

Weekly Insight

MoF restrains interest rates

Key messages of the today's comments

TUESDAY, 21 SEPTEMBER 2021

Domestic liquidity and bonds market

MoF restrains interest rates

A paucity of new bond issues and mostly unchanged rates in the primary market have led to a shift in investor interest to the secondary market for shorter-term securities. This week, the Ministry of Finance will be restrained once again in its decisions about rates, so we expect the secondary market will remain active.

Foreign exchange market

FX market remains balanced

The FX market remains fairly well balanced, with only minor fluctuations last week. This week, month-end tax payments will support hryvnia exchange rate.

Banks' reserves market (20 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	8.50	+0bp	+250bp
ON rate (%)	8.00	+4bp	+230bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	58,924	+5.54	-7.39
CDs (UAHm) ³	132,678	+6.28	+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 gov't bond holders (UAHm) (20 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	312,606	+0.00	-3.69
Banks	503,702	+0.04	+18.32
Residents	53,088	+1.80	+71.93
Individuals	21,280	+1.27	+157.90
Foreigners ¹	94,945	-1.36	+11.33
Total	985,620	+0.01	+12.68

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (20 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.6325	-0.08	-5.37
EUR/USD	1.1726	-0.65	-0.96
DXY	93.276	+0.71	+0.38
UAH TWI ¹	127.486	+0.81	+5.82

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (21 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.

Source: ICU.

Domestic liquidity and bonds market

MoF restrains interest rates

A paucity of new bond issues and mostly unchanged rates in the primary market have led to a shift in investor interest to the secondary market for shorter-term securities. This week, the Ministry of Finance will be restrained once again in its decisions about rates, so we expect the secondary market will remain active.

While a week earlier the activity of trades in UAH-denominated instruments in the secondary market was concentrated in securities maturing mainly in 2022 and 2023, last week, the most-traded bills were those with maturities within the next six months and notes due 2024. Nonetheless, the total volume of transactions in the secondary market was just slightly lower than a week ago.

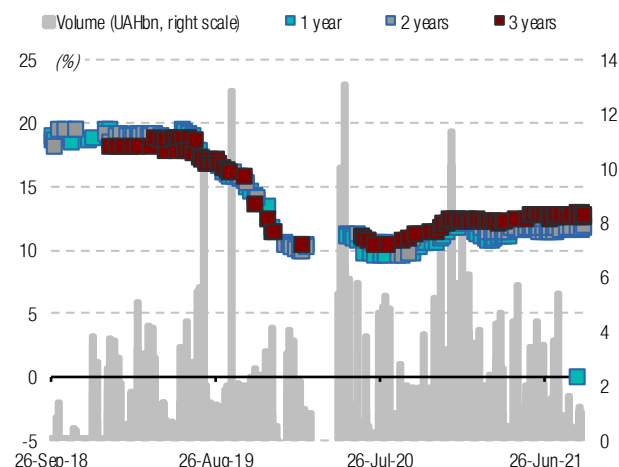
Last week, the Ministry of Finance once again agreed to only minor changes in interest rates in the primary auction, which led to raising only small volumes of budget proceeds. This induced investors to trade more in the secondary market. The volume of transactions this time amounted to UAH7.3bn, which is only one billion less than a week earlier.

ICU view: The low activity in the primary market and the Ministry of Finance's efforts to delay as long as possible a decision on a material increase in rates lead to investors to trade more in the secondary market and limit their participation in primary auctions. Therefore, this week, we do not expect much demand for the UAH-denominated bills, although FX-denominated paper should help increase the total volume of borrowings. Significant changes in rates should not be expected, although bidders will not refuse to make known their interest in higher rates.

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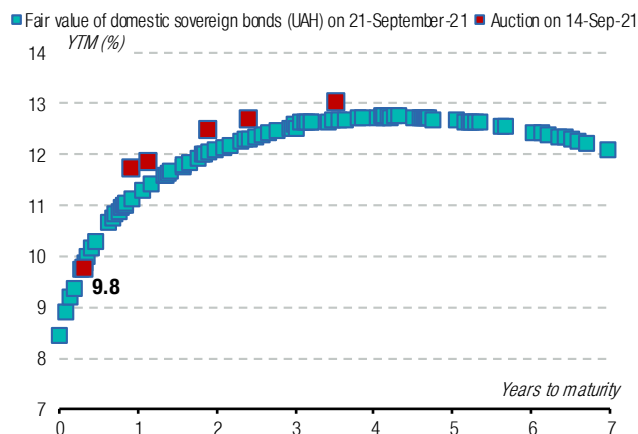
Chart 1. Local-currency bonds

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.

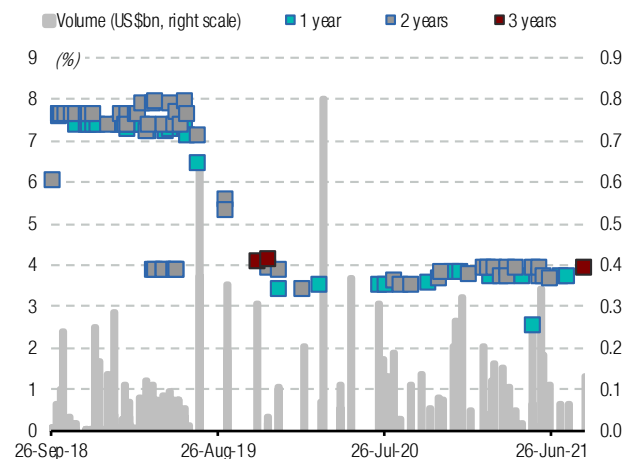
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

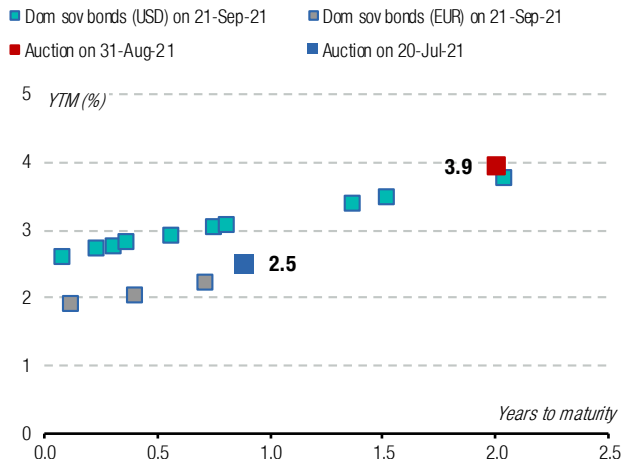
Chart 2. FX-denominated bonds

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

FX market remains balanced

The FX market remains fairly well balanced, with only minor fluctuations last week. This week, month-end tax payments will support hryvnia exchange rate.

Throughout the past week, the hryvnia exchange rate fluctuated mainly in the range of UAH26.6–26.7/US\$, despite the predominance of demand for hard currency among bank customers. This customer imbalance was covered by banks. Hence, the NBU intervened in the market by doing just small purchases of US\$5mn a day. In total, the NBU bought just US\$20mn, missing only Thursday.

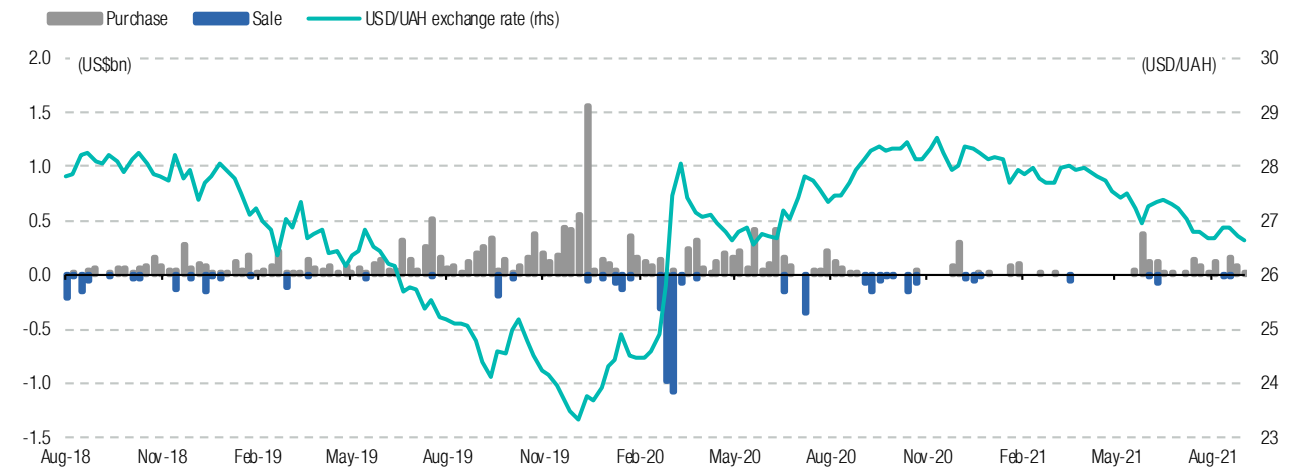
As a result, the hryvnia strengthened by 0.4% to UAH26.62/US\$.

ICU view: *The end of the month and the need to pay month-end taxes can increase the supply of hard currency in the market, which will maintain the balance and keep the hryvnia exchange rate near the middle of the range of UAH26.5–27/US\$. Therefore, a higher demand for hard currency from importers is still being offset by supply from exporters as prices for agricultural products remain elevated. In the near term, the hryvnia exchange rate will remain in the same range with a probable slight weakening due to rising imports and high prices for energy products.*

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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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