

Weekly Insight

Higher rates attract more foreign investors

Key messages of the today's comments

MONDAY, 27 SEPTEMBER 2021

Domestic liquidity and bonds market

Higher rates attract more foreign investors

The gradual rise in interest rates for UAH-denominated bonds has resulted in increased borrowings and a slightly changed dynamic of foreign investors' portfolios. This week, we expect a further increase in rates and careful purchases of new bills by foreign investors.

Foreign exchange market

The hryvnia remains strong

The FX market continues to balance at the usual level of UAH26.6–26.7/US\$ with short-lived fluctuations. Although the supply of hard currency from exporters may decline this week, the hryvnia should remain rather stable.

Banks' reserves market (24 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	8.50	+0bp	+250bp
ON rate (%)	7.93	-7bp	+277bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	55,451	-12.48	-7.64
CDs (UAHm) ³	133,623	+4.41	+27.50

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) (24 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	312,606	+0.00	-3.69
Banks	506,310	+0.54	+18.73
Residents	53,130	+0.58	+70.79
Individuals	22,004	+3.90	+165.68
Foreigners ¹	95,628	+0.81	+13.39
Total	989,679	+0.48	+13.16

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (24 September 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.7014	+0.30	-5.53
EUR/USD	1.1720	-0.04	+0.41
DXY	93.327	+0.14	-1.09
UAH TWI ¹	127.174	-0.05	+4.46

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (27 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

Higher rates attract more foreign investors

The gradual rise in interest rates for UAH-denominated bonds has resulted in increased borrowings and a slightly changed dynamic of foreign investors' portfolios. This week, we expect a further increase in rates and careful purchases of new bills by foreign investors.

The MoF has been selective in raising rates. However, they have gradually raised rates on UAH-denominated paper, in order to improve demand. Although the overall trajectory of the yield curve has changed just slightly, foreigners' sentiment regarding Ukrainian local-currency instruments improved along with coming positive news about the IMF mission and the mostly steady global financial market.

For almost three months, foreigners have been net sellers of UAH-denominated assets and decreased their domestic bond portfolios by about UAH16bn. However, last week for the first time since the end of June, foreigner portfolios rose by UAH0.9bn to UAH95.5bn.

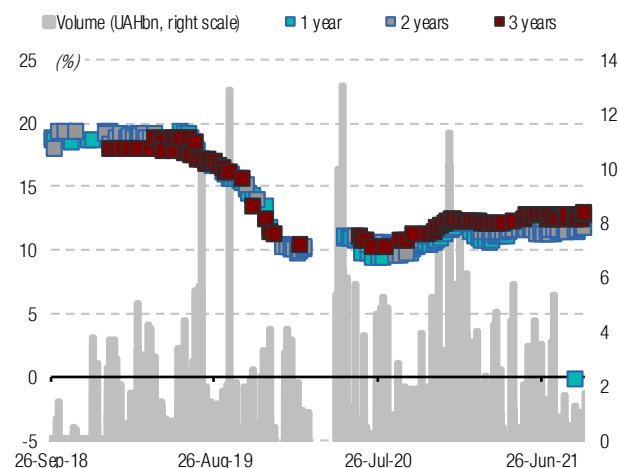
Bills due August 2022 issued last Tuesday, as well as foreigners' favourites, 2025 notes, were most actively traded in the secondary market. As a result, the total turnover in the secondary market amounted to UAH9.2bn during the week.

ICU view: The hryvnia exchange rate has been stable for a long time and positive news flow, especially about IMF, improved foreigners' sentiment toward Ukraine. We expect to see better demand in the primary auction this week, especially with redemption of bonds worth UAH12bn this Wednesday. Therefore, bond issue volumes will continue to rise.

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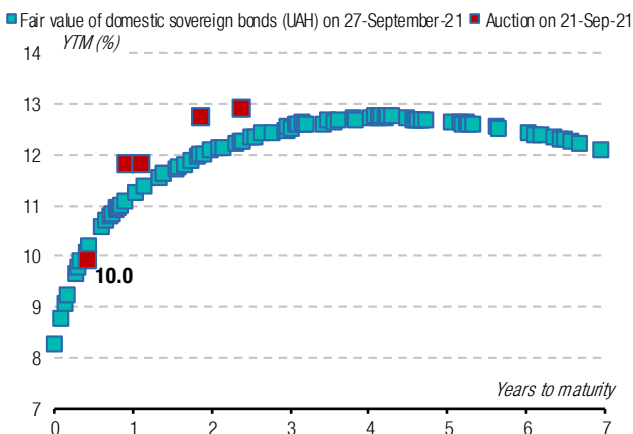
Chart 1. Local-currency bonds

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.

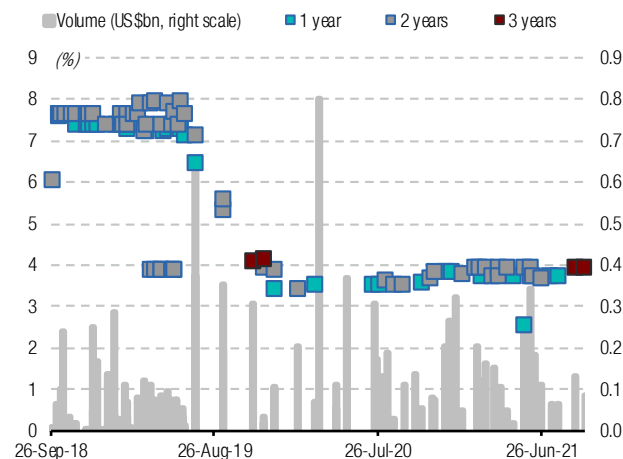
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

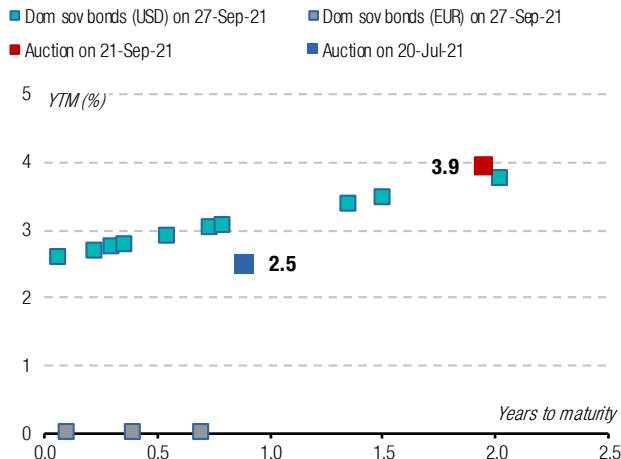
Chart 2. FX-denominated bonds

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.

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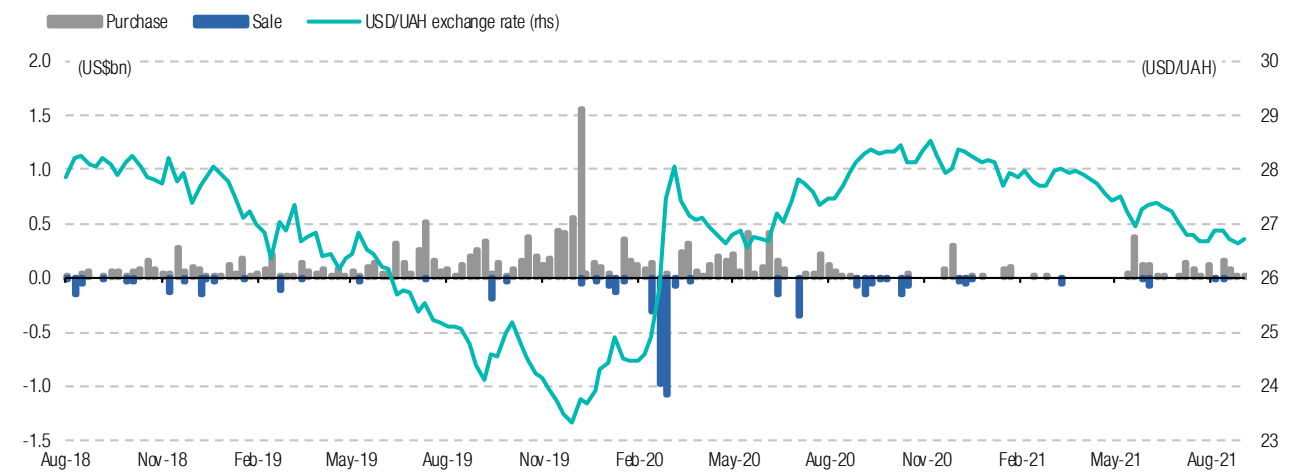
In total last week, the hryvnia weakened by 0.3% to UAH26.7/US\$. During trading sessions it appreciated to UAH26.5/US\$, but did not weaken more than to UAH26.7/US\$. Such dynamic was supported by month-end tax payments and the low amount of VAT refunds, just UAH5.8bn since the month beginning. Just last Friday there was UAH6.6bn of VAT refund, which decreased supply of hard currency in the market. The NBU, in its turn, made a few small interventions, in the amount of only US\$22.5m for the whole week.

ICU view: Given current market conditions, we do not anticipate material changes in the FX market, as lower supply of hard currency from exporters after VAT refunds can be replaced by foreigners, whose view on UAH-denominated instruments is slightly more positive. Therefore, the hryvnia exchange rate will remain strong in the UAH26.5–27.0/US\$ range with possible weakening to about UAH26.8/US\$ at the end of this week.

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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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