

# Weekly Insight

## Demand for Ukrainian bills is low

### Key messages of the today's comments

#### Domestic liquidity and bonds market

##### Demand for Ukrainian bills is low

Last week, the Ministry of Finance managed to triple the amount they borrowed compared with the previous week, but this was not enough to substantially improve budget financing. We do not expect that all debt repayments scheduled for tomorrow will be refinanced by today's auction.

#### Foreign exchange market

##### The FX-market is balanced and stable

The balance of supply and demand in the FX-market is stable, and over the past week, the hryvnia has even strengthened. There will be no major changes in the market this week, but demand for hard currency may gradually increase due to large UAH-denominated debt repayments.

TUESDAY, 20 JULY 2021

#### Banks' reserves market (19 July 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	7.50	+0bp	+150bp
ON rate (%)	6.89	+20bp	+130bp
ON \$ swap (%)	N/A	...	...
Reserves (UAHm) <sup>2</sup>	58,454	-1.77	+3.61
CDs (UAHm) <sup>3</sup>	154,744	-3.91	+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) (19 July 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	317,277	+0.00	-9.43
Banks	511,362	+1.81	+42.38
Residents	49,234	+1.54	+120.63
Individuals	19,045	+5.51	+414.97
Foreigners <sup>1</sup>	107,965	-1.26	+996.05
<b>Total</b>	<b>1,004,883</b>	<b>+0.95</b>	<b>+34.82</b>

Notes: [1] non-residents

Source: NBU, ICU.

#### FX market indicators (19 July 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	27.2150	-0.26	-0.79
EUR/USD	1.1800	+0.20	+3.26
DXY	92.891	+0.15	-3.18
UAH TWI <sup>1</sup>	125.044	+0.24	+0.97

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Gov't bond quotes<sup>1</sup> (20 July 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](http://www.icu.ua).

Source: ICU.

# Domestic liquidity and bonds market

## Demand for Ukrainian bills is low

Last week, the Ministry of Finance managed to triple the amount they borrowed compared with the previous week, but this was not enough to substantially improve budget financing. We do not expect that all debt repayments scheduled for tomorrow will be refinanced by today's auction.

At last week's auction, the Ministry of Finance was able to raise almost UAH9.9bn of proceeds, of which UAH8.1bn was in national currency, and without changes in interest rates (more details in the auction review). The predominant buyers of new bonds were banks, although non-banks and individuals also increased their portfolios, albeit insignificantly. Only foreigners, who sold UAH2.5bn of local-currency bonds last week, reduced their portfolios.

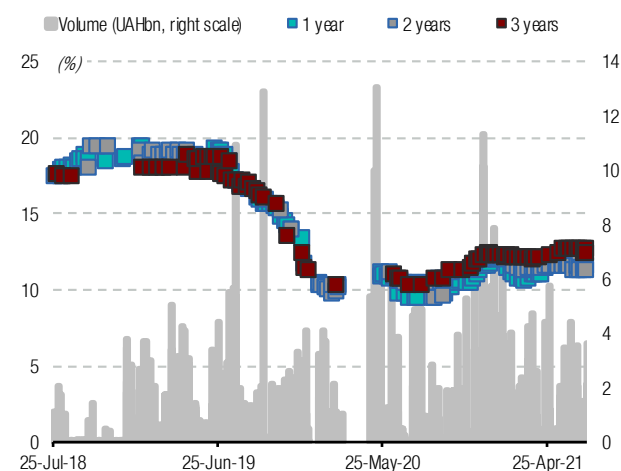
There were no significant changes in interest rates in the secondary market, and the volume of trades of local-currency debt slid from UAH6bn to UAH5bn. Bonds due 2022 were the most traded again.

**ICU view: The decline in demand from foreigners due to global pessimism and investors' expectations of the NBU's decision on the key policy rate this Thursday is likely the reason for the relatively low demand for new bonds. After all, the probability of raising the key rate is quite high, which may lead to an increase in interest rates on local-currency debt next week, so investors will not rush to buy bonds this week. Therefore, we expect that tomorrow's principal repayment of UAH15.6bn will be only partially refinanced.**

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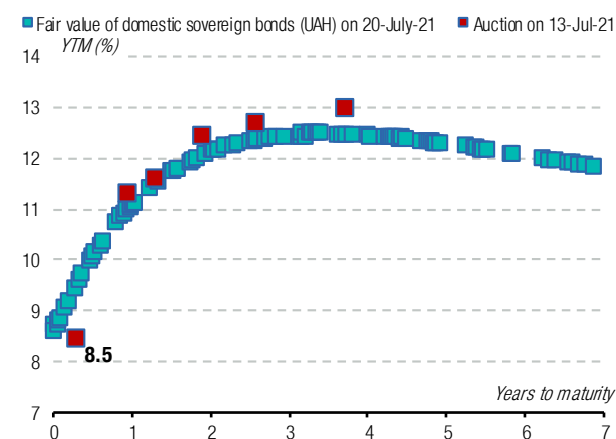
**Chart 1. Local-currency bonds**

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.

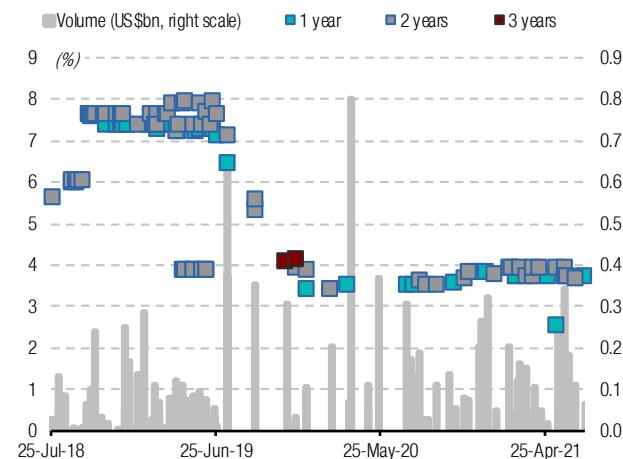
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

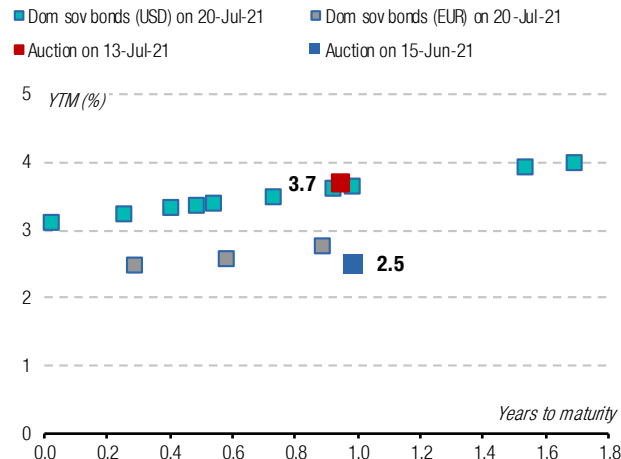
**Chart 2. FX-denominated bonds**

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

### The FX-market is balanced and stable

The balance of supply and demand in the FX-market is stable, and over the past week, the hryvnia has even strengthened. There will be no major changes in the market this week, but demand for hard currency may gradually increase due to large UAH-denominated debt repayments.

The supply of hard currency in the market remains very close to demand among bank clients, although it did not fully meet the needs of buyers. But this difference could be covered by banks and thus offset the outflow of foreigners from UAH-denominated debt. In general, the market turnover among bank clients fluctuated at the level of US\$300m per day.

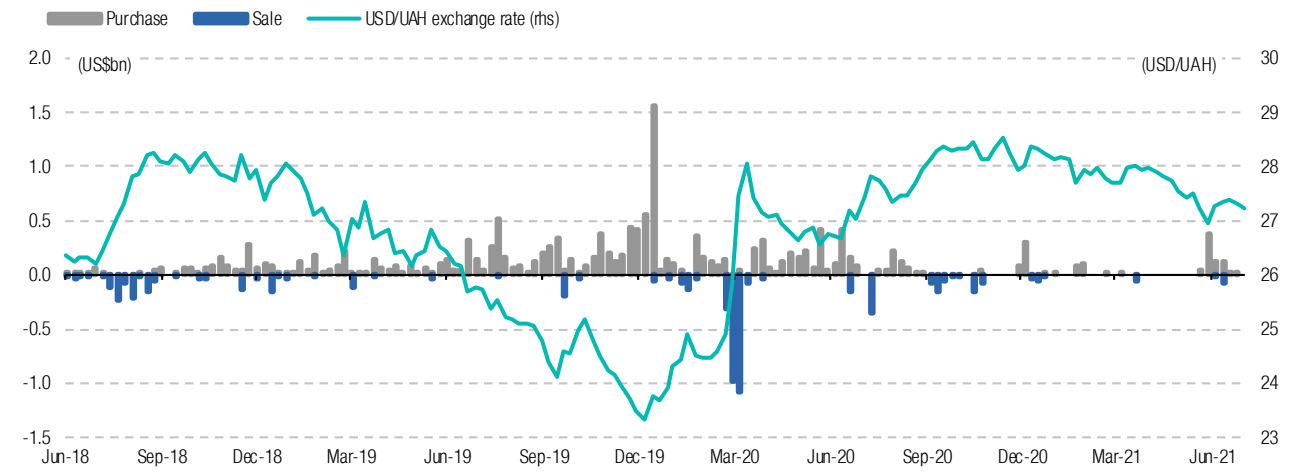
The relative balance and the low rate of foreigners' outflow from UAH-denominated debt contributed not only to the cessation of the weakening of the hryvnia, but also to a slight strengthening of the exchange rate by 0.25% to UAH27.23/US\$ last week.

**ICU view:** *The new harvest season and high world grain prices contribute to the active export and sale of hard currency by the agri sector for settlements with contractors and workers. This helps to maintain a fairly high level of hard currency supply with relatively lower demand from importers due to the holiday season and lower demand for goods. Therefore, we do not expect the hryvnia to weaken, but in the absence of demand for new UAH-denominated bonds from foreigners, we do not expect a significant strengthening of the hryvnia. The exchange rate will continue to fluctuate between UAH27–27.5/US\$, this week closer to the level of UAH27.2/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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