



Focus
Ukraine

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

Research team
**Alexander Martynenko
Taras Kotovych**

Weekly Insight

The hryvnia appreciates to a new high

Key messages of the today's comments

MONDAY, 8 NOVEMBER 2021

Domestic liquidity and bonds market

Ukraine continues to borrow actively

Last week, the country received almost UAH6.7bn from the placement of T-bills, and NPC Ukrenergo placed its debut US\$825mn Eurobond offer under a guarantee by the state of Ukraine.

Foreign exchange market

The hryvnia appreciates to a new high

At the end of last week, the hryvnia exchange rate strengthened to a new high in the last 19 months due to positive news and a large supply of hard currency in the market. This week, the strengthening will continue, and NBU interventions may not keep the exchange rate above UAH26/US\$.

Banks' reserves market (5 November 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	8.50	+0bp	+250bp
ON rate (%)	7.70	+9bp	+187bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	46,045	-8.87	+0.58
CDs (UAHm) ³	163,559	-4.54	+30.60

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) (5 November 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	312,606	+0.00	-3.69
Banks	494,774	-0.45	+9.72
Residents	52,010	+1.09	+60.05
Individuals	22,571	+0.82	+169.81
Foreigners ¹	94,464	+1.27	+21.65
Total	976,424	-0.03	+9.22

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (5 November 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.0949	-0.67	-7.54
EUR/USD	1.1567	+0.08	-2.19
DX	94.320	+0.21	+1.94
UAH TWI ¹	130.644	+0.72	+7.82

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (8 November 2021)

Maturity	Bid	Ask
6m	11.00	10.00
12m	12.00	11.50
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

Ukraine continues to borrow actively

Last week, the country received almost UAH6.7bn from the placement of T-bills, and NPC Ukrenergo placed its debut US\$825mn Eurobond offer under a guarantee by the state of Ukraine.

The budget received almost UAH6.7bn from the bills' placement, which was only UAH140m less than from UAH-denominated bonds a week earlier. However, the cost of borrowing increased, especially for semi-annual securities where the yield rose to 10.5% or by 80bp (see details in the [auction review](#)). Having no repayments in the first two weeks of November, these proceeds were a pretty good result and replenished budget accounts.

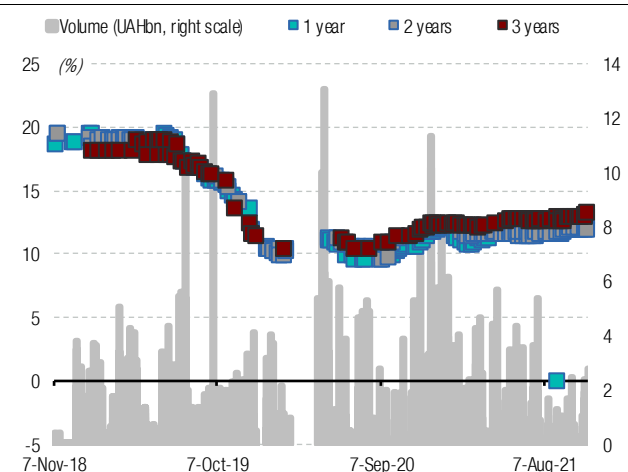
At the same time, NPC Ukrenergo entered the market with a state guarantee and placed US\$825mn of Green and Sustainability-linked five-year Eurobonds at a rate of 6.875%. Compared with sovereign Eurobonds, the spread was approximately 875bp. With a credit rating in a line with the government's paper, new Eurobonds have become attractive for investors, and they were almost three times oversubscribed. Settlement on the bonds is scheduled for 9 November. The inflow of hard currency into the country is currently expected. Preferably, most of the funds from the issue will be used to repay the debt to the state enterprise "Guaranteed Buyer".

ICU view: *Although the issuer of Eurobonds and the borrower is not the government, the inflow of hard currency into the country is certainly a positive result. As well, will be the repayment of debt to the State Enterprise "Guaranteed Buyer" and to the producers of "green" electricity for which most of the funds will be used.*

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

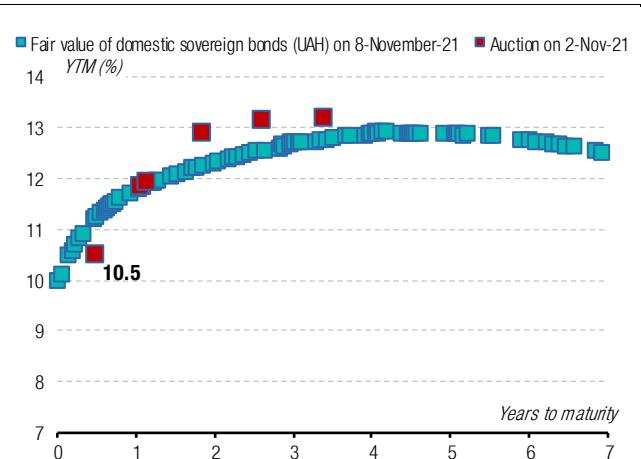
Chart 1. Local-currency bonds

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.

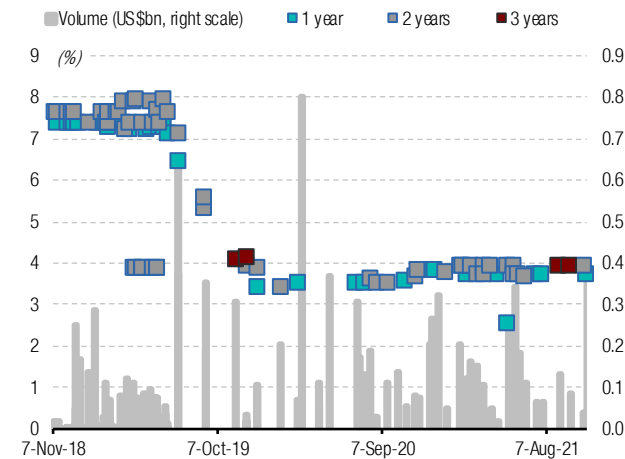
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

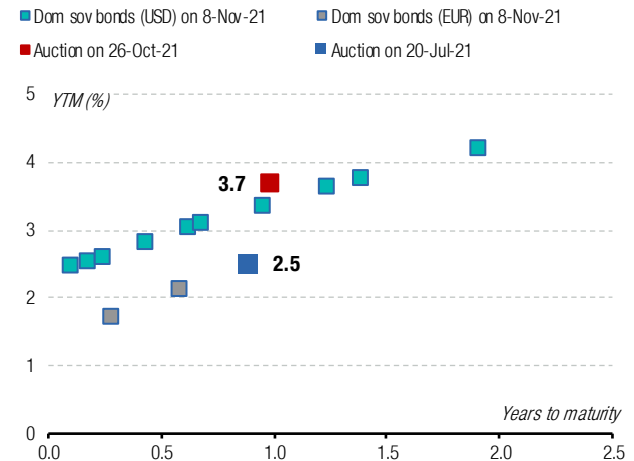
Chart 2. FX-denominated bonds

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 appreciates to a new high

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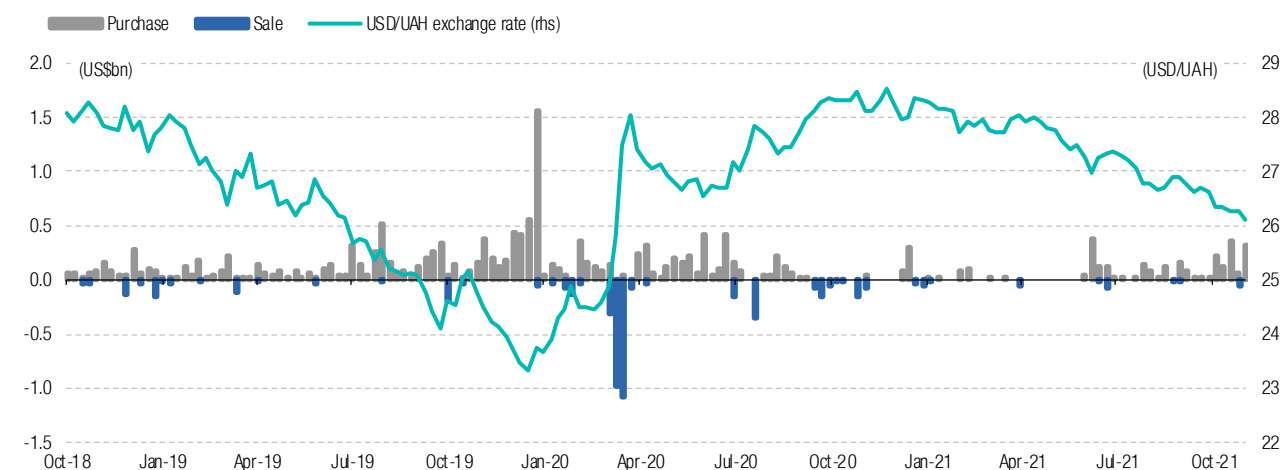
Last week began with very low activity in the FX market and only minimal interventions by the NBU on Tuesday and Wednesday when it bought hard currency for US\$5m each day. But after the placement of NPC Ukrenerg Eurobonds on Wednesday, on Thursday, the hard currency supply increased and caused the hryvnia to appreciate to UAH26.17/US\$ despite the NBU's buying about US\$145m that day. In total NBU purchased last week US\$315m from the market. It is very likely that the company began selling its hard currency reserves before receiving funds from the issuance of Eurobonds to gradually accumulate resources to repay its debt to the SE "Guaranteed Buyer".

The volume of hard currency sales by bank customers exceeded demand by more than US\$100m, probably supply was from both NPC Ukrenerg and other sellers who reacted to the appreciation and decided to sell hard currency now.

Therefore, last week, the hryvnia exchange rate strengthened by 0.7% to UAH26.1/US\$, and from the beginning of the year by 7.9%.

ICU view: This is a new record level of the hryvnia exchange rate over the past 19 months or since the beginning of the COVID-19 pandemic. In our opinion, the strengthening will continue. We expect that most of the funds from the Eurobond issue can be sold this week. This will match the preparation for payment of quarterly taxes, so the supply of hard currency can be large and even lead to a short-lived appreciation of the hryvnia to less than UAH26/US\$. Exceeding this level can bring buyers of hard currency into the market, so the exchange rate may not stay at a level of less than UAH26/US\$ for long.

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

Vitaliy Vavryshchuk

Head of macro research
vitaliy.vavryshchuk@icu.ua

Taras Kotovych

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

Dmitriy Dyachenko, CFA

Financial analyst
dmitriy.dyachenko@icu.ua

Alexander Martynenko

Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv

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

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