

# Weekly Insight

## FX-denominated T-bills offered again

### Key messages of the today's comments

TUESDAY, 3 DECEMBER 2019

### Domestic liquidity and bonds market

#### FX-denominated T-bills offered again

Last week, the Ministry of Finance revised its schedule for bonds to be auctioned in December, adding for today two FX-denominated bills. Despite capped offerings, these bills should be in high demand and support budget financing.

#### Liquidity volatile at UAH130bn

After significant decline in mid-November, liquidity recovered to UAH130bn and is volatile near this level. Outflows to budget accounts can decline this week, while the NBU will continue to purchase extra supply of hard currencies, which will support liquidity near UAH130bn.

### Foreign exchange market

#### US dollar under UAH24

Despite just a slight increase in foreigners' portfolios, the supply of hard currency was large, which caused further appreciation of the hryvnia. This week, the hryvnia exchange rate can stabilize at the current level.

### Economics

#### C/A deficit fell to 2.5% of GDP in October

Lower world energy prices will continue to support Ukraine's C/A balance this year. However, due to lower YoY harvest in 4Q19 and declining steel prices, the C/A deficit will increase moderately in the following months.

### Banks' reserves market (2 December 2019)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	15.50	+0bp	-250bp
ON rate (%)	13.99	+4bp	-434bp
ON \$ swap (%)	12.82	-43bp	-520bp
Reserves (UAHm) <sup>2</sup>	54,110	-2.91	-4.99
DepCerts (UAHm) <sup>3</sup>	77,192	+6.40	+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) (2 December 2019)

	Last	Weekly chg (%)	YoY chg (%)
NBU	337,065	+0.00	-3.17
Banks	328,967	-2.45	-7.68
Residents	26,412	-0.55	+33.85
Individuals	9,882	-1.49	+71.96
Non-res <sup>4</sup>	104,318	-0.42	+1,533.12
<b>Total</b>	<b>806,643</b>	<b>-1.11</b>	<b>+9.51</b>

Notes: [1] non-residents

Source: NBU, ICU.

### FX market indicators (2 December 2019)

	Last	Weekly chg (%)	YTD chg (%)
USD/UAH	23.9550	-0.19	-15.05
EUR/USD	1.1079	+0.53	-2.10
DXY <sup>2</sup>	97.856	-0.40	+0.60
UAH TWI <sup>3</sup>	137.720	+0.05	+18.55

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Gov't bond quotes<sup>1</sup> (3 December 2019)

Maturity	Bid	Ask
6m	15.75	14.25
12m	15.75	14.00
2y	15.25	13.75
3y	14.75	12.70
12m (\$)	5.00	3.00
2y (\$)	5.00	3.50

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

Source: ICU.

# Domestic liquidity and bonds market

## FX-denominated T-bills offered again

Last week, the Ministry of Finance revised its schedule for bonds to be auctioned in December, adding for today two FX-denominated bills. Despite capped offerings, these bills should be in high demand and support budget financing.

This month, the MoF decided not to offer four-year notes, and instead offered 3.5-year notes. This maturity could see high demand from foreigners, as demand for the three-year and four-year notes significantly exceeded the cap for the auction. This week, the cap increased to UAH3bn compared with UAH2.5bn in November.

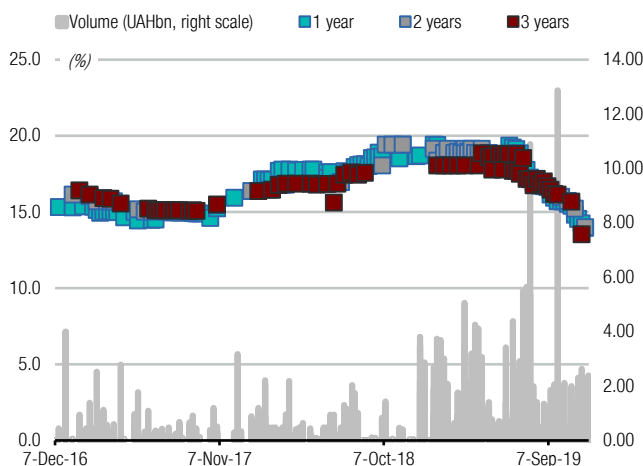
In addition to UAH-denominated paper, MoF again is offering FX-denominated bills. Two issues will be offered today, with maturities in February and December 2021. The total amount of these offerings is US\$350m, or US\$50m larger than last month.

**ICU view: The total amount the MoF can borrow today is around UAH12bn, with short-term bills. But without them, proceeds could be somewhere around UAH11bn, significantly supporting budget financing. We expect that interest rates will continue to decline due to caps applied to each offering.**

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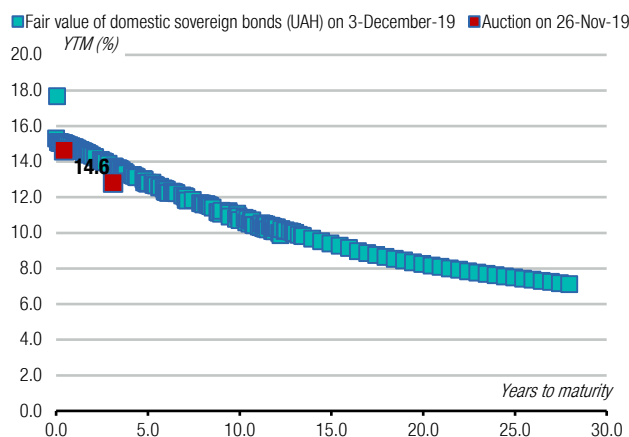
**Chart 1. Local-currency bonds**

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.

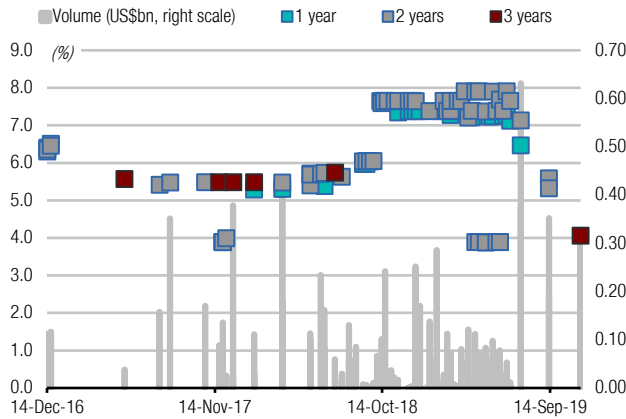
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

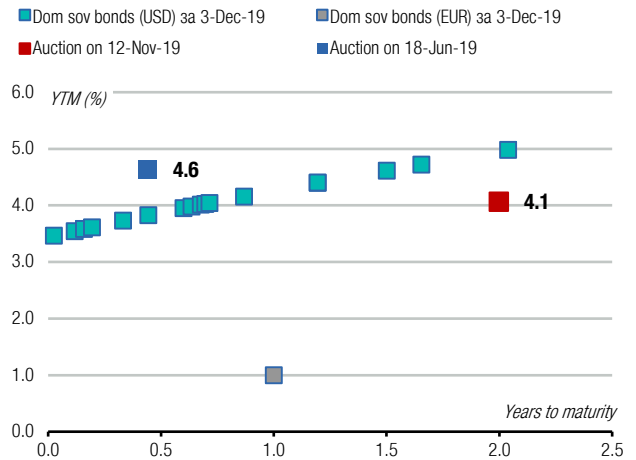
**Chart 2. FX-denominated bonds**

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 volatile at UAH130bn**

After significant decline in mid-November, liquidity recovered to UAH130bn and is volatile near this level. Outflows to budget accounts can decline this week, while the NBU will continue to purchase extra supply of hard currencies, which will support liquidity near UAH130bn.

Last week, outflows to budget accounts fell nearly four times to UAH3.1bn, and were fully compensated by cash exchange in reserves, which amounted to UAH3.6bn. Money paid by the NBU for hard currency at UAH4.4bn was the main source for liquidity recovery to UAH130bn last week.

**ICU view:** This week, we expect the NBU will continue to purchase hard currencies at the market, as the MoF will offer notes attractive to foreigners. As debt repayments tomorrow amounted to almost UAH5bn, most of these repayments will be refinanced with low impact on liquidity, keeping it at around UAH130bn.

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

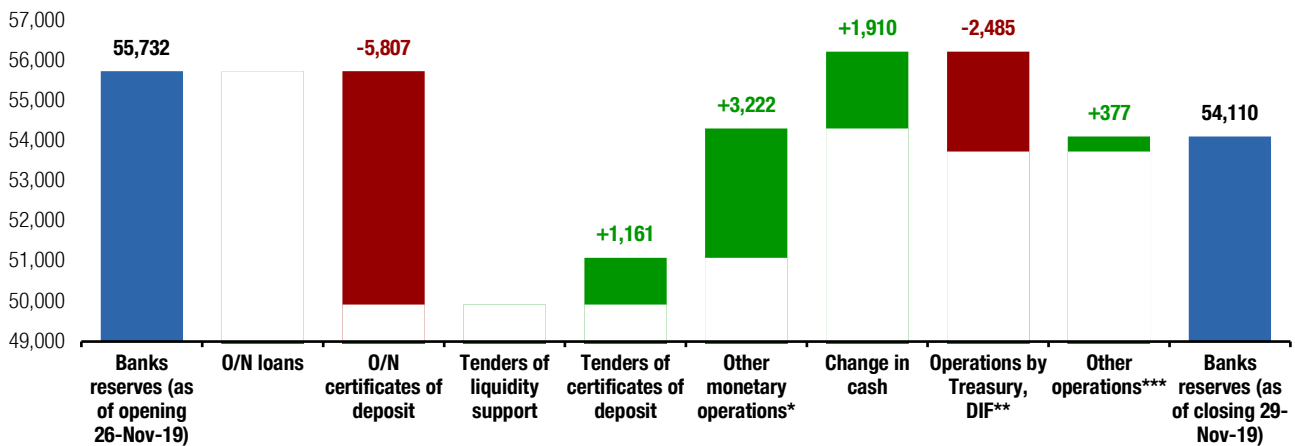
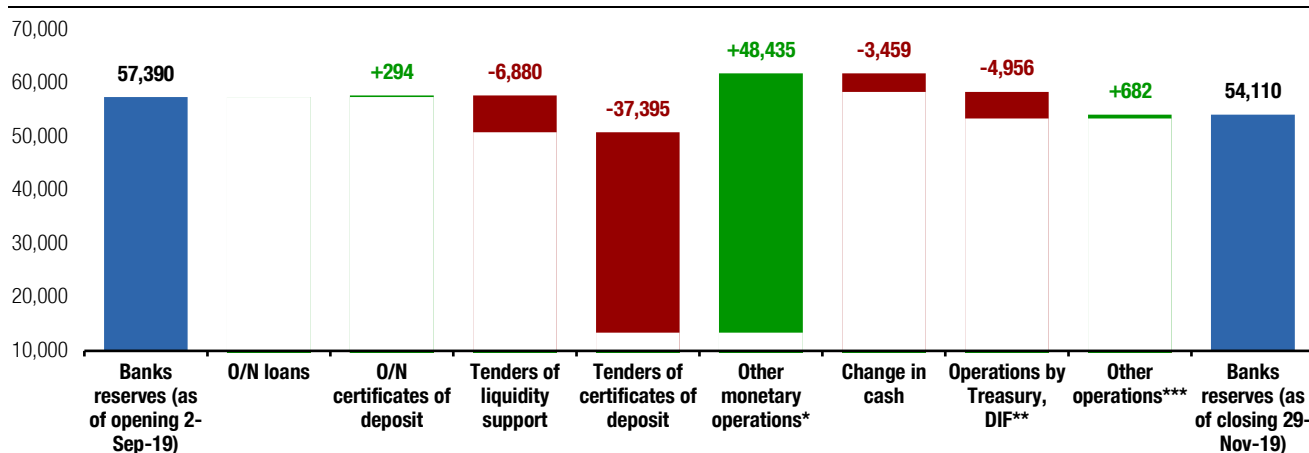


Chart 4. Banks reserves usages over last 90-day period (UAHm)



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

### US dollar under UAH24

Despite just a slight increase in foreigners' portfolios, the supply of hard currency was large, which caused further appreciation of the hryvnia. This week, the hryvnia exchange rate can stabilize at the current level.

Last week, the hryvnia appreciated by 0.8% to UAH23.96/US\$. This is more than 15% during the last 12 months and more than 13% YTD. The hryvnia's CPI-based real trade-weighted index (which includes currencies of 27 countries that are trade partners of Ukraine) rose 1.2% to 138.2, while in YoY terms, it was up 20%.

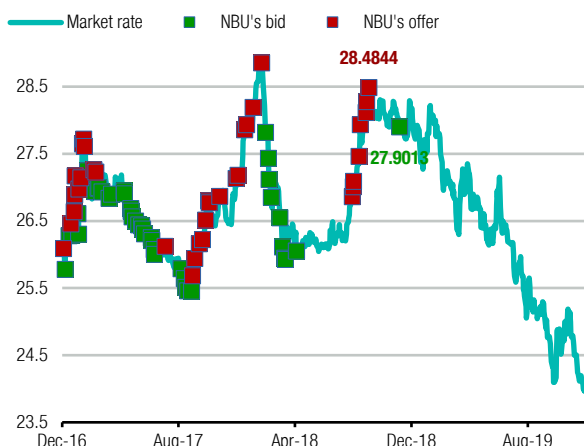
Last week, the NBU purchased US\$184m from the market, but foreigners purchased just UAH940m of new UAH-denominated instruments, or less than US\$40m equivalent. Probably, the supply of hard currency was from exporters, whose grain exports continue and they use revenues for payments inside Ukraine.

**ICU view: Export revenues and foreigners' investments in new T-notes provided enough supply of hard currency. Since it could not be absorbed by the market, the NBU was required to purchase the extra supply. We expect that this week supply will still be larger than demand, and the NBU will have to step in to keep the exchange rate at the current level, near UAH24/US\$.**

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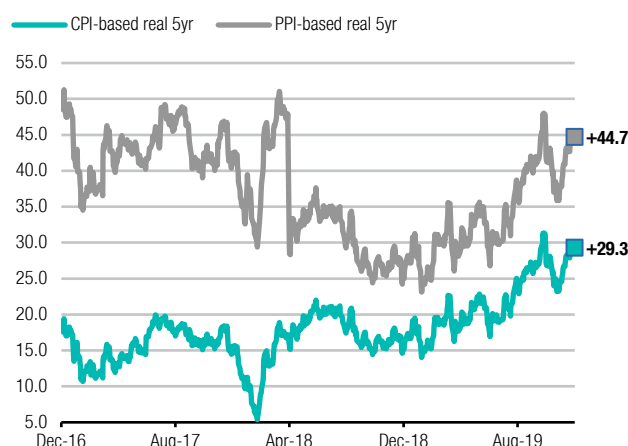
**Chart 5. FX market indicators, 3-year history**

*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.

## Economics

### C/A deficit fell to 2.5% of GDP in October

Lower world energy prices will continue to support Ukraine's C/A balance this year. However, due to lower YoY harvest in 4Q19 and declining steel prices, the C/A deficit will increase moderately in the following months.

In 10M19, the C/A deficit fell 17% YoY to US\$3.4bn, while in annualized terms, it declined 24% YoY to US\$3.7bn (est. 2.5% of GDP), per data from the NBU. In October, merchandise exports rose 7% YoY, mainly thanks to 22% YoY growth in agricultural exports (accounts for almost all YoY growth on a net basis) and machinery and equipment (+15% YoY). In 10M19, exports of goods rose 8.8% YoY to US\$38.3bn. Imports of goods rose only 3% YoY driven primarily by a 19% YoY increase in machinery and equipment, while energy imports dropped 9% YoY. In 10M19, imports of goods rose 7.4% YoY to US\$49.6bn, while energy imports declined 4% YoY. On a 12-month trailing basis, the merchandise-trade-balance deficit was US\$13.5bn (+6% YoY, 9% of GDP) in October, while the services-trade-balance surplus soared 51% YoY to US\$1.8bn.

**ICU view: Lower world energy prices and a further increase in remittances (+10% YoY in 3Q19 per our estimates vs. 4.8% YoY in 1H19) will continue to support Ukraine's C/A balance this year. However, due to further decline in steel prices as well as the lower YoY harvest in 4Q19, the C/A deficit will increase moderately in the following months.**

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