

# Weekly Insight

## March debt repayments refinanced so far

### Key messages of the today's comments

#### Domestic liquidity and bonds market

##### March debt repayments refinanced so far

This month, the MoF already borrowed UAH31bn (US\$1.1bn) in the domestic bond market in both local and hard currencies, which almost fully refinanced domestic debt repayments. We expect that active borrowings will continue and all debt repayments scheduled for this month will be refinanced.

##### Budget returned liquidity to the banking system

After falling the week before, last week, banking-system liquidity recovered to UAH195bn due to active budget expenditures. Month-end tax payments will begin this week, causing a slight decline in liquidity as VAT refund is likely to be paid next week.

#### Foreign exchange market

##### Hryvnia drifts towards appreciation

Despite uncertainty caused by the lockdown in Kyiv and Lviv, the hryvnia exchange rate continues to appreciate, although by the end of last week it was about flat compared to the prior week. This week we expect the exchange rate to remain mostly steady with slight drift towards appreciation as supply from foreigners and demand from locals should be mostly balanced.

MONDAY, 22 MARCH 2021

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

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) <sup>1</sup>	6.50	+0bp	-350bp
ON rate (%)	5.72	-5bp	-874bp
ON \$ swap (%)	N/A	...	...
Reserves (UAHm) <sup>2</sup>	63,489	+17.22	+61.29
CDs (UAHm) <sup>3</sup>	128,542	+9.71	-17.93

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 March 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	322,077	+0.00	-0.77
Banks	528,007	-0.27	+56.49
Residents	53,855	-5.71	+89.57
Individuals	15,013	+4.44	+62.88
Foreigners <sup>1</sup>	106,104	+2.41	-15.01
<b>Total</b>	<b>1,025,332</b>	<b>-0.15</b>	<b>+24.37</b>

Notes: [1] non-residents

Source: NBU, ICU.

#### FX market indicators (19 March 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	27.7150	+0.01	-0.56
EUR/USD	1.1904	-0.41	+11.34
DXY	91.919	+0.26	-10.55
UAH TWI <sup>1</sup>	121.411	+0.20	-5.58

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

#### Gov't bond quotes<sup>1</sup> (22 March 2021)

Maturity	Bid	Ask
6m	9.50	8.00
12m	11.00	9.50
2y	12.00	11.00
3y	12.50	11.25
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

## March debt repayments refinanced so far

This month, the MoF already borrowed UAH31bn (US\$1.1bn) in the domestic bond market in both local and hard currencies, which almost fully refinanced domestic debt repayments. We expect that active borrowings will continue and all debt repayments scheduled for this month will be refinanced.

March is one of a few months this year with a large burden of domestic debt repayments. In total, they amount to UAH54bn (US\$1.9bn) including UAH45bn (US\$1.6bn) of principal repayment, where UAH36bn (US\$1.3bn) is in local currency and UAH9bn (US\$0.3bn) is in hard currency.

With about US\$2bn of hard currency in budget accounts, the government prefers to borrow in local currency to accumulate enough funds for debt repayments and budget deficit financing. In January and February, borrowings exceeded repayments by UAH22bn (US\$0.8bn).

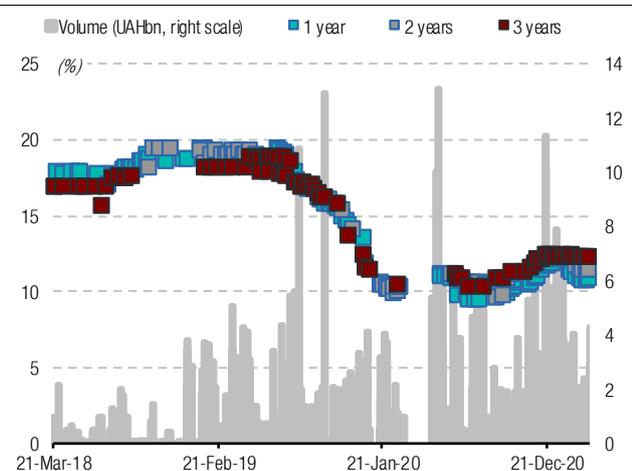
But with large debt repayments this month, the MoF will concentrate on refinancing repayments. After three auctions, budget proceeds amounted to UAH22bn (US\$0.8bn) in local currency and US\$317bn (about UAH9bn) in USD, almost the same as what has been paid.

**ICU view: By the end of this month, the MoF has to repay UAH13.5bn (US\$0.5bn) and US\$325m. They should be able to refinance these payments, taking into account the level of demand seen earlier this month, and the size of the repayments. The MoF will primarily concentrate on borrowings in local currency, especially due to the resumed activity of foreign investors. Therefore, we expect that in March, debt repayments will be refinanced in full.**

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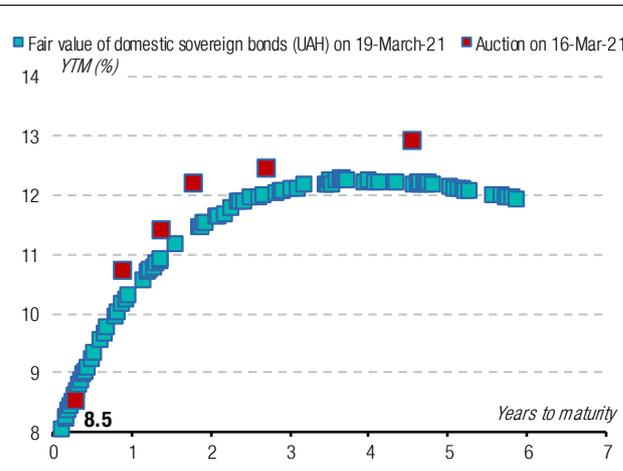
**Chart 1. Local-currency bonds**

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.

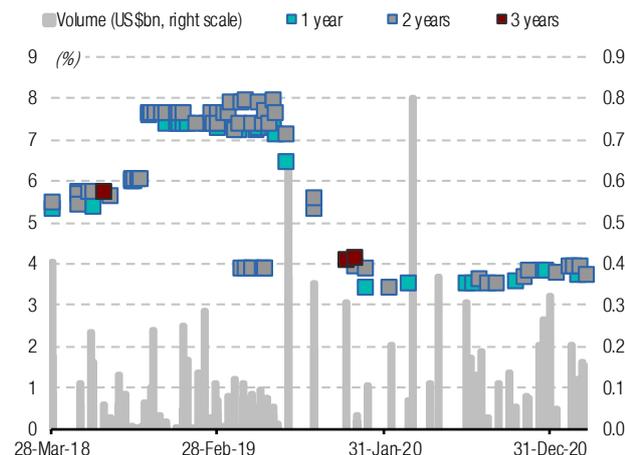
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

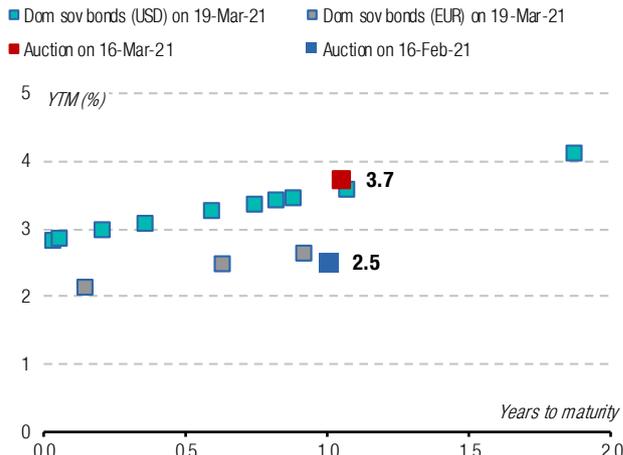
**Chart 2. FX-denominated bonds**

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.

### Budget returned liquidity to the banking system

After falling the week before, last week, banking-system liquidity recovered to UAH195bn due to active budget expenditures. Month-end tax payments will begin this week, causing a slight decline in liquidity as VAT refund is likely to be paid next week.

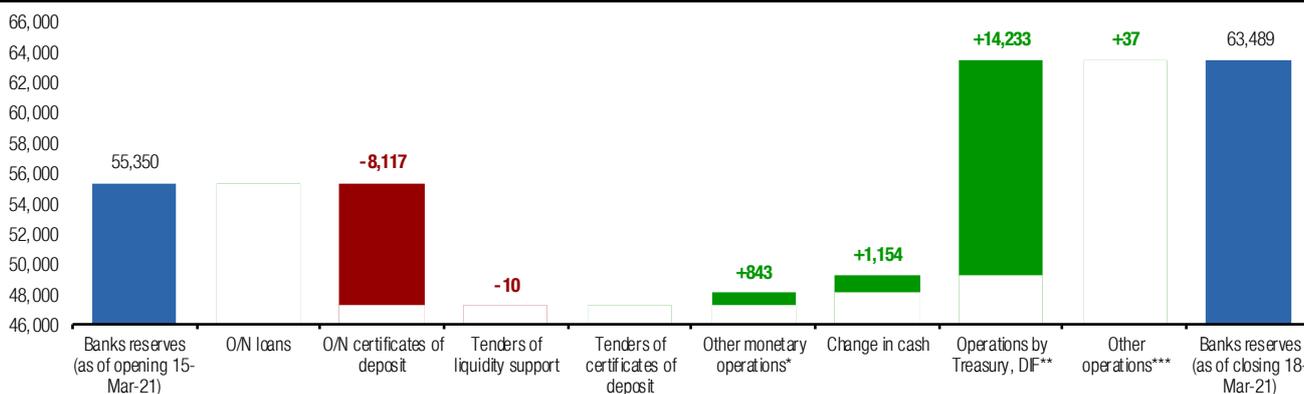
Last week, the banking system started with UAH175bn of liquidity, UAH120bn of which was in NBU CDs. But with gradual inflows from budget accounts, it recovered to UAH195bn. In total, inflow from budget accounts amounted to UAH16.6bn, which is UAH1.4bn more than outflows to budget accounts seen a week before.

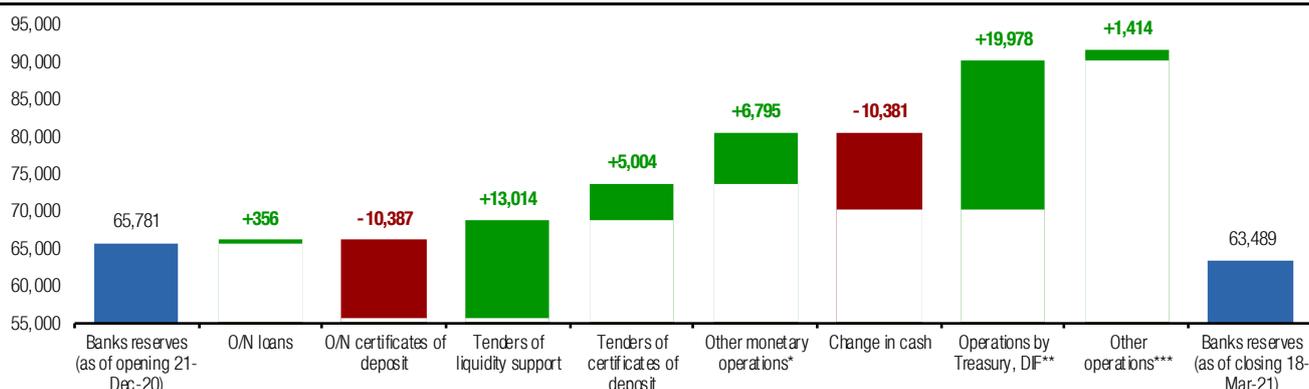
NBU's impact on liquidity was low, with UAH0.8bn paid for hard currency, UAH0.5bn of other non-monetary operations and UAH0.2bn of new loans. However, banks exchanged UAH1.2bn of cash in reserves, adding support for liquidity recovery.

**ICU view: This week, liquidity should be mostly steady with a slight decline at the end of the week due to month-end tax payments. VAT refund is likely to be paid mostly next week with low impact on liquidity this week.**

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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

### Hryvnia drifts towards appreciation

Despite uncertainty caused by the lockdown in Kyiv and Lviv, the hryvnia exchange rate continues to appreciate, although by the end of last week it was about flat compared to the prior week. This week we expect the exchange rate to remain mostly steady with slight drift towards appreciation as supply from foreigners and demand from locals should be mostly balanced.

Last week, the hryvnia ended at the same level as the week before, at UAH27.71/US\$, after a few attempts to appreciate. NBU restrained this appreciation by purchasing US\$30.5m last Monday. This intervention had low impact, and the rate returned to slightly below UAH27.7/US\$.

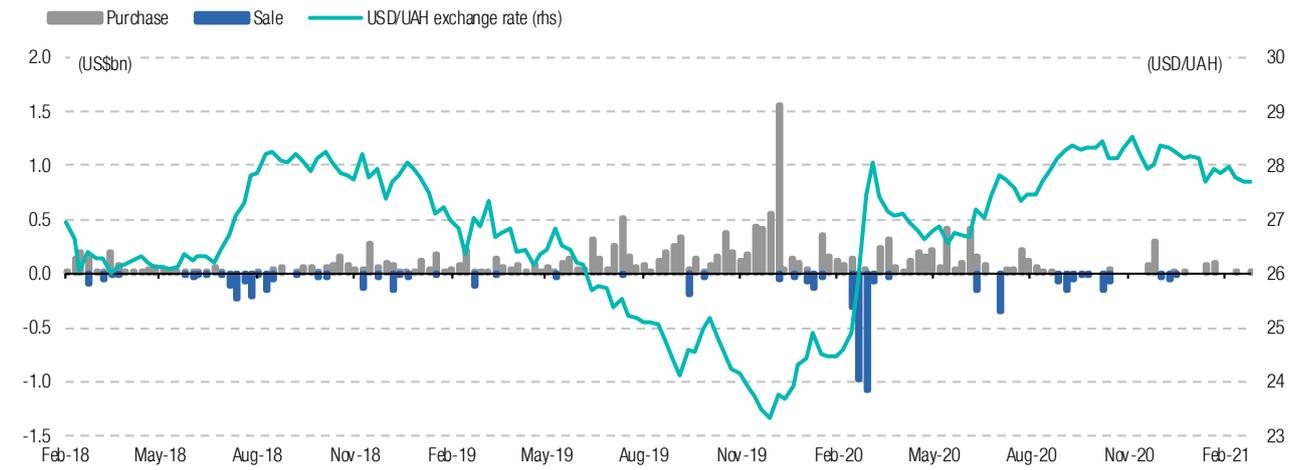
By the end of last week, the lockdown introduced in Lviv and Kyiv increased uncertainty over maintaining the supply of hard currency, which could affect the exchange rate. Therefore, last Friday, market balance moved slightly to the demand side and hryvnia weakened to slightly above UAH27.7/US\$.

**ICU view: This week, the market should balance at around UAH27.7/US\$ with a tendency toward appreciation despite uncertainty and negative sentiment. The hryvnia will receive support from foreigners assuming they maintain the same activity in local bonds market as they did last week, increasing their bond portfolios slightly. However, supply could run a bit larger than demand from locals, which would mean low support for the hryvnia although still enough to keep the appreciation trend.**

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**Chart 5. 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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