

# Weekly Insight

## GDP growth remains sluggish

### Key messages of the today's comments

MONDAY, 22 NOVEMBER 2021

### Domestic liquidity and bonds market

#### Foreigners lighten holdings of UAH-denominated debt owned

Despite the purchase of six-year notes last week total bonds in portfolios of foreigners continue to decline.

### Foreign exchange market

#### The hryvnia exchange rate returned to the usual 26.5–27/US\$ range

After the volatility seen in the last few weeks, the hryvnia exchange rate returned to the more usual range of UAH26.5–27/US\$ and should remain in there at least this week.

### Economics

#### GDP growth remains sluggish

Ukraine's economy grew 2.4% YoY and 1.4% QoQ in seasonally-adjusted terms in 3Q21 according to provisional estimates. GDP growth statistics came in significantly below the consensus forecast and slightly below our expectations.

### Banks' reserves market (19 November 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	8.50	+0bp	+250bp
ON rate (%)	7.78	-32bp	+220bp
ON \$ swap (%)	N/A	...	...
Reserves (UAHm) <sup>2</sup>	52,244	-30.67	-6.40
CDs (UAHm) <sup>3</sup>	161,139	+4.87	+59.28

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) (19 November 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	312,606	+0.00	-3.69
Banks	499,788	-0.14	+9.42
Residents	54,551	+2.53	+63.27
Individuals	23,400	+0.43	+169.97
Foreigners <sup>1</sup>	94,731	-3.15	+22.26
<b>Total</b>	<b>985,075</b>	<b>-0.22</b>	<b>+9.35</b>

Notes: [1] non-residents

Source: NBU, ICU.

### FX market indicators (19 November 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	26.5707	+1.17	-6.29
EUR/USD	1.1290	-1.35	-4.93
DXY	96.031	+0.95	+4.05
UAH TWI <sup>1</sup>	131.793	+0.39	+10.64

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

### Gov't bond quotes<sup>1</sup> (22 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](http://www.icu.ua).

Source: ICU.

# Domestic liquidity and bonds market

## Foreigners lighten holdings of UAH-denominated debt owned

Despite the purchase of six-year notes last week total bonds in portfolios of foreigners continue to decline.

Last week, the Ministry of Finance sold six-year notes to attract demand from foreign investors, but combined redemption of old issues and sale of new bonds again led to a decline in the portfolios of foreign investors. In total, foreigners probably bought UAH0.6bn of bonds at the auction, but due to redemptions and sales, their portfolios shrank by UAH2.5bn in a week, the largest decline in portfolio since April.

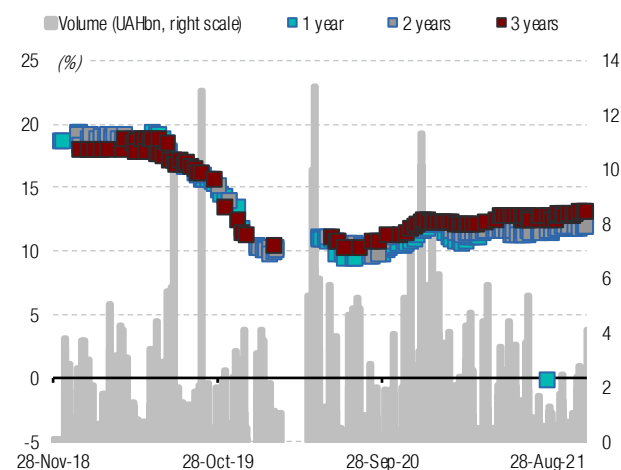
The conflict between DTEK and Ukrenergo over debt repayment by the State Enterprise Guaranteed Buyer to the producers of "green" energy did not go unnoticed here. In general, this conflict was reflected both in the demand for local-currency debt and for Eurobonds, the yields of which increased by 14-90bp to 4.7-7.4% and prices fell to 97-106.

**ICU view: General conditions are not favorable for new investments, so prices for Ukrainian debt and foreigners' portfolio have fallen. Therefore, the Ministry of Finance reinstated caps in the bond auction, and will not offer six-year notes this week. Consequently, we do not expect much activity in this week's auction, although we expect that attempts to get higher yields will be noticeable.**

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

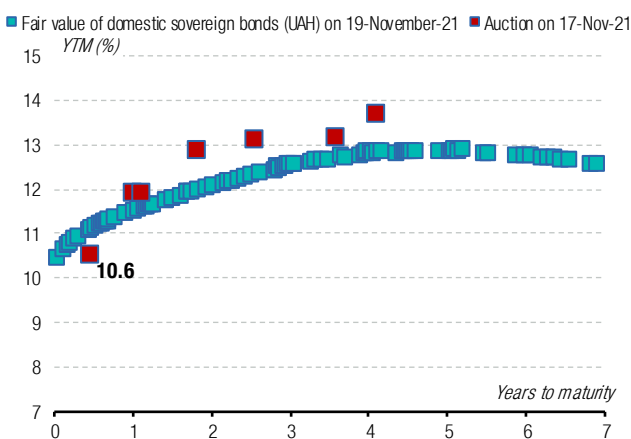
**Chart 1. Local-currency bonds**

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.

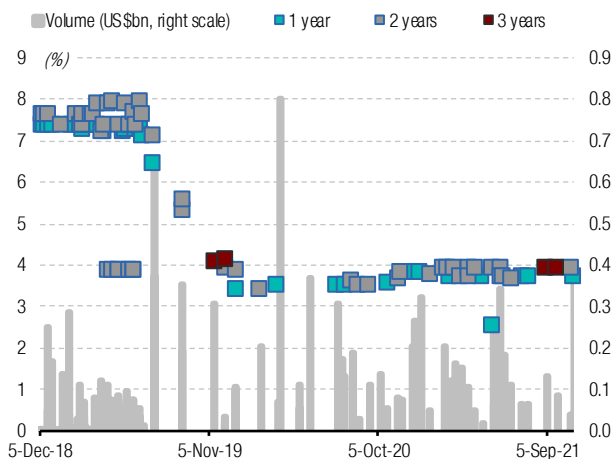
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

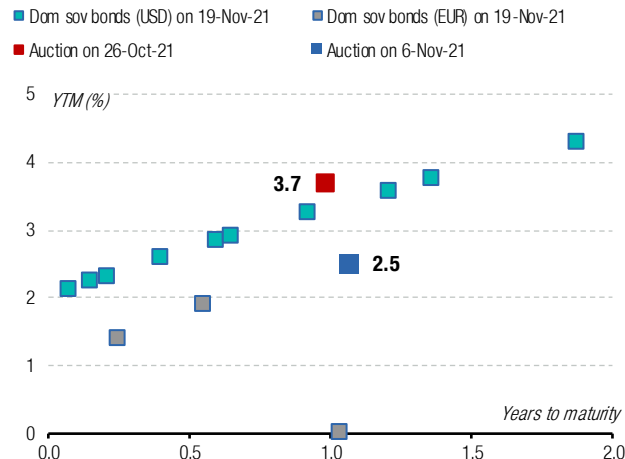
**Chart 2. FX-denominated bonds**

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 exchange rate returned to the usual 26.5–27/US\$ range

After the volatility seen in the last few weeks, the hryvnia exchange rate returned to the more usual range of UAH26.5–27/US\$ and should remain in there at least this week.

The sale of Ukrenergo’s hard currency strengthened the hryvnia, but it was offset by demand for the currency, including increased purchases by foreign investors in UAH-denominated bonds. Therefore, the strengthening of the hryvnia exchange rate in early November did not receive support and due to overall negative conditions, the hryvnia weakened to more than UAH26.5/US\$ last week. The payment of quarterly taxes did not help here either.

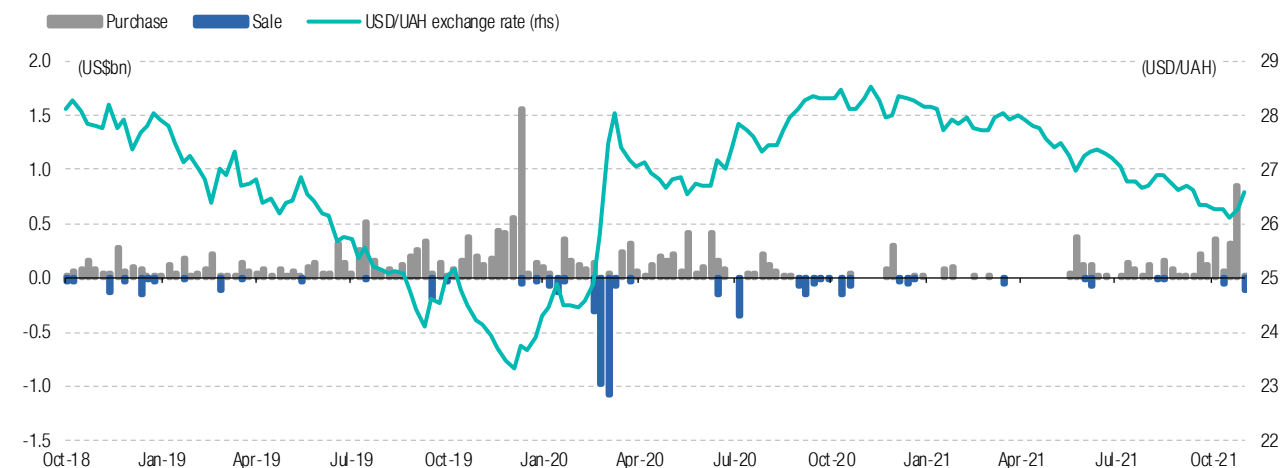
In addition, the NBU tried to curb the weakening of the hryvnia and sold US\$108mn while buying only US\$5mn for the week. The largest amount was sold last Friday when foreigners become more active with bonds selling. Just thanks to the NBU interventions the hryvnia lost merely 1.2% in a week.

**ICU view: Active selling of bonds by foreigners could turn into another wave of weakening of the hryvnia, which is unlikely to be restrained by the sale of hard currency by exporters. Most likely, the hryvnia will weaken, but remain in the usual range of UAH26.5–27/US\$.**

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.

## Economics

### GDP growth remains sluggish

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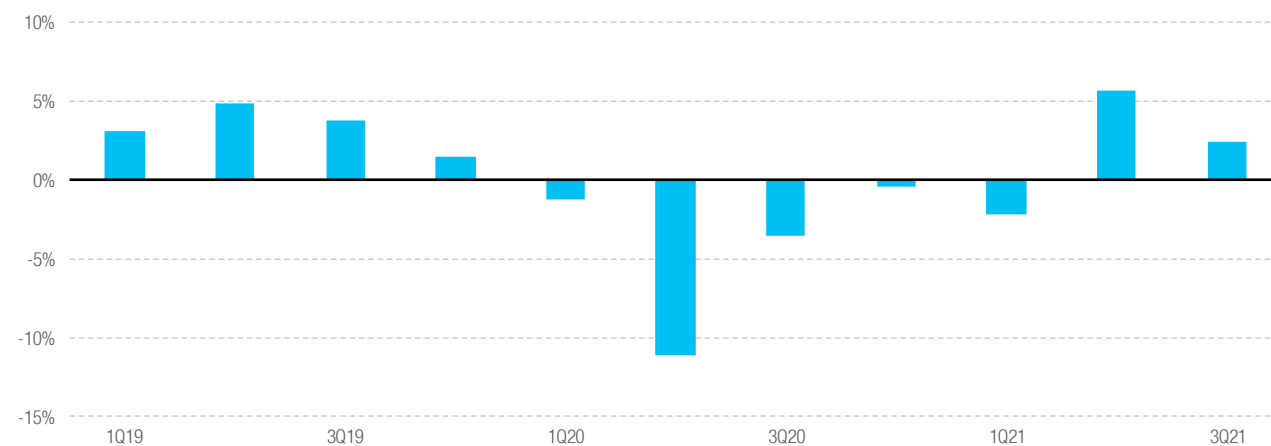
GDP growth statistics came in significantly below the consensus forecast and slightly below our expectations.

**ICU view: The 3Q GDP numbers and unimpressive high-frequency sectoral statistics have two major implications. First, the full-year 2021 GDP increase is likely to be below 3% YoY, which implies no VRI-linked payments related to the economy's performance in the current year. Second, the weakness in economic growth is likely to persist and a significant acceleration is far from assured at least through 1H22.**

*Vitaliy Vavryshchuk, Kyiv, (044) 377-7040 ext.721*

**Chart 4. Quarterly real GDP change, YoY, %**

*(Economic recovery remains weak)*



Source: Ukrstat, 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](http://www.icu.ua)



## RESEARCH

### Vitaliy Vavryshchuk

Head of macro research  
[vitaliy.vavryshchuk@icu.ua](mailto:vitaliy.vavryshchuk@icu.ua)

### Taras Kotovych

Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

### Dmitriy Dyachenko, CFA

Financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

### Alexander Martynenko

Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

### Mykhaylo Demkiv

Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

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