, which marked the lowest monthly inflow of foreign aid since the start

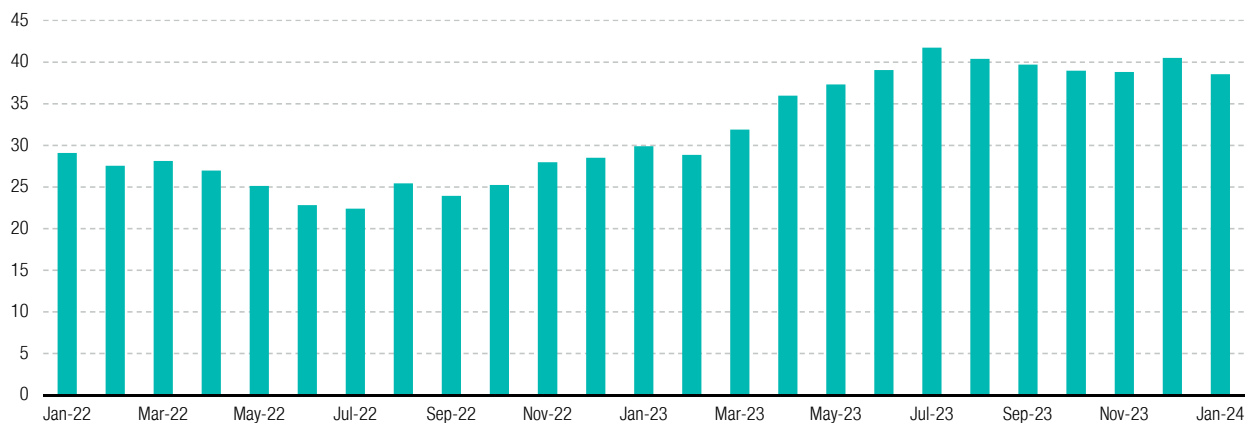
of Russia's full-scale invasion. Net domestic FX borrowings of the government brought another US\$0.14bn to reserves.

**ICU view:** We expect NBU reserves will decline further in February as Ukraine will not see any significant inflows of foreign financial aid during the month. However, reserves will be replenished with EUR4.5bn thanks to the first tranche of the EU loan under the recently approved Ukraine Facility for 2024–27. The chances of the US Congress approving an aid package for Ukraine also seem reasonably high at this moment. Overall, we expect broadly stable NBU reserves through 2024 at close to US\$40bn as inflows of grants and concessional loans to Ukraine should be enough to offset sizable gaps in Ukraine's external accounts.

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

**Chart 5. NBU gross international reserves, US\$bn**

*NBU down 5% in January*



Source: NBU, ICU.

### Inflation edges down further in January

Ukraine's annual inflation slowed further to 4.7% YoY in January from 5.1% at end-2023.

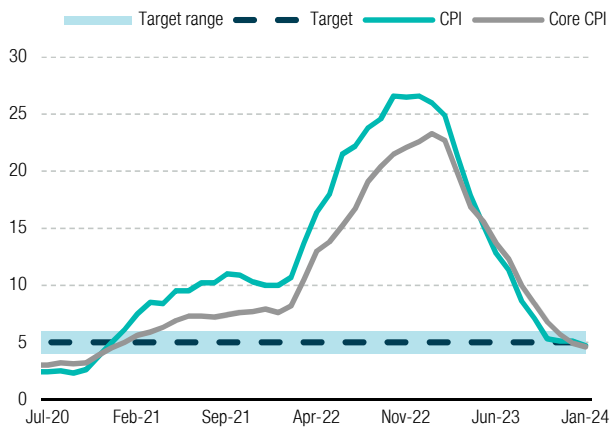
Prices continued to slow across nearly all components of the consumer basket, which indicates that fundamental inflationary pressures remain very weak. The annual core CPI also went down to 4.6% in January from 4.9% a month before.

**ICU view:** Inflation remains unusually low by historical standards, and this reflects coincidence of a number of supporting factors: relatively weak household demand (despite its rapid recovery in 2023), a stable exchange rate, no major revision of administratively regulated utility tariffs, and, importantly, abundant agricultural harvest. All these factors will ensure that inflation will remain below 7% at least through end-1H24. Yet, we expect inflation will pick up close to 10% by the end of the year driven by normalization of agricultural production and a weakening hryvnia.

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

**Chart 6. CPI, core CPI and target, YoY, %**

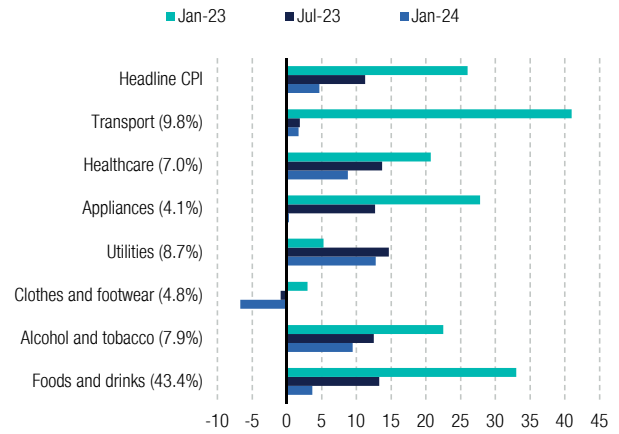
*Inflation slows to 4.7% in January*



Source: Ukrstat, NBU, ICU.

**Chart 7. CPI and its main components, YoY, %**

*Prices for all consumer basket components continue to slow*



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

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](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.**

