



Focus
Ukraine

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

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Weekly Insight

Hryvnia stable, but ready to strengthen

Key messages of the today's comments

Domestic liquidity and bonds market

Foreigners sell UAH bonds

Although Ukraine will receive about US\$2.7bn in SDRs from the IMF on the eve of Eurobonds redemptions next month, foreigners' interest in UAH-denominated bills is weakening due to the gradual strengthening of the hryvnia and relatively low interest rates on hryvnia-denominated debt.

Foreign exchange market

Hryvnia stable, tending toward strengthening

The hryvnia exchange rate continued to fluctuate below UAH27/US\$. It may strengthen this week due to the payment of quarterly taxes to the budget.

TUESDAY, 10 AUGUST 2021

Banks' reserves market (9 August 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	8.00	+0bp	+200bp
ON rate (%)	7.30	-2bp	+212bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	51,999	-2.55	+19.43
CDs (UAHm) ³	156,947	-0.12	+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 govt bond holders (UAHm) (9 August 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	316,106	+0.00	-2.61
Banks	500,307	+0.45	+19.85
Residents	49,450	+0.74	+84.77
Individuals	19,453	+1.78	+164.74
Foreigners ¹	104,342	-1.24	+15.03
Total	989,657	+0.17	+14.17

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (9 August 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.7201	-0.63	-3.20
EUR/USD	1.1737	-1.07	-0.42
DXY	92.945	+0.94	-0.52
UAH TWI ¹	127.118	+1.46	+4.08

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (10 August 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

Foreigners sell UAH bonds

Despite positive news of Ukraine to receive about US\$2.7bn in SDRs from the IMF on the eve of Eurobonds redemptions next month, foreigners' interest in UAH-denominated bills is weakening due to the gradual strengthening of the hryvnia and relatively low interest rates on hryvnia-denominated debt.

Over the past week, the most traded issues were notes maturing in 2025, where foreigners have been the largest investors. Turnover in the secondary market for this issue amounted to over UAH5bn. However, the portfolios of foreigners decreased by UAH1.8bn last week. This indicates that although foreign investors sold bonds to residents, they traded even more actively with each other.

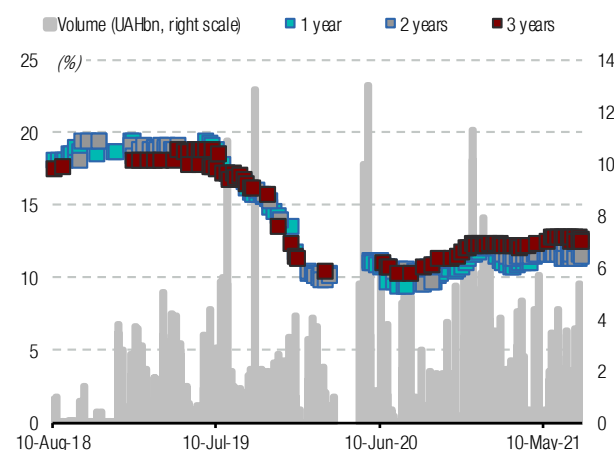
Yet even this outcome has reduced domestic investors' interest in the primary auctions, where the Ministry of Finance continues to insist on unchanged interest rates despite high inflation and the NBU raising the key policy rate.

ICU view: *This week we do not expect much activity in the primary auctions. We do expect foreigners to gradually reduce their market presence.*

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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 (%)



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

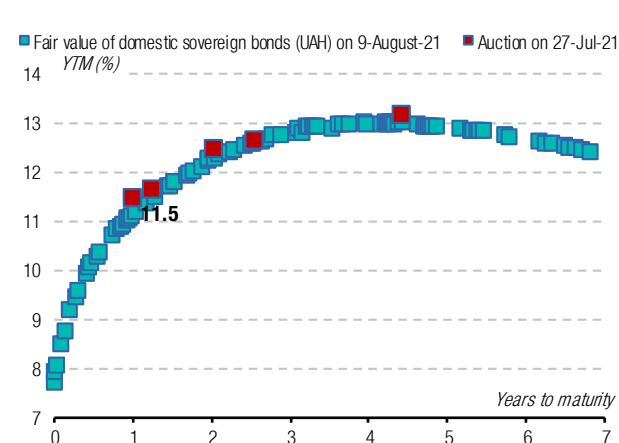
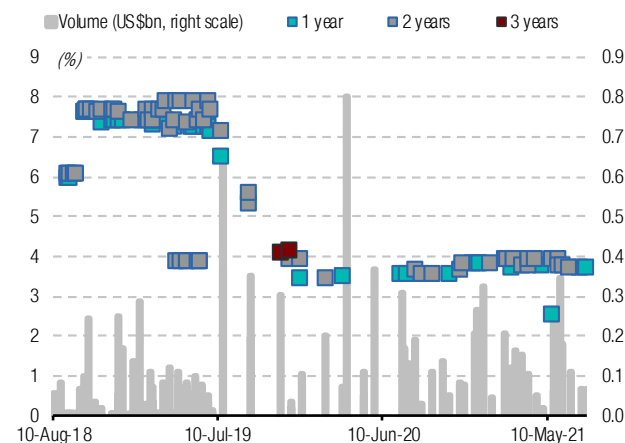


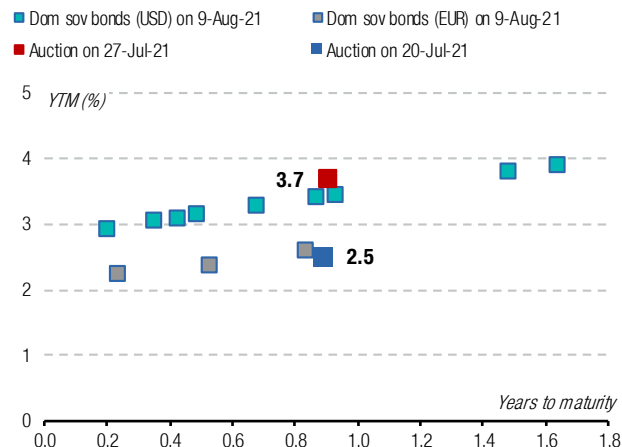
Chart 2. FX-denominated bonds

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 stable, but ready to strengthen

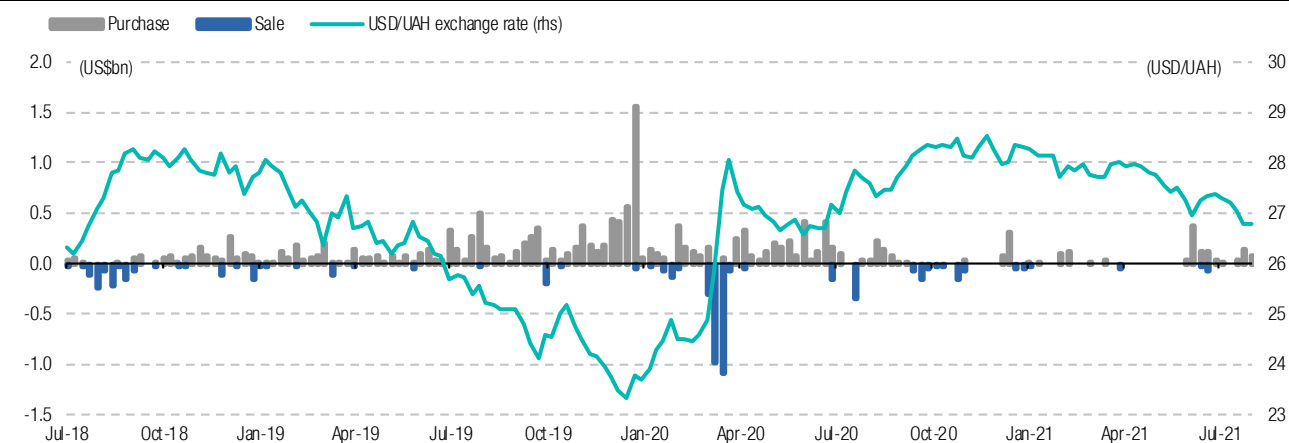
The hryvnia exchange rate continued to fluctuate below UAH27/US\$. It may strengthen this week due to the payment of quarterly taxes to the budget.

Last week, the segment of bank clients' transactions in the FX market was mostly balanced, although the demand for hard currency marginally exceeded the supply, and on some days the hryvnia even weakened a little. But later, the supply of hard currency prevailed again. The NBU was forced to intervene in the market on Friday when it bought more than US\$70mn that day and US\$76mn for the week.

Despite such interventions, the hryvnia exchange rate returned to almost the same level as it was a week earlier, losing less than a 1% and ending the week at UAH26.79/US\$.

ICU view: Farmers and exporters could start selling hard currency in advance, gathering liquidity in hryvnia to pay quarterly taxes as early as this week. Such a supply of hard currency is expected and may continue this week, supporting the hryvnia exchange rate, which would force the NBU to intervene the market. Therefore, we expect that the hryvnia exchange rate will remain within the same range of UAH26.5–27/US\$, but with a gradual move towards appreciation.

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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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