



Focus  
**Ukraine**

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

Research team  
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# Weekly Insight

## Foreigners support the hryvnia

### Key messages of the today's comments

#### Domestic liquidity and bonds market

##### Foreigners again active in UAH-bill purchases

For the second consecutive week, foreigners actively purchased UAH-denominated bonds in larger amounts than they sold them. This week, this trend should continue, and the total amount of foreigners' portfolio could exceed UAH100bn.

##### Banking-sector liquidity recovers

After a sharp drop in August, total banking-sector liquidity increased in September and came close to UAH200bn. In October, budget expenditures may increase, gradually increasing liquidity.

#### Foreign exchange market

##### Foreigners support the hryvnia

Foreigners' activity in the bond market added to the supply of hard currency in the market and pushed the hryvnia exchange rate to a strengthening stance. If foreigners maintain their same level of activity as the last week, it may contribute to further strengthening towards UAH26.5/US\$.

### MONDAY, 4 OCTOBER 2021

#### Banks' reserves market (1 October 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	8.50	+0bp	+250bp
ON rate (%)	7.88	-26bp	+272bp
ON \$ swap (%)	N/A	...	...
Reserves (UAHm) <sup>2</sup>	51,970	-6.28	-0.10
CDs (UAHm) <sup>3</sup>	144,258	+7.96	+17.69

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) (1 October 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	312,606	+0.00	-3.69
Banks	500,322	-1.21	+16.04
Residents	51,793	-1.99	+75.57
Individuals	21,973	-0.14	+170.92
Foreigners <sup>1</sup>	98,431	+2.73	+18.54
<b>Total</b>	<b>985,124</b>	<b>-0.46</b>	<b>+12.42</b>

Notes: [1] non-residents

Source: NBU, ICU.

#### FX market indicators (1 October 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.6180	-0.31	-6.11
EUR/USD	1.1596	-1.06	-1.29
DX	94.035	+0.76	+0.35
UAH TWI <sup>1</sup>	128.068	+0.70	+5.99

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Gov't bond quotes<sup>1</sup> (4 October 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 again active in UAH-bill purchases

For the second consecutive week, foreigners actively purchased UAH-denominated bonds in larger amounts than they sold them. This week, this trend should continue, and the total amount of foreigners' portfolio could exceed UAH100bn.

At the end of September, foreigners' sentiment improved towards UAH-denominated assets. This could have been a reaction to higher interest rates in the primary bond auction, a stronger hryvnia, and the recently started IMF mission.

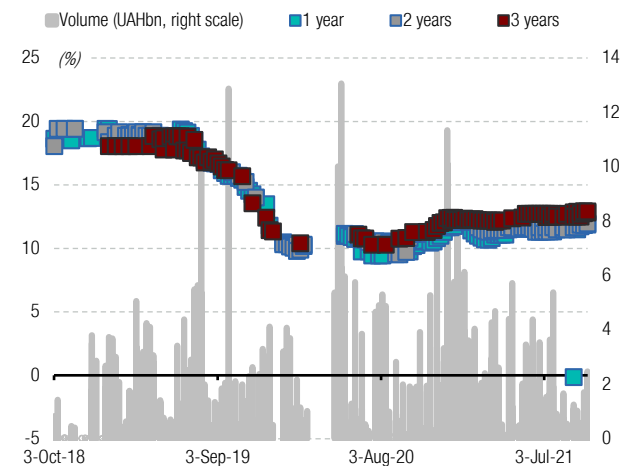
During the previous two weeks, foreigners' portfolios were up by UAH3.3bn, including a UAH2.3bn increase last week. While at the beginning of last week, portfolios slightly declined, after the auction, portfolios rose. At the end of the first day of October, foreigners' portfolios rose to UAH98.2bn, including UAH-denominated bonds, which amounted to UAH97.8bn.

**ICU view:** During the previous two weeks, foreigners increased investments in UAH-denominated bonds. After tomorrow's auction settlement, we expect foreign investors to increase purchases and their portfolios could exceed UAH100bn.

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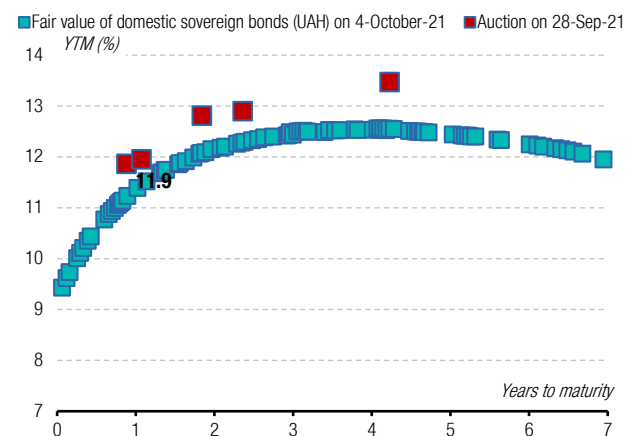
### Chart 1. Local-currency bonds

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.

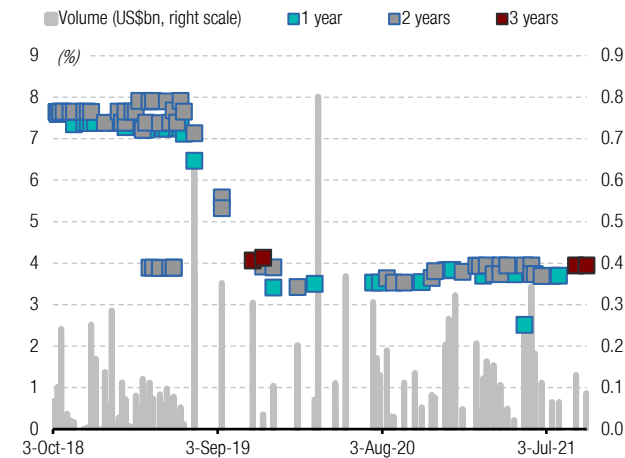
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

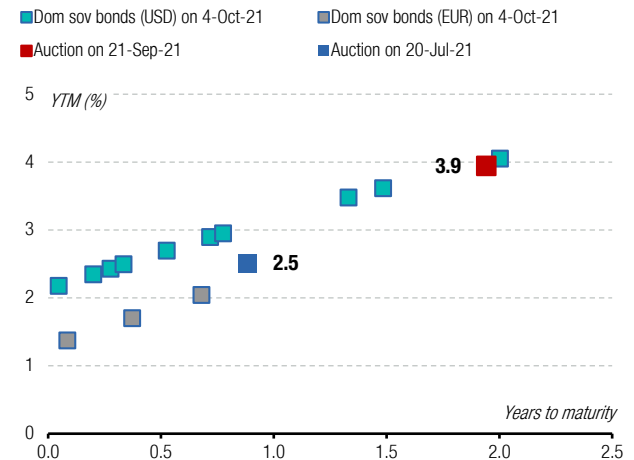
### Chart 2. FX-denominated bonds

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.

### Banking-sector liquidity recovers

After a sharp drop in August, total banking-sector liquidity increased in September and came close to UAH200bn. In October, budget expenditures may increase, gradually increasing liquidity.

Payment of quarterly and monthly taxes in August reduced liquidity to UAH170bn on the last day of summer, but in the second week of September, liquidity began to recover. By the end of September, it reached over UAH196bn. Both the purchases of foreign currency by the NBU and higher budget expenditures contributed to growth. In particular, last week, liquidity increased due to partial refinancing of UAH-denominated debt redemption.

**ICU view: The increase in foreigners' activity in the bond market will encourage the NBU to increase the volume of hard currency purchases to restrain the strengthening of the hryvnia exchange rate. Together with larger budget expenditures, this will return the total amount of liquidity above UAH200bn and will support banks' activity in the bond market at the same time.**

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### Chart 3. Banks reserves usages over last week(UAHm)

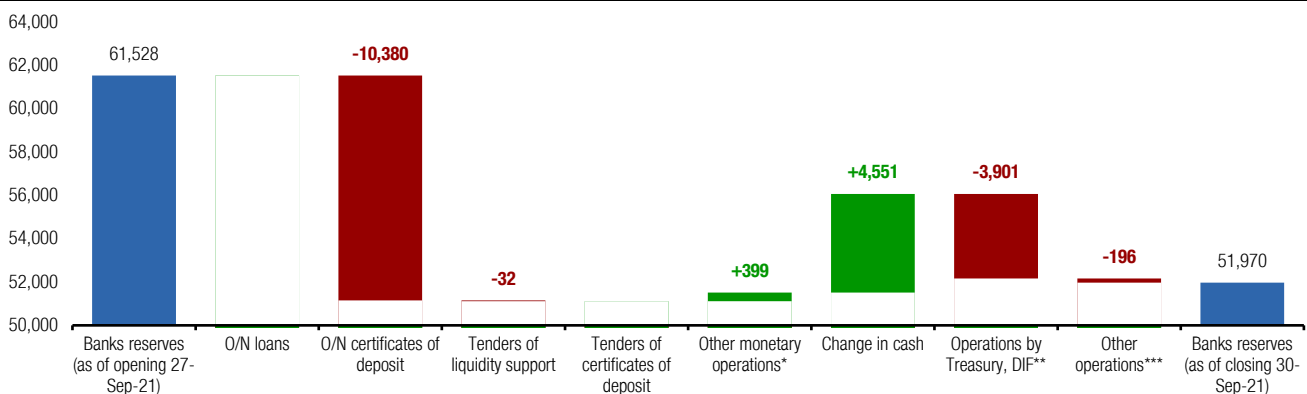
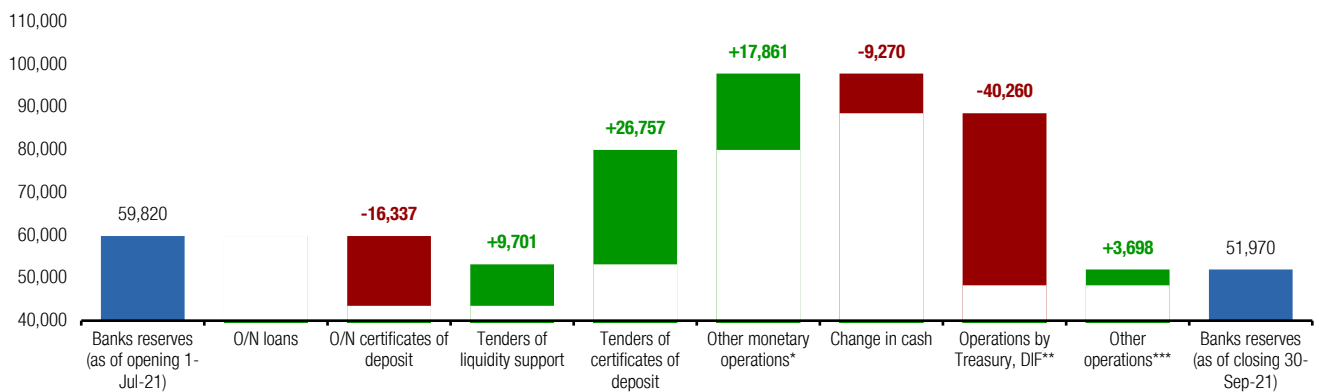


Chart 4. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142) ;

\* operations repo, purchase and sale of government bonds, FX market interventions, stabilisation loans, FX swap agreements; \*\* DIF – deposit insurance fund;

\*\*\* interest payments on NBU's loans and on NBU's certificates of deposit, other operations. Source: NBU, ICU.

## Foreign exchange market

### Foreigners support the hryvnia

Foreigners' activity in the bond market added to the supply of hard currency in the market and pushed the hryvnia exchange rate to a strengthening stance. If foreigners maintain their same level of activity as the last week, it may contribute to further strengthening towards UAH26.5/US\$.

For the second week in a row, foreigners increased their bond portfolios and the NBU bought another US\$15mn in international reserves. However, this purchase took place in the first three days of last week when foreigners exchanged hard currency to have enough local-currency liquidity to participate in the primary auction. By the end of last week, the NBU allowed UAH exchange rate fluctuations without intervening. Even without the participation of the National Bank, the demand for hard currency was not very high, which maintained the advantage of supply and maintained the hryvnia exchange rate at a sufficiently strong level.

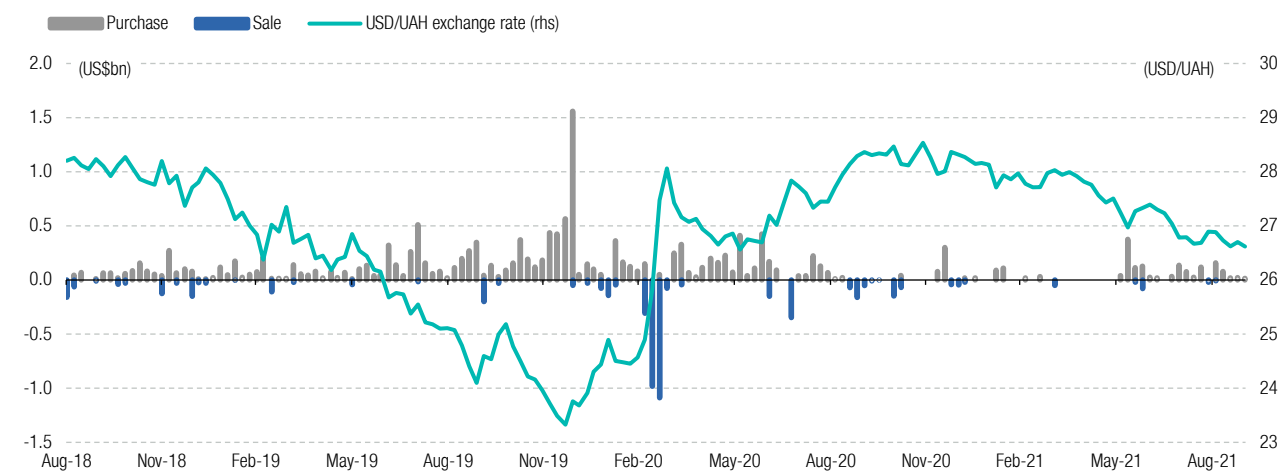
Last week ended with the hryvnia exchange rate at UAH26.62/US\$, which is 0.3% stronger than the week before.

**ICU view:** *Should foreigners maintain their active participation in primary bond auctions, they would continue to supply enough hard currency to the market, maintaining the hryvnia exchange rate closer to the bottom of the UAH26.5-27/US\$ range, and even further strengthen the hryvnia towards UAH26.5/US\$ this week.*

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### Chart 5. 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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