

# Weekly Insight

## Hryvnia is back to UAH27/US\$

### Key messages of the today's comments

#### Domestic liquidity and bonds market

##### Investors increase activity

Although foreign investors continue to reduce their UAH-denominated bonds holdings, overall, trading activity has increased both in the domestic and international capital markets. The redemption of Eurobonds this week should be positive and keep Ukrainian Eurobonds prices high.

#### Foreign exchange market

##### Hryvnia is back to UAH27/US\$

Completion of quarterly taxes shifted the market balance to the demand side and returned the hryvnia exchange rate to the top of the UAH26.5–27/US\$ range. This week, the hryvnia may weaken towards UAH27/US\$.

MONDAY, 30 AUGUST 2021

#### Banks' reserves market (27 August 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	8.00	+0bp	+200bp
ON rate (%)	7.50	+7bp	+229bp
ON \$ swap (%)	N/A	...	...
Reserves (UAHm) <sup>2</sup>	51,255	-3.70	-11.29
CDs (UAHm) <sup>3</sup>	123,836	-0.05	+18.18

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) (27 August 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	312,606	-0.32	-3.69
Banks	496,031	+0.64	+20.08
Residents	50,037	+0.51	+81.44
Individuals	19,693	+0.58	+163.45
Foreigners <sup>1</sup>	99,663	-2.32	+12.87
<b>Total</b>	<b>978,029</b>	<b>+0.03</b>	<b>+13.62</b>

Notes: [1] non-residents

Source: NBU, ICU.

#### FX market indicators (27 August 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.8921	+0.77	-2.21
EUR/USD	1.1795	+0.83	-0.02
DXY	92.686	-0.87	-0.34
UAH TWI <sup>1</sup>	125.699	-1.47	+1.70

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Gov't bond quotes<sup>1</sup> (30 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](http://www.icu.ua).

Source: ICU.

# Domestic liquidity and bonds market

## Investors increase activity

Although foreign investors continue to reduce their UAH-denominated bonds holdings, overall, trading activity has increased both in the domestic and international capital markets. The redemption of Eurobonds this week should be positive and keep Ukrainian Eurobonds prices high.

Foreigners continued to sell UAH-denominated paper, but withdrawal of funds from this source was fairly restrained. Over the past week, foreigners reduced their portfolios by UAH2.2bn (US\$80m), thus satisfying part of demand that arose due to the lack of a primary auction.

Without a primary auction, activity in the secondary market intensified. Before the long weekend, market turnover was just UAH2.4bn; last week the amount of deals increased almost three times, to UAH6.3bn. Bills maturing in the summer of 2022 and in May 2023 were the most actively traded in the amount of over UAH1bn for each instrument. However, the volume of transactions of notes with maturity in 2025, which are mostly owned by foreigners, decreased to a negligible UAH69mn in 17 deals.

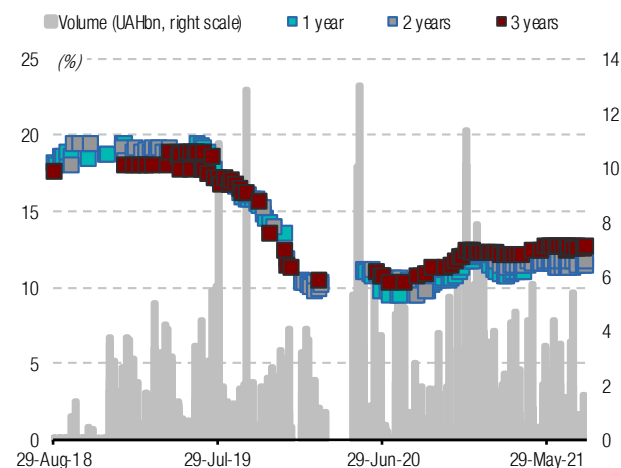
Demand for Ukrainian Eurobonds has also increased. Over the past week, prices have risen and yields have fallen by an average of 20 basis points, especially last Friday. Investors must have positively assessed Ukraine's receipt of US\$2.7bn from the IMF, which will help the country meet external debt redemptions in September. In addition, after speech of FED Chairman Jerome H. Powell at the Jackson Hole symposium, investors' appetite to risky assets rose and boosted demand for Ukrainian Eurobonds.

**ICU view: This week, the Ministry of Finance returns to the primary bond market and plans to offer five UAH-denominated instruments with maturities of one to six years and two-year, USD-denominated paper. This may slightly reduce the turnover in the secondary market, but will improve budget financing.**

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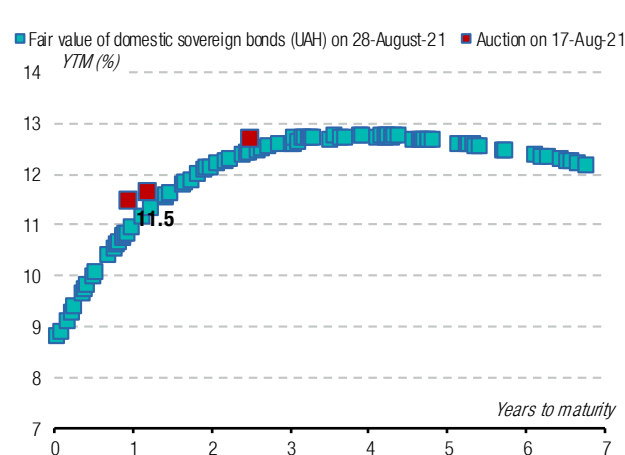
**Chart 1. Local-currency bonds**

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.

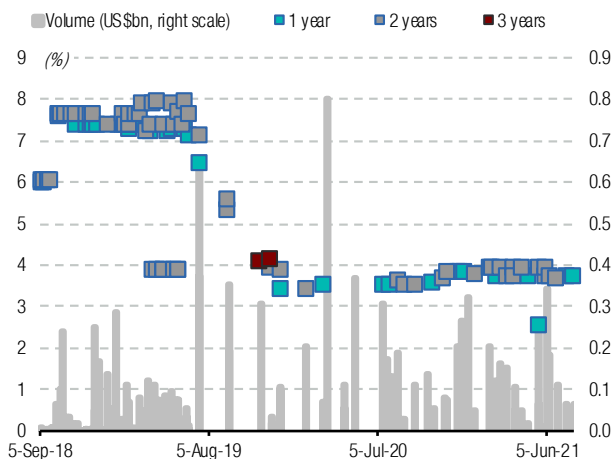
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

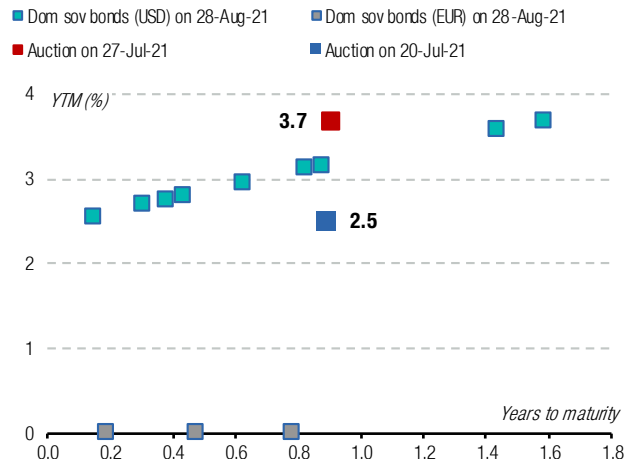
**Chart 2. FX-denominated bonds**

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 is back to UAH27/US\$

Completion of quarterly taxes shifted the market balance to the demand side and returned the hryvnia exchange rate to the top of the UAH26.5–27/US\$ range. This week, the hryvnia may weaken towards UAH27/US\$.

The growth of imports and, accordingly, the increase in demand from importers for hard currency for most of August was offset by the supply of hard currency from farmers and exporters, which increased in the middle of the month due to the need for hryvnia liquidity to pay quarterly taxes. But immediately after the end of the tax payments and the celebration of the 30th anniversary of the country's independence, the FX market received an increase in demand from importers. In particular, in the form of deferred demand, which was due to additional non-business days. But the supply of hard currency decreased and could not cover the demand.

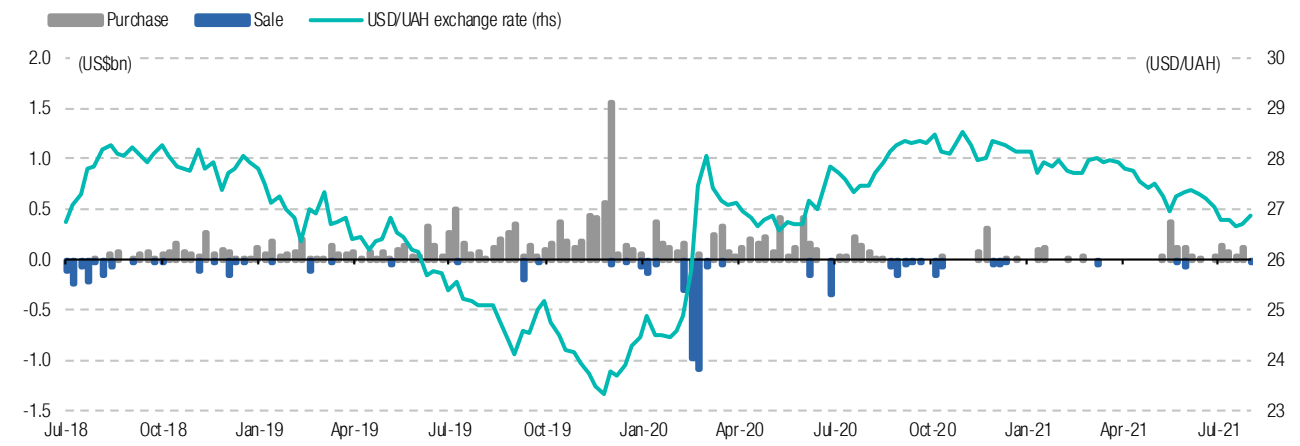
This resulted in a weakening of the hryvnia exchange rate to the level of UAH26.89/US\$ last Friday. The NBU did not intervene the market for the most of last week, which allowed such fluctuations and not considering such weakening as not requiring intervention. But on Saturday (was a business day in Ukraine), the NBU sold US\$20.5mn to satisfy an extra demand, which restrained weakening. Last week ended with a UAH26.97/US\$ exchange rate.

**ICU view: Month-end tax payments and wage-related payments will take place this week. This may increase the supply of hard currency in the market, but it may not be enough to cover the entire demand. Therefore, we expect that this week the hryvnia exchange rate may remain in the same range of UAH26.5–27/US\$, but close to the top of this range.**

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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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