



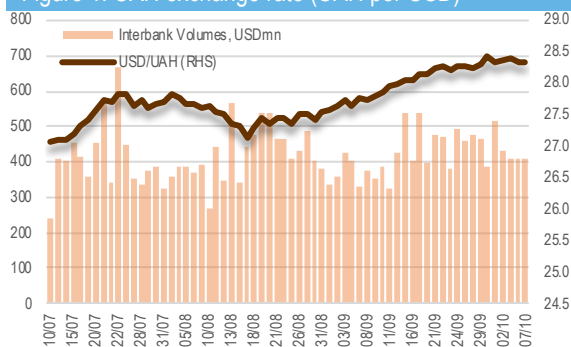
**ECONOMICS | INTEREST RATES STRATEGY | FX**

8 October 2020

**UKRAINIAN  
CAPITAL MARKETS  
WEEKLY**

	Rating	Outlook	Last update	This week in focus: Ukraine's FX reserves dive driven by bond repayments
Fitch	B	STABLE	04.09.2020	FX reserves saw a sharp decline in September, falling to USD26.5bn. This happens against the backdrop of Eurobond redemption, repayments to IMF, and growing costs to defend UAH. Going forward, we expect FA (net repayments) to continue producing pressure on FX reserves in the next quarters, while underlying fundamental drivers such as trade balance seem to be in check.
S&P	B	STABLE	11.09.2020	
S&P (N)	uaA	-	11.09.2020	
Moody's	B3	STABLE	12.06.2020	

Figure 1. UAH exchange rate (UAH per USD)



FX and interest rates: USD/UAH meets support near 28.4 mark

The USD/UAH pair has retreated to 28.3 level since the beginning of this week after breaking a 28.4 mark following the trading session last Friday.

**FX holders seem to have found a reasonable level**, pushing beyond which doesn't offer meaningful benefits, and started to gradually release FX sales, hence saving the central bank (NBU) from further burning reserves. After selling USD51mn during last week and some USD8mn this Monday, the NBU has not shown up in the market in the last two days, according to the preliminary data.

While seasonal devaluation is around the end (usually it lasts for about a month), **the current stability remains fragile and highly vulnerable to the news flow**, taking into account that the major pressure comes from the financial, but not the current account. The recent developments around the NBU's council, which have formally reprimanded two of the central bank's deputy governors, leading figures in the country's banking reforms, may add to the market's concerns over Ukraine's cooperation with the International Monetary Fund (IMF).

The increasing number of COVID infections, both in Ukraine and in foreign countries, and upcoming local elections may also contribute to the extension of the downward trend.

**Banking system maintains a high level of liquidity**, with the total balance remaining above UAH170bn by the end of last week.

Although the funds on banks' correspondent accounts with the NBU dropped by 29% - to UAH42.7bn, the change primarily results from the reallocation of UAH16.2bn to NBU's certificates of deposits (CDs).

This led to an increase in banks' position in O/N CDs by 50% - to UAH21.3bn, and in 1w CDs by 9.4% - to UAH106.3bn.

Central bank's interventions consumed around UAH2bn and some UAH1.7bn arrived via cash channel.

The rest of the contributors had little impact on the level of liquidity and nearly offset each other.

Figure 2. Banking liquidity (UAH bn)

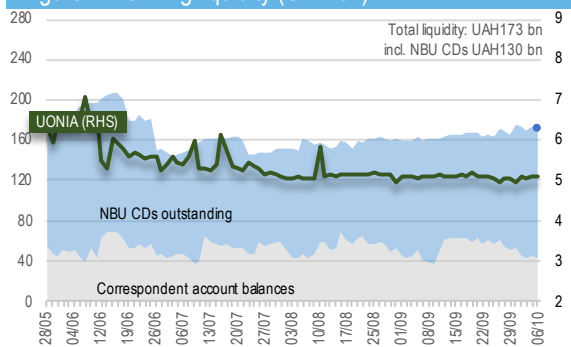


Figure 3. Correspondent account balances (UAH bn)

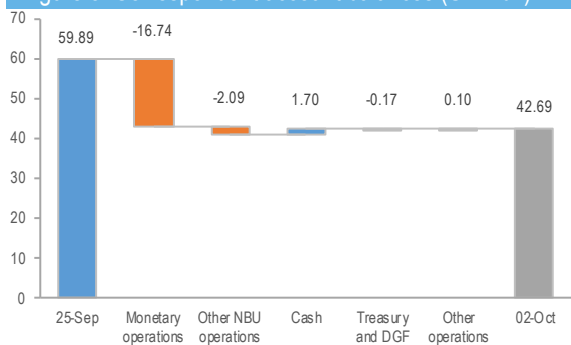
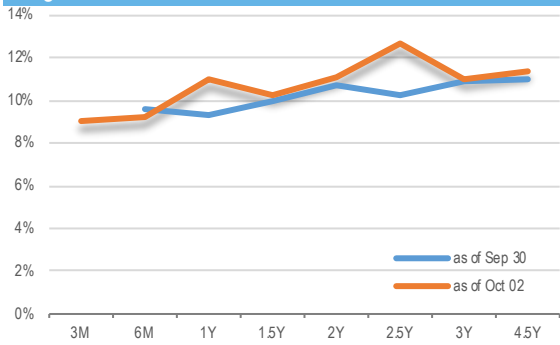


Figure 4. Local UAH bonds market

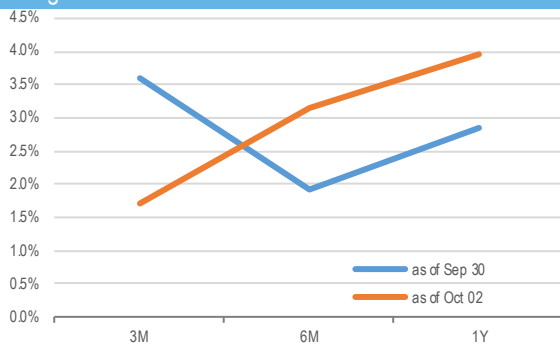


Government bond market

CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size, mn	Placement size, mn
UAH	3M	7.20%	7.19%	7.20%	7.00%	5	5	1 603.87	1 603.87
USD	6M	3.39%	3.39%	4.00%	3.39%	27	24	139.68	135.34
UAH	1Y	10.00%	9.89%	10.25%	9.50%	12	11	1 247.84	1 047.84
UAH	2.5Y	10.95%	10.95%	10.95%	10.50%	6	6	735.59	735.59

The secondary market seems to take the lead, prompting FinMin to lift rates for government bonds a step further. This Tuesday the ministry auctioned 6m bonds in USD and a range of instruments in local currency - 3m, 1y, and 2.5y debt securities.

Figure 5. Local USD bonds market

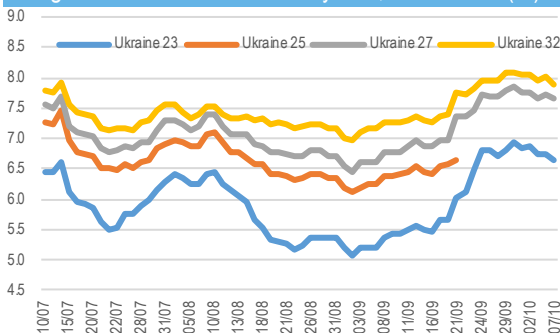


Much of the subscriptions were for FX denominated bonds, which had 27 offers for USD140mn in total. The narrow bid range allowed the ministry to stick to the lowest rate of 3.39%, allotting USD135mn to subscribers.

Regarding the local currency bonds, the government again had to pay higher rates to attract decent market interest. The cut-off rate curve was lifted by 20 basis points (bps) to 7.2% in the short end (3m bonds) and 45-50bps in the middle (1y) and long (2.5y) ones to 10% and 10.95% respectively.

Following the step, nearly all offers were satisfied and FinMin attracted some UAH3.4bn.

Figure 6. Ukraine's Eurobond yields, bid/ask mid (%)



EUR/USD remains range bound between 1.1718/1.1781

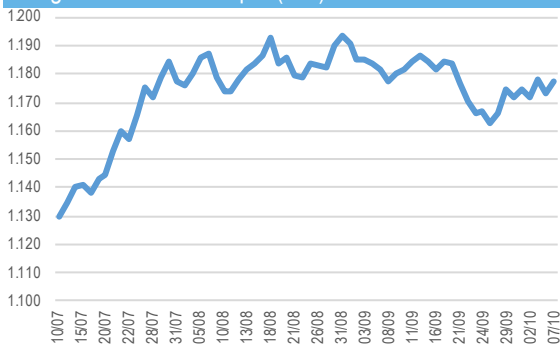
The EUR/USD pair keeps moving between 1.1718 and 1.1781 levels.

The pair witnessed pickup in the U.S. dollar demand after the U.S. President Donald Trump said he called off negotiations with Democrats on a new coronavirus relief package, putting the economic recovery in question and prompting a move to safe haven assets like the greenback.

The ECB President Christine Lagarde's comments about incomplete, uncertain, and uneven Europe's economic recovery, fueled the trend.

But the pair continuously lacks support above the 1.18 mark and returns to mid-1.17s as soon as little opportunity arises.

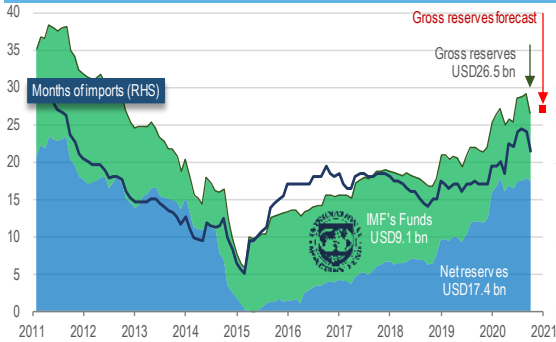
Figure 7. EUR USD spot (mid)



Market participants now look forward to the release of German Industrial Production figures for some impetus. Apart from this, a scheduled speech by the ECB President Christine Lagarde and the release of the FOMC meeting minutes are awaited to grab some meaningful trading opportunities.

U.S. Treasury yields are at a 4-month high, and the 10-year yield rose to as high as 0.78%, breaking a range it had been in for weeks. The market is expecting a stimulus package of \$1.5 trillion or more aimed at helping businesses, the unemployed, and state and local governments, hurt by the coronavirus and economic shutdowns.

Figure 8. NBU's FX reserves evolution

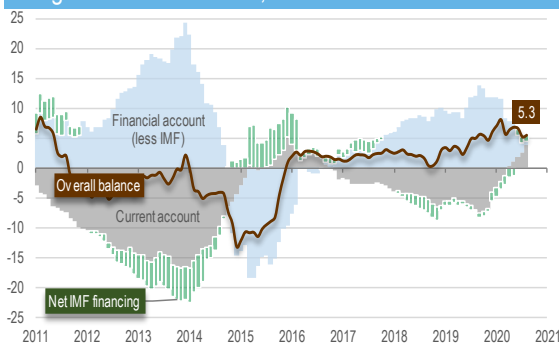


Ukraine's FX reserves dive driven by bond repayments

Ukraine's international reserves saw a sharp decline in September, falling to USD26.5bn (-8.7% m/m). This happens against the backdrop of Eurobond repayments (USD2.2bn), repayments to the IMF (USD0.4bn), and growing costs to defend the local currency. Going forward, we expect the financial account (net repayments) to continue producing pressure on international reserves in the next quarters, while underlying fundamental drivers such as the balance of trade of goods and services seem to be in check.

**Ukraine finished August with a USD370mn CA surplus** after a USD147mn deficit in July and a wider shortfall (minus USD881mn) in August 2019, according to the NBU. As a result, the trailing 12-month (TTM) surplus reached USD3.8bn by the end of the reporting period. Gaining momentum agricultural exports, cost savings related to lower prices for imported energy commodities and stagnating imports of services are the major contributors to improvement.

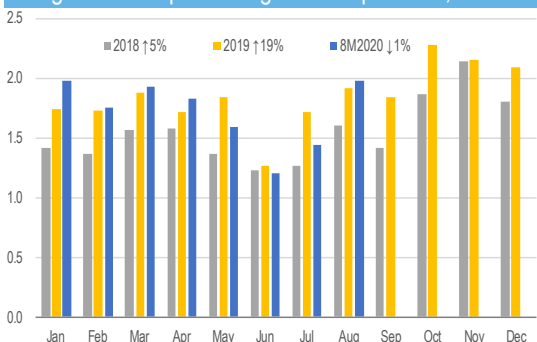
Figure 9. BoP evolution, USDbn



**Agri export tails the achievements of last year...** Foreign sales of agricultural products surged 37.3% to set a new August's record. The monthly exports were just shy of USD2bn, and 8-month sales of USD13.7bn only 1% behind the total volume for the corresponding period of the last year.

**... but likely remain behind.** We consider a notable improvement as being largely driven by adverse weather conditions, which brought about some delays to this year's harvesting campaign, and correspondingly put overseas sales off. Moreover, expected this year weaker harvest is likely to prevent from beating last year's record at USD22.1bn.

Figure 10. Exports of agricultural products, USDbn

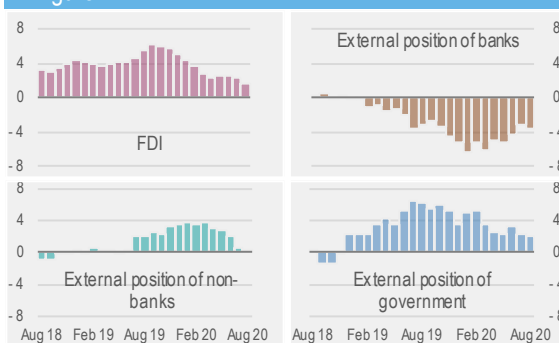


**Fuels and minerals imports remain depressed** after COVID-induced prices crash for energy commodities. We expect ongoing recovering of prices for natural gas will have a limited impact on CA over the rest of the year, given drawing to the end injection season and record stocks in Ukraine's gas storage facilities, closing in on nameplate capacity of some 31bn m<sup>3</sup>.

Notably contracted import of services largely reflects coronavirus impact on travel. And the tourism segment is likely to continue suffering as long as the number of new infections in the country remains at the record high levels.

**But FA keeps deteriorating, producing the major drag on FX reserves.** Though there are no signs of aggressive capital flight, the government keeps experiencing a gradual shortening of foreign position in public debt amid unclear prospects for the deal with the IMF and contingent on it financial aid from EU.

Figure 11.



September's balance of payments (BoP) statistics will show a more serious drain following the recent redemption of foreign public debts and central bank's FX interventions, which have already driven NBU's reserves to USD26.5bn as of October 1 from USD29bn a month before. Fortunately, no more redemptions of foreign debts are scheduled for the rest of the year.

The non-government segment seems to be losing external support against pandemic-related uncertainty, both constraining FDIs and narrowing portfolio investments. Recently announced deals with corporate Eurobonds will partly improve stats to come. But growing tensions in the local political situation and the mentioned stalemate in cooperation with the Fund, which is a benchmark of reforms for foreign eyes, will keep weighing on capital flows.

In view of the above, **we improved our year-end CA forecast to USD3.5bn, but cut forecast for FDI inflow to USD1bn.** We expect further TTM CA balance to improve further in the nearest months, ultimately breaking a 10-year record high of USD5bn. But it is likely to return to USD3bn area by the end of the year after the Naftogaz's receipt of USD3bn from Gazprom lose effect.

# UKRAINIAN CAPITAL MARKETS WEEKLY

## Key Macroeconomic Indicators

	2014	2015	2016	2017	2018	2019	2020E	2021F
<b>Real sector</b>								
Real GDP (%YoY)	-6.6	-9.8	2.4	2.5	3.4	3.2	-5.8	3.8
Industrial production (%YoY)	-15.0	-5.1	6.6	-0.5	1.1	-6.7	-1.8	0.0
Retail sales (%YoY)	-11.0	-25.0	4.0	8.8	6.2	10.5	-10.9	9.2
Unemployment rate end of year (ILO, working age)	9.3	9.1	9.3	9.5	8.8	8.2	10.1	9.3
Nominal GDP (UAH bn)	1 587	1 989	2 385	2 983	3 559	3 975	3 926	4 633
Nominal GDP (USD bn)	131	90	93	112	131	150	144	154
<b>Prices</b>								
CPI (average %YoY)	12.1	48.7	16.5	14.4	10.5	7.9	4.5	5.0
CPI (end of year %YoY)	24.9	43.3	12.4	13.7	9.8	4.1	4.9	5.0
Real average wage growth (%YoY)	-6.5	-35.0	10.0	18.9	9.7	9.8	-5.5	3.5
<b>Fiscal balance (% of GDP)</b>								
State budget deficit (without Naftogaz)	4.9	2.3	2.9	1.6	2.4	1.8	7.5	3.0
Total public debt (% of GDP)	69.4	79.4	81.0	71.8	61.0	51.6	64.4	64.6
<b>External balance</b>								
Exports of goods and services (USD bn)	65.4	47.9	46.0	54.0	59.0	63.4	56.2	62.6
Imports of goods and services (USD bn)	70.0	49.6	51.8	60.8	70.5	75.5	64.3	72.5
Current account balance (USD bn)	-4.6	5.0	-1.9	-3.5	-6.5	-4.2	3.5	-0.6
Current account balance (% of GDP)	-3.5	5.6	-2.0	-3.2	-4.9	-2.8	2.4	-0.4
Net FDI (USD bn)	0.3	-0.4	3.8	3.7	4.5	5.2	1.0	2.0
Foreign exchange reserves (end of year)	7.5	13.3	15.5	18.8	20.8	25.3	27.0	27.5
Imports coverage (months of imports of goods)	1.5	4.4	3.7	3.6	3.4	3.9	5.0	4.5
<b>Interest and exchange rates</b>								
NBU discount rate (% end of year)	14.0	22.0	14.0	14.5	18.0	13.5	6.0	6.0
Exchange rate (USD/UAH) end of year	15.8	24.0	27.2	28.0	27.7	23.7	29.5	31.0
Exchange rate (EUR/UAH) end of year	23.0	26.2	28.3	33.5	31.8	26.4	33.0	34.7

## Two Weeks Ahead

Mon	Tue	Wed	Thu	Fri	Sat	Sun
05.10.2020	06.10.2020	07.10.2020	08.10.2020	09.10.2020	10.10.2020	11.10.2020
		NBU: FX Reserves (deadline - 7th day)		Ukrstat: Price Indices NBU: Monetary Statistics (Preliminary)		
12.10.2020	13.10.2020	14.10.2020	15.10.2020	16.10.2020	17.10.2020	18.10.2020
				IMF Annual Meetings		



**UKRSIBBANK**  
BNP PARIBAS GROUP

The bank  
for a changing  
world

## Contacts

### Investment Business Group

**Serhiy Yahnych**

Head of Investment Business

(+38044) 537-50-82 [serhii.yahnych@ukrsibbank.com](mailto:serhii.yahnych@ukrsibbank.com)

**Viktoriia Nebeska**

Market Making Government Bonds

(+38044) 201-22-74 [viktoriia.nebeska@ukrsibbank.com](mailto:viktoriia.nebeska@ukrsibbank.com)

**Platon Yachmenov**

Fixed Income Dealer

(+38044) 230-48-54 [platon.yachmenov@ukrsibbank.com](mailto:platon.yachmenov@ukrsibbank.com)

**Mykhailo Kharchuk**

Market Analysis

(+38044) 537-49-75 [mykhailo.kharchuk@ukrsibbank.com](mailto:mykhailo.kharchuk@ukrsibbank.com)

Distribution of Capital Markets Weekly report:

[macro@ukrsibbank.com](mailto:macro@ukrsibbank.com)



### FX Business

**Kostiantyn Rupchev**

Head of FX Sales

(+38044) 537-50-04 [kostiantyn.rupchev@ukrsibbank.com](mailto:kostiantyn.rupchev@ukrsibbank.com)

### Corporate Business

**Ievgen Kulikov**

Head of MNC team

(+38044) 201-22-43 [ievgen.kulikov@ukrsibbank.com](mailto:ievgen.kulikov@ukrsibbank.com)

## Important Disclaimer

This document has been prepared by group of investment business of PUBLIC JOINT STOCK COMPANY "UKRSIBBANK" that is the part of BNP Paribas Group (hereafter – JSC "UKRSIBBANK") in strict compliance with related Ukrainian legislation.

JSC "UKRSIBBANK" is the sole owner of the contents of this document (as well as the graphics, the layout, and the text) which is protected by (Ukrainian and international) copyright laws. No materials featured herein can be reproduced or used in any format, in whole or in part, without the prior written consent of JSC "UKRSIBBANK".

This document is a marketing communication, not intended for public use, and is not considered to be an independent investment research. The document has not been prepared in accordance to legal requirements designed to provide the independence of investment research, and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The information and opinions contained in this report have been obtained from, or are based on public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. Nothing in this report can be rendered as explicit or implicit investment recommendation.

To the fullest extent permitted by law, neither JSC "UKRSIBBANK", nor any other BNP Paribas group company, accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report.

This document is intended to be distributed on the territory of Ukraine, to non-US persons only (most broad definition of US persons must be applied).

By accepting this communication, a recipient hereof agrees with abovementioned limitations.