



Focus
Ukraine

Markets
Domestic liquidity,
government bonds, FX
market, and macro

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Weekly Insight

Hryvnia weakens again

Key messages of the today's comments

MONDAY, 28 AUGUST 2023

Ukrainian bond market

Refinancing of UAH bonds decreases

The MoF refinanced only 15% of last week's debt repayments, portfolios of all groups of investors declined, and trading on the secondary market intensified.

Eurobond prices continue to decline

Ukrainian Eurobond prices continued to decline last week, despite positive global sentiment toward emerging markets.

Foreign exchange market

Hryvnia weakens again

Households increased purchases of hard currency, adding pressure on the hryvnia exchange rate last week. The imbalance between supply and demand increased in the interbank market, forcing the NBU to increase its interventions.

Banks' reserves market (25 August 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	22.00	+0bp	-300bp
ON rate (%)	9.76	+0bp	+0bp
Reserves (UAHm) ²	197,368	+7.10	+234.41
CDs (UAHm) ³	521,460	+1.99	+150.47

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) (25 August 2023)

	Last	Weekly chg (%)	YoY chg (%)
NBU	690,693	-0.17	+17.15
Banks	556,375	-2.03	+8.20
Residents	119,018	-2.38	+79.85
Individuals	47,071	-1.58	+55.17
Foreigners ¹	48,523	-4.13	-31.08
Total	1,463,970	-1.22	+15.18

Source: NBU, ICU.

FX market indicators (25 August 2023)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	36.9127	+0.13	+0.53
EUR/USD	1.0796	-0.71	+8.23
DXY	104.077	+0.68	-4.05
UAH TWI ¹	113.362	+0.10	-1.24

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Market gov't bond quotes (28 August 2023)

Maturity	Bid	Ask
6m	18.00	16.00
12m	20.00	18.00
2y	20.50	19.00
3y	21.00	19.50
12m (\$)	N/A	N/A
2y (\$)	N/A	N/A

Source: ICU.

Ukrainian bond market

Refinancing of UAH bonds decreases

The MoF refinanced only 15% of last week's debt repayments, portfolios of all groups of investors declined, and trading on the secondary market intensified.

At the primary auction, the Ministry of Finance attracted only UAH3.3bn, rejecting 78% of the demand (see [auction review](#)), and refinanced only 15% of last week's debt repayments, including UAH20bn of principal. As redemptions were much larger than new placements, the portfolios of all groups of investors decreased. The most significant decline was in foreigners' portfolios – almost 6%.

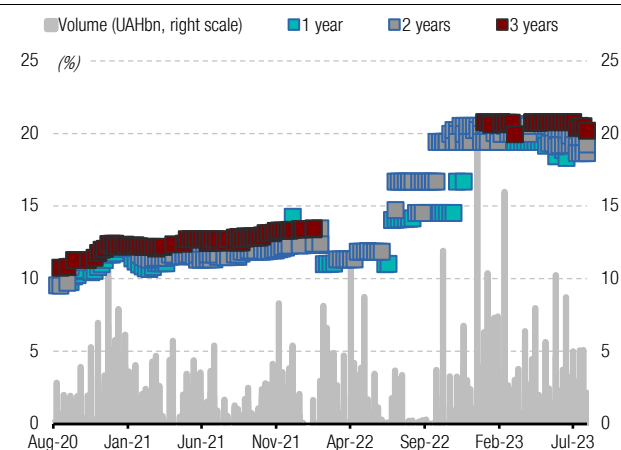
Activity increased in the secondary market. The volume of trading in UAH government bonds last week amounted to UAH4.2bn, doubled compared to the previous week. "Reserve" notes maturing in July 2026 (37% of UAH bond trades) and UAH ordinary paper maturing in February 2025 (28% UAH bond trades) were traded the most.

ICU view: The MoF could refinance the vast majority of repayments, but it would be forced to increase the total size of the "reserve" bonds outstanding to more than UAH30bn. However, the MoF likely wants to limit each "reserve" bond outstanding to about UAH20bn. Therefore, the MoF announced a new issue of notes due in November 2026, which the NBU may later add to the list of bonds allowed to cover part of required reserves. On the other hand, the small volume of primary placements pushed investors to increase activity on the secondary market. Foreign investors will likely reinvest the received redemption monies into instruments that allow repatriation of coupon payments in December and January.

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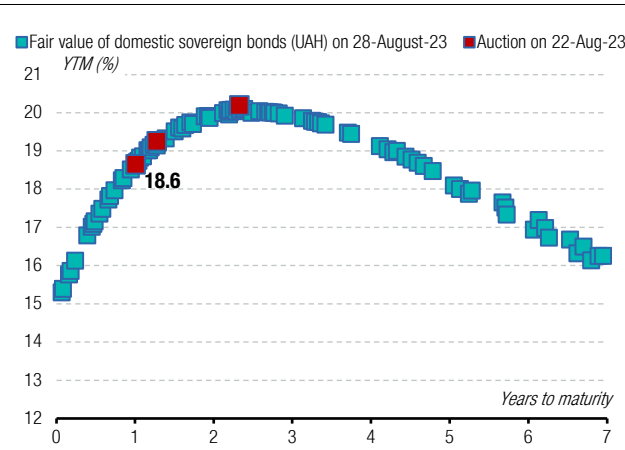
Chart 1. Local-currency bonds

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



Source: MFU, ICU.

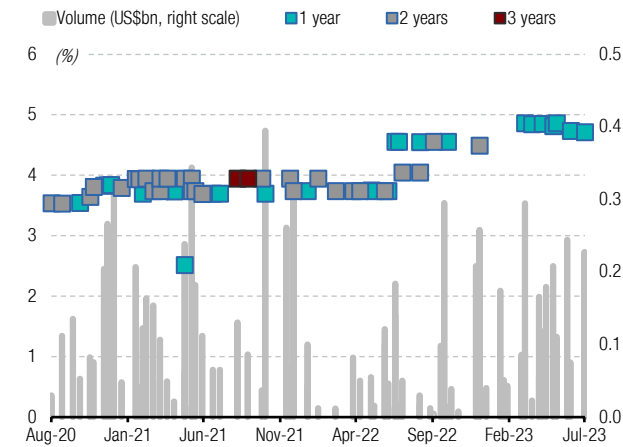
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: NBU, MFU, ICU.

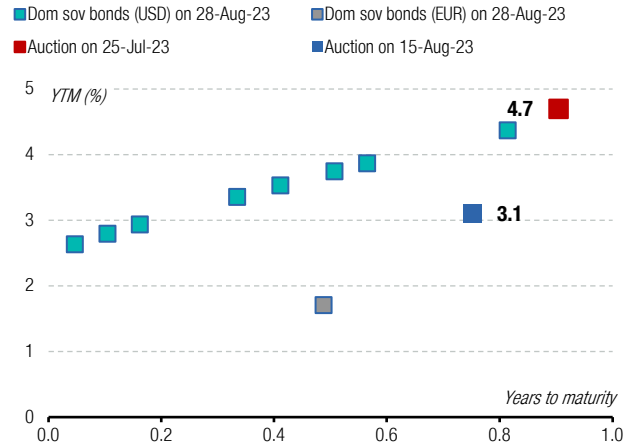
Chart 2. FX-denominated bonds

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 continue to decline

Ukrainian Eurobond prices continued to decline last week, despite positive global sentiment toward emerging markets.

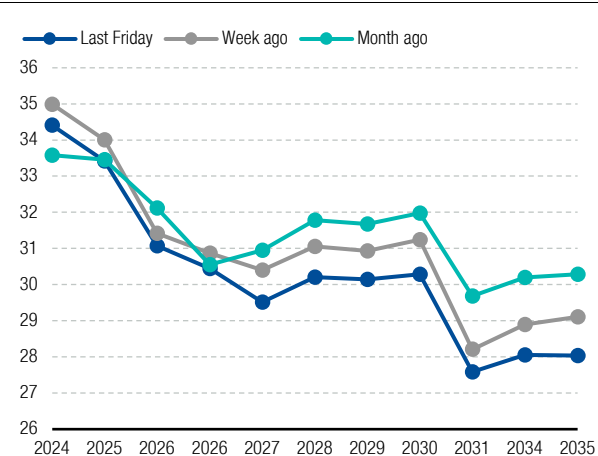
Eurobond prices declined over the past week by an average of almost 2% to 27–34 cents. The price range for instruments with different maturities remains almost unchanged. The prices of VRIs slid by 1% to 47 cents per dollar of notional value. The EMBI index up by 0.7%.

ICU view: Ukrainian Eurobond prices remain dependent on situational demand. Price movements reflect the absence of major news and the expectation of debt restructuring in 1h24.

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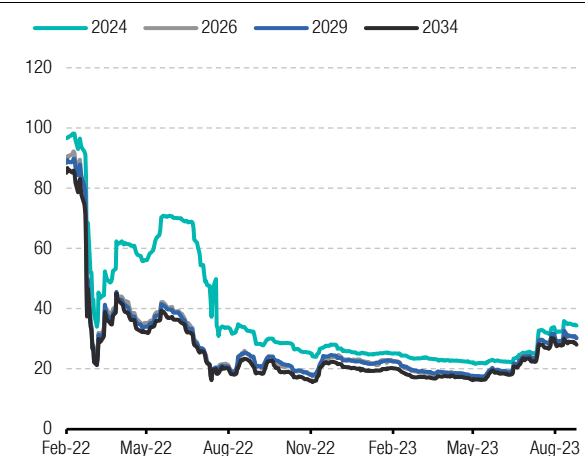
Chart 3. Ukrainian Eurobonds prices

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

Hryvnia weakens again

Households increased purchases of hard currency, adding pressure on the hryvnia exchange rate last week. The imbalance between supply and demand increased in the interbank market, forcing the NBU to increase its interventions.

In the retail market, hard currency purchases remained higher than sales. In four business days, households bought US\$381m, which is 14% more than in the same period of the previous week, while they sold US\$323m, which is 2% more than in the same period of the previous week. Purchases of both cash (by 6%) and non-cash currency (x2.4) increased.

Over the past week, the hryvnia exchange rate in systemically important banks weakened by another 1% to UAH37.7–38.7/US\$.

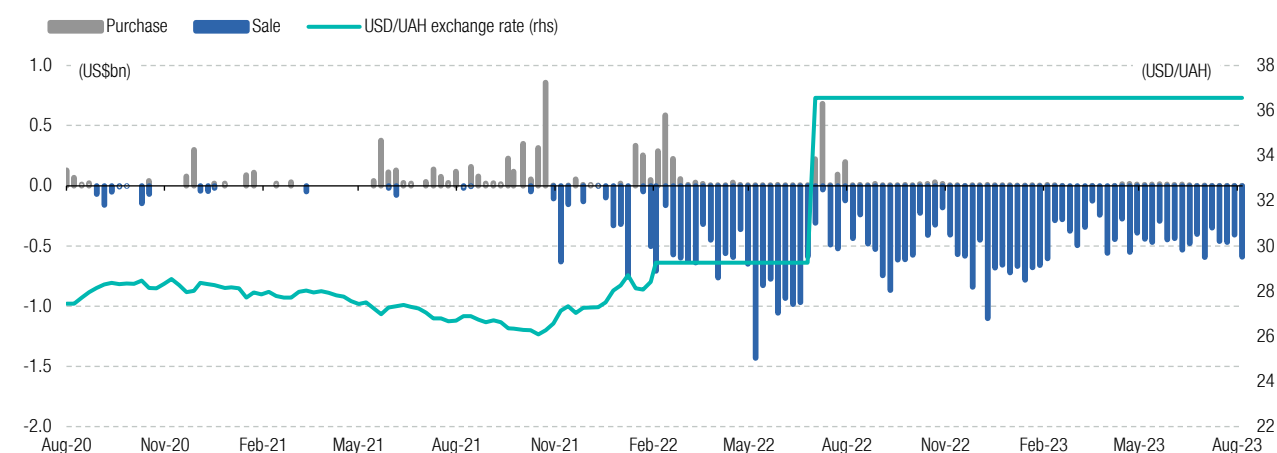
On the interbank market, bank clients (legal entities) reduced sales and purchases of hard currency. In four business days, they sold US\$632m of hard currency, which is 30% less than in the same period of the previous week. At the same time, they bought US\$887m, which is 15% less than in the same period of the previous week. Therefore, the NBU increased interventions by 45% to \$590 million.

ICU view: Information about the NBU's plans to gradually move to a flexible exchange rate regime coincided with typical expectations of autumn hryvnia weakening, increasing volatility in the market, and affecting the cash exchange rate. Households try to take advantage of the favourable non-cash exchange rate for non-cash hard currency by investing in three-month deposits. At the same time, the interbank market remains controlled by the NBU with an acceptable volume of weekly interventions.

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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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