



Focus
Ukraine

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

Research team
**Alexander Martynenko
Taras Kotovych**

Weekly Insight

Foreign buyers of bonds remain cautious

Key messages of the today's comments

Domestic liquidity and bonds market

Foreign buyers of bonds remain cautious

Last week, foreign investors purchased some UAH-denominated bonds, but not to the extent that it affected the overall dynamics of their portfolios. This week, we do not expect any material changes in their view on Ukrainian local-currency debt due to hryvnia appreciation and still mostly unchanged rates for UAH-denominated bonds in the primary market.

Liquidity increases

Due to the NBU's intervention in the FX market and the usual cash exchange in reserves at the end of the month, liquidity reached UAH220bn last week. If the NBU buys more hard currency this week, liquidity could reach a record high for the year.

Foreign exchange market

Hard currency supply remains abundant

The supply of hard currency in the market prevailed over demand last week, which allowed the hryvnia to strengthen and firmly establish the range of UAH26.5–27/\$. In August, the supply of currency will remain high due to strong grain exports and the payment of quarterly taxes, so this week the exchange rate will move even closer to the bottom of this range.

TUESDAY, 3 AUGUST 2021

Banks' reserves market (2 August 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	8.00	+0bp	+200bp
ON rate (%)	6.94	-32bp	+203bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	53,751	-10.68	-8.89
CDs (UAHm) ³	160,460	+0.52	+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) (2 August 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	316,106	-0.37	-2.61
Banks	497,788	-1.16	+17.31
Residents	48,792	+0.65	+77.84
Individuals	19,087	+1.70	+164.63
Foreigners ¹	106,149	-1.46	+14.15
Total	987,922	-0.80	+12.71

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (2 August 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.8900	-0.31	-3.02
EUR/USD	1.1870	+0.45	+0.78
DX	92.048	-0.42	-1.39
UAH TWI ¹	125.218	-0.45	+3.02

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (3 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

Foreign buyers of bonds remain cautious

Last week, foreign investors purchased some UAH-denominated bonds, but not to the extent that it affected the overall dynamics of their portfolios. This week, we do not expect any material changes in their view on Ukrainian local-currency debt due to hryvnia appreciation and still mostly unchanged rates for UAH-denominated bonds in the primary market.

At the first primary auction after the NBU raised the key policy rate, the Ministry of Finance raised rates only on the 13-month bills, and left rates for longer maturities unchanged. Foreigners appeared to be interested in the six-year notes as their portfolios increased by UAH0.5bn by the end of the settlement day. However, this increase only partially offset the outflow on other days of the week, so overall, foreigners' portfolio slid by UAH1.2bn to UAH105.8bn.

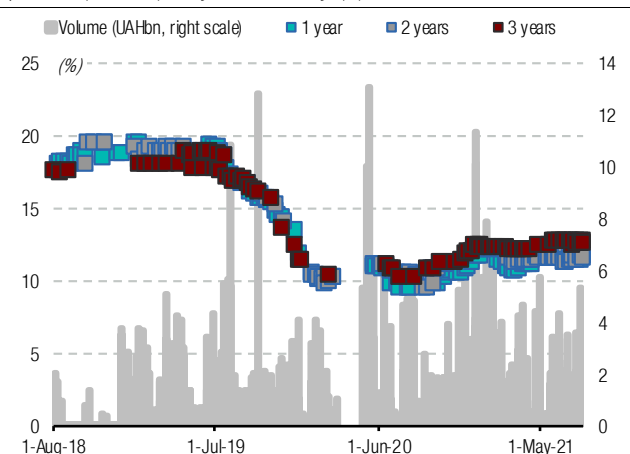
Trading volume in the secondary market was slightly up by UAH0.5bn to UAH5.3bn for the week. There were signs of a possible increase in yields, although in general, there have been no significant changes so far. The most traded were notes due 2025, probably foreigners sold mostly this paper.

ICU view: Foreigners appear to be cautiously testing the market to determine amounts available for purchase and possible exit if necessary. Therefore, foreigners may become more active. But their purchases will be very careful, and the Ministry of Finance should not rely on this resource to improve budget funding.

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

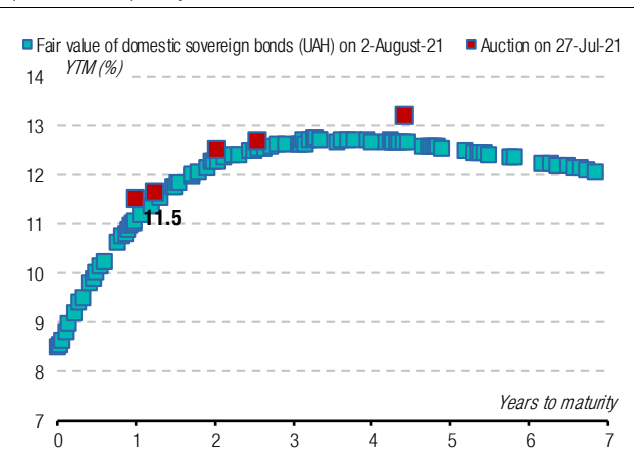
Chart 1. Local-currency bonds

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.

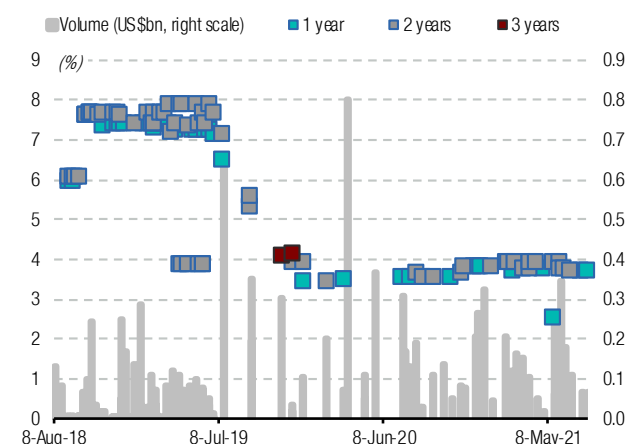
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

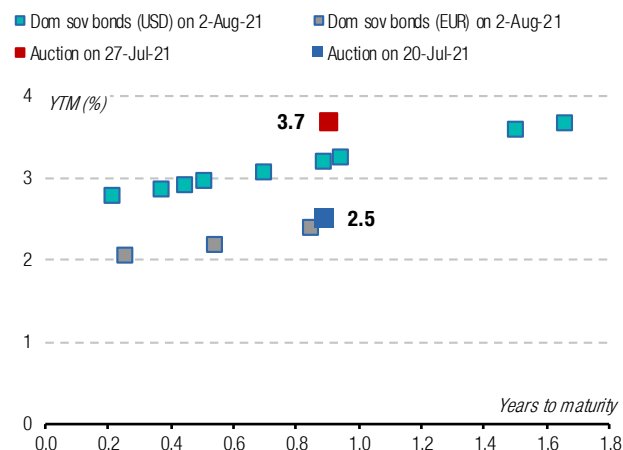
Chart 2. FX-denominated bonds

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.

Liquidity increases

Due to the NBU's intervention in the FX market and the usual cash exchange in reserves at the end of the month, liquidity reached UAH220bn last week. If the NBU buys more hard currency this week, liquidity could reach a record high for the year.

The total amount of liquidity last month just once declined below UAH210bn and some days was above UAH220bn, which is only UAH10bn less than the maximum recorded in mid-June. The increase came from the inflow of hryvnia funds from the NBU due to interventions in the foreign exchange market and the usual end-of-month banks' exchange of cash in reserves. Banks converted UAH2.7bn from cash into reserves, and the NBU bought \$136m of hard currency and paid almost UAH3.7bn for it.

ICU view: In August, liquidity may increase in the first half of the month if the sale of hard currency in the market remains large, especially if foreigners purchase new bonds for their portfolios. By the middle of the month, the volume of tax payments will increase, so liquidity will be reduced, although it may again receive support from the NBU through the FX market. Therefore, a significant reduction should not occur and the total amount of liquidity should remain above UAH200bn.

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

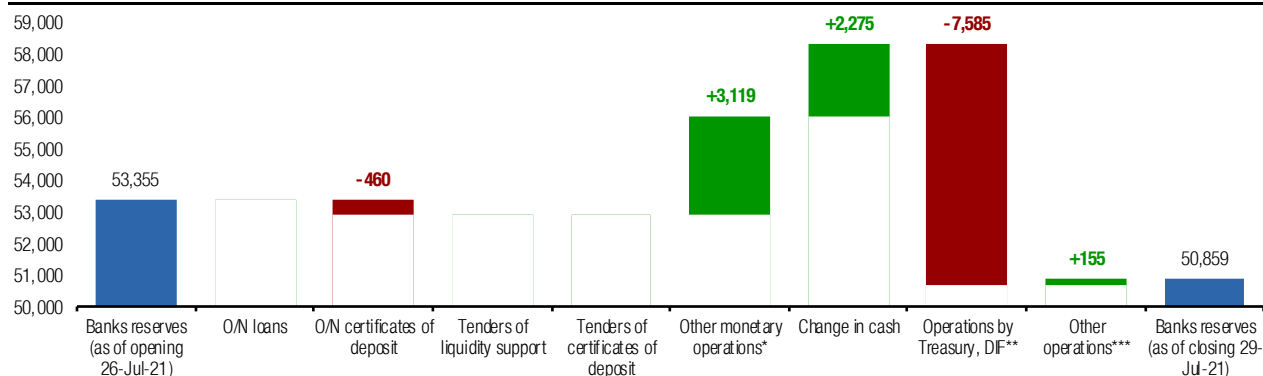
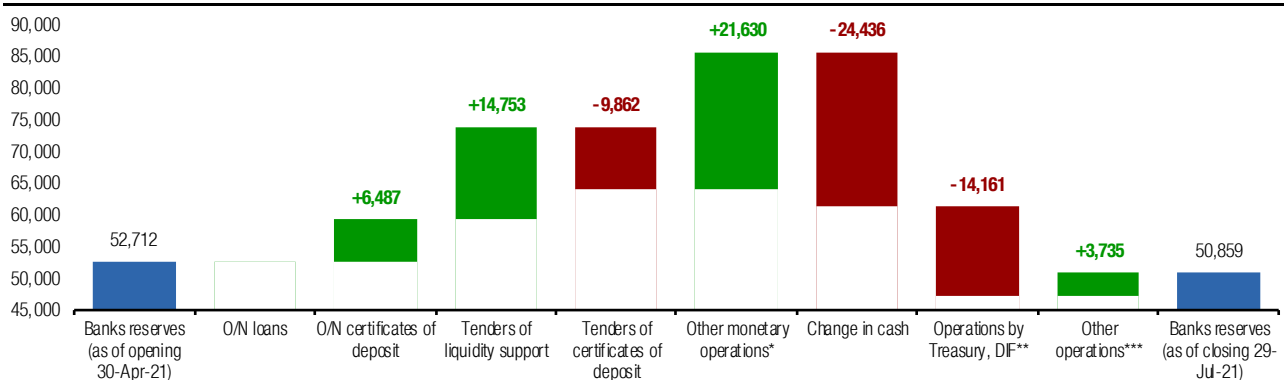
Chart 3. Banks reserves usages over last week(UAHm)

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 ;

* 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

Hard currency supply remains abundant

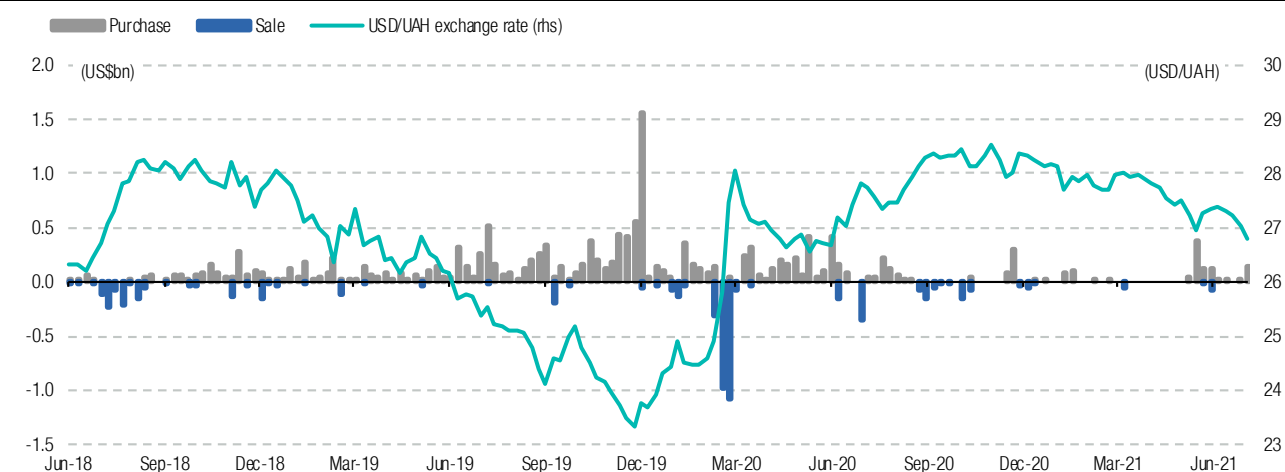
The supply of hard currency in the market prevailed over demand last week, which allowed the hryvnia to strengthen and firmly establish the range of UAH26.5–27/\$. In August, the supply of currency will remain high due to strong grain exports and the payment of quarterly taxes, so this week the exchange rate will move even closer to the bottom of this range.

The supply of hard currency among bank customers increased much more, and on some days, their sales exceeded purchases by more than US\$100mn. This forced the NBU to intervene in the market to restrain strengthening, and eventually buy US\$136mn. This is the largest volume of hard currency purchased since early June. But if in June the key sellers of hard currency were foreigners buying new bills, at the end of July the influence of foreigners was marginal and mostly from demand side. Sellers could be domestic farmers who export grain at high prices. Also, the US dollar weakened against the euro and there was a general decline in the DXY index, thus giving more incentives for exporters to increase USD supplies.

Therefore, even with the NBU's interventions, the hryvnia exchange rate was fixed within the range of UAH26.5–27/\$, and gradually strengthened over the week by 1% to UAH26.78/\$.

ICU view: *The activity of farmers and the approach of quarterly tax payments will continue to support the supply of hard currency at a high level, which will add support to the hryvnia. The dynamics of the US dollar exchange rate against other currencies will also have impact on market activity and may support the hryvnia.*

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

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.

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

Alexander Martynenko 

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv 

Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Taras Kotovych 

Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko

Junior financial analyst
dmitriy.dyachenko@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.

