

Weekly Insight

Real GDP rises 4.2% YoY in 3Q19

Key messages of the today's comments

TUESDAY, 19 NOVEMBER 2019

Domestic liquidity and bonds market

Foreigners' share in T-bills outstanding close to 13%

At the end of last week, foreign investor's share in domestic bonds outstanding rose to 12.87%, and this week it could reach 13%.

Liquidity continues to increase

NBU's purchase of additional supply of hard currency supported banking-sector liquidity, which increased to a new record high. But this week, we will see liquidity outflow to budget accounts and a slight decline.

Foreign exchange market

Hryvnia heading to UAH24/US\$

Last week, the hryvnia received expected support from foreigners and exporters, and appreciated to UAH24.2/US\$. This week, appreciation should continue and reach UAH24/US\$.

Economics

Real GDP rises 4.2% YoY in 3Q19

Robust consumer and investment demand will continue to support Ukraine's economic growth. However, due to lower YoY harvest of late crops, real GDP growth will slow in 4Q19.

Banks' reserves market (18 November 2019)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	15.50	+0bp	-250bp
ON rate (%)	13.97	-1bp	-426bp
ON \$ swap (%)	12.98	+12bp	-462bp
Reserves (UAHm) ²	64,648	+18.21	+17.30
DepCerts (UAHm) ³	71,344	-10.22	+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) (18 November 2019)

	Last	Weekly chg (%)	YoY chg (%)
NBU	337,063	+0.00	-3.17
Banks	337,851	+1.62	-6.36
Residents	26,484	-0.28	+32.63
Individuals	10,144	+4.36	+83.81
Non-res ⁴	105,062	+3.14	+1,423.73
Total	816,605	+1.11	+10.16

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (18 November 2019)

	Last	Weekly chg (%)	YTD chg (%)
USD/UAH	24.1150	-1.37	-13.28
EUR/USD	1.1072	+0.57	-3.00
DXY ²	97.794	-0.52	+1.38
UAH TWI ³	136.507	+1.05	+16.58

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (19 November 2019)

Maturity	Bid	Ask
6m	15.50	14.00
12m	15.50	14.00
2y	15.25	13.75
3y	14.75	13.00
12m (\$)	5.00	3.00
2y (\$)	5.00	3.50

Notes: [1] Actual quotes you can see at www.icu.ua.

Source: ICU.

Domestic liquidity and bonds market

Foreigners' share in T-bills outstanding close to 13%

At the end of last week, foreign investor's share in domestic bonds outstanding rose to 12.87%, and this week it could reach 13%.

Last week, foreigners invested an additional UAH3bn in local-currency bills and increased total bonds outstanding in their portfolios to UAH105.1bn. The local-currency amount is UAH102.3bn.

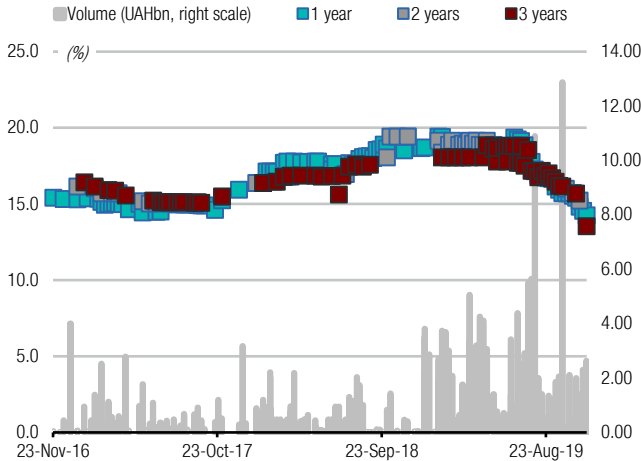
Since the NBU did not increase its portfolio, FX-denominated bills were purchased by banks and individuals, and local-currency instruments were mostly purchased by foreigners, the structure of bondholders shifted in favor of these three groups. Foreign investors' share rose to 12.87%, banks to 41.37%, and individuals to 1.24%.

ICU view: We expect that most of the two-year bills today will be purchased by foreigners, so their portfolios will continue to grow. As the result, their share in total bonds outstanding can rise to 13%.

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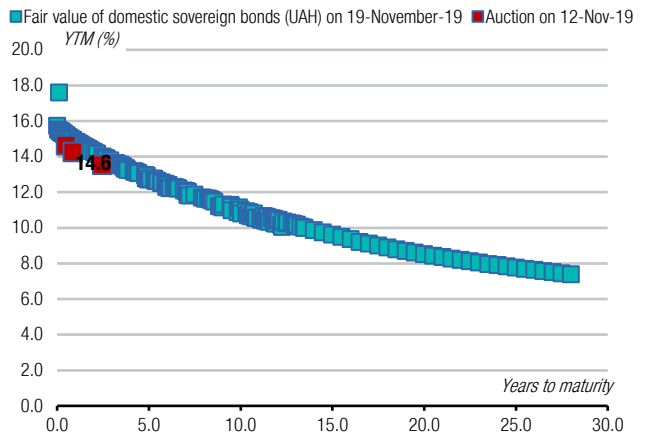
Chart 1. Local-currency bonds

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.

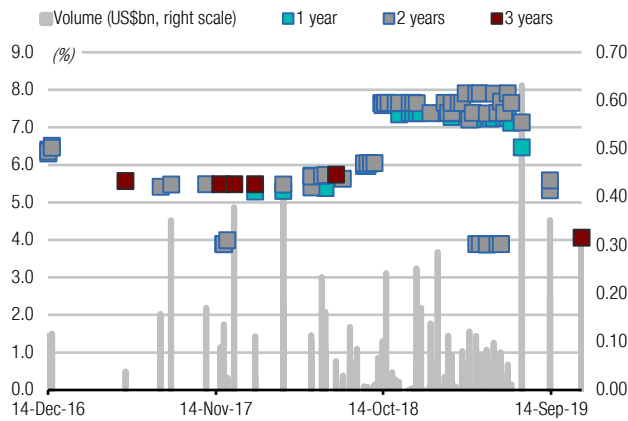
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

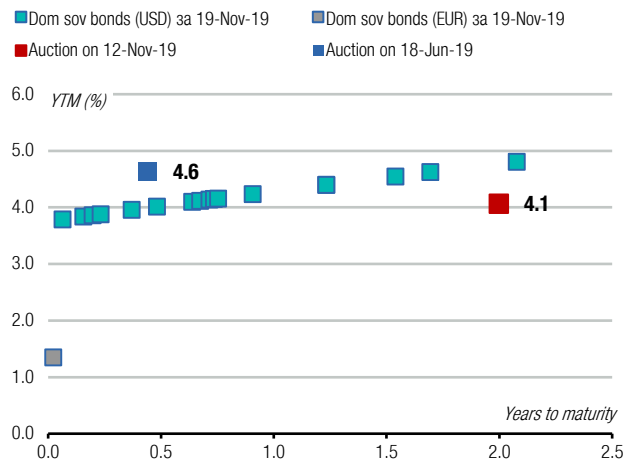
Chart 2. FX-denominated bonds

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 continues to increase

NBU's purchase of additional supply of hard currency supported banking-sector liquidity, which increased to a new record high. But this week, we will see liquidity outflow to budget accounts and a slight decline.

Last week, the NBU spent UAH4.7bn on purchasing FX, which caused an increase in liquidity due to the insufficient impact of the Treasury on liquidity. The total amount of banking-sector liquidity rose to a new record high of UAH136bn last Thursday, including UAH80bn in NBU CDs.

ICU view: Last Friday, banks slightly decreased the amount of funds in two-week CDs and moved funds to ON CDs and banks' correspondent accounts with the NBU. This should support quarterly tax payments, and liquidity could decline below UAH130bn.

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

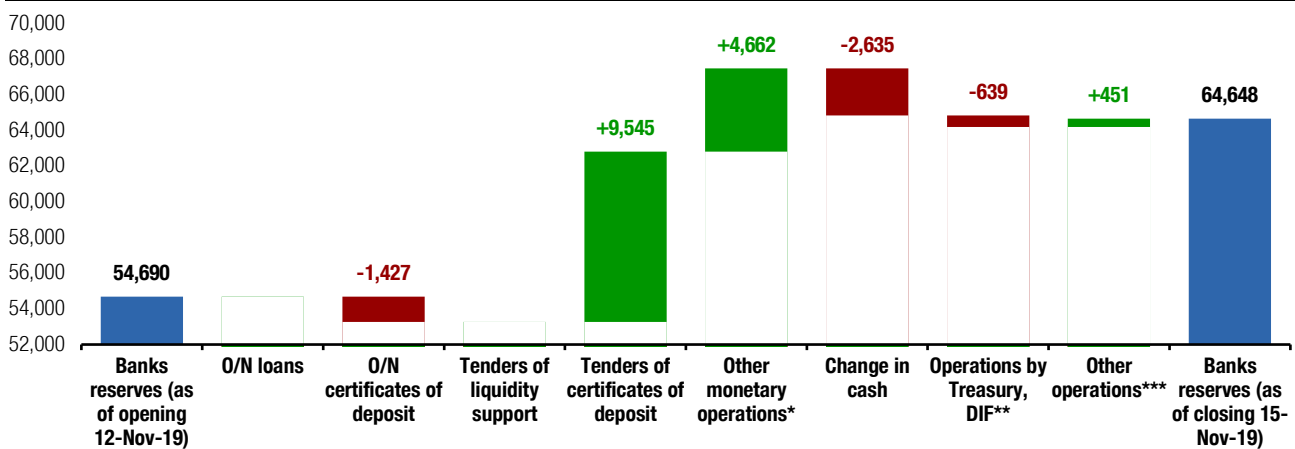
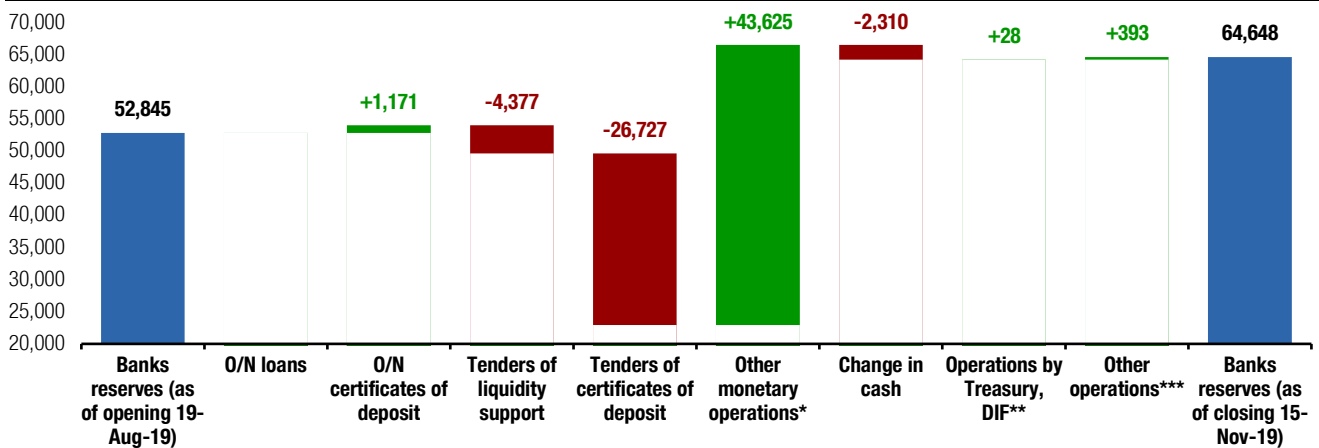


Chart 4. Banks reserves usages over last 90-day period (UAHm)



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

* 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 heading to UAH24/US\$

Last week, the hryvnia received expected support from foreigners and exporters, and appreciated to UAH24.2/US\$. This week, appreciation should continue and reach UAH24/US\$.

Last week, foreigners increased purchases of new notes (see comment above) adding to the supply of FX in the market. Exporters also increased the supply, as some of them paid quarterly income tax to the budget. Last Thursday, tax collections doubled, and on Friday, it was four times greater compared with the beginning of the week.

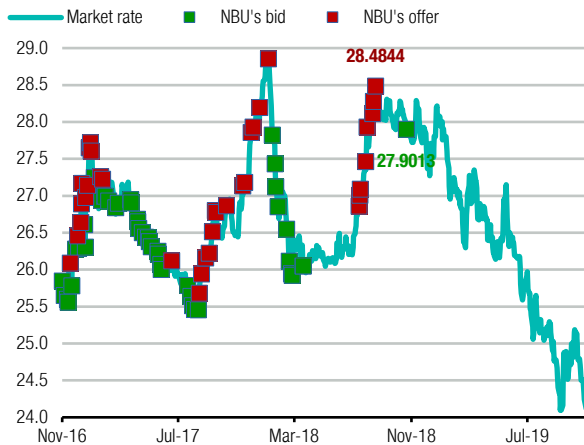
As a result, the NBU had to purchase US\$191.8m of hard currency to restrain hryvnia appreciation. In the end, hryvnia appreciated by 1.15% to UAH24.22/US\$. The hryvnia's CPI-based real trade-weighted index (which includes currencies of 27 countries that are trade partners of Ukraine) rose 1.1% to 135.9, while in YoY terms, it was up 15.8%.

ICU view: We expect two sources of additional hard currency supply this week as settlement of new bonds on Wednesday and the last day of quarterly tax payments. This can cause significant supply of FX, support for hryvnia, moving the exchange rate to UAH24/US\$, and probably below this level.

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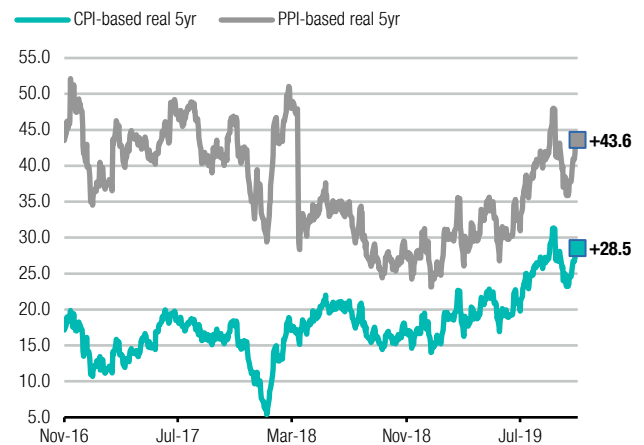
Chart 5. FX market indicators, 3-year history

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 misalignment¹ from fundamental level² (%)



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

Economics

Real GDP rises 4.2% YoY in 3Q19

Robust consumer and investment demand will continue to support Ukraine's economic growth. However, due to lower YoY harvest of late crops, real GDP growth will slow in 4Q19.

Real GDP grew 0.7% QoQ SA and 4.2% YoY in 3Q19, having slowed from 4.6% YoY in 2Q19, per preliminary estimate from the Ukrstat. The detailed breakdown of the GDP components will be released on the 19. December.

ICU view: 3Q19 real GDP growth was higher than our (+3.4% YoY) and the NBU's (+3.5% YoY) estimates. Given lower growth in real sectors of economy in 3Q19, we expected more significant slowdown of economic growth. We believe the economy might have received support from the services sector, as consumer confidence in 3Q19 was at a level not seen since 2008. While robust consumer and investment demand will continue to support Ukraine's economic growth, lower YoY harvest of late crops will bring about a further slowdown in 4Q19.

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