



Focus
Ukraine

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

Research team
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Weekly Insight

Ukrainian bonds now in JP Morgan index

Key messages of the today's comments

MONDAY, 18 OCTOBER 2021

Domestic liquidity and bonds market

Ukrainian bonds now in JP Morgan index

Last week, it was announced that the first Ukrainian UAH-denominated note would be included in the JP Morgan index. This index tracks government bonds of emerging countries in local currencies.

Foreign exchange market

The hryvnia still strong

The NBU continued to actively buy hard currency in the market last week and kept the hryvnia exchange rate slightly above UAH26.3/US\$. Obviously, the hryvnia will fluctuate, and this week, we expect the range will be UAH26.2–26.5/US\$.

Banks' reserves market (13 October 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	8.50	+0bp	+250bp
ON rate (%)	8.00	-10bp	+259bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	71,132	+74.72	+13.91
CDs (UAHm) ³	125,642	-17.43	+11.98

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) (13 October 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	312,606	+0.00	-3.69
Banks	502,393	+0.15	+14.52
Residents	52,627	+1.31	+71.41
Individuals	22,224	+0.42	+166.21
Foreigners ¹	96,468	-1.14	+19.42
Total	986,318	+0.05	+11.70

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (13 October 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.3433	+0.14	-7.02
EUR/USD	1.1594	+0.36	-1.29
DXY	94.080	-0.15	+0.59
UAH TWI ¹	129.292	-0.14	+6.97

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (18 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

Ukrainian bonds now in JP Morgan index

Last week, it was announced that the first Ukrainian UAH-denominated note would be included in the JP Morgan index. This index tracks government bonds of emerging countries in local currencies.

The Ukrainian note maturing in 2025 was already on the watch-list of the GBI EM index, and last week, JP Morgan Global Index Research announced that this paper would be included in the index from March 31, 2022. This delay is necessary to provide investors with sufficient time, if necessary, to establish access to the market and open accounts in Ukraine.

Such news added to the positive sentiment regarding the Ukrainian market, as the country has been moving towards this for a long time. In 2019 and 2020, a sufficient amount of eligible paper was accumulated, and in the spring of this year, this instrument was included on the index watch-list. Six months later, its inclusion in the index was confirmed.

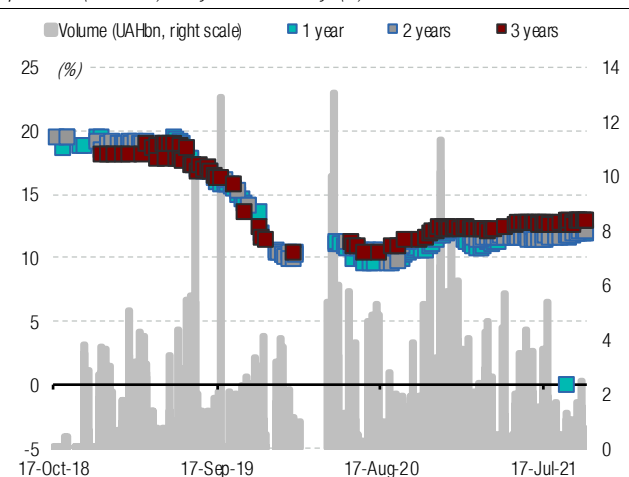
ICU view: At present, this is unlikely to affect the activity of foreigners in the UAH-denominated bond market, although the volume of transactions with this note last week rose to UAH1.4bn, while in previous week they were traded in amount of UAH2mn per week. Of course, this will add demand for UAH-denominated paper, but in rather small amounts now. However, in April, some investors will have to buy these bonds to maintain their investment structure in accordance with the index, where Ukraine will be allocated at 0.12%.

At the same time, the decision to include Ukrainian bonds in the index is a form of recognition and positive evaluation of the Ukrainian market development. In addition, this increases the prospects for inclusion of other issues in the index when they meet its criteria. Therefore, with clearer prospects for the hryvnia exchange rate, foreigners may become more active in the primary market of Ukrainian bonds.

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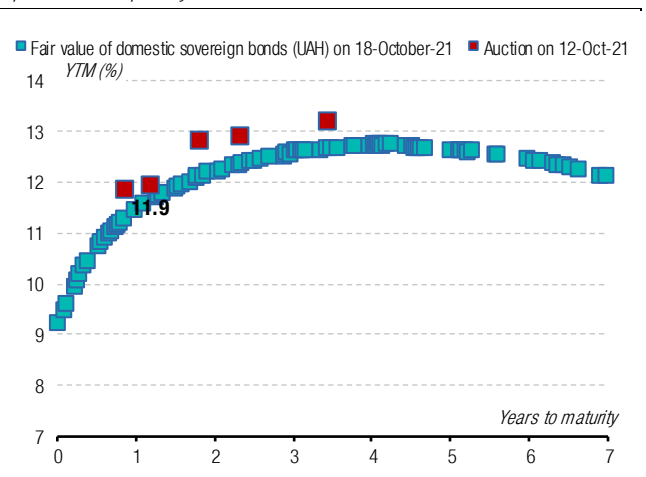
Chart 1. Local-currency bonds

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.

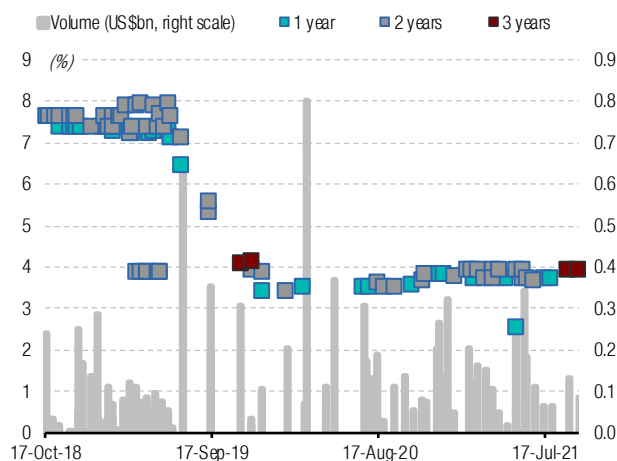
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

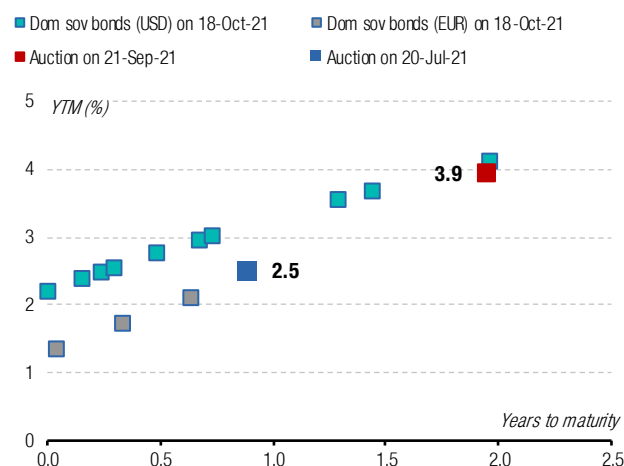
Chart 2. FX-denominated bonds

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

The hryvnia still strong

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The short business week in Ukraine affected the FX market and concentrated the sale of hard currency on Tuesday to be able to make the necessary payments on the Wednesday before the four-day weekend. On this day, the NBU bought more than US\$100m, and the rest of its almost US\$120mn of interventions last Wednesday.

Therefore, the supply of hard currency remains high. And this happened again against the background of foreigners withdrawing funds from UAH-denominated debt at a relatively stable level, less than US\$10m a day. Therefore, foreign investors did not have a special impact on the FX market and only absorbed a small part of the supply from exporters.

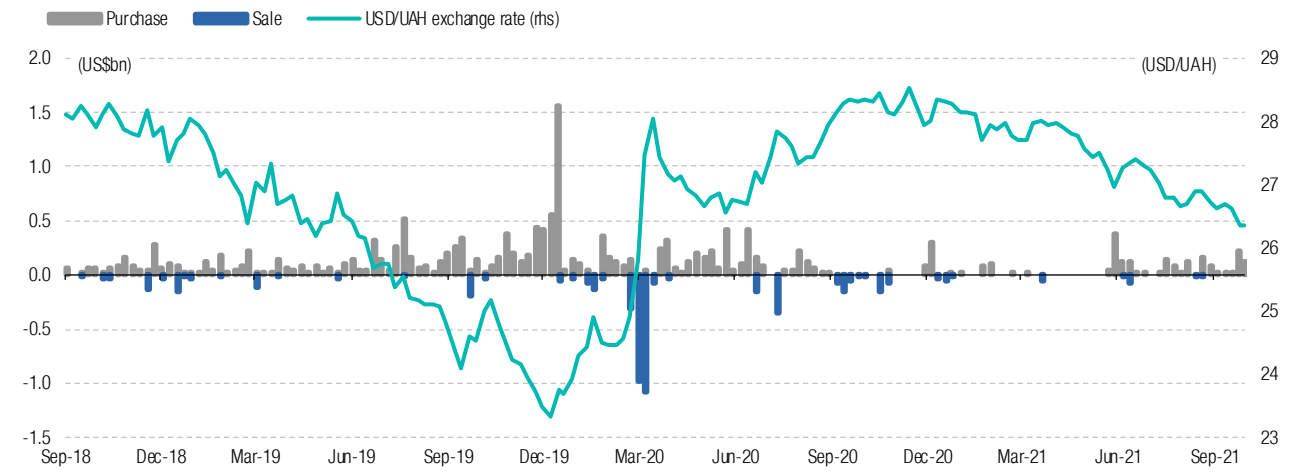
Under such conditions, the interventions of the NBU allowed the hryvnia exchange rate to maintain a level slightly above UAH26.3/US\$ and prevent further strengthening.

ICU view: This week, the FX market will remain under the influence of the supply, because in addition to the usual sale of hard currency by exporters, month-end taxes are due, while active VAT refunds will take place next week. Therefore, the NBU will continue to buy hard currency in reserves, keeping the hryvnia from further active strengthening, so the hryvnia exchange rate will remain strong with fluctuations in the range of UAH26.2–26.5/US\$.

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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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