

# Weekly Insight

## Foreign investors' activity increases

### Key messages of the today's comments

MONDAY, 21 JANUARY 2019

### Domestic liquidity and bonds market

#### Foreign investors' activity increases

At last week's primary auction, the MoF increased cut-off rates for some issues, and borrowed nearly UAH10bn. Part of the new bonds were purchased by foreign investors, and they are expected to continue to increase their portfolios.

#### Liquidity steady

The banking sector continued to show liquidity above UAH100bn, which should motivate them to be more interested in new government bills. This week, liquidity should remain high with a possible slight decline.

### Foreign exchange market

#### Hryvnia strengthens

The hryvnia became a bit stronger, and at the end of last week, it moved below the UAH28/US\$ level, where it could remain this week.

### Banks' reserves market (18 January 2019)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	18.00	+0bp	+350bp
ON rate (%)	17.41	-10bp	+391bp
ON \$ swap (%)	16.46	+0bp	+330bp
Reserves (UAHm) <sup>2</sup>	53,505	+3.66	+9.84
DepCerts (UAHm) <sup>3</sup>	51,941	-6.41	-3.46

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) (18 January 2019)

	Last	Weekly chg (%)	YoY chg (%)
NBU	344,443	-0.72	-3.94
Banks	368,338	-1.52	+1.36
Residents	20,459	+3.69	-9.11
Individuals	6,292	+3.97	+317.81
Non-res <sup>4</sup>	7,750	+18.52	+47.42
<b>Total</b>	<b>747,282</b>	<b>-0.80</b>	<b>-0.53</b>

Notes: [1] non-residents

Source: NBU, ICU.

### FX market indicators (18 January 2019)

	Last	Weekly chg (%)	YTD chg (%)
USD/UAH	27.9425	-0.43	-2.98
EUR/USD	1.1363	-0.92	-7.15
DX <sup>2</sup>	96.336	+0.70	+6.45
UAH TWI <sup>3</sup>	116.461	+0.57	+12.12

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Gov't bond quotes<sup>1</sup> (21 January 2019)

Maturity	Bid	Ask
6m	20.50	18.50
12m	20.50	19.00
2y	20.50	18.50
3y	20.50	18.00
12m (\$)	7.50	5.00
2y (\$)	7.50	5.20

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

Source: ICU.

# Domestic liquidity and bonds market

## Foreign investors' activity increases

At last week's primary auction, the MoF increased cut-off rates for some issues, and borrowed nearly UAH10bn. Part of the new bonds were purchased by foreign investors, and they are expected to continue to increase their portfolios.

The primary auction received significant demand for local-currency bills, but for some issues the MoF decided to keep rates unchanged. The two shortest bills with three-month and six-month maturities received new cut-off rates, and provided the state budget with UAH5.6bn of proceeds. More details are in the [auction review](#).

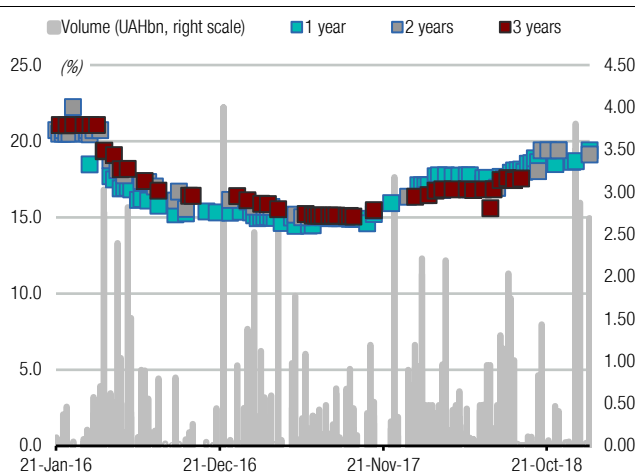
The largest increase in bond portfolios was for those of foreign investors. Their portfolios are up UAH1.2bn including an increase in local-currency bills portfolios by UAH1.5bn, and a decline in FX-denominated bills by UAH0.3bn. A slight increase was also seen in the portfolios of individuals and non-bank companies. At the same time, banks' portfolios declined due to the low refinancing of FX-denominated bills last week.

**ICU view: Last Wednesday, the NBU announced that foreign investors purchased US\$150m of new bills, but the actual changes in portfolios were just US\$50m. It is possible that purchased bills are in other accounts, and they are being held in banks' portfolios. This increased activity is a very positive change, and could support the current level of the yield curve and likely contribute to its decline.**

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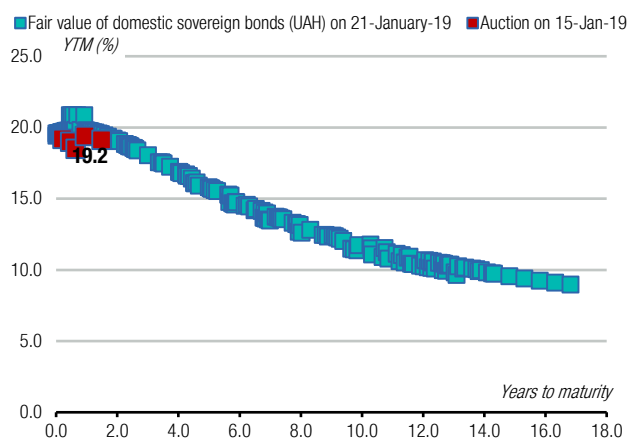
**Chart 1. Local-currency bonds**

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



Source: Ministry of Finance of Ukraine, ICU.

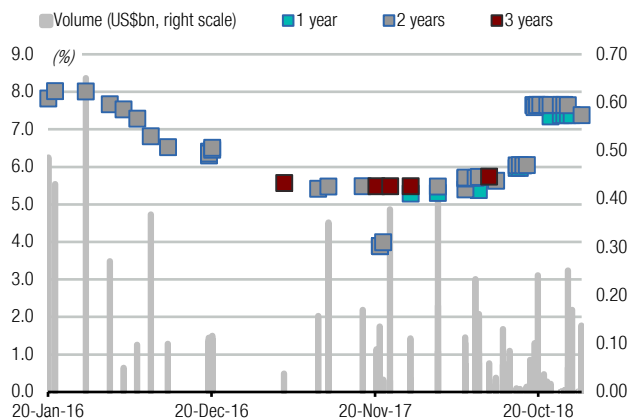
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

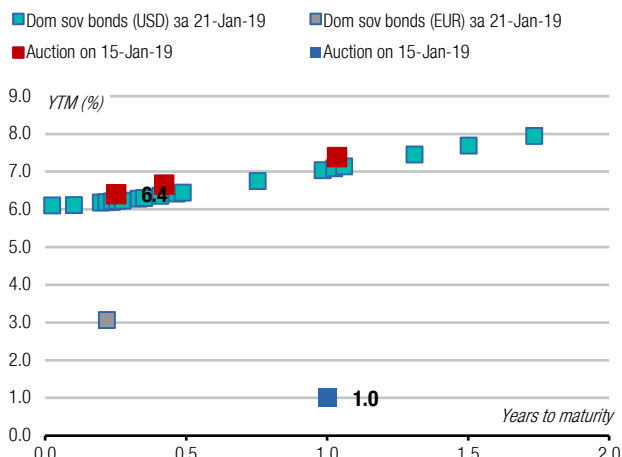
**Chart 2. FX-denominated bonds**

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



Source: Ministry of Finance of Ukraine, ICU.

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



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

**Liquidity steady**

The banking sector continued to show liquidity above UAH100bn, which should motivate them to be more interested in new government bills. This week, liquidity should remain high with a possible slight decline.

Last week, the impact from the budget and FX market was insufficient, and liquidity was in the range of UAH103–108bn. Banks slightly increased portfolios of CDs to UAH51.9bn, with a slight increase in banks' correspondent accounts with the NBU.

At the same time, the key impact on liquidity was from Treasury operations, which absorbed UAH1.7bn. Also, banks increased liquidity by cash exchange in reserves by UAH2.3bn. So, the impact from non-monetary operations was insufficient, just UAH0.6bn. Additionally, the NBU injected UAH0.6bn via the FX market.

**ICU view:** *This week will see the beginning of month-end tax payments, but without sufficient impact on liquidity. Also, local budgets could become more active opening deposits in state-owned banks. Additionally, last Friday banks received UAH7bn 14-days refinancing loans from NBU. So, this week, liquidity could decline slightly. But with quite large amounts of VAT refunds, liquidity could stay between UAH100–110bn.*

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Chart 3. Banks reserves usages over last week(UAHm)

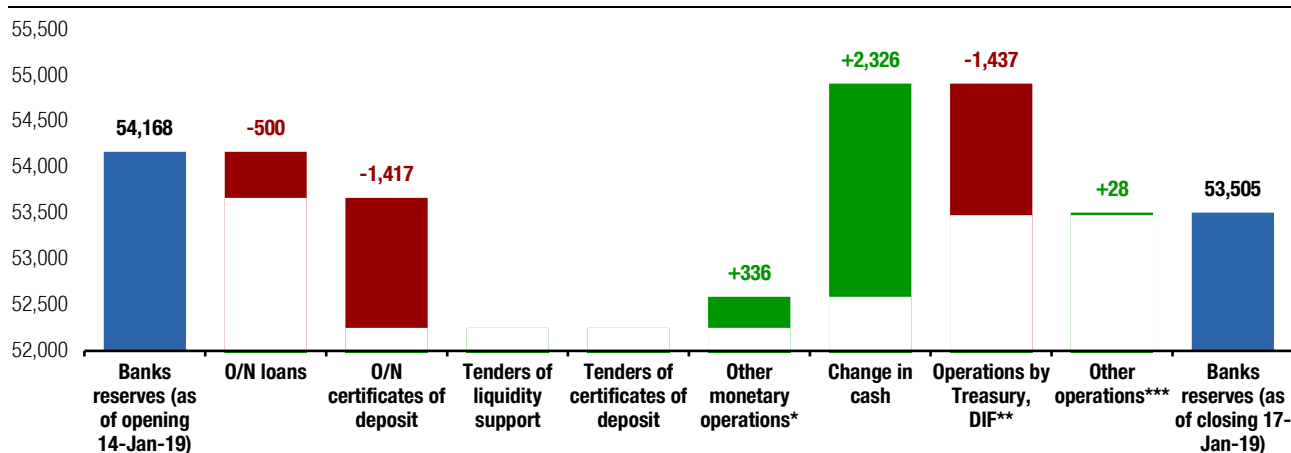
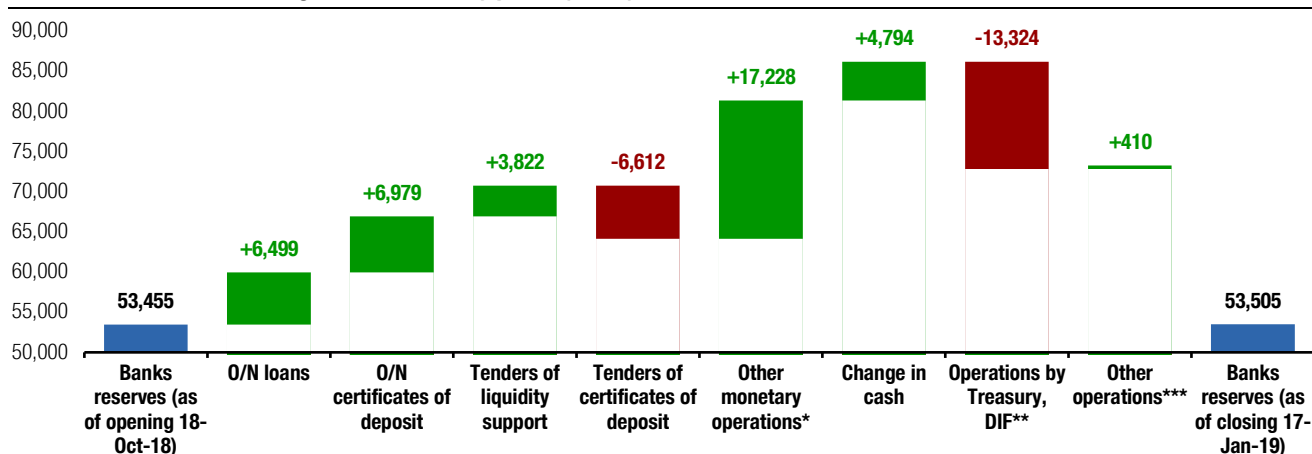


Chart 4. Banks reserves usages over last 90-day period (UAHm)



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

### Hryvnia strengthens

The hryvnia became a bit stronger, and at the end of last week, it moved below the UAH28/US\$ level, where it could remain this week.

Last week, the NBU's participation in the FX market was insufficient, which allowed the hryvnia to trade around UAH28/US\$. In total, last week, the NBU purchased US\$22m, which did not have an impact on the exchange rate. Additional supply of FX could be from foreign investors and local banks to purchase local-currency bills by selling FX received from FX-denominated bills redemption.

Finally, last week the hryvnia appreciated by 0.4% to UAH27.94/US\$. The hryvnia's CPI-based real trade-weighted index (which includes currencies of 27 countries that are trade partners of Ukraine) rose 0.57% to 116.5 while in YoY terms, it was up 12.1%.

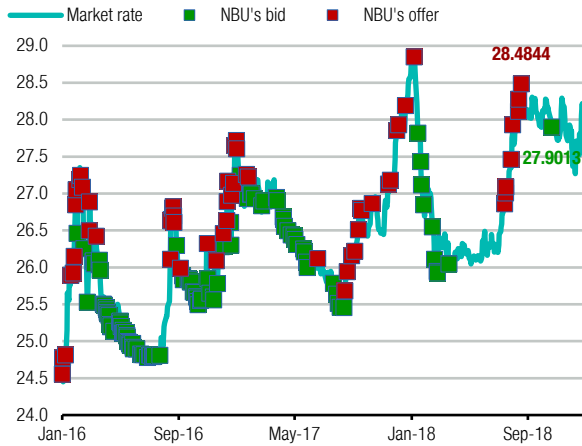
**ICU view: Exchange rate dynamic is quite different from previous years. The hryvnia could stay at the current level with slight volatility until the end of January. This week will start the period of month-end tax payments, which could require additional selling of FX. Also, an additional supply of FX could be provided by foreign investors to**

**purchase new UAH-denominated bills. The NBU may provide additional support for the hryvnia with low levels of FX purchases in the market.**

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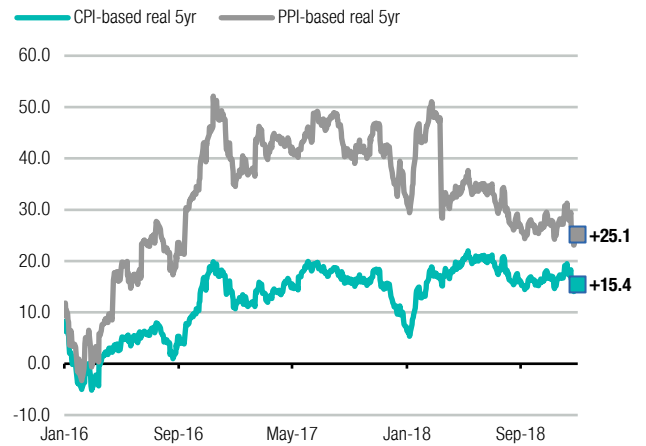
**Chart 5. FX market indicators, 3-year history**

*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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