

# Weekly Insight

## NBU increases key rate to 8.5%

### Key messages of the today's comments

MONDAY, 13 SEPTEMBER 2021

### Domestic liquidity and bonds market

#### Foreigners continue to decrease UAH-denominated portfolios

The strong hryvnia and NBU's review of the key policy rate last week induced foreign investors to decrease their UAH-denominated portfolios. We expect the trend to continue this week as investors will wait for the primary auction results and MoF's decision on the interest rate for bonds after the NBU key policy rate increase to 8.5%.

### Foreign exchange market

#### Supply of hard currency prevails again

Supply of hard currency prevailed again and once more caused hryvnia appreciation. This week, there should be no important changes in the FX-market, and the hryvnia exchange rate will remain in the UAH26.5–27/US\$ range.

### Economics

#### Consumer inflation remains at 10.2% in August

In August 2021, Ukraine's consumer price index grew by 10.2% YoY, thus remaining at July's level. On a monthly basis, prices fell by 0.2%. We expect that by the end of the year, inflation may begin to slow gradually; however, risk is tilting to the upside.

#### NBU increases key rate by 50 bps to 8.5%

The decision for a rate hike was in line with consensus expectations.

### Banks' reserves market (10 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	8.50	+50bp	+250bp
ON rate (%)	7.28	-5bp	+207bp
ON \$ swap (%)	N/A	...	...
Reserves (UAHm) <sup>2</sup>	43,357	-22.29	+14.66
CDs (UAHm) <sup>3</sup>	133,595	+12.69	+7.83

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) (10 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	312,606	+0.00	-3.69
Banks	502,989	+0.18	+19.66
Residents	52,071	+0.53	+86.07
Individuals	20,949	+0.76	+166.75
Foreigners <sup>1</sup>	97,037	-1.49	+11.74
<b>Total</b>	<b>985,650</b>	<b>-0.02</b>	<b>+13.61</b>

Notes: [1] non-residents

Source: NBU, ICU.

### FX market indicators (10 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.7316	-0.57	-4.06
EUR/USD	1.1814	-0.56	-0.01
DXY	92.582	+0.59	-0.81
UAH TWI <sup>1</sup>	126.150	+1.08	+3.56

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Gov't bond quotes<sup>1</sup> (13 September 2021)

Maturity	Bid	Ask
6m	11.00	10.00
12m	11.75	11.25
2y	13.00	12.00
3y	13.50	12.50
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

## Foreigners continue to decrease UAH-denominated portfolios

The strong hryvnia and NBU's review of the key policy rate last week induced foreign investors to decrease their UAH-denominated portfolios. We expect the trend to continue this week as investors will wait for the primary auction results and MoF's decision on the interest rate for bonds after the NBU key policy rate increase to 8.5%.

Foreigners continued to sell UAH-denominated bills, mostly with redemptions in 2022–2024. Last week, their portfolio declined by UAH1.5bn. According to the NBU, the most actively traded were bills due 2022, 2023, and 2024.

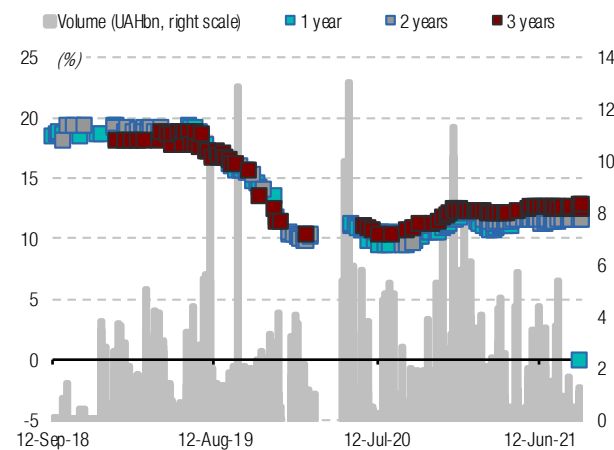
However, foreigners did not sell large amounts of notes due February 2025. Turnover for this paper rose slightly to UAH0.3bn in 26 deals. It looks like foreign investors are waiting for finalization of the process of this paper being added to the JPMorgan index.

**ICU view: This week, investors' attention will be focused on Tuesday's primary auction. It will be the debut auction after the key policy rate increase (see comment below) and the demand could come with higher rates in expectations of the yield-curve moving up. Last week, there were attempts to get higher rates (see [auction comment](#)) and the increase in the key policy rate will increase market sentiment for higher rates, which may cause the corresponding reaction from the issuer.**

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

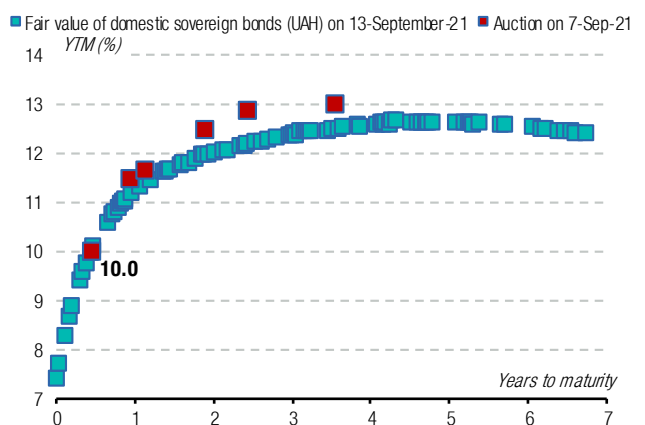
**Chart 1. Local-currency bonds**

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.

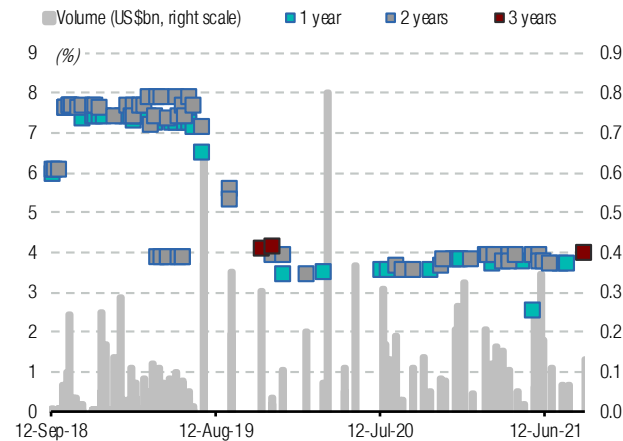
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

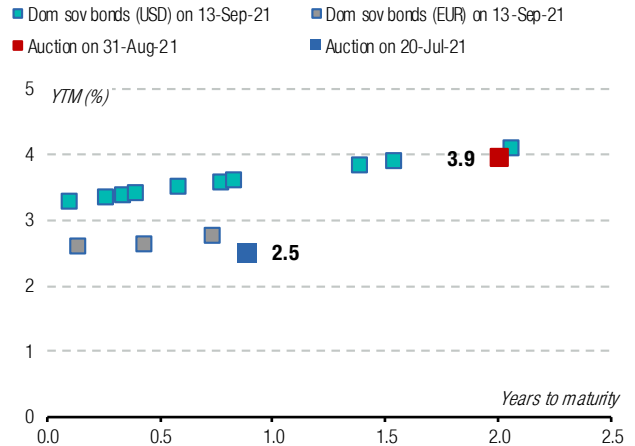
**Chart 2. FX-denominated bonds**

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.

## Foreign exchange market

### Supply of hard currency prevails again

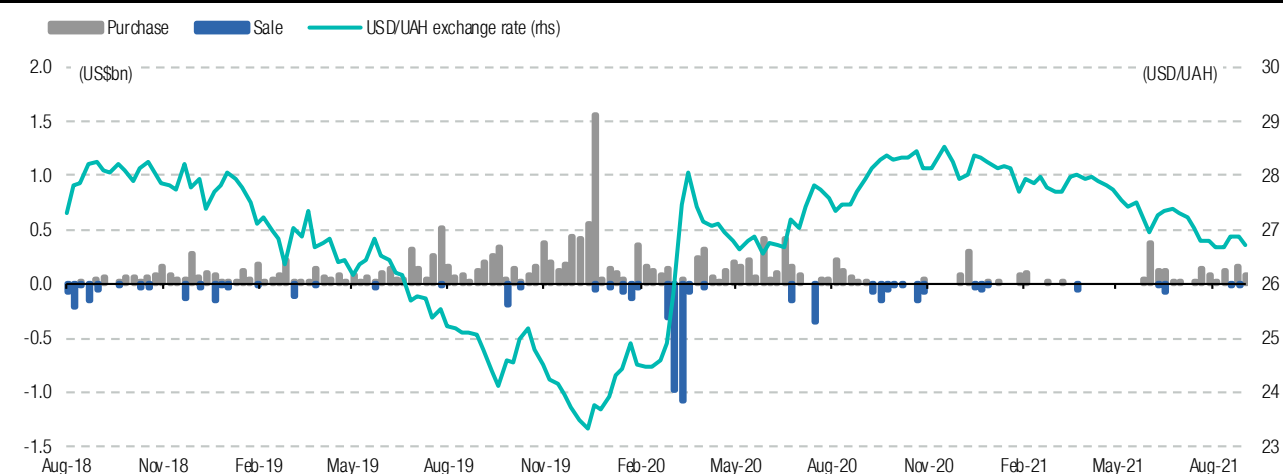
Supply of hard currency prevailed again and once more caused hryvnia appreciation. This week, there should be no important changes in the FX-market, and the hryvnia exchange rate will remain in the UAH26.5–27/US\$ range.

High prices for Ukrainian exports allowed local companies to accumulate enough hard currency to satisfy their own needs in local-currency liquidity. Therefore, the increase in demand seen last week was covered by larger supply from banks' other clients.

Last week, the NBU had to intervene the market and purchased US\$79mn. They also intervened on the same days when foreigners sold large amounts of T-bills. In the end, the NBU restrained hryvnia appreciation to just 0.6% and UAH26.73/US\$.

**ICU view: The supply of hard currency remains high, keeping the market balanced on the supply side despite foreigners' selling local-currency bills. We expect that this week domestic factors will remain decisive in the foreign exchange market. Foreigners will continue to sell bills at current prices and wait for the MoF's decision about interest rates, and absorb the extra supply of hard currency. Therefore, the hryvnia exchange rate will continue to fluctuate within the range of UAH26.5–27/US\$ with possible slight appreciation.**

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

**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.

## Economics

### Consumer inflation remains at 10.2% in August

In August 2021, Ukraine's consumer price index grew by 10.2% YoY, thus remaining at July's level. On a monthly basis, prices fell by 0.2%. We expect that by the end of the year, inflation may begin to slow gradually; however, risk is tilting to the upside.

According to the State Statistics Service of Ukraine, core inflation slowed slightly to 7.2% yoy in August from 7.3% yoy in July.

The published CPI figures are so far lower than the latest forecasts of the National Bank of Ukraine, which expected consumer inflation to accelerate to 11.2% in 3Q21.

**ICU view: Ukraine's prices for raw food, processed food, as well as services continued to accelerate and are 9.8% YoY, 12.7% YoY and 8.4% YoY, respectively, due to higher raw material prices and strong consumer demand. At the same time, the growth of non-food prices decelerated again, this time to 1.7% YoY, mostly due to the strengthening of the hryvnia. Fuel, natural gas, and alcohol prices also grew more slowly, largely due to the higher comparison base. In the next couple of months, inflation may accelerate due to high production costs and stable, albeit elevated demand, and then gradually slow afterwards, primarily due to the higher base effect and the expected decline in world commodity prices. At the same time, the risk of higher inflation will prevail due to higher-than-expected growth in food and non-food consumer goods.**

*Alexander Martynenko, Kyiv, (044) 377-7040 ext.726*

### NBU increases key rate by 50 bps to 8.5%

The decision for a rate hike was in line with consensus expectations.

The regulator is facing two major challenges. On one hand, the CPI rose to 10.2% YoY in both July and August and is likely to stay in the double-digits area, way above the targeted range for several upcoming months. On the other hand, GDP has declined QoQ in both 1Q21 and 2Q21.

***ICU view: Rhetoric of the NBU suggests the risk of inflation is its key priority as the CPI can go beyond the expected trajectory. Weak GDP growth in 2Q21 can be explained by statistical factors such as a later harvesting period in agriculture, therefore, the regulator expects a better result in 3Q21. Our base-case scenario suggests no changes in the key rate until the end of the year.***

***Mykhaylo Demkiv, Kyiv, (044) 377-7040 ext.723***

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](http://www.icu.ua)



## RESEARCH

**Alexander Martynenko**   
Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Mykhaylo Demkiv**   
Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Taras Kotovych**   
Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Dmitriy Dyachenko**  
Junior financial analyst  
[dmitriy.dyachenko@icu.ua](mailto: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.**

