

Weekly Insight

Demand for local-currency bills increases

Key messages of the today's comments

MONDAY, 19 OCTOBER 2020

Domestic liquidity and bonds market

Demand for local-currency bills increases

Thanks to higher interest rates and access to NBU refinancing loans, demand for UAH-denominated bills continues to grow. Last week's borrowings amounted to UAH6bn (US\$212m) with an increase in rates for just one issue. This week, we expect the gradual increase in rates will continue.

Liquidity declines

The total amount of banking-sector liquidity gradually declined to UAH171bn at the end of last week. The main impact was from banks exchange of reserves in cash and Treasury operations. This week, liquidity will remain the same, with the main impact from non-monetary operations.

Foreign exchange market

FX market is calm

Last week, the hryvnia was rather steady despite the holiday on Wednesday with fluctuations slightly above UAH28.3/US\$. This week, the hryvnia can stay close to this level thanks to demand for local-currency funds for tax payments later this month.

Banks' reserves market (16 October 2020)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	6.00	+0bp	-1,050bp
ON rate (%)	5.48	+28bp	-970bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	44,605	+29.02	-25.61
CDs (UAHm) ³	108,361	-18.68	+98.29

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 gov't bond holders (UAHm) (16 October 2020)

	Last	Weekly chg (%)	YoY chg (%)
NBU	324,577	+0.00	-3.71
Banks	441,319	+0.62	+26.68
Residents	29,809	-2.43	+12.01
Individuals	7,904	-5.30	-27.32
Foreigners ¹	80,167	-1.36	-20.42
Total	883,776	+0.05	+7.30

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (16 October 2020)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	28.3395	+0.11	+14.04
EUR/USD	1.1718	-0.91	+5.83
DXY	93.682	+0.67	-4.41
UAH TWI ¹	121.232	+0.78	-8.72

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (19 October 2020)

Maturity	Bid	Ask
6m	10.00	8.00
12m	10.50	9.50
2y	11.25	10.25
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

Demand for local-currency bills increases

Thanks to higher interest rates and access to NBU refinancing loans, demand for UAH-denominated bills continues to grow. Last week's borrowings amounted to UAH6bn (US\$212m) with an increase in rates for just one issue. This week, we expect the gradual increase in rates will continue.

Out of four bills offered last week, the Ministry of Finance decided to increase the cut-off rate just for the two-year paper, by 35bp to 10.85%. However, for three-year bills, demand was mostly at the same level of rates as for 2.3-year paper. Therefore, rates for this instrument remained steady at 10.95%. In total, the state budget received UAH6bn (US\$212m) of proceeds. More details in the [auction review](#).

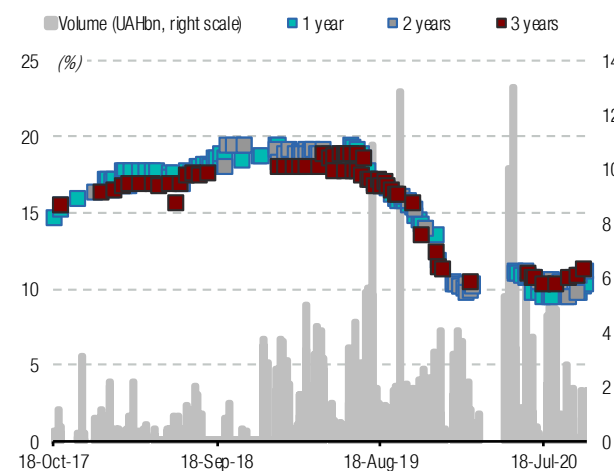
Most of the new bills were purchased by banks. Very likely, they partially used funds from the NBU refinancing loans that had been provided a few days earlier to 14 banks in the amount of UAH5bn (US\$176m). Therefore, we saw an increase in portfolios only for banks, while other groups of investors slightly decreased their portfolios.

ICU view: This week, the MoF is planning to offer UAH-denominated bills and two USD-denominated bills. This offering can improve budget financing. However, high demand for UAH-denominated offerings likely will continue if there is an opportunity to buy bills at higher rates than at previous auctions.

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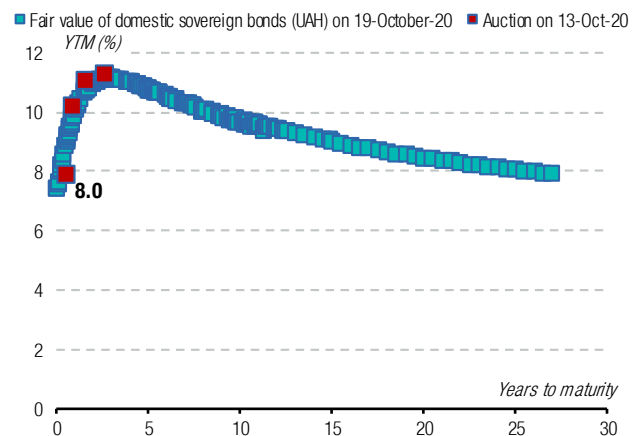
Chart 1. Local-currency bonds

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.

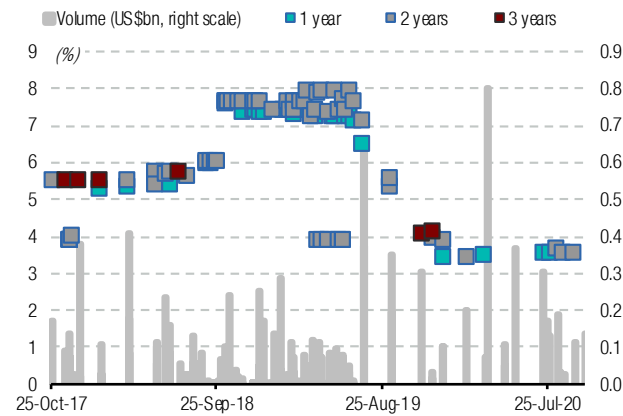
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

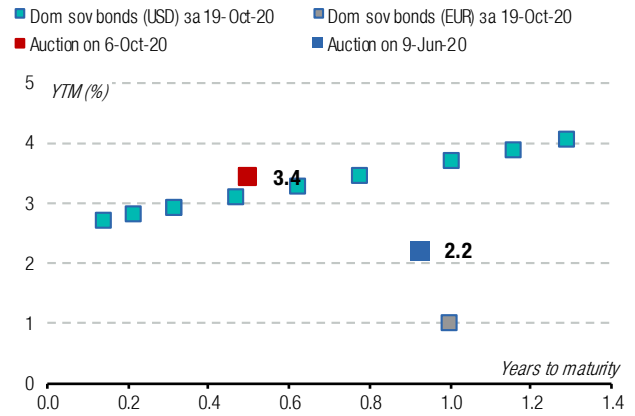
Chart 2. FX-denominated bonds

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 declines

The total amount of banking-sector liquidity gradually declined to UAH171bn at the end of last week. The main impact was from banks exchange of reserves in cash and Treasury operations. This week, liquidity will remain the same, with the main impact from non-monetary operations.

Large new borrowings and less active budget expenditures caused outflows of liquidity to budget accounts on Thursday with slight slowing on Friday. Usually for this part of month, banks exchange reserves in cash was large. Therefore, these two categories of cash-flows caused outflows of UAH5.5bn, which resulted in banking-sector liquidity to decline to UAH71bn by the end of last week.

ICU view: Month-end tax payments will start this week, but most transactions will be at the end of the month, probably next week. VAT refunds, which usually accelerate at the end of the month, can compensate this outflow. By postponing and mostly matching these cash flows, banking-sector liquidity may stay close to UAH170bn this week.

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

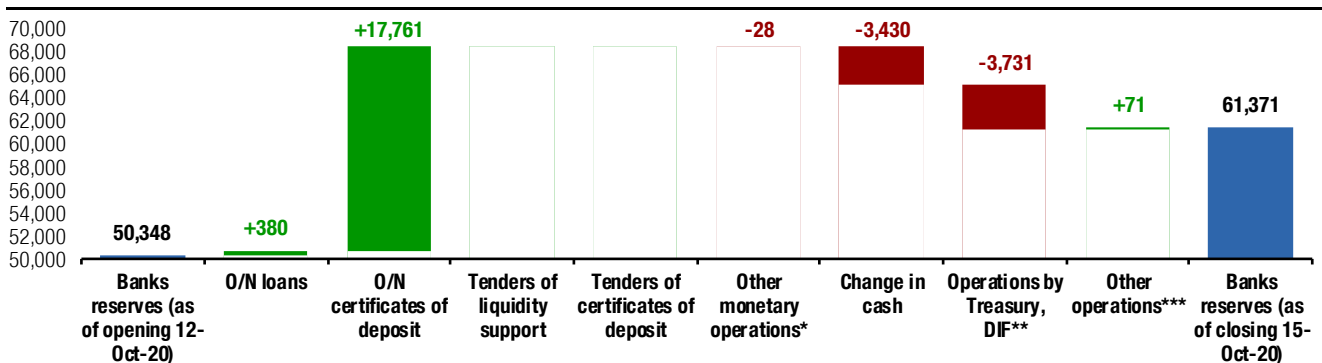
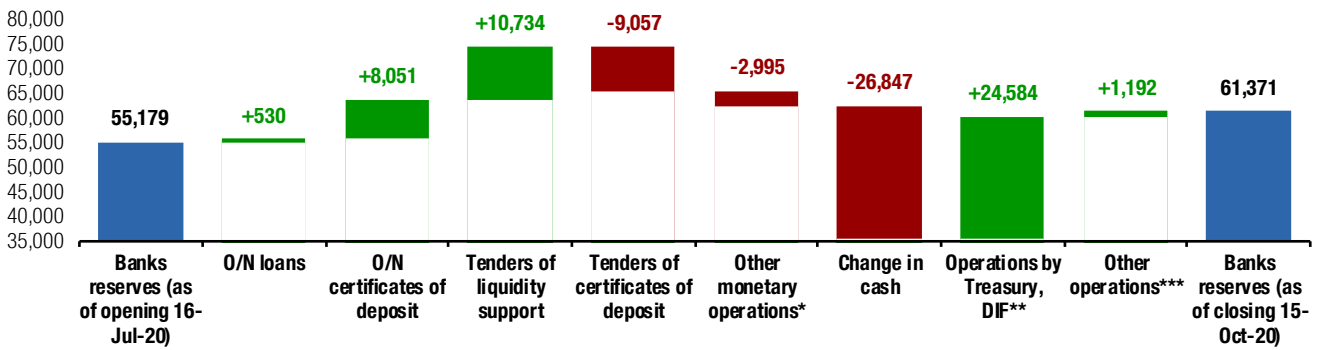


Chart 4. Banks reserves usages over last 90-day period (UAHm)



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

FX market is calm

Last week, the hryvnia was rather steady despite the holiday on Wednesday with fluctuations slightly above UAH28.3/US\$. This week, the hryvnia can stay close to this level thanks to demand for local-currency funds for tax payments later this month.

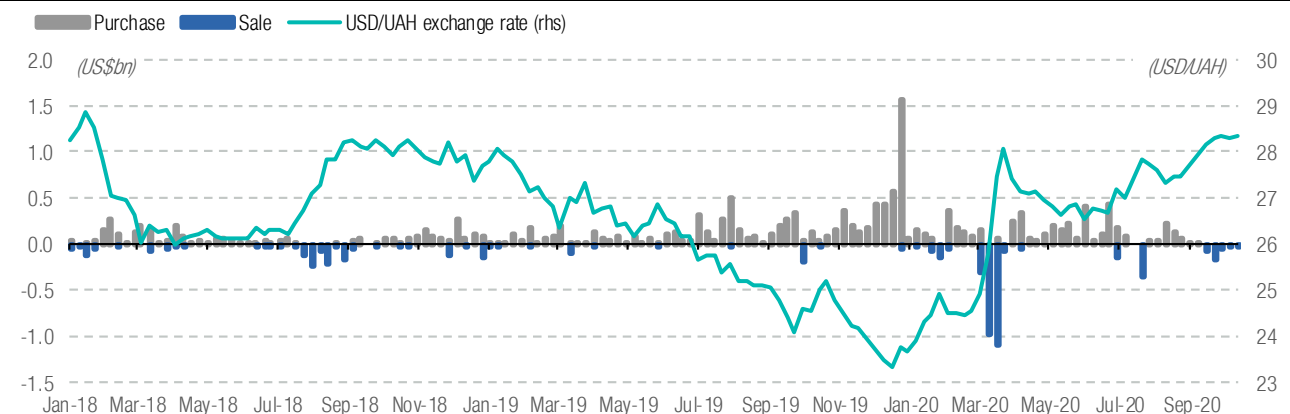
Generally, the FX market was self-balanced, and the NBU sold just US\$1m last Tuesday, without intervening in the market on other days. And exchange rate was rather steady, without much fluctuation. Trading was mostly within the range of UAH28.19-28.42/US\$. Toward the end of the week, it weakened just 0.1% to UAH28.34/US\$.

ICU view: *This week, we anticipate a similar balancing in the FX market, with the main impact coming from hard currency supply due to the demand for local-currency funds for month-end tax payments. Exporters can sell hard currency to raise liquidity for tax payments later this week if there are no VAT refunds in needed amounts. Therefore, we do not anticipate large hryvnia exchange-rate fluctuations this week, just slightly above UAH28.3/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 and NBU interventions (weekly data)



Source: NBU, Bloomberg, ICU.

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