

Weekly Insight

1Q21 GDP surprises to the downside

Key messages of the today's comments

Domestic liquidity and bonds market

Global sentiment toward Ukraine improves

Global sentiment toward risky assets has improved, which is reflected in the prices and yields of Ukrainian Eurobonds and VRIs, and in foreigners' interest to UAH-denominated debt. This week, we expect increased activity in the primary bond market, partially due to reinvesting proceeds from bond redemptions.

Foreign exchange market

NBU allows hryvnia to appreciate

Improved sentiment from foreigners toward UAH-denominated assets along with quarterly tax payments supported the hryvnia and caused slight appreciation. If the NBU continues to refrain from FX interventions, the hryvnia can appreciate to the range of UAH27–27.5/US\$.

Economics

1Q21 GDP surprises to the downside

Despite the disappointing start of the year, we maintain our relatively optimistic view on a rebound of economic activity in the following quarters and c.5% GDP growth for full 2021 amid favourable global conditions and the economy reopening. However, weak 1Q21 results and slow vaccine rollout present downside risks to our forecast.

MONDAY, 17 MAY 2021

Banks' reserves market (14 May 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU rate (%) ¹	7.50	+0bp	-50bp
ON rate (%)	6.73	-12bp	-57bp
ON \$ swap (%)	N/A
Reserves (UAHm) ²	63,525	+23.26	+20.79
CDs (UAHm) ³	150,079	-9.42	+7.14

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) (14 May 2021)

	Last	Weekly chg (%)	YoY chg (%)
NBU	320,977	+0.00	-1.11
Banks	510,928	-2.50	+38.13
Residents	44,470	-0.35	-14.36
Individuals	16,371	+0.55	+124.11
Foreigners ¹	97,595	-0.12	-11.08
Total	990,617	-1.32	+14.77

Notes: [1] non-residents

Source: NBU, ICU.

FX market indicators (14 May 2021)

	Last	Weekly chg (%)	YoY chg (%)
USD/UAH	27.5626	-0.71	+3.40
EUR/USD	1.2141	-0.21	+12.36
DXY	90.321	+0.10	-10.10
UAH TWI ¹	121.185	+0.86	-8.19

Notes: [1] UAH trade-weighted index.

Source: Bloomberg, ICU.

Gov't bond quotes¹ (17 May 2021)

Maturity	Bid	Ask
6m	10.00	8.50
12m	12.00	11.00
2y	12.75	11.50
3y	13.00	12.00
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

Global sentiment toward Ukraine improves

Global sentiment toward risky assets has improved, which is reflected in the prices and yields of Ukrainian Eurobonds and VRIs, and in foreigners' interest to UAH-denominated debt. This week, we expect increased activity in the primary bond market, partially due to reinvesting proceeds from bond redemptions.

Last week, prices of Eurobonds were steady while VRIs rose to 108.5c.

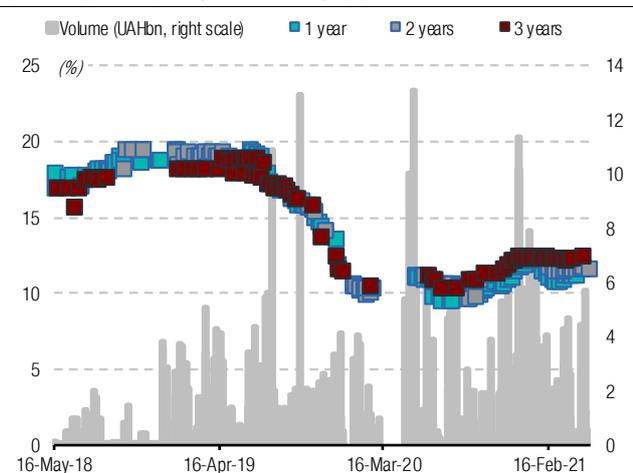
The domestic bond market was not active, but, importantly, foreigners did not decrease their portfolios most of last week, and in total last week portfolio slid by a mere UAH112m to UAH96.9bn. The most actively traded securities in the secondary market were instruments due to May, 2022 and May, 2024, which were traded in amounts of UAH563m and UAH490m last week. According to the NBU, YTM of these instruments slid last week by 8-24bp to 10.96% and 11.86% respectively.

ICU view: This week, the MoF will sell a wide range of bills: five bills denominated in hryvnia with maturities up to three years, and two in hard currencies, USD and euro. As last week, there will be redemptions of USD-denominated and UAH-denominated bills this Wednesday; demand for all bills can rise improving budget financing. With better global sentiment toward EMs, we expect interest from foreigners in the tomorrow's auction.

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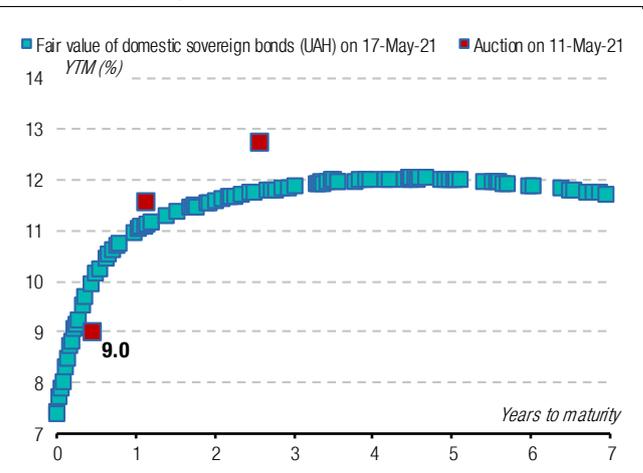
Chart 1. Local-currency bonds

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.

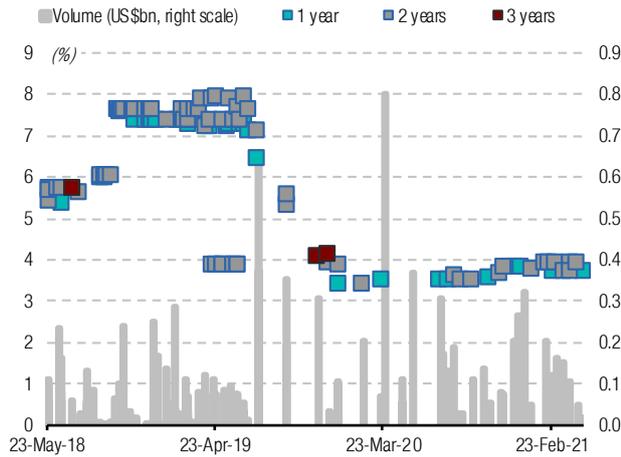
Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions



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

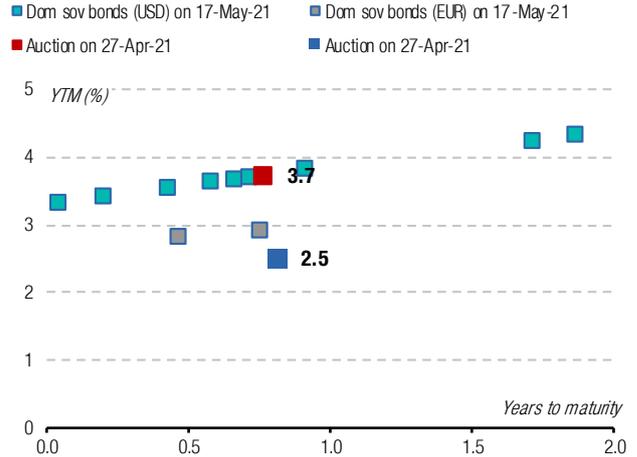
Chart 2. FX-denominated bonds

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.

Foreign exchange market

NBU allows hryvnia to appreciate

Improved sentiment from foreigners toward UAH-denominated assets along with quarterly tax payments supported the hryvnia and caused slight appreciation. If the NBU continues to refrain from FX interventions, the hryvnia can appreciate to the range of UAH27–27.5/US\$.

Since the NBU continues to refrain from intervening in the FX market, and with increased supply of hard currency along with lower demand, it appears that the NBU will allow the hryvnia to appreciate further.

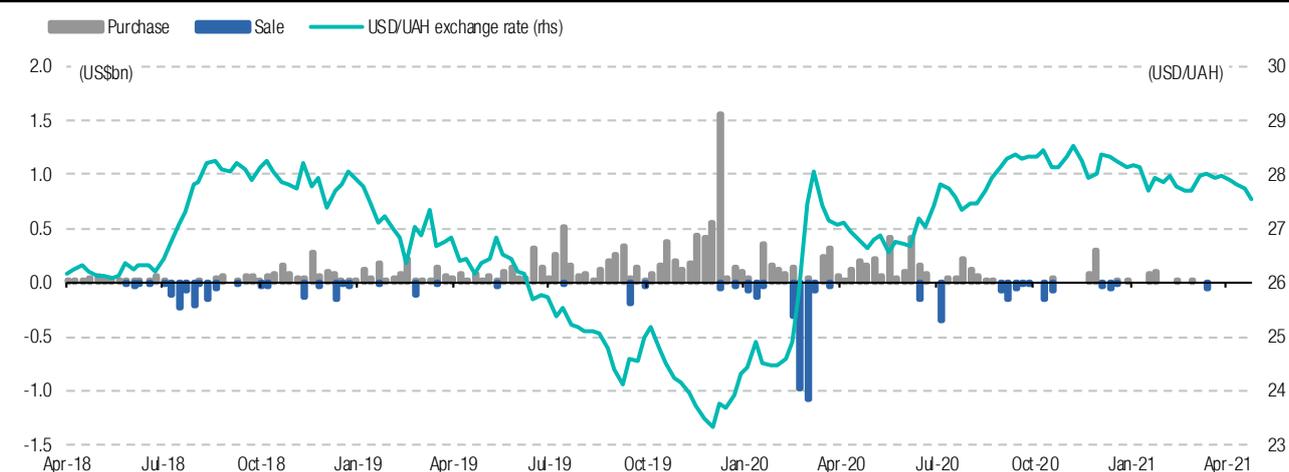
Foreigners stopped selling UAH-denominated bonds at the end of April, decreasing the demand for hard currency, sold just a small amount of bonds last week (see comment above). In addition, with the beginning of quarterly tax payments, supply of hard currency rose, as exporters started to sell for tax payments. In total, the larger supply favoured the hryvnia, making it stronger against the USD. Last week, the hryvnia appreciated by 0.7% to UAH27.56/US\$.

ICU view: This week quarterly tax payments will end and month-end tax payments begin, which will also require the selling of hard currency. In addition, demand for UAH-denominated bills from foreigners will add support for the hryvnia. Therefore, we anticipate that the hryvnia will continue to appreciate to below UAH27.5/US\$ and will stay within the range of UAH27–27.5/US\$.

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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

1Q21 GDP surprises to the downside

Despite the disappointing start of the year, we maintain our relatively optimistic view on a rebound of economic activity in the following quarters and c.5% GDP growth for full 2021 amid favourable global conditions and the economy reopening. However, weak 1Q21 results and slow vaccine rollout present downside risks to our forecast.

According to flash estimates, Ukrainian GDP contracted on a sequential basis by 1.1% QoQ SA and by 2.0% YoY in 1Q21, much deeper than consensus and our estimates assumed of 1.4% YoY and 0.5% YoY, correspondingly. UkrStat will publish the breakdown for GDP and the nominal values on 22 June.

ICU view: *After a strong rebound in 2H20, economic activity in 1Q21 was rather disappointing. Temporary factors such as the calendar effect, difficult weather conditions, and the toll from last year's poor harvest played a major role, while the drag from lockdowns intensified.*

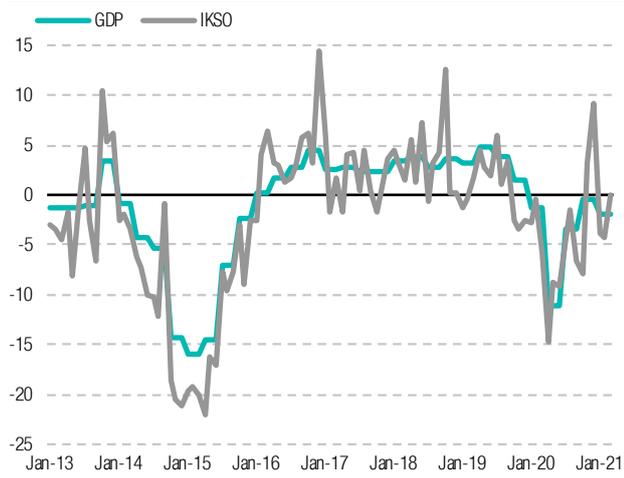
Meanwhile, *after weak performance in 2M21, economic indicators improved significantly in March. Thus, industrial production returned to positive growth in YoY terms and grew by 2.4% MoM SA. In total, 1Q21 industrial production decreased by 1% QoQ SA and by 2% YoY. In addition, in March, retail trade growth accelerated to 13.1% YoY, contributing into 7.5% YoY growth in 1Q21.*

Although COVID-19 infections are now well below the levels seen in late March–early April, the situation remains poor, and slow vaccine rollout presents downside risks to our forecast. However, these are offset by a strong rebound of the global economy and favourable terms of trade, which should ensure 2Q21 GDP growth of c.10% YoY given the low statistical base of comparison.

We maintain our above-consensus view for further economic recovery and project growth of +5.2% YoY in 2021 (consensus: +4.2%, IMF: +4.0%, NBU: +3.8%). Meanwhile, 1Q21 data poses downside risks for our forecast.

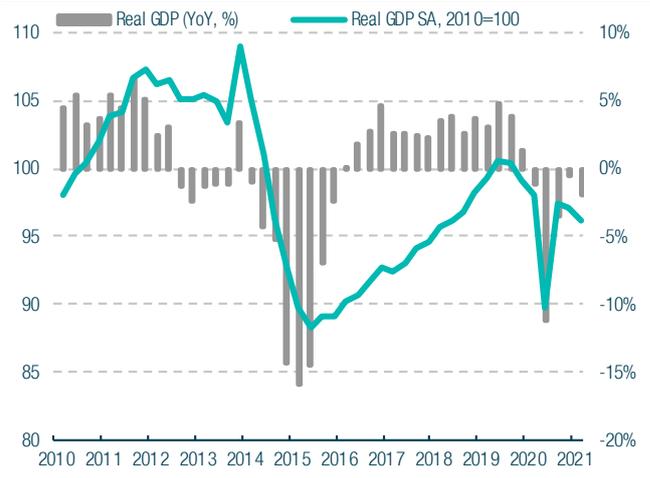
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Chart 4. GDP and Index of key sectors' output, % YoY



Source: UkrStat, NBU, ICU.

Chart 5. GDP, SA level and YoY change



Source: Ukrstat, ICU.

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