

# Weekly Insight

## Inflation falls sharply in March

### Key messages of the today's comments

MONDAY, 15 APRIL 2024

### Ukrainian bond market

#### Bond yields continue to decline

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#### Investors in talks to form creditor committee, pick advisors

Ukrainian Eurobonds holders plan to form a creditor committee, which signals restructuring negotiations will start soon.

### Foreign exchange market

#### NBU allows further hryvnia weakening

Last week, the official hryvnia exchange rate weakened to a new historical low, even though there were no critical changes in the FX interbank and retail segments.

### Economics

#### Inflation falls sharply in March

Ukraine's annual inflation slowed further to 3.2% in March from 4.3% in February, which came as a major surprise.

### Banks' reserves market (12 April 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	14.50	+0bp	-1,050bp
ON rate (%)	14.50	+0bp	-550bp
Reserves (UAHm) <sup>2</sup>	221,219	+2.6	+16.7
CDs (UAHm) <sup>3</sup>	534,937	+0.0	+36.4

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) (12 April 2024)

	Last	Weekly chg (%)	YoY chg (%)
NBU	680,490	+0.0	-2.4
Banks	686,457	+0.5	+29.8
Residents	157,838	+1.7	+44.3
Individuals	60,065	+1.6	+64.6
Foreigners	42,391	+0.4	-22.4
<b>Total</b>	<b>1,629,005</b>	<b>+0.5</b>	<b>+14.0</b>

Source: NBU, ICU.

### FX market indicators (12 April 2024)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	39.3921	+1.4	+6.8
EUR/USD	1.0643	-1.8	-3.2
DXY	106.038	+1.7	+4.5

Source: Bloomberg, ICU.

### Market gov't bond quotes (15 April 2024)

Maturity	Bid (%)	Ask(%)
6 months	17.00	15.00
12 months	17.50	16.50
2 years	19.00	17.50
3 years	19.75	18.50
12 months (\$)	5.00	4.50
2 years (\$)	N/A	N/A

Source: ICU.

# Ukrainian bond market

## Bond yields continue to decline

Last week, the MoF again cut interest rates for UAH bonds in the primary market, which induced YTM decreases in the secondary market, too.

At the primary auction last Tuesday, investors' focus was again on 12-month bills, allowing the MoF to decrease interest rates by 15bp to 16.1%. The total decline since the NBU cut its key rate and CD rates in March reached 70bp. The MoF also decreased rates for two-year paper by 10bp to 17% or 60bp overall after the NBU cut its rates. Only for three-year notes the MoF kept interest rates unchanged for the fourth week at 18.3%. See details in the [auction review](#).

In the secondary bond market, YTM on UAH bonds also gradually declined last week. Total turnover was nearly flat at UAH6.4bn, with FX-denominated trades' share up to 27%.

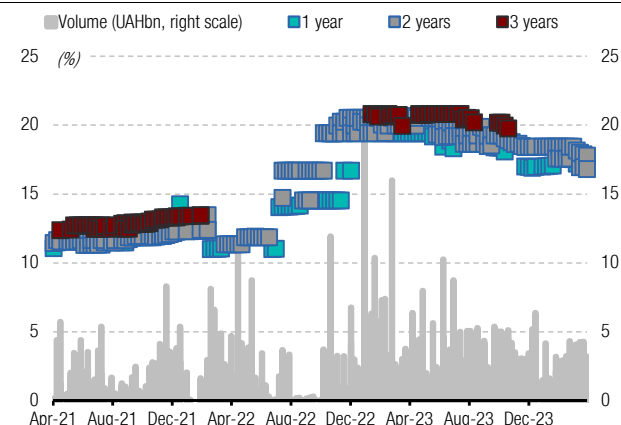
Individuals remain the most active investors and increased their portfolios by almost 2% last week.

**ICU view: The MoF took advantage of high competition for shorter bills and decreased interest rates. At the same time, investors have little appetite for a three-year note, keeping terms of their bids nearly the same for the fourth week. Last week, the yield curve became even steeper, and the YTM premium for a three-year paper over one-year bills increased to 220bp from 170bp before the NBU cut its rates in March. High demand for 12-month bills may allow further rate cuts for the MoF at tomorrow's primary auction. The further sharp slowdown in annual inflation in March is yet another argument in favour of a further decline in NBU rates and, accordingly, yields on bonds. The market broadly expects that the NBU will decide to continue a monetary policy easing cycle at the end of April.**

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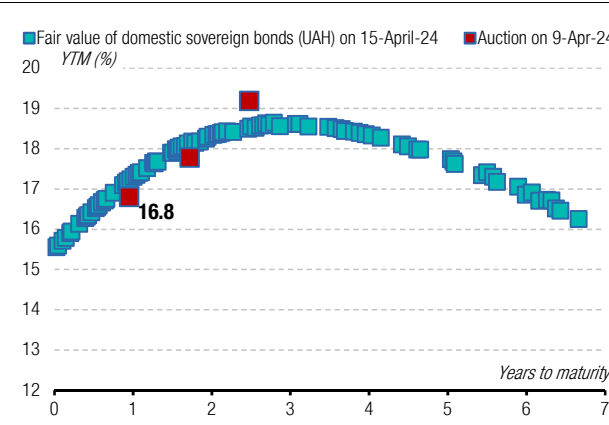
**Chart 1. Local-currency bonds**

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



Source: MFU, ICU.

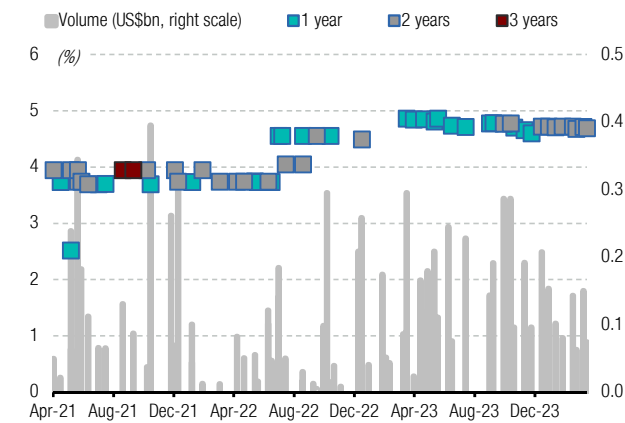
YTM of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

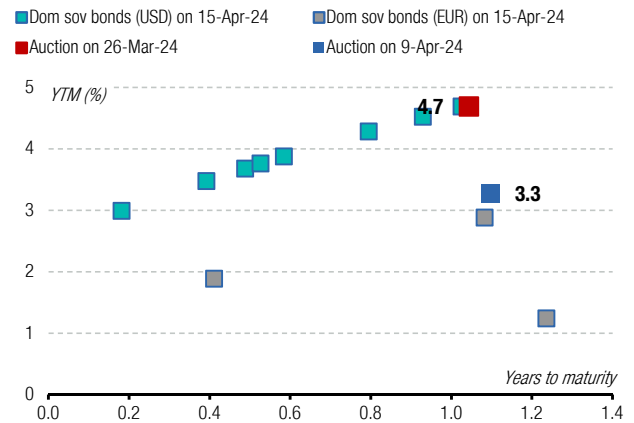
**Chart 2. FX-denominated bonds**

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.

**Investors in talks to form creditor committee, pick advisors**

Ukrainian Eurobonds holders plan to form a creditor committee, which signals restructuring negotiations will start soon.

Last week, mass media reported that bondholders are in talks to form a creditor committee to be prepared for Eurobond restructuring negotiations with the government. In related news from Bloomberg, a group of large Ukrainian creditors chose PJT Partners Inc., as its financial advisor, and Weil, Gotschal & Manges LLP, as its legal advisor. Eurobond holders and the Ministry of Finance are preparing to launch negotiations on US\$23bn worth of debt, including deferred interest payments as per 2022 agreement. Also, media reported that on the sidelines of the IMF spring meetings, proposals will be discussed about the use of Russian frozen assets and/or profits as collateral for new debt.

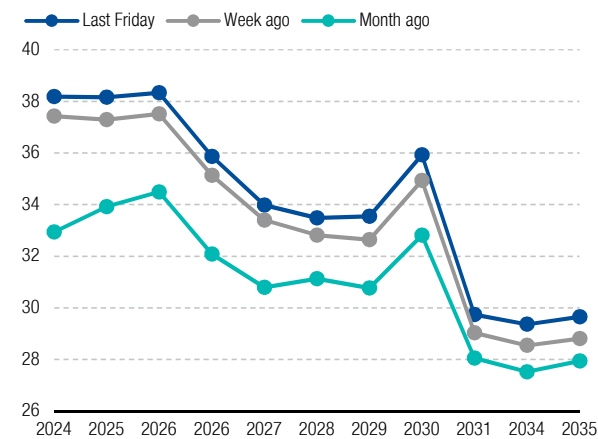
Against this backdrop, positive sentiment prevailed among Ukraine debtholders while global debt prices declined. US Treasuries fell last Wednesday, and the EMBI index slid last week by 1%. Meanwhile, prices for Ukrainian Eurobonds rose by 2.4% on average and moved to 29.4–38.3, with the price range narrowing to 13.2%. The VRI price remains above 55 cents per dollar of notional value, up last week by just 0.5%.

**ICU view: While the launch of restructuring talks will be the key event for Eurobond holders, this week all eyes will be on the US Congress where the Ukraine aid package may be voted on, according to numerous sources. A positive vote will provide major relief for the country’s budget and, most important, for the defence sector.**

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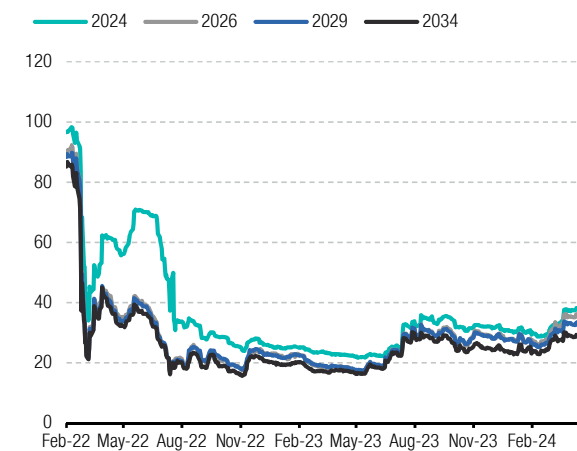
**Chart 3. Ukrainian Eurobonds prices**

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 allows further hryvnia weakening

Last week, the official hryvnia exchange rate weakened to a new historical low, even though there were no critical changes in the FX interbank and retail segments.

Bank clients sold US\$935m of hard currency or just 7% less than what they purchased (in four business days), and net purchase was US\$73m. On these days, NBU's interventions were below US\$80m per day, and the exchange rate hovered around UAH39/US\$ for a few days, weakening to UAH39.17/US\$ last Thursday. On Friday, interventions rose slightly above US\$100m, and the NBU allowed the exchange rate to weaken to its historical low of UAH39.4/US\$, implying overall depreciation of 1.4% over the week.

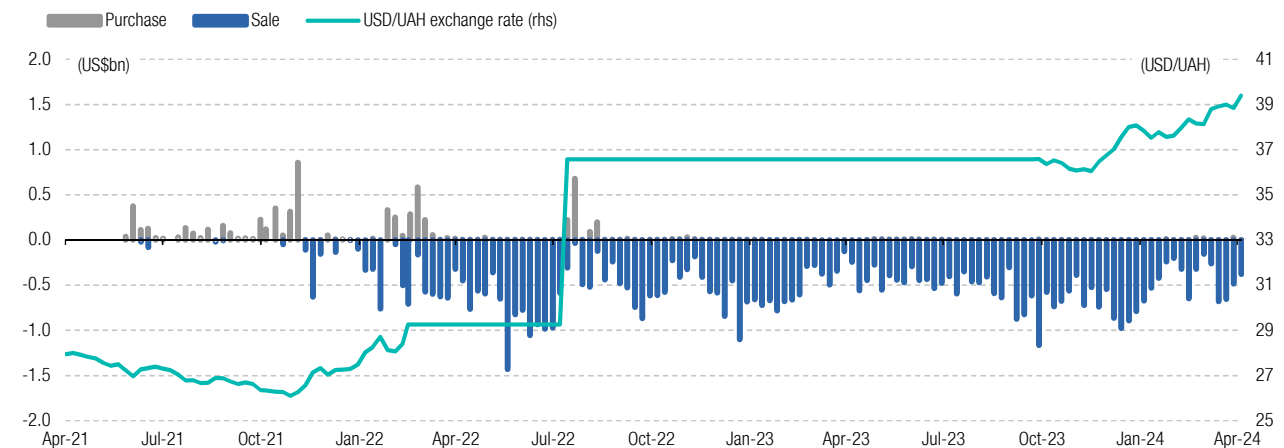
Imbalances in the retail segment remained almost unchanged. In four business days, hard currency net purchases by households were US\$145m or just 4% lower than a week before. The cash exchange rate weakened by 1.0% to UAH39.1–39.7/US\$.

**ICU view: NBU's intervention approach clearly indicates its appetite for wider exchange rate volatility and a continuation of gradual hryvnia depreciation. We expect the pace of depreciation will be comparable to the yields on hryvnia savings instruments.**

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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

### Inflation falls sharply in March

Ukraine's annual inflation slowed further to 3.2% in March from 4.3% in February, which came as a major surprise.

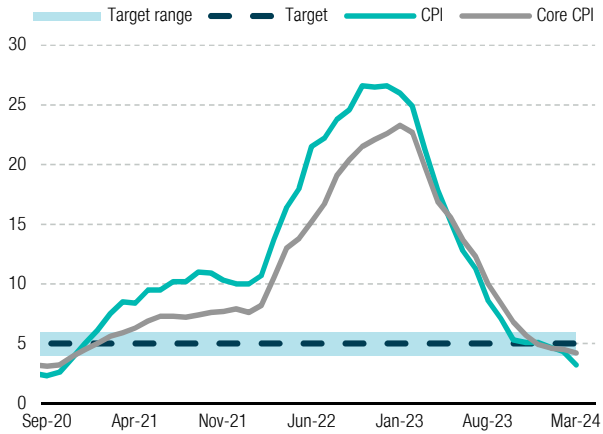
A significant deceleration in consumer prices was largely due to a decline in food prices, which is highly unusual for this time of the year. Prices for food staples declined by 0.2% MoM implying an only marginal growth of 0.2% in YoY terms. A number of significant food basket components were significantly cheaper in YoY terms, namely eggs (-34.3% YoY), sunflower oil (-17.4%), sugar (-13.3%), fruits (-12.2%), and several other items. Price growth also remains weak (or even negative) for many non-food components of the consumer basket, like clothes and footwear (-6.7% YoY), communication (+0.1%), and transportation (+6.0%).

**ICU view: The sharp deceleration of inflation in March was a major surprise and was largely brought about by abundant supply of agricultural products. Low global food prices combined with high export logistics cost for Ukrainian producers make the domestic market fully saturated with last season's harvest and related food products. March inflation reading causes us revise our end-2024 CPI forecast to below 7%. Weaker-than-expected (by market and the NBU) consumer price growth implies the NBU will continue its monetary policy easing cycle, and we expect 0.5 percentage point cut in April from the current 14.5%.**

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

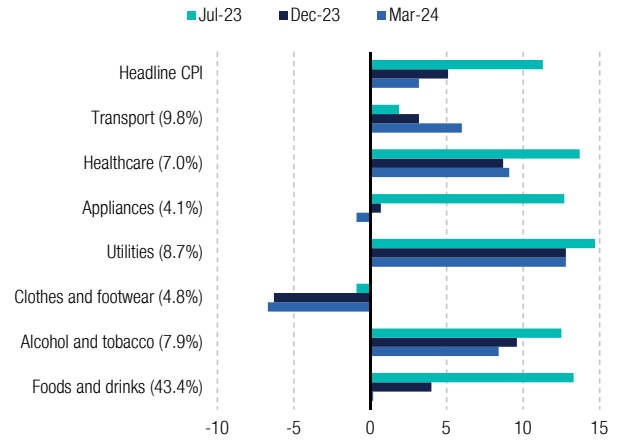
*Inflation unexpectedly falls to 3.2% in March*



Source: Ukrstat, NBU, ICU.

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

*Prices for food almost unchanged from a year before*



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

Source: Ukrstat, ICU.

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