

# Weekly Insight

## NBU kept hryvna from further appreciation

### Key messages of the today's comments

#### Domestic liquidity and bonds market

##### Government bonds market: MoF attempts to keep yield curve unchanged

Last week, the Ministry of Finance rejected a large portion of demand for some of the issues it offered in order to keep cut-off rates at 17%. They will attempt to keep rates the same today.

##### Liquidity balancing above UAH90bn

Last week started off with record low liquidity, which recovered late in the week. Liquidity this week could be supported by VAT refunds.

#### Foreign exchange market

##### NBU kept hryvna from further appreciation

Early last week, the regulator twice entered the market to buy foreign currency, which kept the UAH from further appreciation. We expect short-term depreciation of the national currency in the near future, but the overall trend is for appreciation by mid-year.

TUESDAY, 20 MARCH 2018

#### Banks' reserves market (19 March 2018)

	Last	Weekly chg (%)	YTD chg (%)
NBU rate (%) <sup>1</sup>	17.00	+0bp	+300bp
ON rate (%)	16.00	-10bp	+380bp
ON \$ swap (%)	15.95	+13bp	+355bp
Reserves (UAHm) <sup>2</sup>	57,803	+4.30	+16.46
DepCerts (UAHm) <sup>3</sup>	39,022	+2.18	+0.00

Notes: [1] NBU's key policy rate; [2] stock of banks' reserves held at NBU; [3] stock of NBU's short-term bonds.

Source: NBU, Bloomberg, ICU.

#### Breakdown of govt bond holders (UAHm) (19 March 2018)

	Last	Weekly chg (%)	YTD chg (%)
NBU	351,730	-0.27	-8.42
Banks	342,997	+0.55	+20.23
Residents	27,239	+2.60	+22.18
Individuals	2,071	+8.07	+768.55
Non-res <sup>4</sup>	14,458	+3.01	+157.41
<b>Total</b>	<b>738,495</b>	<b>+0.29</b>	<b>+5.89</b>

Notes: [1] non-residents

Source: NBU, ICU.

#### FX market indicators (19 March 2018)

	Last	Weekly chg (%)	YTD chg (%)
USD/UAH	26.3850	+1.89	-1.91
EUR/USD	1.2335	-0.44	+14.87
DX <sup>2</sup>	89.765	+0.11	-10.50
UAH TWI <sup>3</sup>	112.490	-1.32	+3.62

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Gov't bond quotes<sup>1</sup> (20 March 2018)

Maturity	Bid	Ask
6m	17.50	16.50
12m	17.75	16.75
2y	17.50	16.50
3y	17.50	16.50
12m (\$)	5.10	4.70
2y (\$)	5.30	5.00

Notes: [1] Actual quotes you can see at [www.icu.ua](http://www.icu.ua).

Source: ICU.

## Domestic liquidity and bonds market

### Government bonds market: MoF attempts to keep yield curve unchanged

Last week, the Ministry of Finance rejected a large portion of demand for some of the issues it offered in order to keep cut-off rates at 17%. They will attempt to keep rates the same today.

At last week's primary auction, demand was usually concentrated in the three-month bonds. The MoF accepted 10 out of 11 bids, which only satisfied a bit more than a half the demand. The MoF received bids in the range of 17.30–18.00%. It rejected only one bid with the highest rate, and fully satisfied only those bids with rates below cut-off rate set at 17.50%. Some bids at 17.50% were satisfied partially within the offering limit UAH0.50bn.

For six-month and nine-month bonds, the MoF accepted only a small portion of demand with interest rates not higher than 17.00%. The same level of cut-off rate was set for the 12-month bonds.

Most bidders in this auction were local investors, while last week, non-residents purchased only UAH0.16bn of local-currency bonds in addition to UAH0.26bn of FX-denominated bonds. Non-residents could purchase FX-denominated bonds with short-term maturities at the end of March, to receive FX at maturity and to earn a good spread from exchange rate difference.

***ICU view: The MoF rejected more than UAH0.50bn of demand and borrowed only UAH1.08bn last week. This allowed yields to stay at 17.00%, although the yield was higher for the three-month and lower for mid-term bonds. But, compared with demand over the last two weeks, this decision came a bit late, as two weeks ago, the MoF had a chance to keep yields below 17% and force auction participants to compete through yields. So, this week, demand in the primary market could be lower, especially due to lower demand from non-residents who have started to buy FX or FX-denominated bonds.***

### Liquidity balancing above UAH90bn

Last week started off with record low liquidity, which recovered late in the week. Liquidity this week could be supported by VAT refunds.

There were significant outflows two weeks ago, due to tax payments to the budget. These outflows caused liquidity to decline from above UAH100bn to the record low of UAH89.00bn last Monday. Liquidity received support from NBU last Monday and Tuesday, when it paid UAH4.26bn for FX at auction. With a positive balance from Treasury operations, liquidity recovered to about UAH96bn at the end of last week. Liquidity did not decline after the NBI absorbed UAH2.32bn at the end of last week through FX purchases via best quote request.

Due to high volatility in liquidity at the beginning of last week, banks shied away from CDs, decreasing the amount they purchased, especially those with a two-week maturity. At the end of last week, only UAH39.02bn was invested in CDs, while in banks' correspondent accounts, they had UAH57.80bn.

***ICU view: This week, total liquidity will be supported by the VAT refund, as is usual for the second half of the month. At the same time, the Treasury may absorb funds through month-end tax payments. In addition, the NBU may sell some FX to support the hryvnia and absorb a portion of liquidity.***

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Chart 1. Banks reserves usages over last week(UAHm)

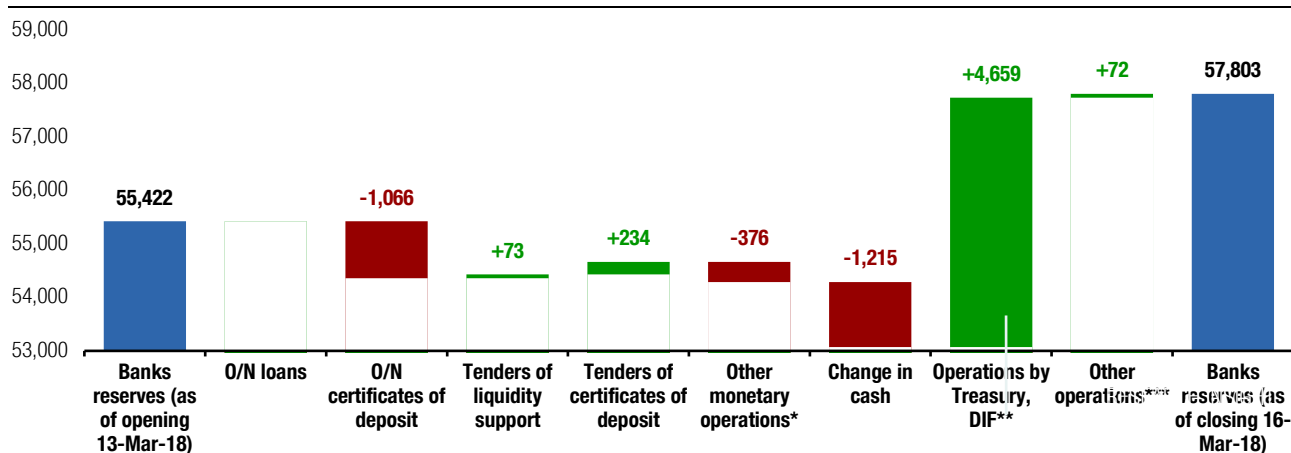
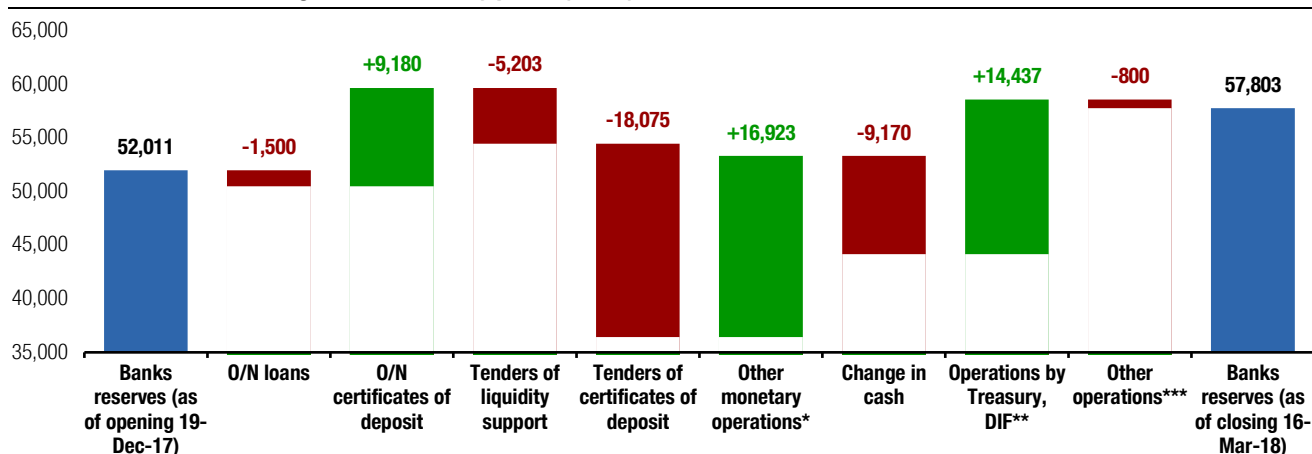


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142) ;

\* operations repo, purchase and sale of government bonds, FX market interventions, stabilisation loans, FX swap agreements; \*\* DIF – deposit insurance fund;

\*\*\* interest payments on NBU's loans and on NBU's certificates of deposit, other operations. Source: NBU, ICU.

## Foreign exchange market

### NBU kept hryvna from further appreciation

Early last week, the regulator twice entered the market to buy foreign currency, which kept the UAH from further appreciation. We expect short-term depreciation of the national currency in the near future, but the overall trend is for appreciation by mid-year.

On Monday and Tuesday of last week, the UAH was strong against the US dollar. Consequently, the NBU entered the market to reverse this trend with purchases of US\$134.2m of foreign currency. Demand exceeded supply, which pushed the hryvna down. By Thursday, the NBU slowed the pace of depreciation by selling foreign currency in the amount of UAH1.53bn through the best quote request, (see comment on liquidity).

Thus, the hryvna depreciated 1% in the past week to 26.3539 UAH/USD. Its CPI-based real trade-weighted index declined 0.68% to 112.41 for the period; in year-on-year terms, it is up 3.66% from 108.44 last year.

**ICU view:** This week we expect a moderating trend on the depreciating hryvna exchange rate. Exporters may hold the dollar and sell UAH in anticipation of further weakening. Moreover, to the end of the week, expect VAT refunding, albeit offset by monthly tax payments. We expect insignificant short-term depreciation of the UAH in

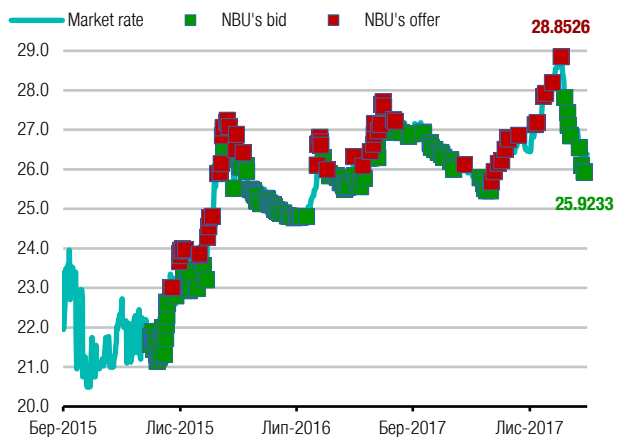
*the near future, but we still stick to our view of an overall appreciating trend to mid-year.*

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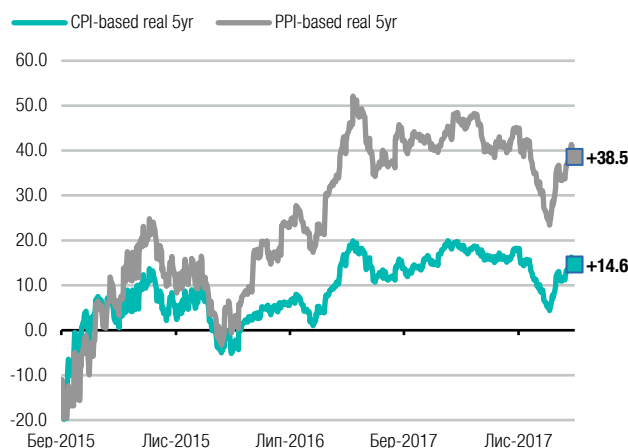
**Chart 3. FX market indicators, 3-year history**

*Ukraine hryvnia UAH exchange rate per US dollar at the interbank market*



Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

*UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%)*



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

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