

Weekly Insight

Banks return to T-bill auction

Key messages of the today's comments

Domestic liquidity and bonds market

Banks return to T-bill auction

After a two-week break, banks returned to the primary auction and increased their portfolios. We expect them to make further purchases of new bills this week. Moreover, foreigners may back to purchases of local-currency bonds.

Foreign exchange market

Hryvnia under temporary pressure

With low activity from foreigners in the bonds market, an increase in demand for hard currency caused the hryvnia to weaken. However, last Friday, the market returned to normal with slightly larger supply causing hryvnia appreciation. This week, the hryvnia can appreciate slightly due to ongoing FX inflows from foreigners and taxpayers.

TUESDAY, 29 JUNE 2021

Banks' reserves market (25 June 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	7.50	+0bp	+150bp
ON rate (%)	6.51	-76bp	+37bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	58,303	-13.01	+11.71
CDs (UAHm) ³	156,773	-4.06	+23.60

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) (25 June 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	317,277	+0.00	-2.25
Banks	507,101	+2.21	+21.66
Residents	48,339	+1.60	+58.04
Individuals	18,216	+4.32	+139.60
Foreigners ¹	111,085	-0.28	+9.79
Total	1,002,213	+1.23	+13.79

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (25 June 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	27.3301	+0.22	+2.27
EUR/USD	1.1935	+0.60	+6.39
DXY	91.851	-0.41	-5.73
UAH TWI ¹	122.874	-0.67	-3.55

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (29 June 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.

Domestic liquidity and bonds market

Banks return to T-bill auction

After a two-week break, banks returned to the primary auction and increased their portfolios. We expect them to make further purchases of new bills this week. Moreover, foreigners may back to purchases of local-currency bonds.

Foreigners were not active in last week's auction. However, borrowings rose and the MoF was able to raise UAH8.3bn (US\$305m) and US\$112m without material changes in interest rates. More details in [auction review](#).

According to the NBU, after last week's settlement, the largest increase in local currency was in banks' portfolios by UAH7.1bn (US\$260m) to UAH408bn (US\$14.9bn). The increase in portfolios of other groups was less sizable. Foreigners purchased UAH0.4bn (US\$16m) last week, mostly on Wednesday, which compensated for the amount they sold on previous days. However, for a week, their portfolios slid a mere UAH0.2bn (US\$6m).

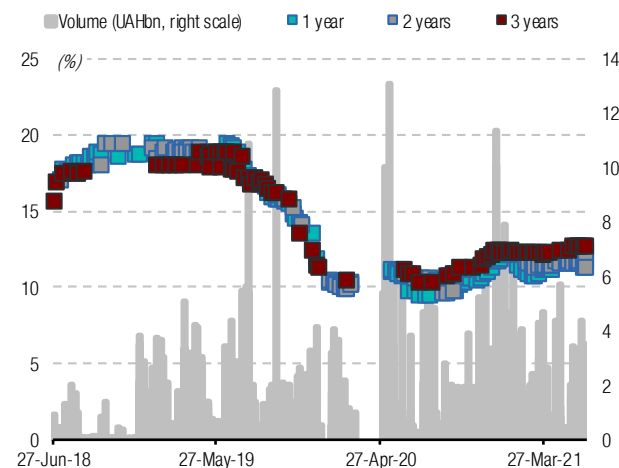
The secondary market was not active last week. The total amount of deals was only UAH5.5bn (US\$0.2bn), down UAH1.4bn from a week before with yields remaining steady. The most traded instruments were those due May 2024, while the largest amount of trading was with bills due July 2022.

ICU view: This week, we anticipate an increase in the primary bond market. On the one hand, banks will reinvest tomorrow's redemption proceeds, while on the other, foreigners will be more active as it looks like they sold a large portion of hard currency for today's auction. Therefore, we expect that the amount of borrowings will rise with mostly unchanged interest rates, except for those issues offered with caps.

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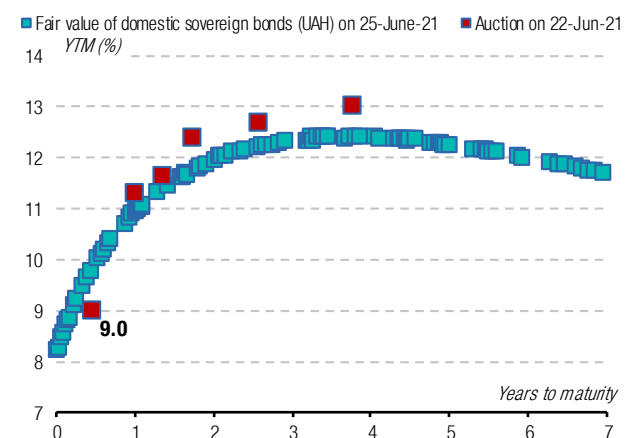
Chart 1. Local-currency bonds

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.

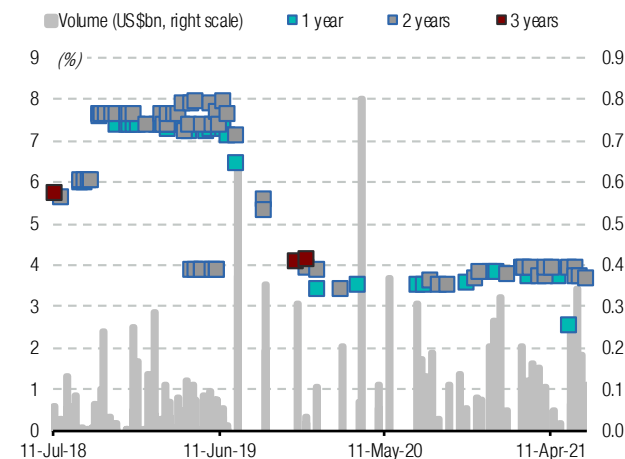
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

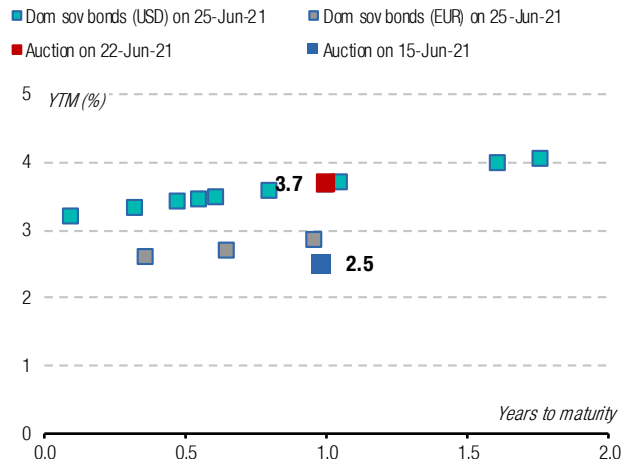
Chart 2. FX-denominated bonds

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.

Foreign exchange market

Hryvnia under temporary pressure

With low activity from foreigners in the bonds market, an increase in demand for hard currency caused the hryvnia to weaken. However, last Friday, the market returned to normal with slightly larger supply causing hryvnia appreciation. This week, the hryvnia can appreciate slightly due to ongoing FX inflows from foreigners and taxpayers.

The hryvnia began last week with a continuation of a slight weakening of the exchange rate, which had started a week before. Given low activity from foreigners in the bond market, an increase in demand for hard currency on Wednesday and Thursday caused further weakening. And the NBU had to sell almost US\$70m from reserves on Thursday to decrease pressure from demand. In total, the NBU sold almost US\$80m last week. It looks like the key demand came from companies to pay dividends abroad, which was enhanced by a speculative component. Finally, last Tuesday banks' clients purchased US\$434m which is the largest amount from the beginning of May. The net purchase of hard currency by banks' clients that day was US\$112m, the largest gap this year.

However, by Friday, the balance in the FX market moved to the supply side and the NBU purchased US\$128m, more than it sold during the week. Such increase in supply can be the result of matched selling of hard currency by foreigners for today's primary auction and by taxpayers for month-end payments or by state-owned companies to pay dividends. State budget received UAH16.6bn of revenues through tax administration or more than one-third of amount received this month.

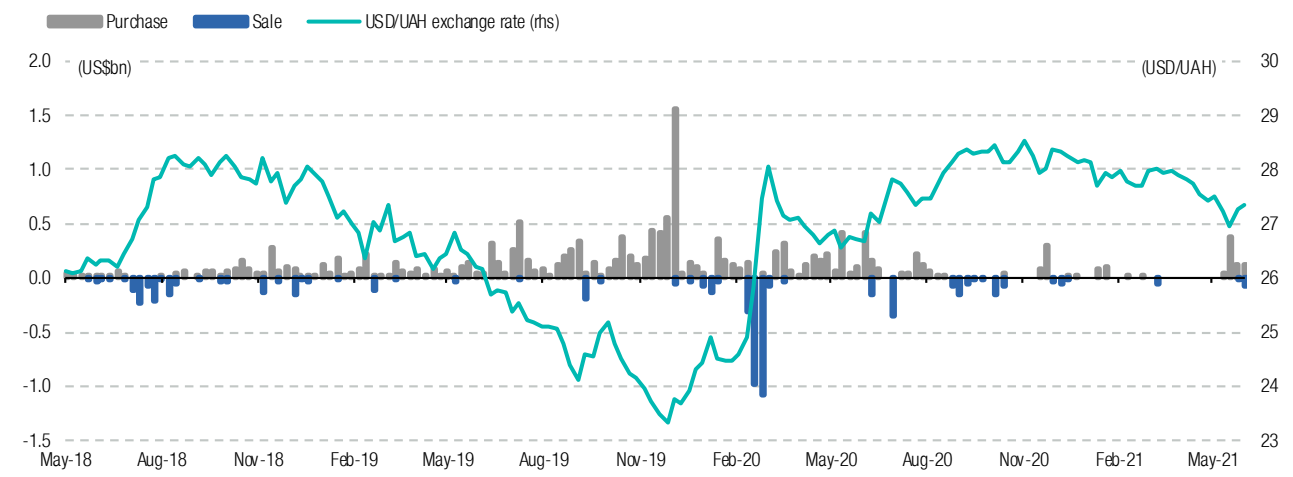
Net NBU interventions were US\$48.5m of purchases, and the hryvnia weakened by a mere 0.22% to UAH27.33/US\$.

ICU view: This week, we expect the primary bond auction to be more active with larger participation by foreigners, which will be matched by month-end tax payments and taxes from salaries. Therefore, without huge demand for hard currency to pay dividends, supply will be enough to maintain the general trend to appreciation seen earlier in June towards UAH27/US\$.

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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.

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