



Focus
Ukraine

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

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Weekly Insight

Demand for T-bills increases

Key messages of the today's comments

Domestic liquidity and bonds market

Demand at primary bond market increases

After the break activity in the primary auctions increased last week, and allowed the MoF to borrow UAH6.5bn to finance the budget, albeit with an increase in interest rates. This week, demand may rise and require the issuer to decide on changes in interest rates.

Foreign exchange market

Hryvnia is back to UAH26.5-27/US\$ range

Last week, demand for the hard currency situationally increased, and even led to a short-term weakening of the hryvnia to more than UAH27/US\$. However, by the end of the week, it strengthened and returned in the range of UAH26.5–27/US\$. Similar fluctuations may occur this week, too, and should keep the hryvnia exchange rate close to UAH27/US\$.

MONDAY, 6 SEPTEMBER 2021

Banks' reserves market (3 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	8.00	+0bp	+200bp
ON rate (%)	7.44	-62bp	+226bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	55,792	-5.00	+30.95
CDs (UAHm) ³	118,549	-18.83	+1.81

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) (3 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	312,606	+0.00	-3.69
Banks	502,210	+0.95	+20.05
Residents	51,898	+3.56	+84.68
Individuals	20,791	+5.13	+170.97
Foreigners ¹	98,102	-0.94	+12.12
Total	985,608	+0.67	+13.79

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (3 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.8852	-0.03	-3.12
EUR/USD	1.1880	+0.72	+0.24
DX	92.035	-0.70	-0.76
UAH TWI ¹	124.802	-0.71	+2.06

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (6 September 2021)

Maturity	Bid	Ask
6m	11.00	10.00
12m	11.75	11.25
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

Demand at primary bond market increases

After the break activity in the primary auctions increased last week, and allowed the MoF to borrow UAH6.5bn to finance the budget, albeit with an increase in interest rates. This week, demand may rise and require the issuer to decide on changes in interest rates.

Last week, the auction was more active than before the break for both hryvnia- and FX-denominated bills. Borrowings were larger in that one auction than for the preceding weeks of August. The key factors driving such higher activities were the pent-up demand both due to the break in auctions in general and the first offering of FX-denominated bills in August. More details in the [auction review](#).

This auction demonstrated that the Ministry of Finance can consider raising rates in order to receive higher demand.

The turnover in the secondary market decreased to UAH5.8bn. Only bills with next year's redemption were actively traded, while longer securities were traded in small volumes. For example, there were only UAH71m of deals with bills due to 2025.

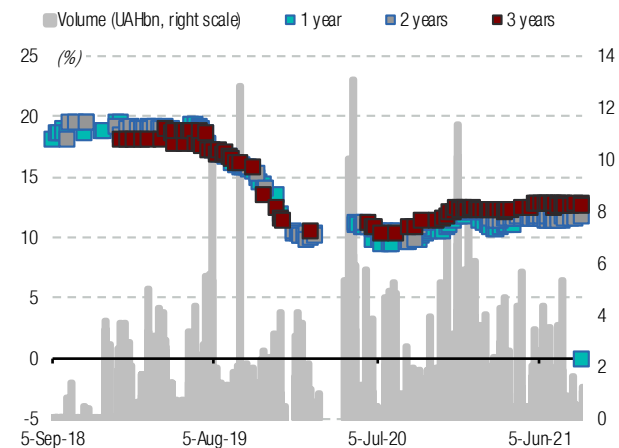
This also affected the activity of foreigners' selling UAH-denominated paper. Their portfolios decreased by only UAH949m last week, and on some days there was even an increase in portfolios.

ICU view: For eight months, the state budget has been operating at near break-even, almost without a deficit, so there has been no special need for borrowing, as was noted by Government Commissioner for Public Debt Management, Yuriy Butsa, at the Ukrainian Financial Forum last Friday. Therefore, we do not expect that the Ministry of Finance will agree to higher rates to attract large amounts of funds in the near future. At the same time, the MoF would be interested to refinance redemptions, as almost UAH13bn of UAH-denominated debt needs to be repaid in September. Therefore, the Ministry will try to maintain investor buying at current levels but will refrain from raising rates.

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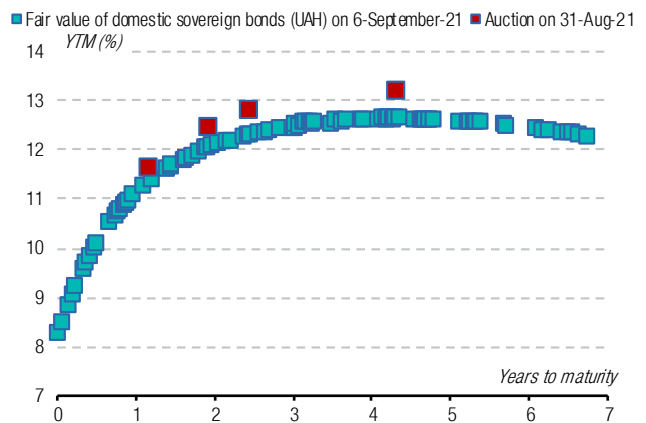
Chart 1. Local-currency bonds

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.

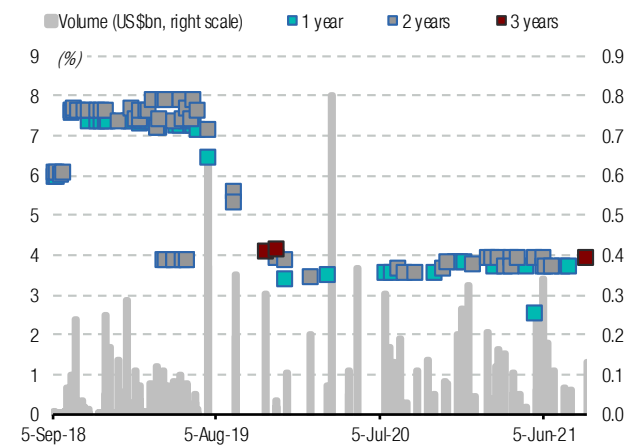
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

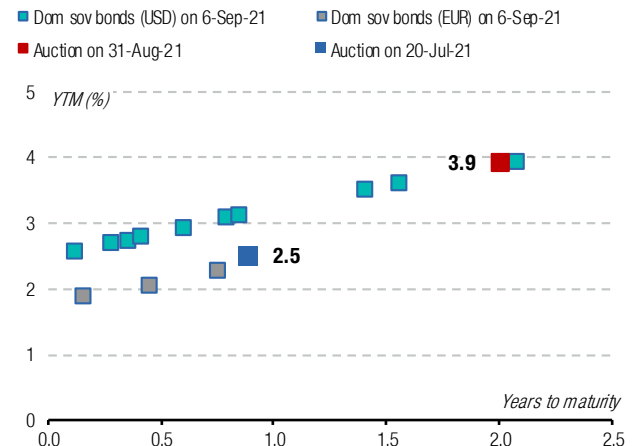
Chart 2. FX-denominated bonds

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 UAH26.5-27/US\$ range

Last week, demand for the hard currency situationally increased, and even led to a short-term weakening of the hryvnia to more than UAH27/US\$. However, by the end of the week, it strengthened and returned in the range of UAH26.5–27/US\$. Similar fluctuations may occur this week, too, and should keep the hryvnia exchange rate close to UAH27/US\$.

After the start of last week when the supply of hard currency was large and the NBU even bought almost US\$130mn, on Tuesday, the balance of the FX-market shifted towards demand. On Wednesday, the NBU was forced to sell hard currency, albeit in small amounts. In total, the NBU bought US\$159mn last week, and sold only US\$7mn.

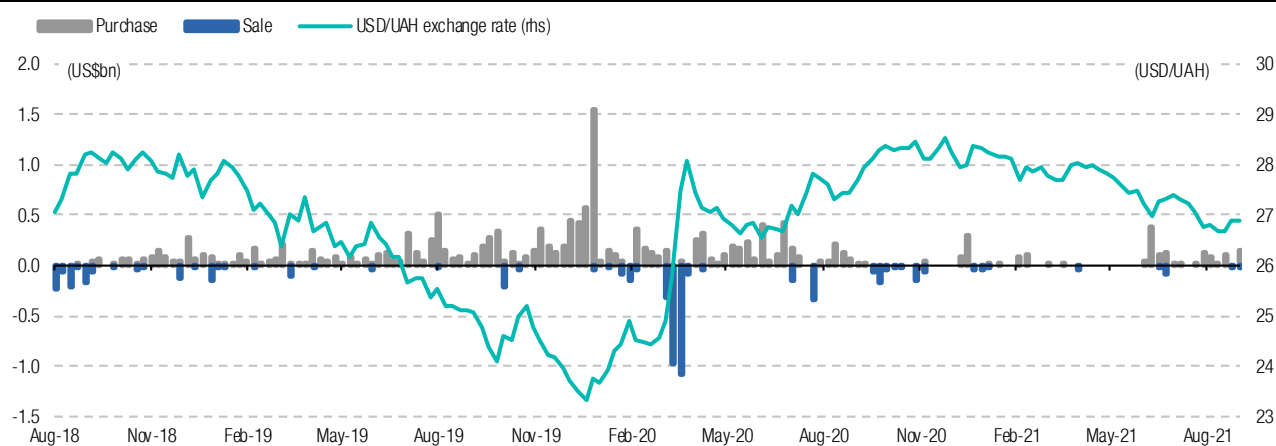
As a result, the hryvnia weakened on Wednesday and Thursday, even reaching UAH27.12/US\$ shortly. On Friday, the market balanced out and ended the week with the hryvnia exchange rate of UAH26.89/US\$.

ICU view: Such fluctuations indicate a decrease in the supply of hard currency and an increase in demand from importers, who will gradually put pressure on the hryvnia exchange rate. We expect similar fluctuations to occur this week as well, gradually pushing the hryvnia closer to UAH27/US within the same range of UAH26.5–27/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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