



Focus
Ukraine

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

Research team
Sergiy Nikolaychuk
Alexander Martynenko
Taras Kotovych
Mykhaylo Demkiv

Weekly Insight

First payment due on VRIs

Key messages of the today's comments

Bonds market

Borrowings increase sizably

Last week, the amount of domestic borrowings rose dramatically compared with the week before to above UAH14bn (US\$516m) in different currencies, partially thanks to the reinvestment of redemptions. Since there are no redemptions this week, we expect borrowings to decline.

First payment due on VRIs

In May, Ukraine has to pay US\$40.75m in its inaugural payment under the GDP-linked securities (VRIs). Holders will receive US\$12.58 per US\$1000 in notional amount, as real GDP grew by 3.233% in 2019, exceeding the 3.0% threshold after which the liability to make payments is triggered.

Foreign exchange market

Hryvnia appreciates further

Based on market supply and without NBU interventions, the hryvnia appreciated further and stayed within the UAH27–27.5/US\$ range. Month-end tax payments will be made this week, and likely there will be more activity from foreigners, so we expect the hryvnia to appreciate more within this range.

MONDAY, 24 MAY 2021

Banks' reserves market (21 May 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	7.50	+0bp	-50bp
ON rate (%)	6.79	+6bp	+8bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	49,011	-22.85	-3.00
CDs (UAHm) ³	142,581	-5.00	+11.53

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) (21 May 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	318,777	-0.69	-1.79
Banks	513,089	+0.39	+34.12
Residents	44,557	+0.35	-13.68
Individuals	16,894	+3.19	+127.40
Foreigners ¹	97,253	-0.35	-10.70
Total	990,765	+0.01	+13.22

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (21 May 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	27.4325	-0.47	+2.77
EUR/USD	1.2182	+0.34	+11.25
DXY	90.017	-0.34	-9.41
UAH TWI ¹	121.231	+0.04	-6.54

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (24 May 2021)

Maturity	Bid	Ask
6m	10.00	8.50
12m	12.00	11.00
2y	12.75	11.50
3y	13.00	12.00
12m (\$)	4.50	3.00
2y (\$)	5.00	3.25

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

Source: ICU.

Bonds market

Borrowings increase sizably

Last week, the amount of domestic borrowings rose dramatically compared with the week before to above UAH14bn (US\$516m) in different currencies, partially thanks to the reinvestment of redemptions. Since there are no redemptions this week, we expect borrowings to decline.

In total, last week, the MoF borrowed UAH4.4bn (US\$162m), US\$63m, and EUR238m, for the most part without changes in interest rates. Rates rose slightly for the two-year bills, while for shorter-term paper, rates slightly declined. More details in the [auction review](#).

There appeared to be renewed demand from foreigners in the primary auction. After settlement, foreigners' portfolios rose by UAH440m (US\$16m). Redemptions settled the same day, but the net change in portfolios was positive. However, during the whole week, foreigners' portfolios declined by UAH108m, as they sold a portion of their holdings earlier last week.

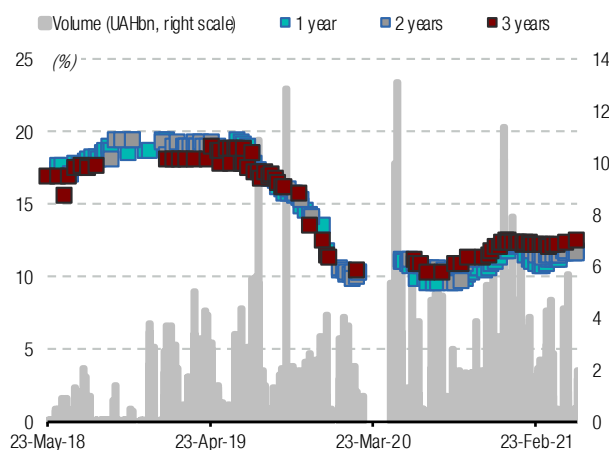
In the secondary market, most trading was in bills with maturity in August 2022, May 2023, and May 2024. Last week, the total amount of deals in the secondary market was UAH6.4bn (US\$233m), exceeding the volume of previous week more than twice. Meanwhile, trades' rates showed a slight decrease at the short end of the curve, and a slight increase at the long end.

ICU view: This week, the MoF will offer only local-currency bills with maturities from five months up to three years. However, without redemptions, demand for new bills will be restrained, while foreigners may slightly increase their portfolios.

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

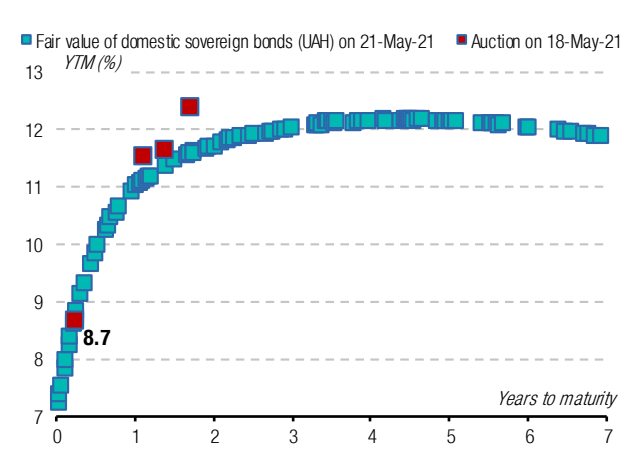
Chart 1. Local-currency bonds

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.

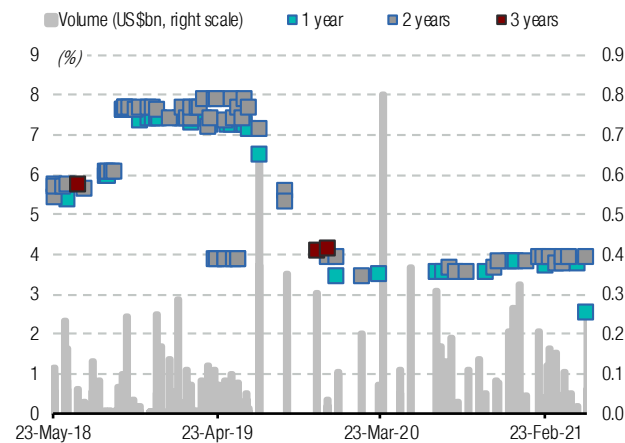
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

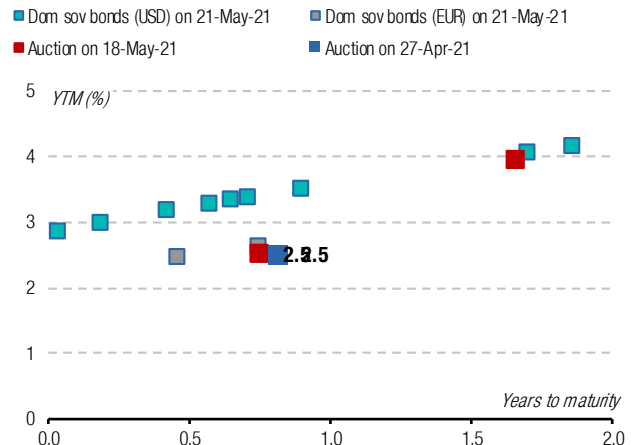
Chart 2. FX-denominated bonds

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.

First payment due on VRIs

In May, Ukraine has to pay US\$40.75m in its inaugural payment under the GDP-linked securities (VRIs). Holders will receive US\$12.58 per US\$1000 in notional amount, as real GDP grew by 3.233% in 2019, exceeding the 3.0% threshold after which the liability to make payments is triggered.

The Ministry of Finance correctly predicted this amount in the 2021 budget, and the payment itself will not be a problem. VRIs will yield no payments in May 2022, as there was a decline in GDP in the reference year (2020).

ICU view: The next payment, which is likely to occur in May 2023, should be significantly higher as 2021 GDP growth picks up. Should 2021 real GDP grow at 4.2% YoY (current consensus forecast), VRIs would pay US\$95.47 per US\$1000 in notional amount. Our expectation is somewhat more bullish. With 5.2% YoY real GDP growth, VRIs will pay around US\$261.52 per US\$1000 in notional amount.

Mykhaylo Demkiv, Kyiv, (044) 377-7040 ext.723

Foreign exchange market

Hryvnia appreciates further

Based on market supply and without NBU interventions, the hryvnia appreciated further and stayed within the UAH27–27.5/US\$ range. Month-end tax payments will be made this week, and likely there will be more activity from foreigners, so we expect the hryvnia to appreciate more within this range.

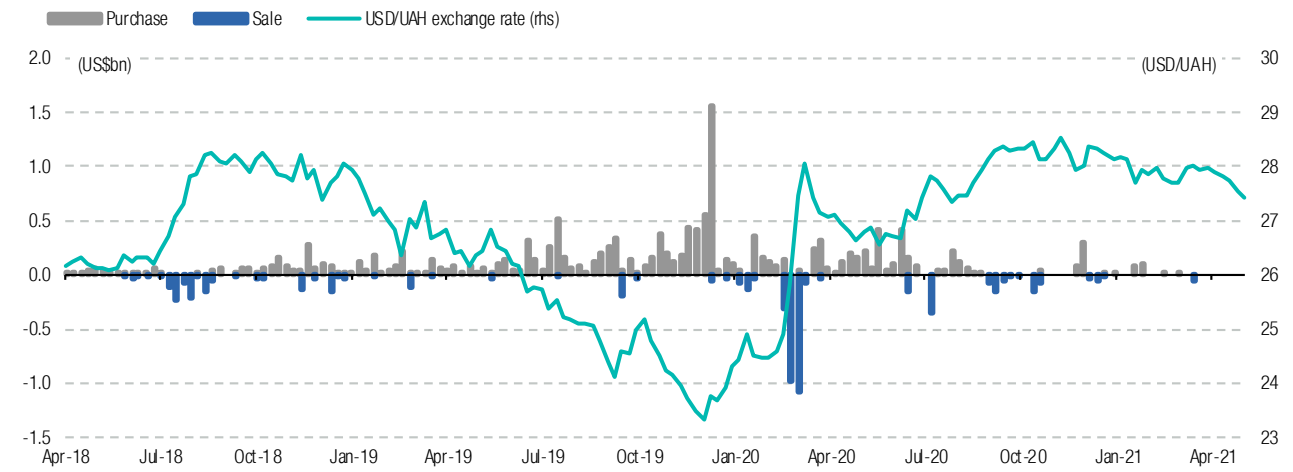
The NBU has not intervened in the market for seven consecutive weeks. With large supply from exporters and foreigners, the hryvnia appreciated by 0.5% to UAH27.43/US\$ last week.

ICU view: Month-end tax payments will be paid this week, which may require additional selling of hard currency by exporters. In addition, without bond redemptions, foreigners may sell a portion of hard currency for new purchases prior to the auction. Therefore, we anticipate that the hryvnia will appreciate slightly within the UAH27–27.5/US\$ range.

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

Chart 3. 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.

