

Weekly Insight

The hryvnia reaches 18-month high

Key messages of the today's comments

TUESDAY, 12 OCTOBER 2021

Domestic liquidity and bonds market

Foreigners resume selling UAH bills

After two weeks of foreigners increasing investments in UAH-denominated debt, last week, foreigners again sold more than they bought. This week, foreign capital outflows may continue due to the strengthening hryvnia.

Foreign exchange market

The hryvnia reaches 18-month high

Last week, the hryvnia strengthened to its maximum this year or eighteen months overall, despite foreigners' withdrawal of funds from UAH-denominated bills. This week, we expect the hryvnia exchange rate to remain at least that strong

Banks' reserves market (11 October 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	8.50	+0bp	+250bp
ON rate (%)	8.10	+14bp	+289bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	44,981	-14.24	+30.11
CDs (UAHm) ³	151,894	+8.13	+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) (11 October 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	312,606	+0.00	-3.69
Banks	502,015	+0.32	+14.42
Residents	52,517	+0.92	+71.67
Individuals	22,184	+0.77	+165.81
Foreigners ¹	97,037	-0.92	+19.46
Total	986,359	+0.14	+11.64

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (11 October 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.3599	-0.15	-6.88
EUR/USD	1.1552	-0.40	-2.32
DXY	94.316	+0.36	+1.35
UAH TWI ¹	129.401	+0.25	+7.57

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (12 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.

Source: ICU.

Domestic liquidity and bonds market

Foreigners resume selling UAH bills

After two weeks of foreigners increasing investments in UAH-denominated debt, last week, foreigners again sold more than they bought. This week, foreign capital outflows may continue due to the strengthening hryvnia.

Last Tuesday, the Ministry of Finance sold only UAH2.5bn of UAH-denominated paper, raising interest rates a little more, this time for the 5-year note (see the [auction comment](#)).

But this was not enough to attract foreigners, and the entire issue seems to have been bought by locals. According to results of settlement, mostly it was banks' portfolios that increased, along with some non-banking institutions and even private investors. But if foreigners bought some bills, they sold even more on Wednesday. Therefore, following the results of the week, the local-currency portfolios of foreign investors declined by UAH1.2bn to UAH96.6bn.

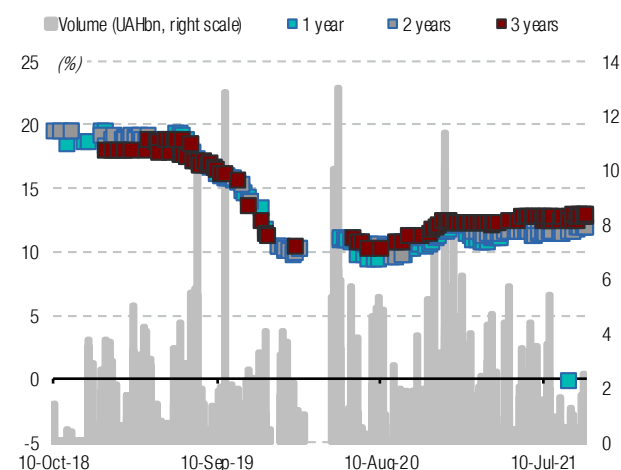
However, foreigners sold mostly short maturities, those up to three years. According to the NBU, the volume of agreements with notes maturing in 2025-2027 was small, much smaller than the reduction of foreigners' portfolios. According to the NBU, the most traded securities were those maturing in 2022, with the most in May 2022. In general, the volume of transactions in the secondary market decreased by almost 10% to UAH7.6bn compared with the previous week.

ICU view: This week, the Ministry of Finance will again offer a set of hryvnia bonds, mostly the usual maturities, which were also sold in previous weeks. But rising rates in September and last week are unlikely to significantly affect activity this time. Foreigners will not change their sentiment either, since they expect the hryvnia exchange rate to weaken under pressure of higher budget expenditures. Therefore, we expect that interest rates will remain mostly unchanged, and the volume of bids will be close to last week's auction. Although no redemptions will be made this week, any borrowings will be beneficial to the budget.

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

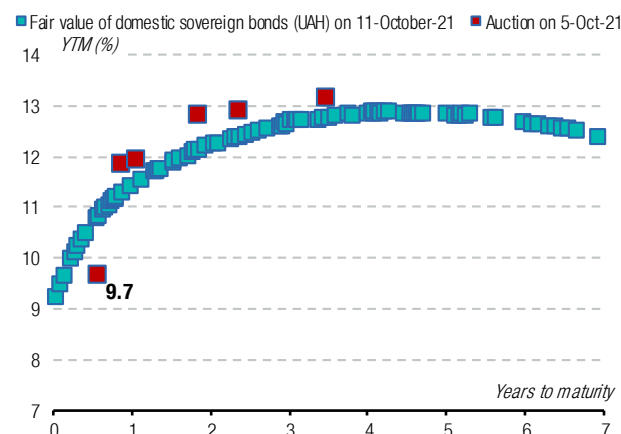
Chart 1. Local-currency bonds

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.

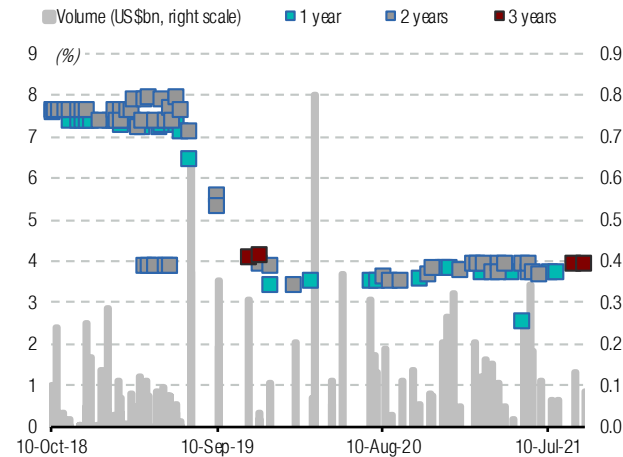
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

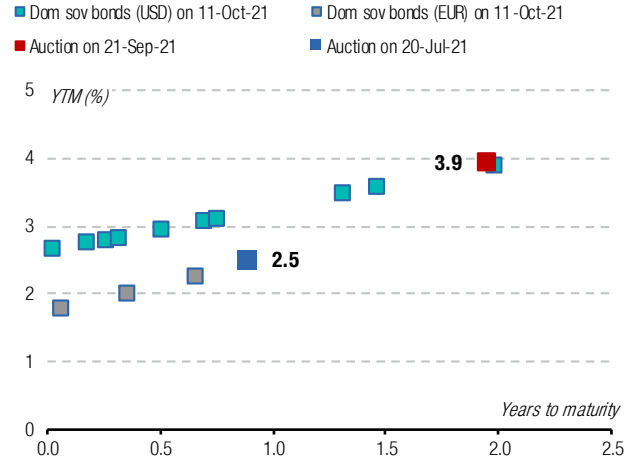
Chart 2. FX-denominated bonds

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

The hryvnia reaches 18-month high

Last week, the hryvnia strengthened to its maximum this year or eighteen months overall, despite foreigners' withdrawal of funds from UAH-denominated bills. This week, we expect the hryvnia exchange rate to remain at least that strong.

While most days last week banks' customers sold more hard currency than they bought, the extra supply of hard currency led to further strengthening of the hryvnia to a record high this year and since the start of COVID-19 lockdown, which began in March last year. On Tuesday, the hryvnia exchange rate traded out of the expected range of UAH26.5-27.0/US\$ and strengthened to UAH26.4/US\$, and on Thursday, the hryvnia strengthened again to UAH26.31/US\$.

The NBU made considerable efforts to curb the appreciation of the currency, but the market was still stronger. During the week, the NBU bought US\$228mn, less than half of this amount on Tuesday and Thursday, about US\$45mn and US\$35mn, respectively. But most of NBU's interventions were on Friday, when the NBU bought almost US\$140mn, which finally curbed pressure from supply. As a result, last week, the hryvnia strengthened to UAH26.35/US\$, or by 1% for the week and by 7% YTD.

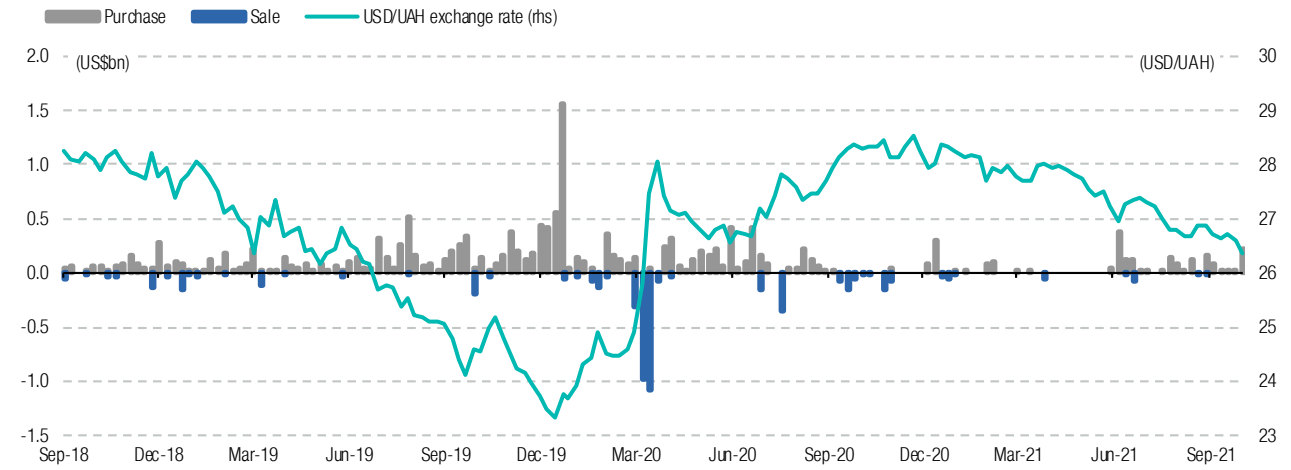
At the same time, foreigners created greater demand for hard currency by selling UAH-denominated bills (see comment above). But demand from them was insignificant in the total turnover of the FX market, which reached US\$700mn last Tuesday.

ICU view: Larger volumes of trading in the FX market and mainly more selling of currency than purchases by bank customers indicate that export earnings are still greater than the needs of importers for hard currency liquidity. The persistence of this trend may further strengthen the hryvnia exchange rate, which sometimes will receive support from foreigners. Therefore, we expect that the hryvnia exchange rate will remain in the range of UAH26-26.5/US\$ this week.

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.

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11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kyiv, 01030 Ukraine
Phone/Fax +38 044 3777040

WEB www.icu.ua



RESEARCH

Alexander Martynenko 
Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv 
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Taras Kotovych 
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Dmitriy Dyachenko, CFA
Financial analyst
dmitriy.dyachenko@icu.ua

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