

Weekly Insight

GDP falls by 1.3% YoY in 1Q20

Key messages of the today's comments

Domestic liquidity and bonds market

Foreign investors still interested in UAH-denominated bills

Last week, foreign investors not only sold UAH-denominated bills from their portfolios, they also made small purchases of new UAH-denominated bills. This week, we do not anticipate much activity in the market, so the decline in portfolios should slow.

Liquidity falls to UAH180bn

Active spending of budget funds and the NBU's participation in the FX market kept liquidity above UAH200bn most of last week until Friday. This week, liquidity will depend on VAT refunds and month-end tax payments with slight increase.

Foreign exchange market

Hryvnia remains steady

Last week, the hryvnia remained within the expected range with slight fluctuations. This week, we expect the exchange rate to be similar with a slight increase in fluctuations.

Economics

GDP falls by 1.3% YoY and by 0.7% QoQ SA in 1Q20

The economy was hit hard by lockdown measures in March in addition to a sharp fall in investments and public consumption.

MONDAY, 22 JUNE 2020

Banks' reserves market (19 June 2020)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	6.00	+0bp	-1,150bp
ON rate (%)	6.08	-99bp	-1,020bp
ON \$ swap (%)	5.21	+13bp	-929bp
Reserves (UAHm) ²	63,140	+47.81	+3.70
CDs (UAHm) ³	137,200	-10.90	+228.39

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) (19 June 2020)

	Last	Weekly chg (%)	YoY chg (%)
NBU	324,577	+0.00	-3.72
Banks	410,140	+0.81	+13.58
Residents	30,582	-40.75	+19.54
Individuals	7,516	-1.38	-22.66
Foreigners ¹	101,581	-1.35	+96.28
Total	874,396	-2.15	+11.35

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (19 June 2020)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.7221	-0.11	+1.35
EUR/USD	1.1178	-0.69	-0.43
DXY	97.623	+0.31	+0.52
UAH TWI ¹	127.654	+0.27	+3.28

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (22 June 2020)

Maturity	Bid	Ask
6m	10.50	7.00
12m	10.70	9.25
2y	11.25	10.00
3y	11.50	10.50
12m (\$)	5.00	3.00
2y (\$)	6.00	3.50

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

Source: ICU.

Domestic liquidity and bonds market

Foreign investors still interested in UAH-denominated bills

Last week, foreign investors not only sold UAH-denominated bills from their portfolios, they also made small purchases of new UAH-denominated bills. This week, we do not anticipate much activity in the market, so the decline in portfolios should slow.

In total last week, taking into account some purchases of new bills, foreigners' portfolios of UAH-denominated bills declined by UAH0.7bn (US\$25m) to UAH99bn (US\$3.7bn). In the last three months, their portfolios have decreased or remained unchanged. On Thursday, for the first time since 12 March, foreign investors increased portfolios by UAH144m (US\$5.4m).

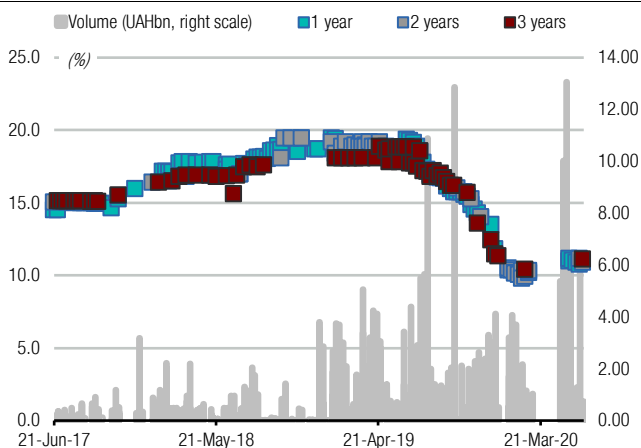
Most new local-currency bills were purchased by locals last week, both banks and non-bank investors. Meanwhile, individuals decreased their portfolios by UAH118m to UAH2.8bn in local currency and to UAH7.5bn in all currencies.

ICU view: Foreigners' purchases of new bills did not change the general dynamic of their portfolios, which continued to decline. However, since they did make some purchases, they are keeping their focus on Ukraine and UAH-denominated bills. With the hryvnia weakening later this year, this dynamic could change to positive, with a slight increase in portfolios.

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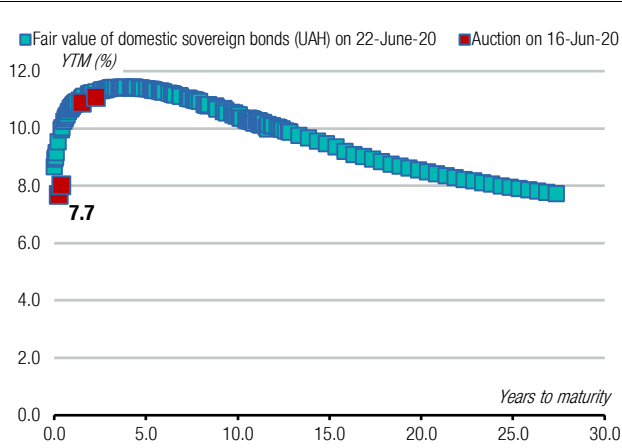
Chart 1. Local-currency bonds

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.

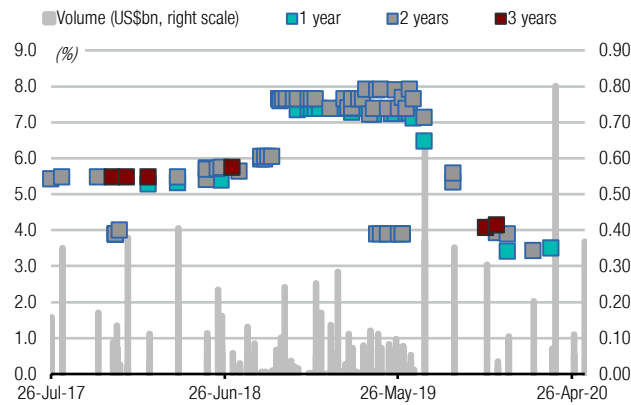
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

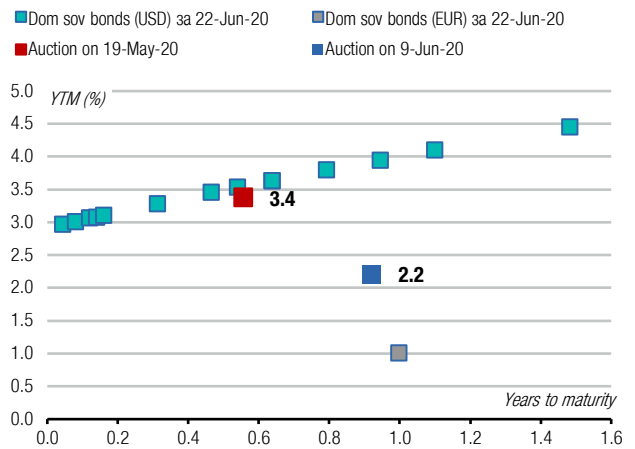
Chart 2. FX-denominated bonds

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 falls to UAH180bn

Active spending of budget funds and the NBU's participation in the FX market kept liquidity above UAH200bn most of last week until Friday. This week, liquidity will depend on VAT refunds and month-end tax payments with slight increase.

Last week, the budget and NBU had a positive impact on liquidity. During Monday-Thursday the balance of budget transactions declined to UAH7.5bn from UAH10bn from the week before, while NBU increased inflows of funds through hard currency purchases to UAH3.7bn.

However, banks continued to exchange reserves in cash, which had a negative impact on liquidity of UAH3.8bn. Additionally, banks repaid UAH6.4bn of NBU loans. The largest outflow was seen last Friday, when budget absorbed UAH22.6bn with liquidity falling to UAH180bn.

ICU view: As budget revenues are not good and government spending is high, state-owned Privatbank could be the painkiller. Probably Privatbank paid to the state budget its dividends last Friday according to the government decision. This week, tax collection can improve due to month-end tax payments, but the government will have to accelerate VAT refunds. Therefore, liquidity can recover slightly staying close to UAH180bn.

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

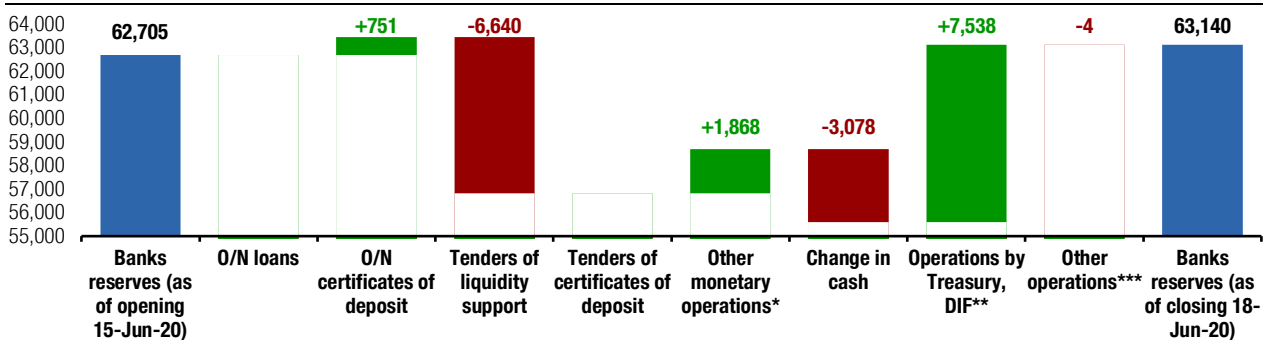
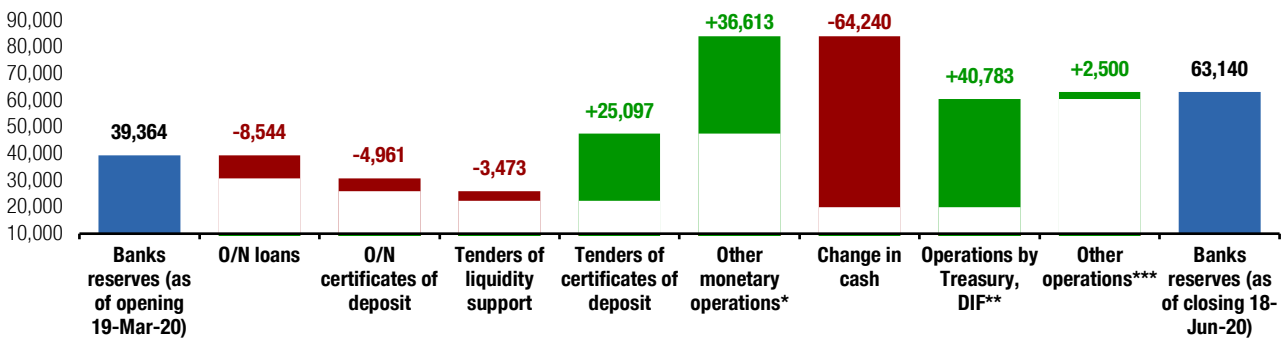


Chart 4. Banks reserves usages over last 90-day period (UAHm)



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 remains steady

Last week, the hryvnia remained within the expected range with slight fluctuations. This week, we expect the exchange rate to be similar with a slight increase in fluctuations.

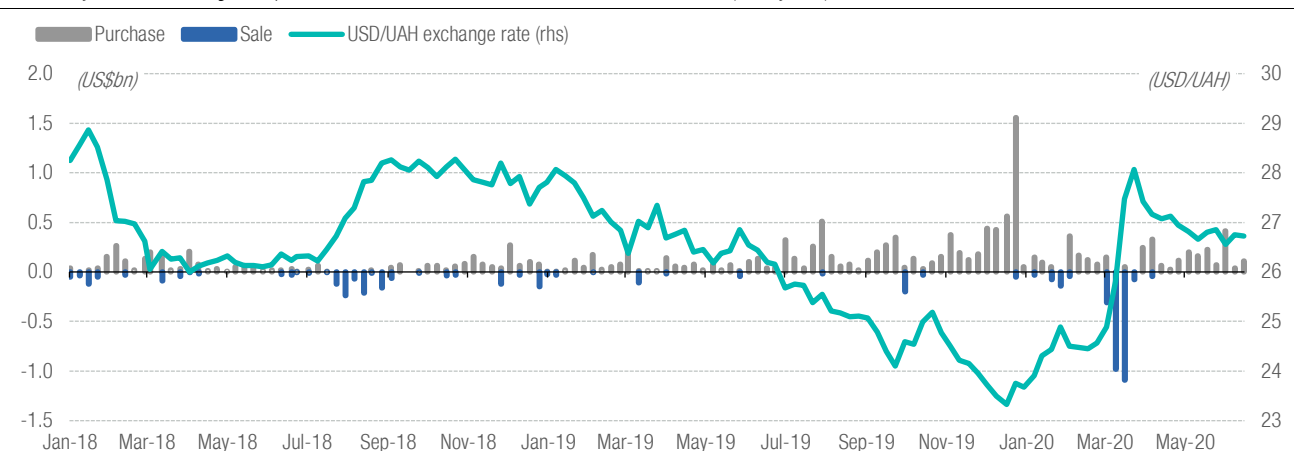
The FX market likely was self-balanced last week, while the NBU slightly increased hard currency purchases to US\$110m, which took place just three out of five business days. These purchases only restrained appreciation, keeping the hryvnia within the expected range of UAH26.5–27/US\$. Finally, last week, the hryvnia appreciated by 0.1% to UAH26.72/US\$.

ICU view: This week, hryvnia exchange rate fluctuations can increase due to mismatching VAT refunds and month-end tax payments. But this should not cause hryvnia exchange rate to move out of the UAH26.5–27.0/USD range.

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Chart 5. 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.

Economics

GDP falls by 1.3% YoY and by 0.7% QoQ SA in 1Q20

The economy was hit hard by lockdown measures in March in addition to a sharp fall in investments and public consumption.

Ukrstat slightly improved GDP figures for 1Q20 compared with flash estimates published a month ago (showing a decline of 0.8% QoQ SA and 1.5% YoY). On the expenditures side, the decline in investments in fixed capital (by 21.4% YoY) and government consumption (by 9.7% YoY) played the major role. Meanwhile, private consumption growth stayed robust (8.1% YoY) and exports continued to grow, albeit slowly, by 0.9% YoY. Among sectors, the main losses were registered by transportation (valued add declined by 8.6% YoY), financial activity (by 7.9% YoY), electricity generation (by 7.7% YoY), HORECA (by 8.8% YoY), and other services (by 12.7% YoY). Only three sectors showed positive growth rates, namely trade (5.4% YoY), IT (3.6% YoY), and real estate operations (2.9% YoY).

ICU view: The published GDP breakdown revealed that the decline in investments and public consumption were the primary drag on economic activity. Investments were hit hard by increasing uncertainty related to the spreading coronavirus and lower funds directed to alternative energy projects. Public consumption was affected by underperformance of budget expenditures amid lower revenues and limited financing. In addition, warm weather and lower amounts of gas transportation contributed sensibly to a contraction of GDP.

Looking ahead, 2Q20 economic activity figures are likely to reveal the full extent of the crisis; we expect the decline to deepen to 10% YoY. Then we project GDP to start recovering from 3Q20, but at a slow pace due to lower incomes and precautionary behavior of consumers and investors, which could cause full-year GDP contraction of 6.7%.

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