

# Weekly Insight

## Foreign investors' portfolios increase

### Key messages of the today's comments

#### Domestic liquidity and bonds market

##### Foreign investors' portfolios increase

Investments by foreigners in Ukrainian domestic bills set a new record, increasing by nearly UAH23bn. It is likely this amount will increase to UAH27bn or US\$1bn.

##### NBU impacts liquidity

Last week, banking-sector liquidity remained steady with key inflows from the NBU through the FX market. It should remain steady this week, with a possible increase to above UAH110bn.

#### Foreign exchange market

##### FX market remains calm

The first round of presidential elections did not impact the FX market. The hryvnia remained slightly volatile at around UAH27/US\$, and slightly appreciated. This week, we expect volatility in the range of UAH26.7–27.3/US\$.

TUESDAY, 9 APRIL 2019

#### Banks' reserves market (8 April 2019)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	18.00	+0bp	+100bp
ON rate (%)	16.44	-2bp	+94bp
ON \$ swap (%)	14.39	+26bp	-128bp
Reserves (UAHm) <sup>2</sup>	40,830	-12.36	-14.32
DepCerts (UAHm) <sup>3</sup>	64,368	+9.46	+0.00

Notes: [1] NBU's key policy rate; [2] stock of banks' reserves held at NBU; [3] stock of NBU's short-term bonds.

Source: NBU, Bloomberg, ICU.

#### Breakdown of govt bond holders (UAHm) (8 April 2019)

	Last	Weekly chg (%)	YoY chg (%)
NBU	337,103	+0.00	-3.77
Banks	362,860	-1.27	+3.73
Residents	25,996	+3.04	-6.51
Individuals	7,900	-0.39	+231.37
Non-res <sup>4</sup>	22,859	+12.24	+59.26
<b>Total</b>	<b>756,718</b>	<b>-0.19</b>	<b>+1.61</b>

Notes: [1] non-residents

Source: NBU, ICU.

#### FX market indicators (8 April 2019)

	Last	Weekly chg (%)	YTD chg (%)
USD/UAH	26.6710	-1.93	+2.58
EUR/USD	1.1263	+0.53	-8.29
DX <sup>2</sup>	97.050	-0.32	+7.70
UAH TWI <sup>3</sup>	122.288	+1.66	+6.28

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Gov't bond quotes<sup>1</sup> (9 April 2019)

Maturity	Bid	Ask
6m	20.00	18.50
12m	20.00	18.25
2y	19.75	18.00
3y	19.50	17.50
12m (\$)	7.50	5.25
2y (\$)	7.50	5.50

Notes: [1] Actual quotes you can see at [www.icu.ua](http://www.icu.ua).

Source: ICU.

# Domestic liquidity and bonds market

## Foreign investors' portfolios increase

Investments by foreigners in Ukrainian domestic bills set a new record, increasing by nearly UAH23bn. It is likely this amount will increase to UAH27bn or US\$1bn.

Last week, the MoF took a break from offering two-year bills, and this resulted in the changed demand structure at the auction. After a few weeks of high demand for medium-term bills, last week, demand was concentrated in the three-month and 12-month bills. For the second consecutive week, a large portion of the new bills, approximately UAH2bn, was purchased by foreign investors.

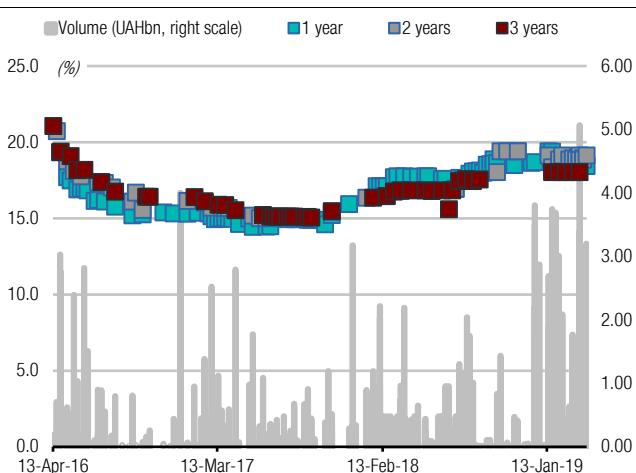
In total, last week, the portfolios of foreign investors increased by UAH2.5bn including UAH2.1bn invested in local-currency bills. Non-banks increased their portfolios by UAH0.7bn, while other bondholders decreased their portfolios.

**ICU view: For three weeks in a row, domestic bills have been favoured by foreign investors. It is very likely that demand from this category of investors will continue to be high during the following weeks. Importantly, UAH7.6bn is scheduled for redemption in April, at least some of it owned by foreigners, and some of this amount is likely to be reinvested. Despite redemptions, we expect that portfolios will continue to rise due to new investments, as high as UAH27bn or the equivalent of US\$1bn.**

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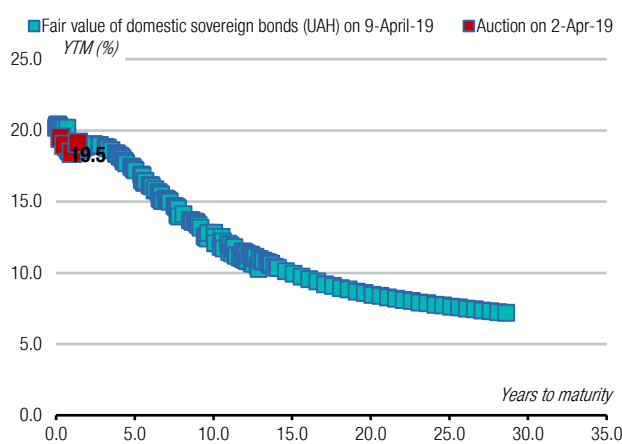
**Chart 1. Local-currency bonds**

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.

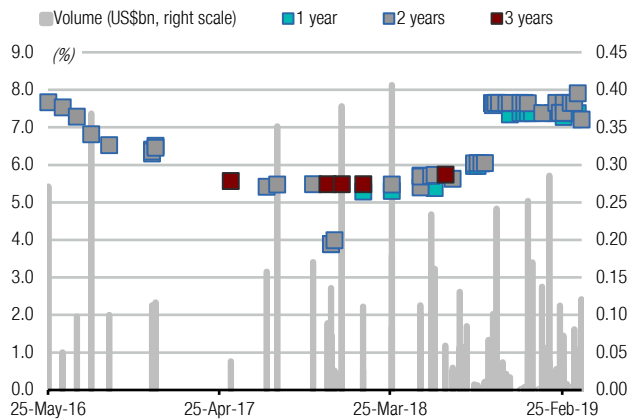
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

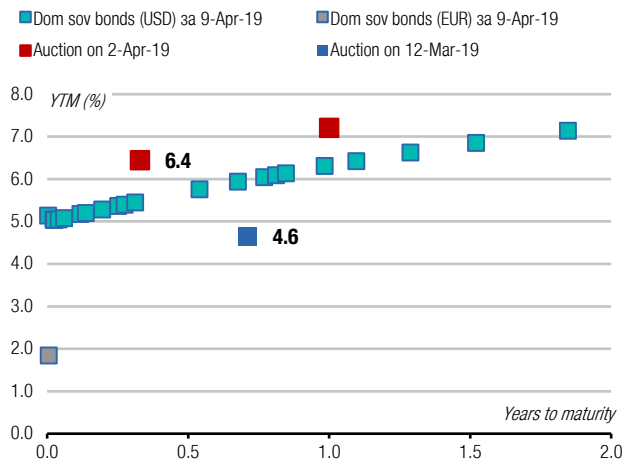
**Chart 2. FX-denominated bonds**

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.

**NBU impacts liquidity**

Last week, banking-sector liquidity remained steady with key inflows from the NBU through the FX market. It should remain steady this week, with a possible increase to above UAH110bn.

Treasury operations had a negative impact, absorbing UAH3.2bn last week, and through reserves exchange in cash liquidity, it lost additional UAH1.3bn. The NBU contributed to liquidity with UAH3.2bn of inflows after it purchased US\$118.4m of FX from the market.

**ICU view: We do not anticipate sufficient changes in liquidity this week. Banks could increase exchange of reserves in cash, which is usual for the first half of the month. But support from the NBU will be maintained, as foreign investors are still investing in Ukrainian bills, and the NBU will have to purchase additional FX providing liquidity for the market.**

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

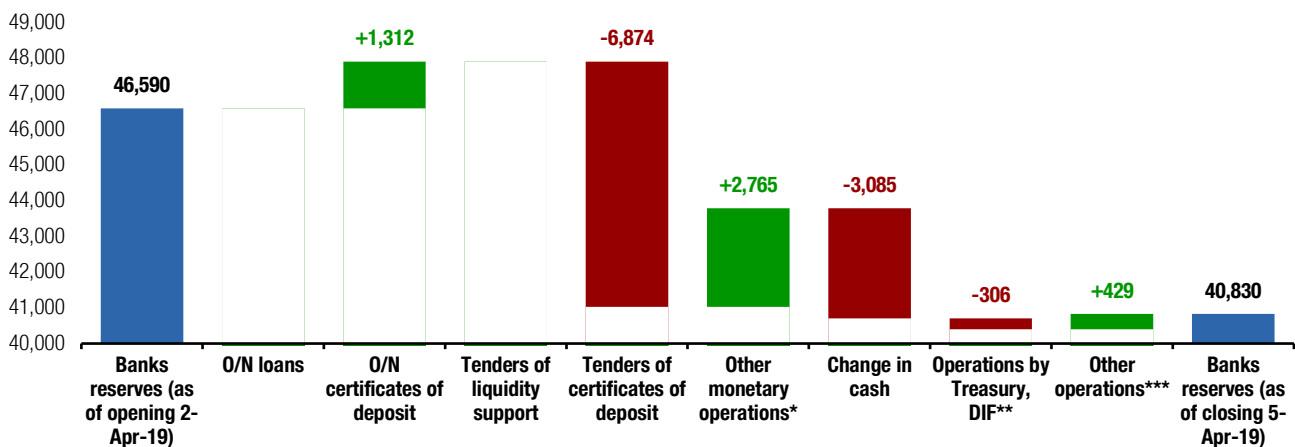
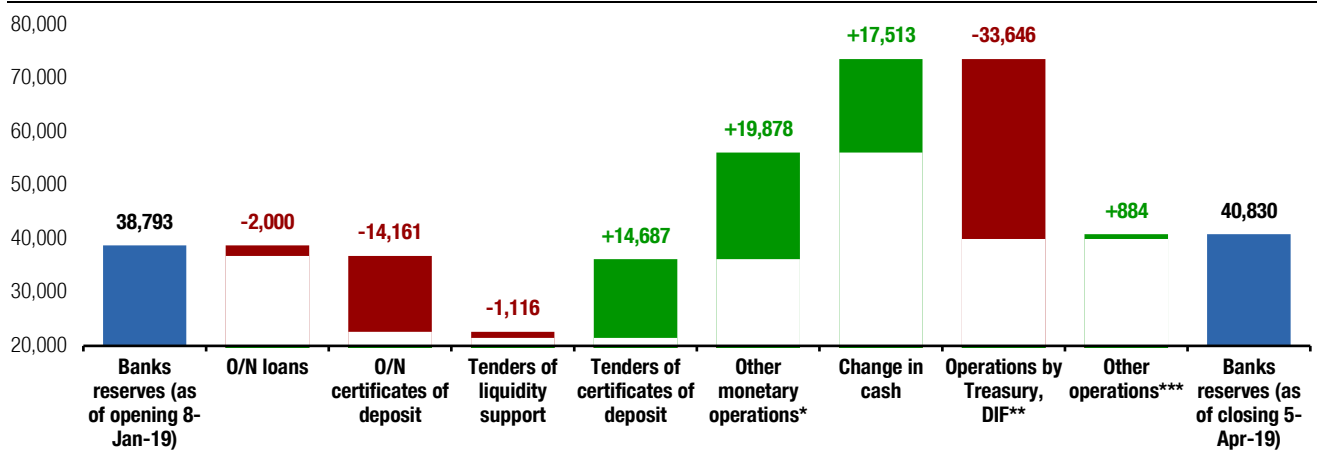


Chart 4. Banks reserves usages over last 90-day period (UAHm)



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

### FX market remains calm

The first round of presidential elections did not impact the FX market. The hryvnia remained slightly volatile at around UAH27/US\$, and slightly appreciated. This week, we expect volatility in the range of UAH26.7–27.3/US\$.

Market-based volatility of a few percentage points remains, with the market being balanced by the NBU. Last week, the NBU purchased a net US\$118.4m, which tempered appreciation; however, the hryvnia strengthened by 2.4% to UAH26.69/US\$.

The main source of support for the hryvnia was likely funds from foreign investors through purchases of new local-currency bills. However, the actual amount of purchased FX by the NBU was a bit larger than new-bill purchases by this group.

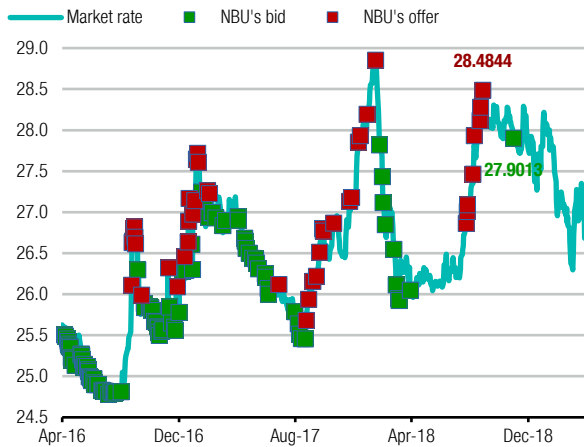
The hryvnia's CPI-based real trade-weighted index (which includes currencies of 27 countries that are trade partners of Ukraine) rose 2.4% to 122.5, while in YoY terms, it was up 6.6%.

**ICU view: Despite UAH4.9bn of redemption of bills this week, only part of this amount will be paid to foreigners, although they may reinvest these funds. So, supply may exceed demand this week and the hryvnia is not likely to weaken, but stay in the range of UAH26.7-27.3/US\$.**

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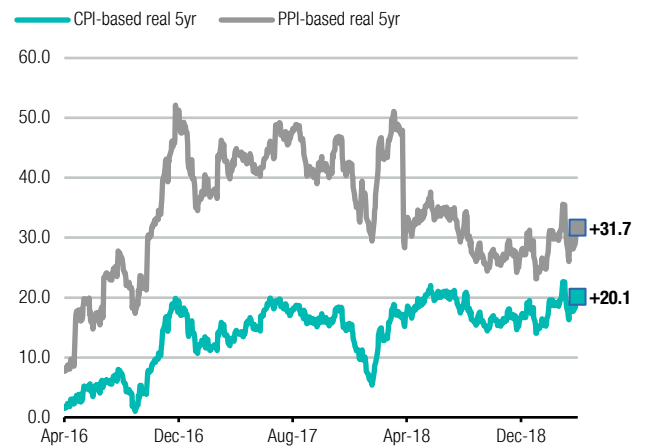
**Chart 5. FX market indicators, 3-year history**

*Ukraine hryvnia UAH exchange rate per US dollar at the interbank market*



Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

*UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%)*



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

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