

# Weekly Insight

## Hryvnia under pressure so far

### Key messages of the today's comments

#### Domestic liquidity and bonds market

##### Peak UAH repayments in March have passed

After partial refinancing of UAH debt repayments, the MoF still could end up with a positive net UAH borrowings in March. This week, the main goal will be to issue hard currency bonds, while UAH issues should help to finance the budget deficit and accumulate liquidity without rising borrowing costs.

##### Liquidity exceeded UAH200bn

With partial refinancing of debt repayments last week, VAT refunds, and cash exchange in reserves, the total amount of banking-sector liquidity exceeded UAH200bn. However, month-end tax payments and new bills purchases can cause a slight decline in liquidity this week.

#### Foreign exchange market

##### Hryvnia under pressure so far

The negative sentiment regarding Ukraine and emerging markets in general caused hryvnia weakening last week with a short-lived depreciation to above UAH28/US\$. This week the pressure is likely to remain containing the appreciation trend which we still expect to resume in the near term.

TUESDAY, 30 MARCH 2021

#### Banks' reserves market (29 March 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	6.50	+0bp	-350bp
ON rate (%)	6.01	+33bp	-747bp
ON \$ swap (%)	N/A	...	...
Reserves (UAHm) <sup>2</sup>	54,131	-7.70	-26.63
CDs (UAHm) <sup>3</sup>	148,785	+7.85	+0.00

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) (29 March 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	322,077	+0.00	-0.77
Banks	526,731	-0.25	+52.15
Residents	54,179	+0.63	+2.93
Individuals	15,292	+1.29	+60.87
Foreigners <sup>1</sup>	104,257	-1.65	-14.64
<b>Total</b>	<b>1,022,812</b>	<b>-0.25</b>	<b>+19.62</b>

Notes: [1] non-residents

Source: NBU, ICU.

#### FX market indicators (29 March 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	27.9501	+0.62	-0.39
EUR/USD	1.1765	-0.71	+5.60
DXY	92.944	+0.66	-5.51
UAH TWI <sup>1</sup>	122.524	-0.11	-2.21

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Gov't bond quotes<sup>1</sup> (30 March 2021)

Maturity	Bid	Ask
6m	9.50	8.00
12m	11.00	9.50
2y	12.00	11.00
3y	12.50	11.25
12m (\$)	4.50	3.00
2y (\$)	5.00	3.25

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

Source: ICU.

# Domestic liquidity and bonds market

## Peak UAH repayments in March have passed

After partial refinancing of UAH debt repayments, the MoF still could end up with a positive net UAH borrowings in March. This week, the main goal will be to issue hard currency bonds, while UAH issues should help to finance the budget deficit and accumulate liquidity without rising borrowing costs.

At last week's auction, the MoF borrowed just UAH6.4bn (US\$232m), while it repaid almost UAH12bn (US\$428m). Moreover, the MoF accepted 90% of bids, while interest rates even slightly declined for some issues. More details in the [auction review](#).

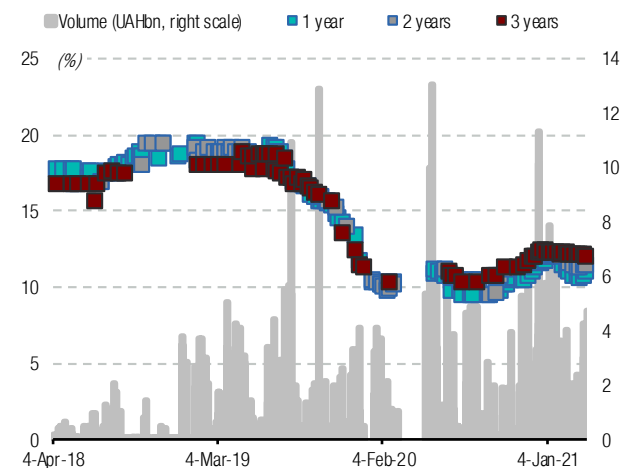
In general, although many investors purchased new bills, due to partial refinancing of redemptions, most decreased their holdings, especially banks and foreigners. However, individuals have continued to increase portfolios of UAH-denominated instruments, which more than tripled to UAH7.1bn (US\$253m) since the end of November 2020.

**ICU view: A repayment of US\$325mn is scheduled this week, and the main goal for the MoF will be to refinance a large part of it. At the same time, for UAH-denominated bills the repayments will not be significant this week and twice lower in April compared with March. Thus, the Ministry will have an opportunity to finance the budget deficit and accumulate liquidity at relatively low borrowing cost.**

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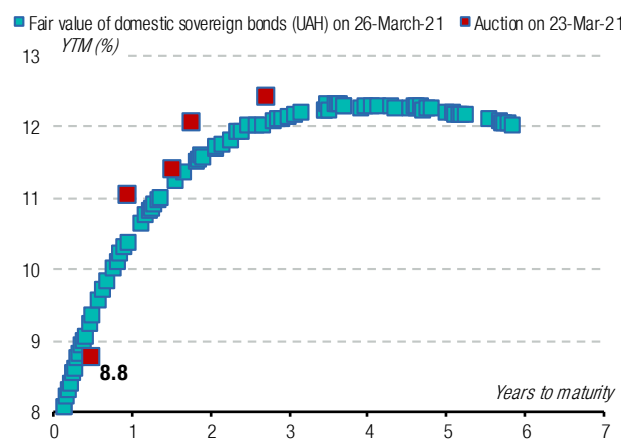
**Chart 1. Local-currency bonds**

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.

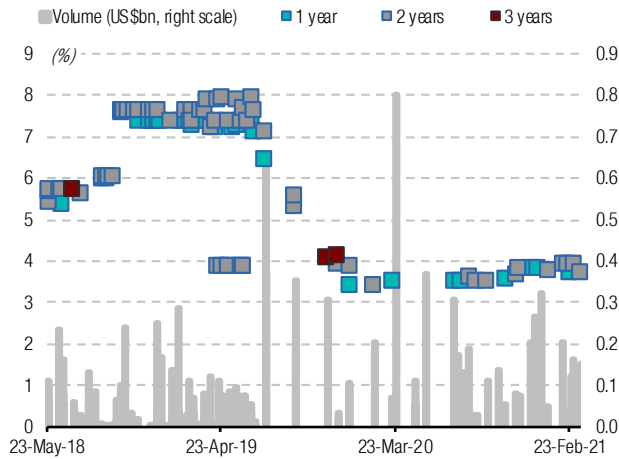
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

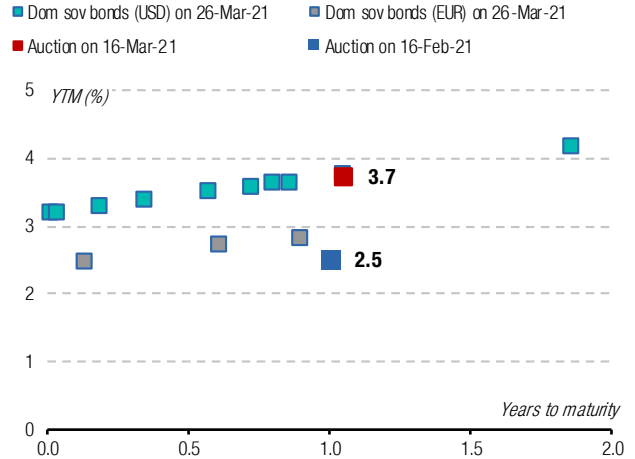
**Chart 2. FX-denominated bonds**

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 exceeded UAH200bn

With partial refinancing of debt repayments last week, VAT refunds, and cash exchange in reserves, the total amount of banking-sector liquidity exceeded UAH200bn. However, month-end tax payments and new bills purchases can cause a slight decline in liquidity this week.

In total, banking-sector liquidity rose due to operations with Treasury, including partial refinancing of debt repayments (see comment above), and cash exchange in reserves.

Inflow from Treasury accounts was UAH5.7bn last week. During most of this month, the VAT refund was slow and in low amounts, with slight acceleration last Friday when the payment was UAH1.8bn.

In addition, after reserves exchange in cash most of this month, last week, banks exchanged UAH3.8bn of cash in reserves, decreasing net outflow from reserves to UAH1.4bn in March.

**ICU view: After banking-sector liquidity rose last week, it should stay close to UAH200bn during the last three days of the month, due to matched VAT refunds and month-end tax payments. Therefore, we do not expect extra changes in liquidity with just a slight decline after month-end tax payments and new bill purchases.**

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

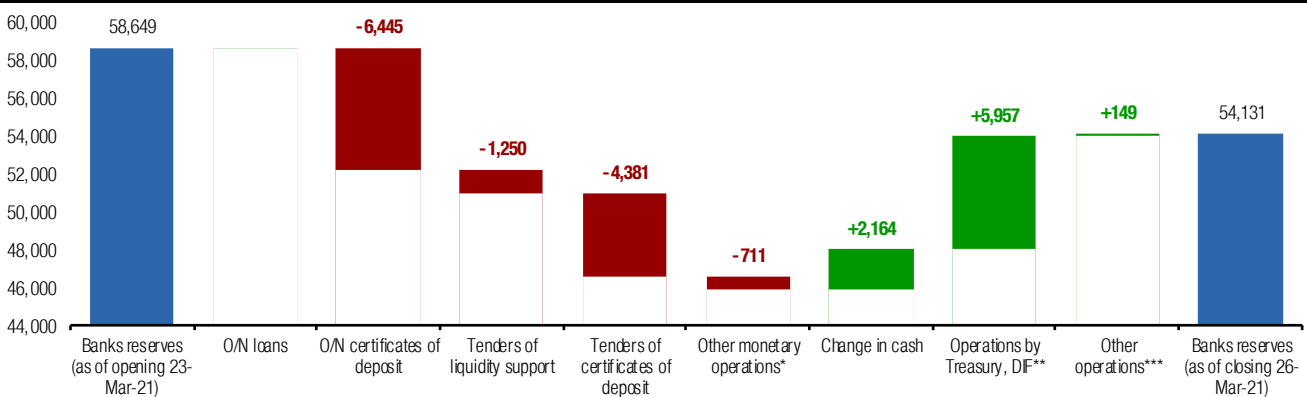
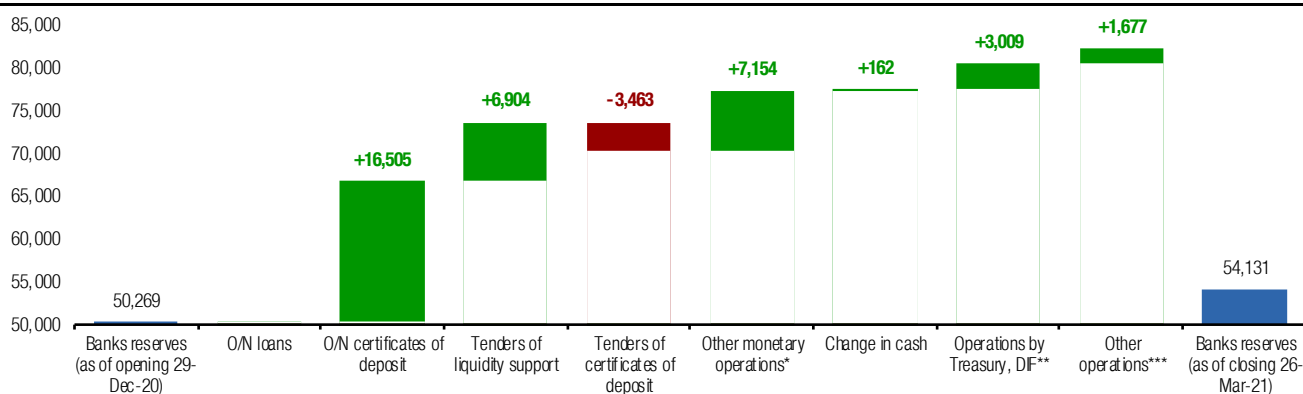


Chart 4. Banks reserves usages over last 90-day period (UAHm)



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

### Hryvnia under pressure so far

The negative sentiment regarding Ukraine and emerging markets in general caused hryvnia weakening last week with a short-lived depreciation to above UAH28/US\$. This week the pressure is likely to remain containing the appreciation trend which we still expect to resume in the near term.

Negative sentiment towards emerging markets was exacerbated last week by events in Turkey and the introduction of new quarantine restrictions in some regions of Ukraine. In particular, it was reflected in foreigners' lowering their holdings of local-currency bills.

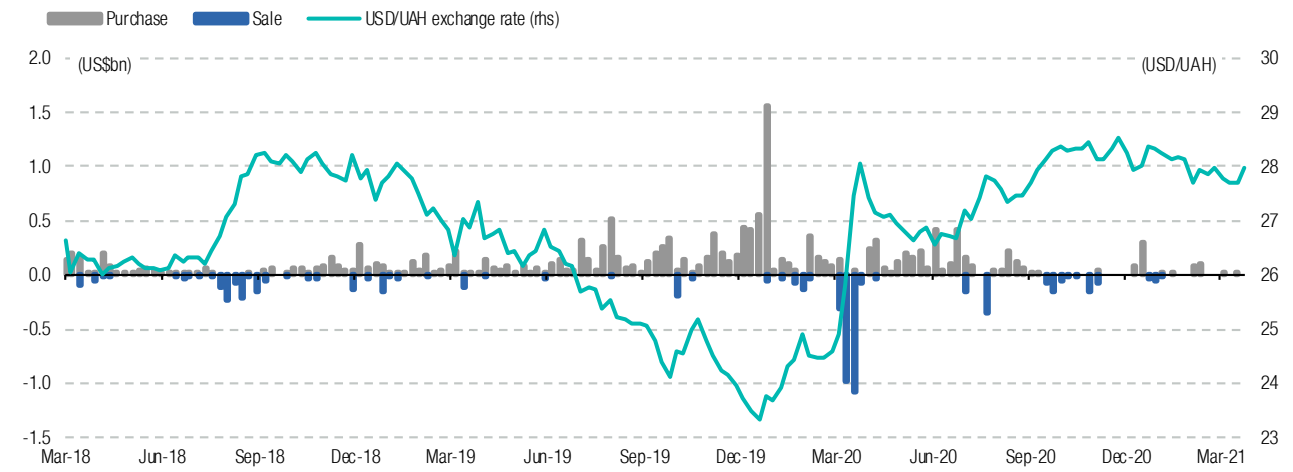
The resulting pressure caused the hryvnia to weaken to UAH28.13/US\$ last Thursday. After the hryvnia regained some losses on Friday, it ended the last week 0.94% lower at UAH27.975/US\$.

**ICU view: Notably, the NBU did not intervene, and the market was self-balanced last week. This week, we expect that the exchange rate will remain close to UAH28/US\$. In April, we expect recovery of foreigners' inflows in the local-currency papers, seasonal demand from exporters and favourable terms of trade, which should the hryvnia resume appreciation towards UAH27.5/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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