

# Weekly Insight

## Key rate remains unchanged

### Key messages of the today's comments

MONDAY, 30 JANUARY 2023

### Ukrainian bond market

#### Foreigners getting ready for investments repatriation

Over the past week, foreign investors continued to add to investments in UAH bonds, thus gradually preparing for a possible repatriation of proceeds from the redemptions of local-currency bonds.

#### Eurobond prices stable

Global debt markets are generally calm, so Ukrainian Eurobonds remained at the same level as in the previous week.

### Foreign exchange market

#### Hryvnia cash exchange rate inches down

In the cash market, there was a slight correction of the hryvnia exchange rate after two weeks of active appreciation.

### Economics

#### Key rate remains unchanged

At its most recent meeting, NBU abstained from changing the key rate, which remained at 25% since June 2022. The NBU expects to cut rates earlier—in March 2024 rather than in June. However, the new macro forecast has a much more conservative estimate of the 2024 year-end rate (21%) than the previous one (18%).

### Banks' reserves market (27 January 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	25.00	+0bp	+1,500bp
ON rate (%)	9.76	+0bp	+34bp
Reserves (UAHm) <sup>2</sup>	122,341	-2.08	+123.74
CDs (UAHm) <sup>3</sup>	389,965	-0.95	+156.69

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) (27 January 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	701,970	-0.35	+126.36
Banks	506,052	+1.33	-8.97
Residents	111,610	+1.89	+31.91
Individuals	32,431	+1.46	+24.67
Foreigners <sup>1</sup>	64,091	+6.64	-22.48
<b>Total</b>	<b>1,418,717</b>	<b>+0.76</b>	<b>+33.90</b>

Source: NBU, ICU.

### FX market indicators (27 January 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9320	+0.02	+27.72
EUR/USD	1.0868	+0.11	-2.49
DXY	101.927	-0.08	+4.80
UAH TWI <sup>1</sup>	110.377	-0.09	-11.02

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Market gov't bond quotes<sup>1</sup> (30 January 2023)

Maturity	Bid	Ask
6m	21.00	16.00
12m	24.00	19.00
2y	25.00	21.00
3y	25.00	21.00
12m (\$)	6.00	4.50
2y (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## Foreigners getting ready for investments repatriation

Over the past week, foreign investors continued to add to investments in UAH bonds, thus gradually preparing for a possible repatriation of proceeds from the redemptions of local-currency bonds.

Last week, non-residents increased their portfolios of UAH-denominated bills by UAH4.3bn (US\$117m) to UAH63.5bn (US\$1.7bn). It is very likely they mainly bought securities maturing in April and May, because 312 deals worth UAH5.9bn (US\$161m) were concluded in one week with bonds that will be redeemed in April, and 215 deals worth UAH2.9bn (US\$79m) with paper due to in May 2023.

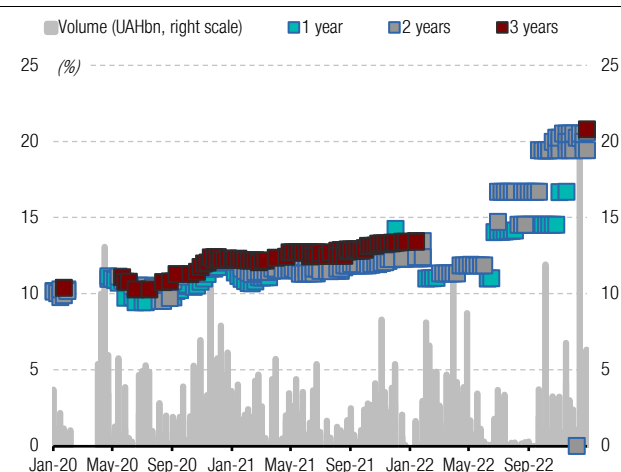
Thanks to such active purchases, the total volume of transactions with UAH-denominated government bonds in the secondary market reached UAH12.2bn (US\$334m), a new record since January 2022.

**ICU view: Foreigners are waiting for the opportunity to repatriate the funds that were invested in local-currency government bonds, so they are most interested in securities with the earliest maturity available after April 1, when the window for repatriation opens. For a long time after the beginning of the war, they received income from government bonds, but rarely bought new issues. The portfolio of non-resident investors may increase further in the next two months, but will shrink sharply after redemptions amass in April and May.**

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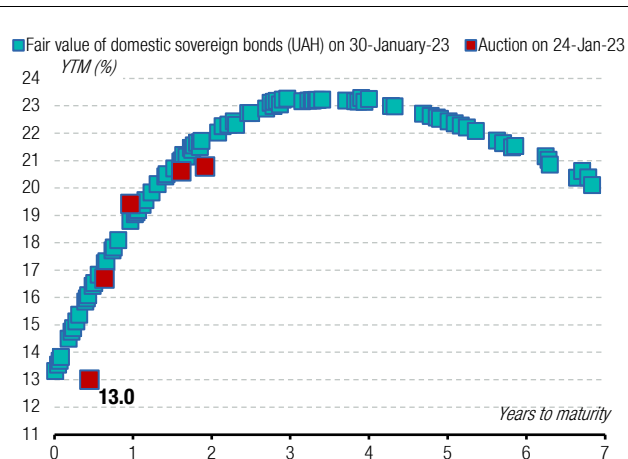
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

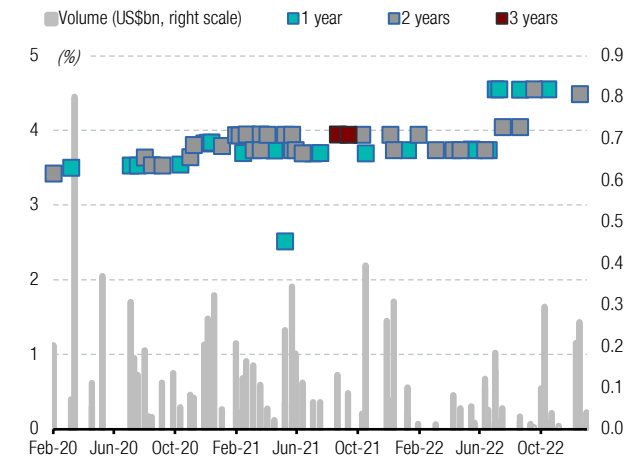
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

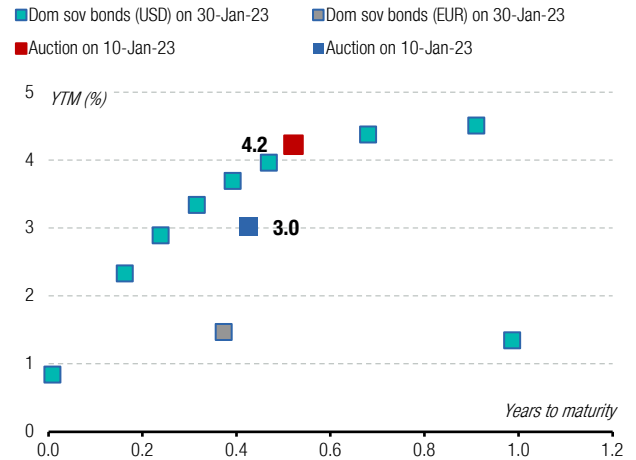
**Chart 2. FX-denominated bonds**

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 stable**

Global debt markets are generally calm, so Ukrainian Eurobonds remained at the same level as in the previous week.

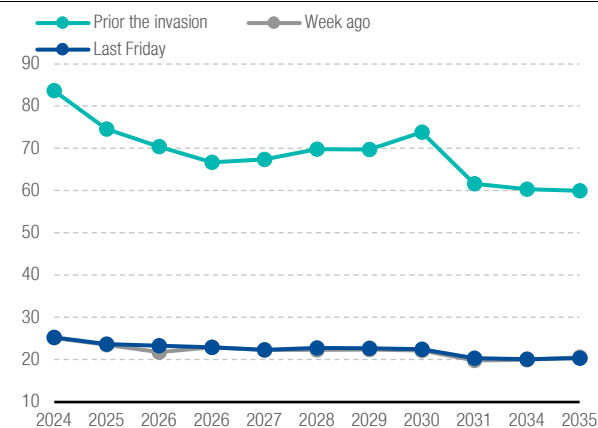
While there were minor price fluctuations across the board, prices remained in the range of 20–25 cents. VRIs were also little changed at slightly above 32 cents per dollar of notional value.

**ICU view: Ukrainian Eurobonds remain in the global trend of price stability with minor situational fluctuations of some securities.**

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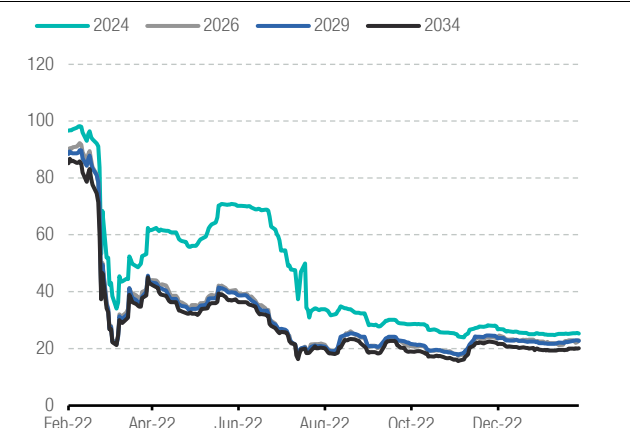
**Chart 3. Ukrainian Eurobonds prices**

Prices of USD-denominated Eurobonds as of last Friday, prior the russian invasion and a week before



Source: Bloomberg, ICU.

Last eight-month historical data



Source: Bloomberg, ICU.

# Foreign exchange market

## Hryvnia cash exchange rate inches down

In the cash market, there was a slight correction of the hryvnia exchange rate after two weeks of active appreciation.

In the leading retail banks, on average, the hryvnia exchange rate weakened by less than 0.2%, from UAH39.75–40.45/US\$ to UAH39.77–40.52/US\$.

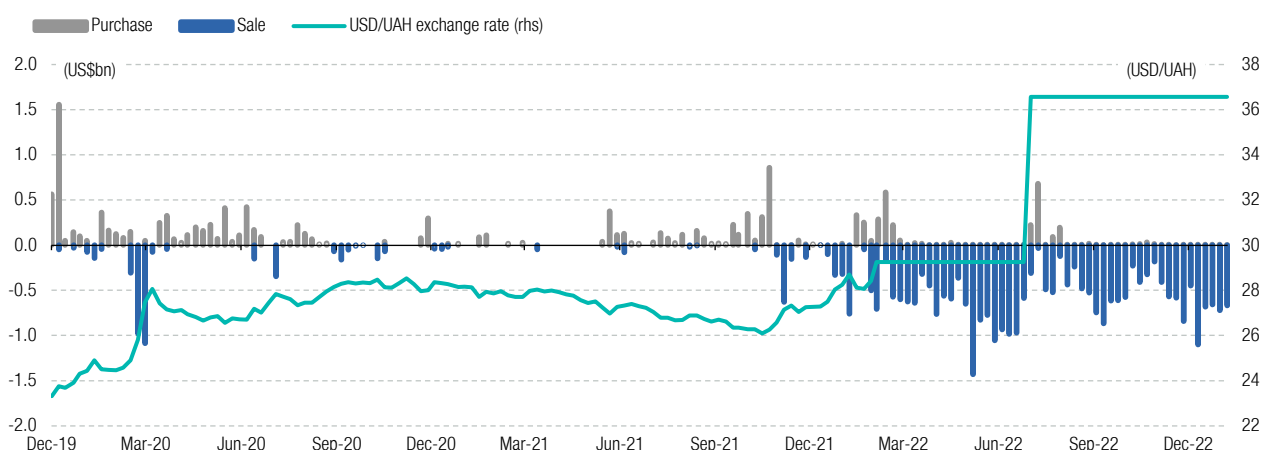
On the interbank market, demand continued to exceed supply, but without significant fluctuations. Therefore, NBU interventions remained at the usual level, with a slight decline by US\$55m to US\$667m last week.

**ICU view: The cash market remains stable, hovering near UAH40/US\$. The FX shortage on the interbank market remains broadly unchanged. The sale of hard currency by the Ministry of Finance, which is borrowing actively in the UAH bond market, is likely minimal (see the [auction review](#)).**

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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.

## Economics

### Key rate remains unchanged

At its most recent meeting, NBU abstained from changing the key rate, which remained at 25% since June 2022. The NBU expects to cut rates earlier—in March 2024 rather than in June. However, the new macro forecast has a much more conservative estimate of the 2024 year-end rate (21%) than the previous one (18%).

Following the increase in mandatory reserve requirements that became effective earlier this month, the NBU announced another two increases for February and March. Banks will have to accumulate up to UAH200bn (US\$5.5bn) of additional reserves after all changes take place. Banks will be able to hold up to UAH100bn (US\$2.7bn) of those reserves in the form of eligible government bonds, yet only UAH20bn (US\$546m) of such bonds have been issued so far.

***ICU view: The regulator became less optimistic about the course of the war, expecting heavy fighting to continue throughout the whole of 2023. On the other hand, it continues to pursue its goal to achieve higher interest rates. So far, banks have been very reluctant to increase deposit rates due to abundant UAH liquidity. The new reserve requirements can significantly decrease the amount of spare liquidity and give banks incentive to attract more term deposits with higher rates. Yet banks are likely to market ultra-short deposits that would require zero reserves and give customers high flexibility with their funds.***

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