



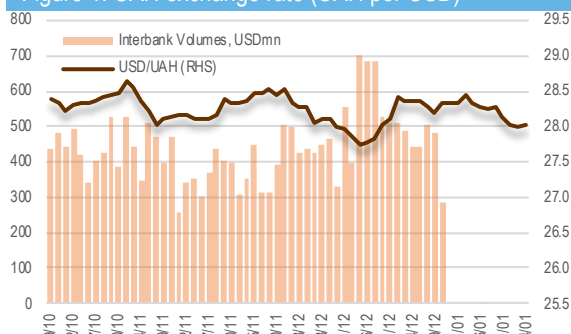
ECONOMICS | INTEREST RATES STRATEGY | FX

14 January 2021

**UKRAINIAN
CAPITAL MARKETS
WEEKLY**

	Rating	Outlook	Last update	This week in focus: NBU reserves up on healthy trade and buoyant debt flow
Fitch	B	STABLE	04.09.2020	Ukraine has accumulated USD29.1bn in FX reserves (+15% y/y), the highest level since October 2012. An impressive performance of the government debt flows in December amid unprecedentedly strong current account was the major driver for the recovery. Resumed cooperation with the IMF will most likely further improve the sustainability of the country's external payments.
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)



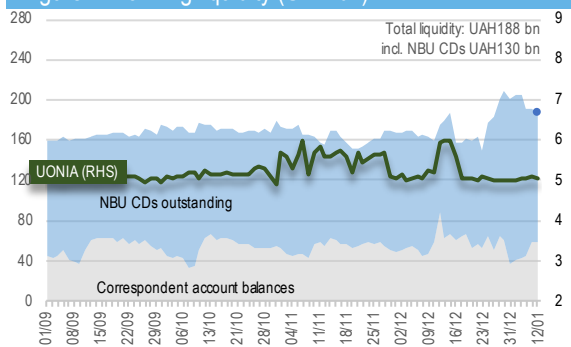
FX and interest rates: USD/UAH up from month lows on steady FX inflow

The hryvnia keeps edging higher against U.S. dollar, extending a rebound from the month low at 28.45 hit in the second week of the year (January 4). The local currency takes strength from sustainable demand for local public debt and the prospect of continued cooperation with the IMF.

The government's heavy borrowing in the first half of December boosted supply of FX. Although some of the fresh FX liquidity was mopped up by the NBU, the demand present at that time was not enough to absorb the remaining FX. This resulted in USD/UAH rate ending the year below our forecast.

And the CB has continued intervening in FX market in 2021. While all the FX purchased in the short week ending January 6 was sold back to the market, the NBU has pressed on with purchases this week.

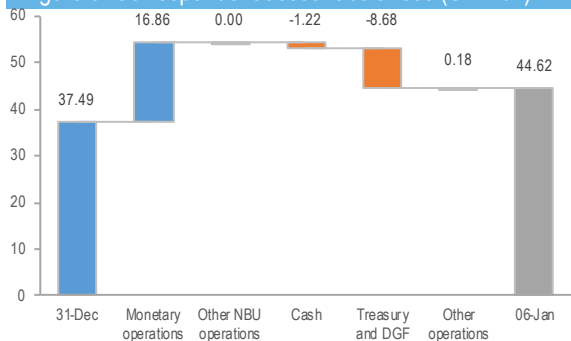
Figure 2. Banking liquidity (UAH bn)



In turn, another national lockdown, enforced on January 8 is likely to keep demand for FX subdued. Being much tougher than the November's quarantine, the new action implies obligatory closure of all non-essential businesses. It will hold until the 24th of January, but some state officials admit its extension.

The IMF holds remote talks with the Ukrainian authorities for a review of the country's USD5bn loan programme. So far, Ukraine received USD2.1bn in June. Since then the programme was suspended because of Fund's concerns over progress on reforms and the independence of the central bank. Provided progress in review, a new loan tranche could be disbursed in February or March. Moreover, as an important benchmark of economic reforms, the IMF decision could unlock financing from other sources as well as increase offshore take-up at the primary debt auctions.

Figure 3. Correspondent account balances (UAH bn)



Banking liquidity narrowed to UAH191bn over the last week after reaching UAH201bn as of the end of last year. The notable expansion in December has mostly to do with reallocation of attracted funds by the government. Last week, however, some UAH8.7bn returned back to the State treasury following another primary debt auction. In addition to this, about UAH1.2bn were drained via cash money channel amid Christmas holidays in the country.

Monetary operations for UAH16.7bn represent reallocation of banks' funds from the central bank's certificates of deposits to correspondent accounts with NBU. By the end of last week, banks' position in CDs narrowed by 10.3% to UAH146.8bn, with UAH41 held in ON CDs.



Figure 4. Local UAH bonds market

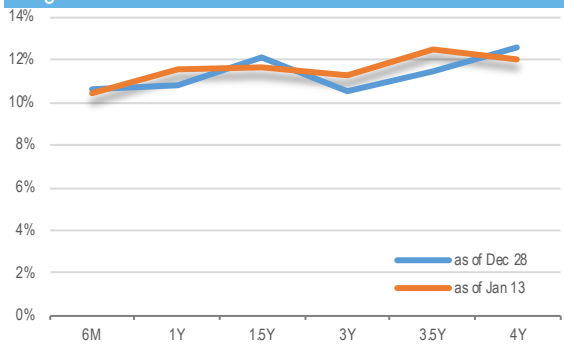
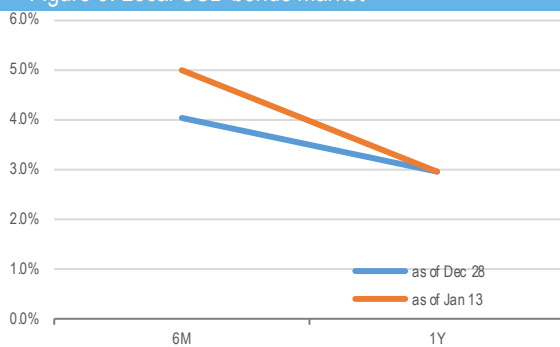


Figure 5. Local USD bonds market



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	6M	10.75%	10.73%	10.75%	10.69%	24	24	2 485.91	2 485.91
UAH	1Y	11.70%	11.69%	11.80%	11.60%	43	37	4 734.25	4 432.25
UAH	2Y	11.85%	11.85%	11.85%	11.85%	6	6	262.25	262.25
UAH	3.5Y	12.15%	12.15%	12.15%	12.15%	9	9	283.69	283.69
USD	1Y	3.80%	3.80%	3.80%	3.80%	29	29	50.04	50.04

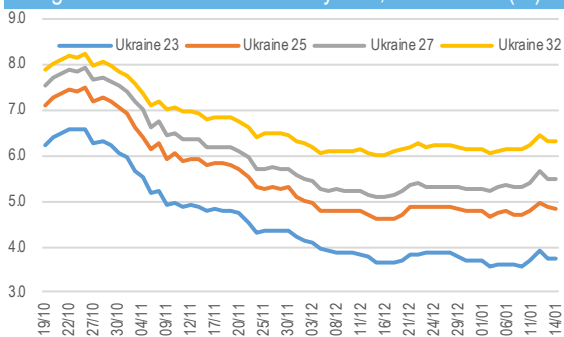
The ministry of finance raised around UAH8.9bn through a government bond auction on January 11. Although the ministry again offered a wide range of local currency bonds with maturity up to 3.5 years the major market demand was concentrated around short-term securities.

Nearly UAH4.4bn was mobilised from the 1-year bonds and around UAH2.5bn from 6-month securities. The former were sold with an accepted annual interest rate of 11.7% and the latter with a cut-off rate of 10.75%, no change from the previous auctions.

Along with local currency bonds, the ministry offered 1-year USD-denominated bonds, which attracted demand for some USD50mn (around UAH1.4bn in hryvnia equivalent).

In spite of a large number of bids for these bonds, investors seem to be reluctant to expand aggressively positions before the IMF produced its verdict following the ongoing first review of the loan program. And lengthy discussions in the past serve as the main hindrance for early proactive purchases.

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



EUR/USD bounced from multi-year lows

The U.S. dollar has managed to recover partly from its drop to near three-year low against the euro, and was last seen trading with modest losses in the middle of the 1.21 region.

Late in 2020 the American currency suffered substantial pressure due to the persistent optimism related to a U.S. stimulus package and a post-Brexit trade deal. The risk-on mood among investors was also supported by the Fed's decision to leave its monetary policy unchanged followed by its commitment to long-term dovish stance.

This, however, resulted in a significant increase in yields in longer-dated bonds U.S. government bonds. Appealing yields amid rising expectations of a continued economic recovery in the United States, even as countries in Europe introduced new lockdowns, helped the greenback to regain ground in recent sessions.

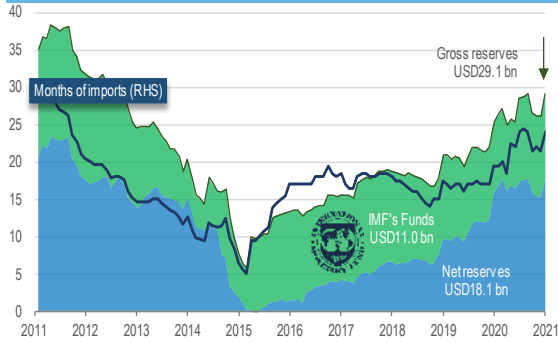
In turn, the situation in Europe looks worse than in U.S., with Germany recording a new mortality peak. The government in the old continent are under pressure to ramp up their vaccination campaigns.

Driven by the forceful outflow of funds into shares and risk assets amid expectations of higher government spending under the Joe Biden administration, the yield on the benchmark 10-year Treasury note exceeded 1.1% by the end of last week.

Figure 7. EUR USD spot (mid)



Figure 8. Ukraine's FX reserves

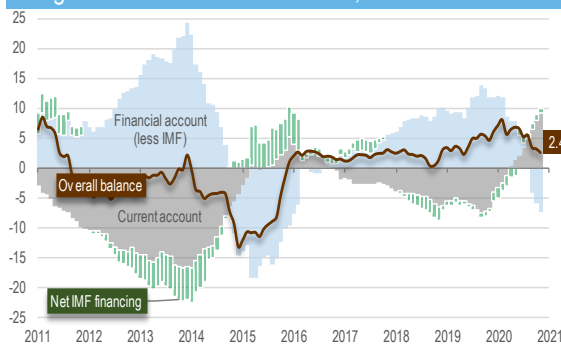


NBU reserves up 15% in 2020 on healthy trade and buoyant capital markets

Ukraine has accumulated USD29.1bn in FX reserves (+15% y/y), the highest level since October 2012. An impressive performance of the government debt flows in December amid unprecedentedly strong current account was the major driver for the recovery. Resumed cooperation with the IMF will most likely further improve the sustainability of the country's external payments.

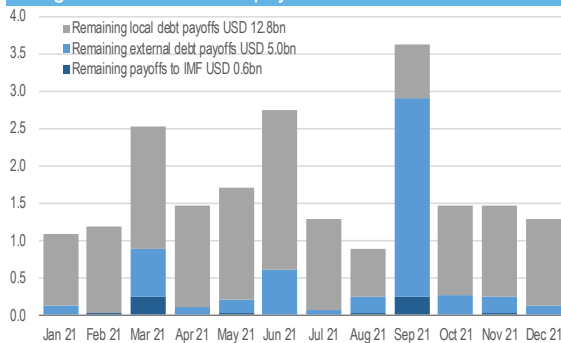
Most of the full-year results could be attributed to the last month of the year. December witnessed strong public debt flows bringing fresh FX liquidity to the country. The government fetched at the local primary market about USD3.1bn., with the active participation of international investors who are willing to take on more positions in hryvnia denominated bonds. Along with this, the government raised cash proceeds of USD670 mn via placement of 2033 Eurobonds and borrowed USD340mn directly from a foreign bank. The government success largely came on the back of massive supportive monetary stimuli introduced by the largest central banks following the COVID outbreak. With positive COVID vaccine news, moderate central banks, and relegated to the background trade war global markets hold strong demand for riskier assets. According to IIF data, portfolio flows to emerging markets stood at USD45.9 bn in December, closing on a positive note one of the most volatile years on record.

Figure 9. BoP historical evolution, USDbn



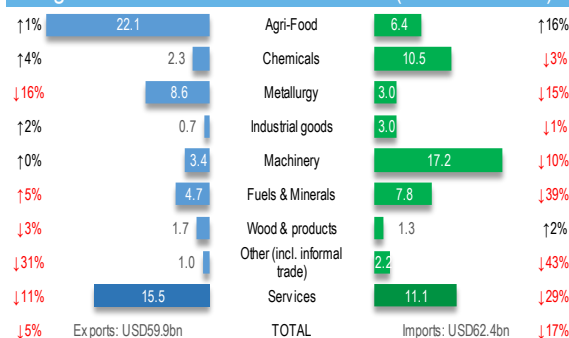
Cooperation with the IMF could expand the appetite for Ukraine's debt. We expect the completion of the first review of Ukraine's economic reform program could allow the authorities to draw at least USD1bn under the Stand-By Arrangement (SBA) and unlock financing from other sources. The mission of the IMF for the first revision of the SBA began its work in December and resumed negotiations in January after the holidays. It is crucial that domestic policymakers understand the importance of IMF program as an anchor for private investments in the country and deliver on agenda, outlined in the program.

Figure 10. Public debt payouts scheduled for 2021



Bumpy debt repayments guarantee active primary market. A solid FX position will help Ukraine to pass through other debt spikes scheduled for the following 12 months. Total debt payments (principal and interest) amount to around USD21bn, including USD5.9bn related to foreign debt. The major debt spike occurs in September when two issues of Eurobonds are to be redeemed. But material local debt payoffs in March and June should also be closely watched for likely FX outflows to non-residents. All in all, the ministry of finance will need to stay tuned during the year, and the primary market for Ukrainian debt likely to remain hot.

Figure 11. External trade breakdown (TTM to Nov 20)



Terms of trade remain supportive of Ukraine. Ukraine's current account hit another record high at USD6.5bn in November as COVID-induced consumption contraction coupled with favorable energy prices drove imports to the level of exports. And early statistics from Customs authorities point at likely further surplus growth in December. The upturn in global energy prices supported by expectations of global economic recovery and the rise of tourist flows following the COVID vaccination rollout could erase a big chunk of last year's gains. This, however, should be accompanied by strong prices for major Ukrainian export commodities (steel, iron ore, and soft commodities), which should help alleviate pressure on the local currency (if any).

UKRAINIAN CAPITAL MARKETS WEEKLY

Key Macroeconomic Indicators								
	2014	2015	2016	2017	2018	2019	2020	2021F
Real sector								
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
Prices								
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	5.0	5.0
Real average wage growth (%YoY)	-6.5	-35.0	10.0	18.9	9.7	9.8	-5.5*	3.5
Fiscal balance (% of GDP)								
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
External balance								
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	29.1	27.5
Imports coverage (months of imports of goods)	1.5	4.4	3.7	3.6	3.4	3.9	4.8	4.5
Interest and exchange rates								
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	28.3	31.0
Exchange rate (EUR/UAH) end of year	23.0	26.2	28.3	33.5	31.8	26.4	34.7	34.7

*estimates, no official data yet available



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UKRAINIAN CAPITAL MARKETS WEEKLY

FOUR WEEKS AHEAD

Mon	Tue	Wed	Thu	Fri	Sat	Sun
11.01.2021	12.01.2021	13.01.2021	14.01.2021	15.01.2021	16.01.2021	17.01.2021
Ukrstat: Price indices		LGB* % UAH 223.7mn NBU: Monetary Statistics				
18.01.2021	19.01.2021	20.01.2021	21.01.2021	22.01.2021	23.01.2021	24.01.2021
		LGB* % UAH 1,400.1mn LGB* P UAH 11,948.3mn	NBU: MPC Ukrstat: Retail trade ECB: MPC	Ukrstat: Industrial Production		
25.01.2021	26.01.2021	27.01.2021	28.01.2021	29.01.2021	30.01.2021	31.01.2021
		LGB* % UAH 725.5mn FGB % EUR 54.7mn LGB P UAH 5,603.9mn Fed: FOMC	LGB* % USD 9.6mn Ukrstat: Nominal & Real Wage			
01.02.2021	02.02.2021	03.02.2021	04.02.2021	05.02.2021	06.02.2021	07.02.2021
IMF SDR 49.7mn FGB % USD 33.7mn NBU: Minutes		LGB* % UAH 1,542.5mn	IMF SDR 98.5mn			NBU: FX Reserves (deadline - 7th day)

MOST COMMON TERMS AND ABBREVIATIONS

GDP	Gross domestic product	DGF	Deposit Guarantee Fund
CPI	Consumer price index	Ukrstat	State Statistics Service of Ukraine
FDI	Foreign direct investment	NBU	National Bank of Ukraine
BoP	Balance of Payments	ECB	European Central Bank
CA	Current account	Fed	Federal Reserve System
FA	Financial account	FOMC	The Federal Open Market Committee
IIP	International investment position	MPC	Monetary policy committee meeting
VAT	Value-added tax	Minutes	Summary of MPC meeting
CD	Certificate of deposit	IMF	International Monetary Fund
FX	Foreign exchange, foreign currency	IFI	International financial institutions
UAH	Ukrainian hryvnia	LGB	Local government bonds
USD	U.S. dollar	FGB	Foreign government bonds (Eurobonds)
EUR	Euro	P	Principal due
SDR	Special drawing rights	%	Interests due
UONIA	Ukrainian OverNight Index Average	*	government bonds held by NBU or issued for recapitalization of state-owned banks
WA	Weighted average		
bp	basis point	m/m	in monthly terms; month-on-month change
pp	percentage point	TTM	trailing twelve months
y/y	in annual terms; year-on-year change	RHS	right-hand scale



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