



# Weekly Insight

## Inflation slowed to 8.6% YoY in March

### Key messages of the today's comments

MONDAY, 15 APRIL 2019

### Domestic liquidity and bonds market

#### Investments in government bills increase

Last week, the bond portfolios of foreign investors rose above UAH25bn, increasing concentration in local-currency bills. We expect portfolios to rise this week, too, and exceed US\$1bn.

#### Liquidity steady

The total amount of banking-sector liquidity was steady most of last week in the range of UAH105-108bn with increase last Friday, and this week it should stay in the same range with slight volatility.

### Foreign exchange market

#### Foreigners supported the hryvnia

New inflows from foreign investors in government bills provided FX supply, which allowed the hryvnia to stay below UAH27/US\$ in the expected range of UAH26.7-27.3/US\$. This week we should see a similar situation.

### Economics

#### Inflation slowed to 8.6% YoY in March

Tight monetary and fiscal policies along with lower energy prices will contain consumer price growth in 2019.

#### IMF updates economic forecasts for Ukraine

The IMF confirmed its forecast of 2.7% real GDP growth in 2019 with an acceleration to 3% next year.

### Banks' reserves market (12 April 2019)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	18.00	+0bp	+100bp
ON rate (%)	16.47	+3bp	+37bp
ON \$ swap (%)	14.57	+16bp	-154bp
Reserves (UAHm) <sup>2</sup>	57,596	+25.27	+0.73
DepCerts (UAHm) <sup>3</sup>	51,045	-19.12	+14.46

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) (12 April 2019)

	Last	Weekly chg (%)	YoY chg (%)
NBU	337,103	+0.00	-3.77
Banks	359,404	-1.63	+2.87
Residents	26,059	+3.97	-2.86
Individuals	8,139	+2.64	+244.23
Non-res <sup>4</sup>	25,586	+12.12	+79.88
<b>Total</b>	<b>756,291</b>	<b>-0.26</b>	<b>+1.77</b>

Notes: [1] non-residents  
Source: NBU, ICU.

### FX market indicators (12 April 2019)

	Last	Weekly chg (%)	YTD chg (%)
USD/UAH	26.7578	+0.27	+2.91
EUR/USD	1.1299	+0.74	-8.34
DX <sup>2</sup>	96.972	-0.43	+8.05
UAH TWI <sup>3</sup>	121.462	-0.86	+4.26

Notes: [1] UAH trade-weighted index.  
Source: Bloomberg, ICU.

### Gov't bond quotes<sup>1</sup> (15 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

## Investments in government bills increase

Last week, the bond portfolios of foreign investors rose above UAH25bn, increasing concentration in local-currency bills. We expect portfolios to rise this week, too, and exceed US\$1bn.

As expected, foreign investment in government debt increased to UAH25.6bn at the end of last week, which included a slight decline to UAH0.9bn of investments in FX-denominated bills after redemptions last Thursday.

Private investors also increased their portfolios to above UAH8bn, an increase of UAH2.1bn since the beginning of the year. This includes an additional UAH1.1bn of local-currency bills. So, we see a steady increase in local-currency debt, although it is still slightly below one-third of portfolios.

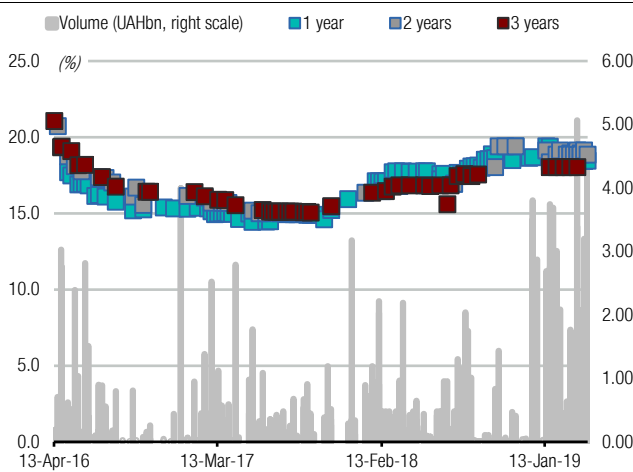
Only the portfolios of banks declined last week due to significant redemptions of both local and FX-denominated bills from their portfolios without reinvesting.

**ICU view: The amount of local-currency denominated bills continues to increase in portfolios supported by a quite steady exchange rate and high interest rates. In addition, private investors have tax relief for these revenues. So, we should see new record levels in portfolios, with foreign investors increasing investments to above US\$1bn this week.**

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

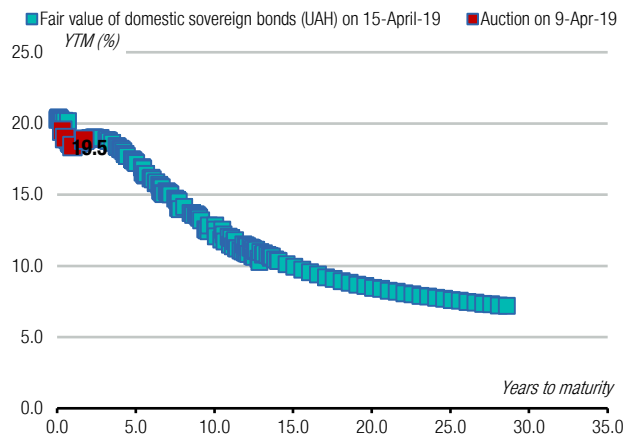
**Chart 1. Local-currency bonds**

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.

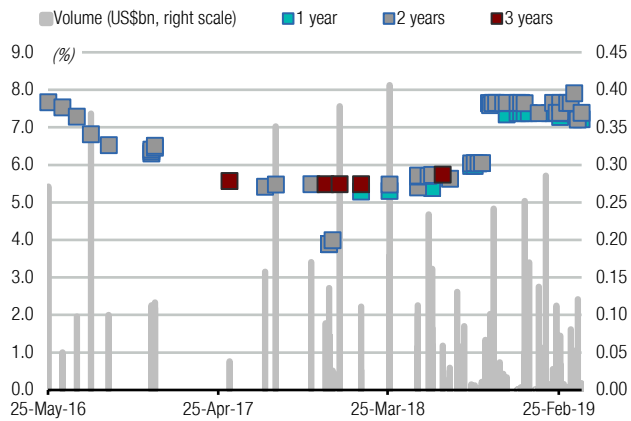
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

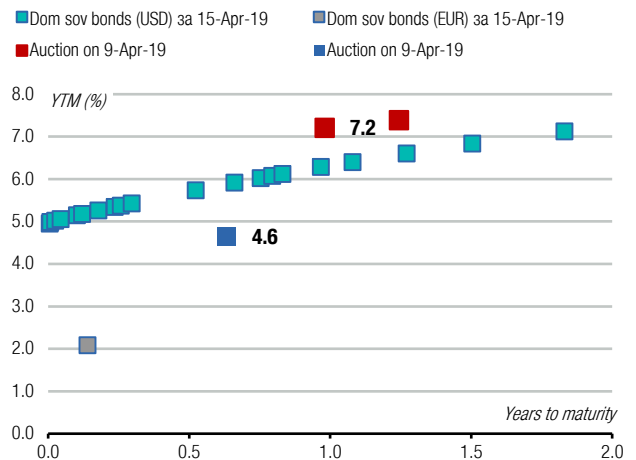
**Chart 2. FX-denominated bonds**

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.

**Liquidity steady**

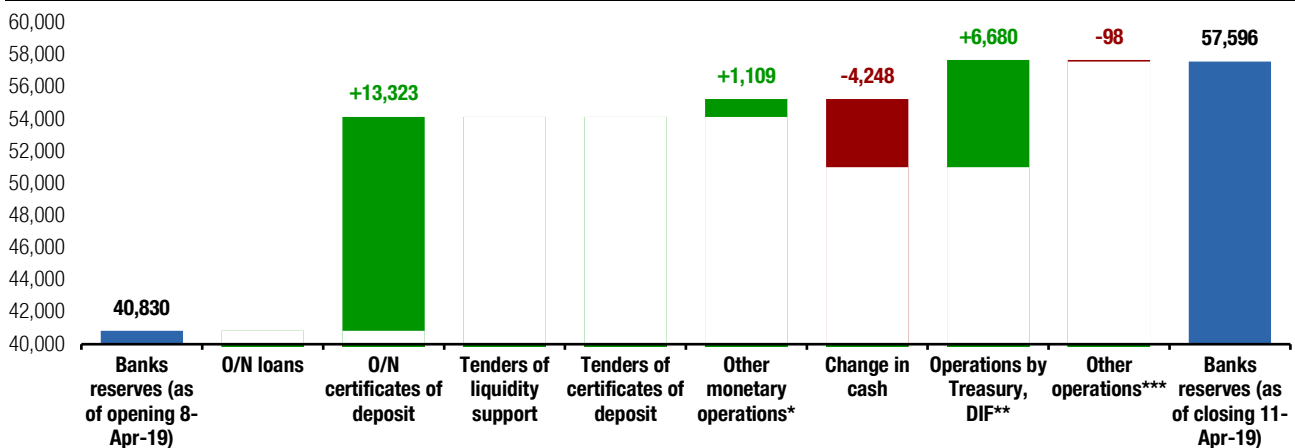
The total amount of banking-sector liquidity was steady most of last week in the range of UAH105-108bn with increase last Friday, and this week it should stay in the same range with slight volatility.

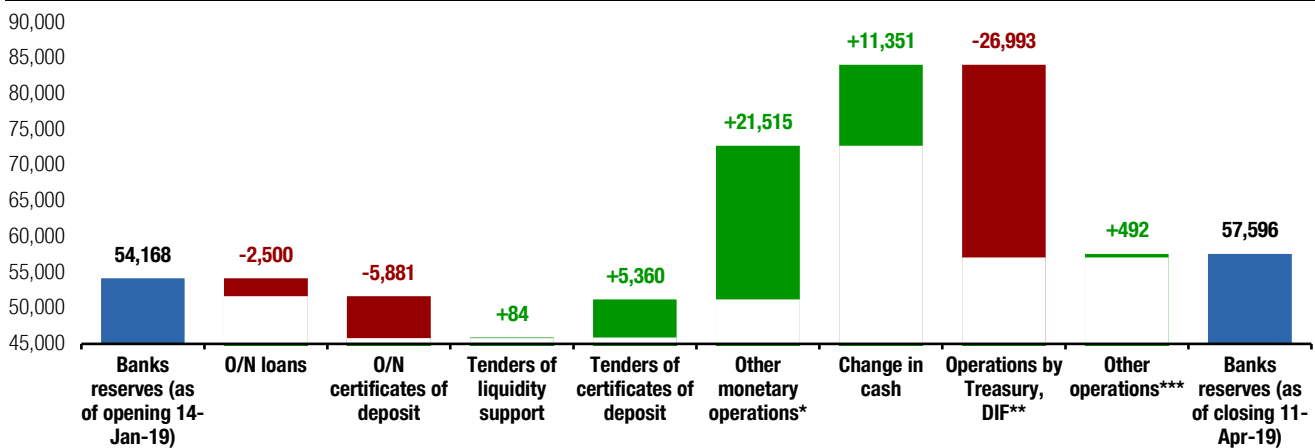
Last week, banks continued to exchange reserves in cash, but liquidity had large inflows from other sources. In cash, banks exchanged UAH5.8bn, while from the NBU via the FX market, liquidity received UAH1.5bn, and from the Treasury via budget expenditures there were UAH9.9bn of inflows. By the end of last week, liquidity was at UAH110.7bn.

**ICU view: This week, there is a possibility that the NBU will increase FX purchases from the market, providing larger support for liquidity. At the same time, the Treasury may provide less funds via expenditures. As the result, we expect liquidity to remain steady at around UAH105-110bn.**

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

**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

### Foreigners supported the hryvnia

New inflows from foreign investors in government bills provided FX supply, which allowed the hryvnia to stay below UAH27/US\$ in the expected range of UAH26.7-27.3/US\$. This week we should see a similar situation.

Last week, the hryvnia weakened by a mere 0.3% to UAH26.76/US\$ as the result of reasonable selling of FX by foreigners. This inflow of FX to the market compensated the decline in supply from exporters. Total daily FX turnover slid 10% to US\$267m compared with US\$297 a week before.

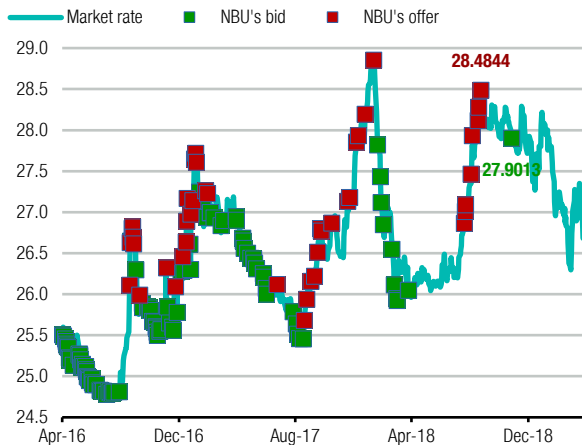
The hryvnia's CPI-based real trade-weighted index (which includes currencies of 27 countries that are trade partners of Ukraine) declined 0.9% to 121.5, while in YoY terms, it was up 4.3%.

**ICU view:** *This week we expect that the inflow of FX from foreign investors will be similar, and this should allow hryvnia to remain steady at the same level, with volatility within the same range of UAH26.7/US\$ to UAH27.3/US\$.*

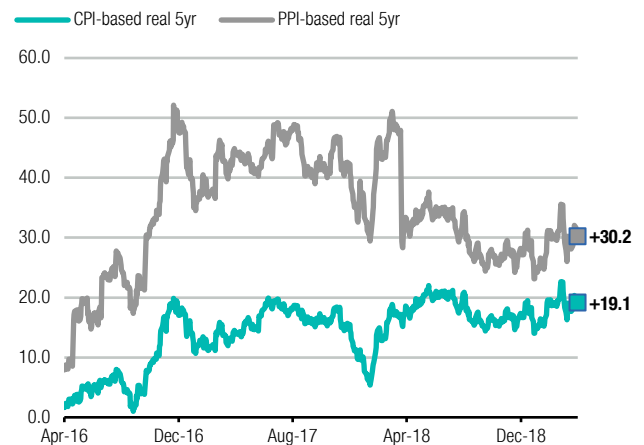
*Taras Kotovych, Kyiv, (044) 377-7040 ext.724*

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.

## Economics

### Inflation slowed to 8.6% YoY in March

Tight monetary and fiscal policies along with lower energy prices will contain consumer price growth in 2019.

In March, consumer-prices growth slowed to 8.6% YoY, a 2.5-year low, per data from the State Statistics Service of Ukraine. Unlike previous months when inflation decelerated primarily thanks to slower growth of transport prices, in March, the CPI declined mostly thanks to lower growth in prices on food products (+7% YoY). On the flip side, there was some acceleration in prices on transport (+7.3% YoY), communication (+17.5% YoY), and clothing and footwear (+2% YoY). Core inflation fell by 0.2ppt to 7.6% YoY. The NBU forecasts headline CPI at 6.3% YoY for the end of 2019.

**ICU view: Lower world oil and gas prices, a stronger UAH, and low inflation in the key trading partners of Ukraine prompted inflation slowdown in 1Q19. Tight monetary and fiscal policies as well as decelerating economic growth of Ukraine will continue to contain consumer price growth in 2019. Nevertheless, there remain significant inflationary risks, including solid consumer demand, high inflationary expectations, and rising nominal wages. We maintain our CPI forecast at 8.5% YoY growth by YE2019.**

**Dmytro Dyachenko, Kyiv, (044) 377-7040 ext.738**

### IMF updates economic forecasts for Ukraine

The IMF confirmed its forecast of 2.7% real GDP growth in 2019 with an acceleration to 3% next year.

Nominal GDP will increase by 14.2% to UAH3.87tn in 2019, and to UAH4.41tn in 2020, which is equivalent to US\$135bn and US\$147bn, respectively, per data from the IMF. This implies a year-average exchange rate of 28.68 UAH/USD in 2019, followed by a weakening to 29.96 UAH/USD in 2020. The C/A deficit forecast was improved to 2.5% of GDP in 2019 from 2.9% expected earlier, while in 2020, it will be close to 2.4% of GDP. The CPI forecast remained unchanged at 7% by YE2019, and was slightly worsened to 5.6% by YE2020.

***ICU view: IMF forecasts for 2019 are more optimistic compared with our expectations: real GDP growth at 2.3%, CPI at 8.5% (see the previous comment), and C/A deficit at 3.3% of GDP. We tend to view that tight monetary and conservative fiscal policy, less favourable external conditions and uncertainty due to the double elections in Ukraine will bring about a more severe slowdown of economic growth this year compared with the IMF's expectations.***

***Dmytro Dyachenko, Kyiv, (044) 377-7040 ext.738***

This page is intentionally left blank



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)



## INVESTMENT ADVISORY

**Makar Paseniuk, CFA**, Managing Partner  
[makar.paseniuk@icu.ua](mailto:makar.paseniuk@icu.ua)

**Ivan Shvydanenko**, Director  
[ivan.shvydanenko@icu.ua](mailto:ivan.shvydanenko@icu.ua)

**Roman Nikitov, ACCA** Director  
[roman.nikitov@icu.ua](mailto:roman.nikitov@icu.ua)


**Yuriy Kamarytskyi**, Vice President  
[yuriy.kamarytskyi@icu.ua](mailto:yuriy.kamarytskyi@icu.ua)

**Ruslan Kilmukhametov**, Director  
[ruslan.kilmukhametov@icu.ua](mailto:ruslan.kilmukhametov@icu.ua)


**Ruslan Patlavsky**, Director  
[ruslan.patlavsky@icu.ua](mailto:ruslan.patlavsky@icu.ua)

## ASSET MANAGEMENT

**Grigoriy Ovcharenko**, Director  
Head of Local Asset Management  
[grigoriy.ovcharenko@icu.ua](mailto:grigoriy.ovcharenko@icu.ua)

**Liliya Kubytovych**   
Head of Marketing and Sales  
[liliya.kubytovych@icu.ua](mailto:liliya.kubytovych@icu.ua)

## TRADE OPERATIONS


**Konstantin Stetsenko**   
Managing Partner  
[konstantin.stetsenko@icu.ua](mailto:konstantin.stetsenko@icu.ua)

**Vlad Sinani**, Director  
Strategy and Business Development  
[vlad.sinani@icu.ua](mailto:vlad.sinani@icu.ua)


**Sergiy Byelyayev**  
Head of Fixed-Income Trading  
[sergij.byelyayev@icu.ua](mailto:sergij.byelyayev@icu.ua)

**Yevgeniya Gryshchenko**  
Head of Brokerage Services Department  
[yevgeniya.gryshchenko@icu.ua](mailto:yevgeniya.gryshchenko@icu.ua)

**Vitaliy Sivach**   
Trader, Fixed-Income & Forex  
[vitaliy.sivach@icu.ua](mailto:vitaliy.sivach@icu.ua)


**Bogdan Vorotilin**   
[bogdan.vorotilin@icu.ua](mailto:bogdan.vorotilin@icu.ua)

## RESEARCH

**Alexander Valchyshen**   
Head of Research  
[alexander.valchyshen@icu.ua](mailto:alexander.valchyshen@icu.ua)

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

**Dmitriy Dyachenko**  
Junior financial analyst  
[dmitriy.dyachenko@icu.ua](mailto:dmitriy.dyachenko@icu.ua)

**Artem Gladchenko**  
Junior financial analyst  
[artem.gladchenko@icu.ua](mailto:artem.gladchenko@icu.ua)

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

## DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

**Additional information is available upon request.**

