



Focus
Ukraine

Markets
Domestic liquidity,
government bonds, FX
market, and macro

Research team
Sergiy Nikolaychuk
Alexander Martynenko
Taras Kotovych

Weekly Insight

Rates continue to rise

Key messages of the today's comments

Domestic liquidity and bonds market

Rates continue to rise

Last week, the Ministry of Finance agreed to raise rates on semi-annual bills, but kept them unchanged for longer maturities. This week, the Ministry plans to place FX-denominated bills, so they can receive the bulk of the demand, while for UAH-denominated instruments, another decline in activity is possible.

Liquidity balances at UAH170bn

The total amount of banking-sector liquidity fluctuated at around UAH170bn last week, mostly reacting to Treasury cash flows. This week, we do not expect material changes in liquidity, with fluctuations around UAH 170bn.

Foreign exchange market

Hryvnia stabilizes

The FX market was mostly self-balanced last week with low interventions from the NBU, which kept the hryvnia exchange rate fluctuating at around UAH28.3/US\$. This week, we do not anticipate much exchange-rate volatility, although the NBU will soften fluctuations in FX market as necessary.

MONDAY, 5 OCTOBER 2020

Banks' reserves market (2 October 2020)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	6.00	+0bp	-1,050bp
ON rate (%)	5.16	+21bp	-976bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	56,545	-1.93	+12.18
CDs (UAHm) ³	127,336	+20.17	+124.25

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) (2 October 2020)

	Last	Weekly chg (%)	YoY chg (%)
NBU	324,577	+0.00	-3.71
Banks	431,333	+1.18	+22.37
Residents	29,921	-4.11	+11.33
Individuals	8,144	-2.15	-22.16
Foreigners ¹	82,505	-2.79	-17.69
Total	876,479	+0.14	+5.99

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (2 October 2020)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	28.3640	+0.27	+14.18
EUR/USD	1.1716	+0.73	+6.91
DXY	93.844	-0.84	-5.23
UAH TWI ¹	121.289	-0.68	-9.52

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (5 October 2020)

Maturity	Bid	Ask
6m	10.00	8.00
12m	10.50	9.00
2y	11.00	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

Rates continue to rise

Last week, the Ministry of Finance agreed to raise rates on semi-annual bills, but kept them unchanged for longer maturities. This week, the Ministry plans to place FX-denominated bills, so they can receive the bulk of the demand, while for UAH-denominated instruments, another decline in activity is possible.

At last Tuesday's auction, most of the demand was concentrated on semi-annual bills, but it required an increase in rates by at least 18bp up to 8%. The Ministry of Finance did not agree to a larger increase than that. However, for longer bills, demand was lower, and even under such conditions most of it was rejected. Rates remained unchanged at 9.5% for one year and 10.5% for two-year bills. More details in the [auction review](#).

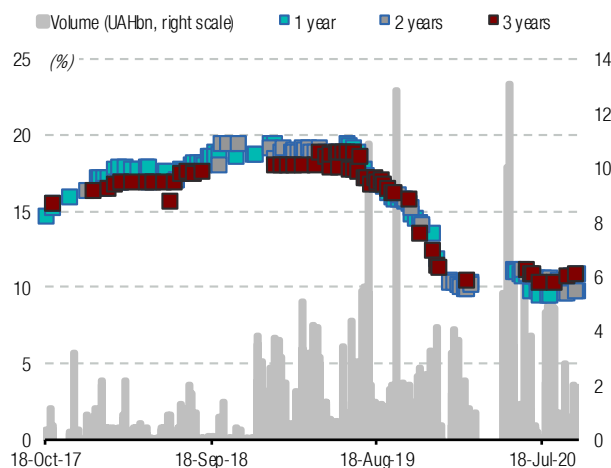
But even after raising the rate on semi-annual bonds, only UAH2bn was attracted for the budget, or less than 1/5 of last week's debt principal and interest repayments were refinanced. As a result, only banks' portfolios continued to grow, increasing by UAH4.8bn to UAH432bn. However, this was because of the issuance of bonds to increase the share capital of Ukreximbank by UAH6.8bn. Other groups of investors reduced their portfolios: non-banking institutions by UAH1.3bn to UAH30bn, individuals by UAH0.2bn to UAH8.2bn, and foreigners by UAH4.9bn to UAH82bn. The reduction was primarily due to bond redemptions of UAH8.2bn.

ICU view: Debt repayments in October will include just interest payments without impact on demand or the amount in portfolios. Mostly, portfolios will fluctuate due to secondary market deals and new placements. Without redemptions, demand for UAH-denominated instruments will be lower than last week, while FX-denominated bills can improve budget financing and increase portfolios of domestic holders. However, with low demand, the Ministry can continue to be flexible with its decisions, and gradually increase rates by 10-20bp per week, moving towards market sentiment.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

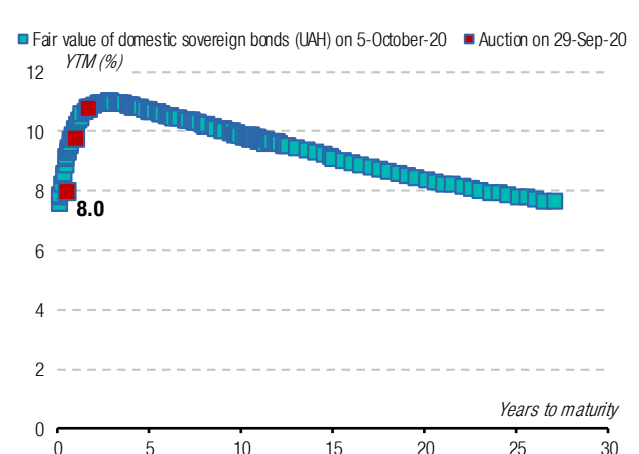
Chart 1. Local-currency bonds

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.

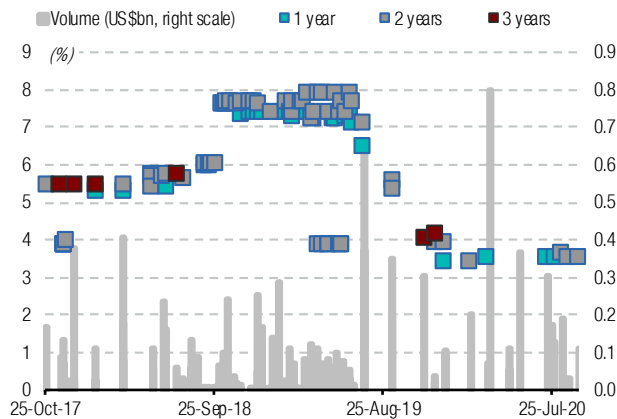
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

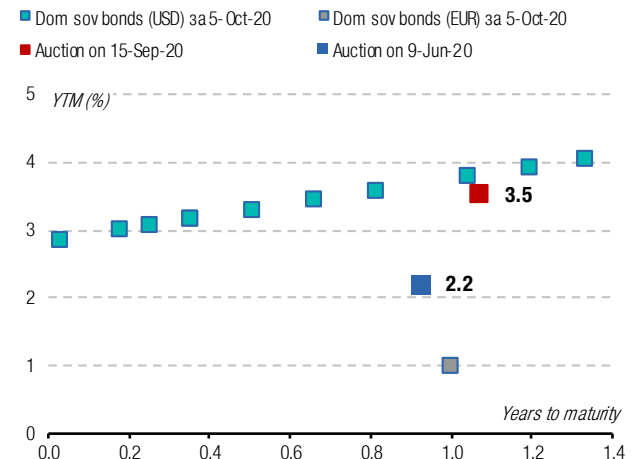
Chart 2. FX-denominated bonds

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 balances at UAH170bn

The total amount of banking-sector liquidity fluctuated at around UAH170bn last week, mostly reacting to Treasury cash flows. This week, we do not expect material changes in liquidity, with fluctuations around UAH170bn.

Last week started with large tax payments, which decreased liquidity to UAH166bn. But by Wednesday, with lower tax collections and UAH10.6bn of debt repayments, Treasury operations were balanced, and became neutral for liquidity. At the same time, banks' exchange of cash in reserves recovered liquidity to above UAH170bn.

Finally, at the end of last week, liquidity was impacted from an outflows to the Treasury of UAH0.2bn, inflows from banks through cash exchange in reserves of UAH1.7bn, and the NBU absorbed UAH2bn through the FX market and other monetary operations.

ICU view: This week, the key impact on liquidity will come from Treasury operations. An increase in budget expenditures can support a liquidity increase, but lower balances in Treasury accounts will act as a restraint on government activity in budget expenditures. On the other hand, as is usual, banks will increase reserves exchange in cash during the first half of the month. Nonetheless, NBU's deals in the FX market will have low impact on liquidity.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

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

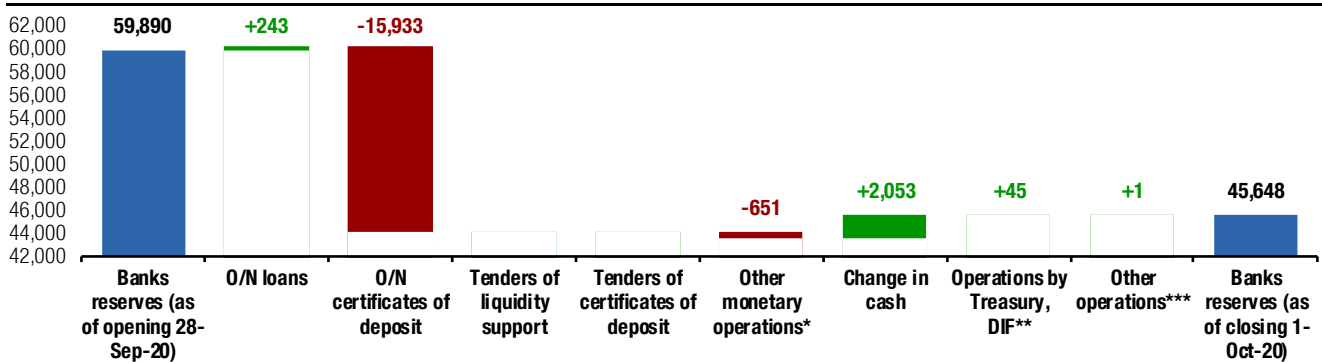
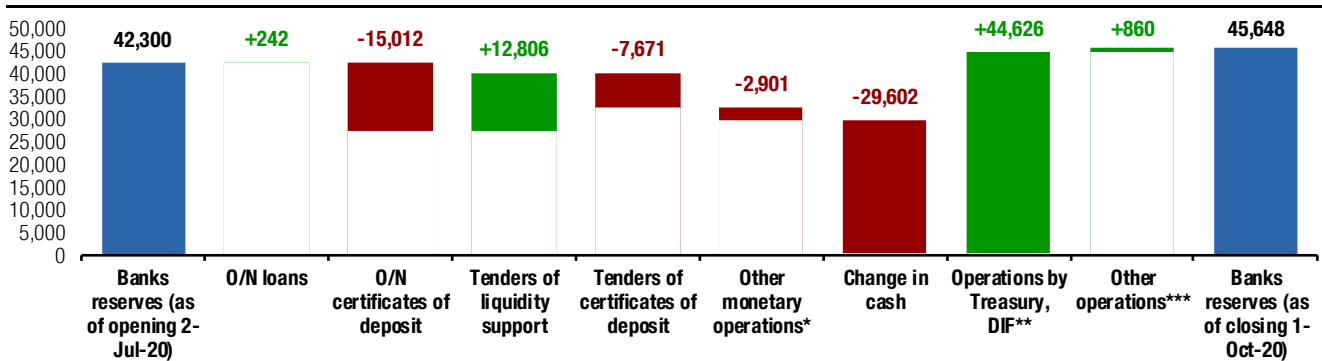


Chart 4. Banks reserves usages over last 90-day period (UAHm)



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 stabilizes

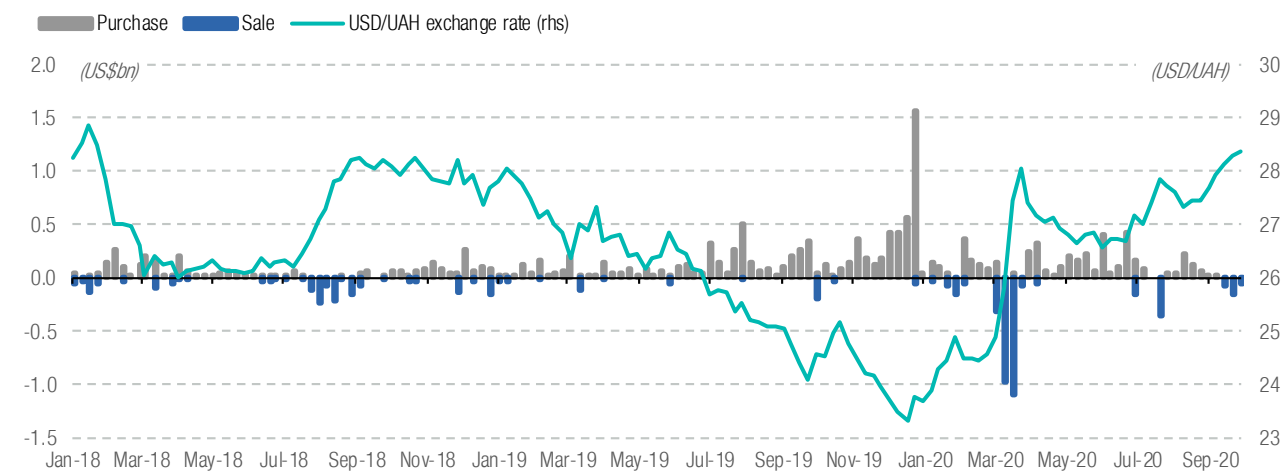
The FX market was mostly self-balanced last week with low interventions from the NBU, which kept the hryvnia exchange rate fluctuating at around UAH28.3/US\$. This week, we do not anticipate much exchange-rate volatility, although the NBU will soften fluctuations in FX market as necessary.

After quite large interventions during the two previous weeks, last week, the NBU sold just US\$51m, or, basically, the market was self-balanced with low impact from NBU. NBU interventions fell last week after US\$71m and US\$160.5m in the two previous weeks.

Finally, the hryvnia exchange rate fluctuated within UAH28.22-28.42/US\$ last week, ending the week at UAH28.36/US\$, or 0.3% weaker than a week before.

ICU view: We do not expect much market volatility since funds required for tax payments are lower, and VAT refunds do not happen until the end of the month. The balance of operations between exporters and importers will be decisive, as again, foreigners will not be very active in selling UAH-denominated bills after receiving principal repayments last week.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

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.

This page is intentionally left blank



11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Sergiy Nikolaychuk

Head of macro research
sergiy.nikolaychuk@icu.ua

Taras Kotovych

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Junior financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

Additional information is available upon request.

