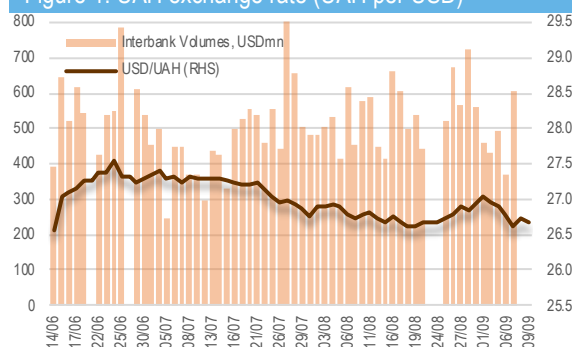


ECONOMICS | INTEREST RATES STRATEGY | FX

9 September 2021

UKRAINIAN CAPITAL MARKETS WEEKLY

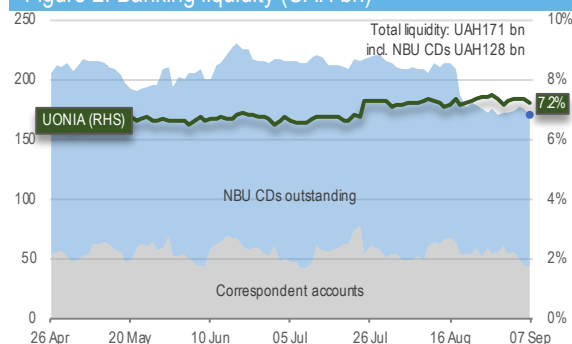
	Rating	Outlook	Last update	This week in focus: NBU delivers another rate hike to anchor expectations
Fitch	B	POSITIVE	06.08.2021	The NBU hiked interest rates for the third time over the year as stubbornly elevated and above-target consumer price increases keep weighing on inflation expectations. The central bank also announced the phasing out of extraordinary supportive measures starting from October, as the economy shows a buoyant recovery and no longer needs such a backstop.
S&P	B	STABLE	12.03.2021	
S&P (N)	uaA	-	12.03.2021	
Moody's	B3	STABLE	12.06.2020	

Figure 1. UAH exchange rate (UAH per USD)

FX and interest rates: USD/UAH slips below 26.7 on strong supply

The **USD/UAH has returned below the 26.7 mark**, down 1% over the past seven days, on a resumed strong supply of FX liquidity, struggling to find sufficient demand.

Triggered by a positive news flow from the recent president's voyage to the U.S., the downtrend gained further traction on rising demand for hryvnia after recent quarterly tax payments, resulting in a UAH53.4bn liquidity drain from the banking system. With interest rates increased following policy tightening, seeking to replace their cash positions businesses expanded FX sales, in particular those in the agricultural industry, running a harvesting campaign.

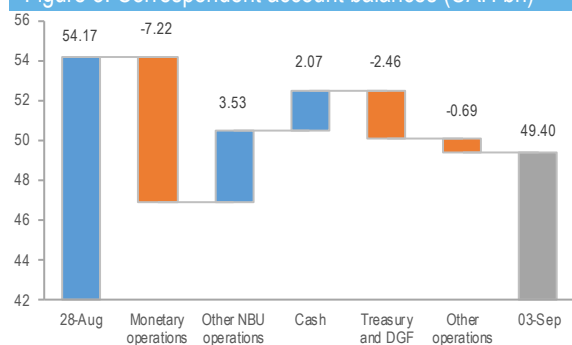
The rising expectations in the market of another rate hike could also contribute to shorting of FX positions.

Figure 2. Banking liquidity (UAH bn)


The resulting hryvnia liquidity strain pushed the central bank to step up local currency supply. Although the NBU was present in the market, it generally did not show resistance to the hryvnia's appreciation, thereby strengthening the market's confidence in the fundamental origin of the movement, which could persist for some more time.

Indeed, the foregoing material **drop in UAH liquidity could delay typical in early autumn resurgence of demand for USD**. Announcement of the IMF's mission visit to Kyiv could add to bullish sentiments in the greenback too.

The sustainability of the trend beyond September, however, remains in question amid the recent sharp drop in global iron ore prices. Besides, the government continues running short of energy reserves to pass the future heating season. While natural gas stocks look relatively sufficient, yet much below last year's level, poor coal reserves, being more than two times below the required level, raise many questions.

Figure 3. Correspondent account balances (UAH bn)


Banking liquidity recovered to UAH178bn over the last week, a 1.7% increase from a week ago, thanks to the NBU FX interventions and resumed inflow of cash money into the banking system.

In the meantime, the outflow of liquidity into the State treasury account remains in place, draining another UAH2.5bn from the system. And this raises questions about how soon and in what way this liquidity will return to the system. According to the recent commentaries by the head of FinMin, no decision has been made so far on the redistribution of tax proceeds surpassing projections.

Figure 4. Local UAH bonds market

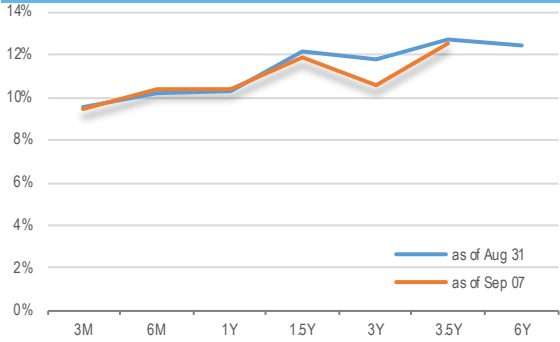
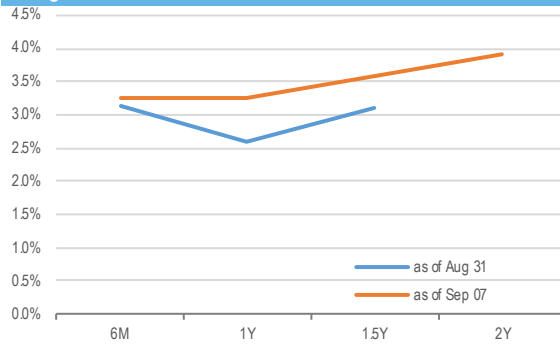


Figure 5. Local USD bonds market



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	9.80%	9.73%	11.15%	9.50%	8	5	135.80	34.11
UAH	1Y	11.15%	11.15%	11.50%	11.15%	18	17	154.28	54.28
UAH	1.5Y	11.30%	11.30%	11.30%	11.30%	4	4	1 003.62	1 003.62
UAH	2Y	12.09%	12.09%	12.50%	12.09%	10	8	353.20	153.20
UAH	3Y	12.45%	12.45%	12.45%	12.45%	5	5	25.49	25.49
UAH	4.5Y	12.59%	12.59%	12.75%	12.59%	6	5	162.58	62.58

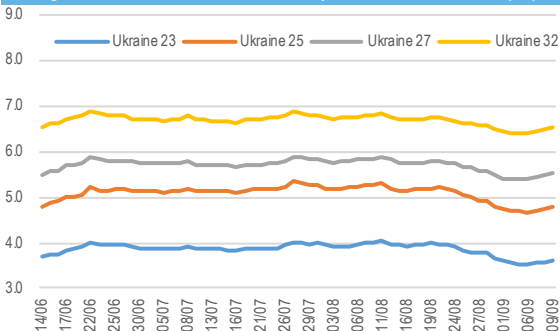
With another dismal debt sale this Tuesday, FinMin could coin its own interpretation to the "low-for-long" term. This week the ministry offered a wide range of local currency securities, including money market 6m bonds, last auctioned on June 22.

Disregarding a poor investor appetite in general, the highest demand drew 1.5y bonds, receiving 4 bids worth UAH1bn in total, or 3 times below the amount auctioned. All the applications were accepted at an unchanged from the previous auction rate of 11.3% per annum.

Despite numerous bids in 1y and 2y securities, the total volume of bonds placed barely exceeded UAH200mn.

That said, FinMin is far from being strained of cash after the recent likely record-high quarterly tax payments and is considering cutting back debt issuance planned for this year, according to the ministry's representative. So a low take-up at primary debt auction might become a new norm for a while.

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

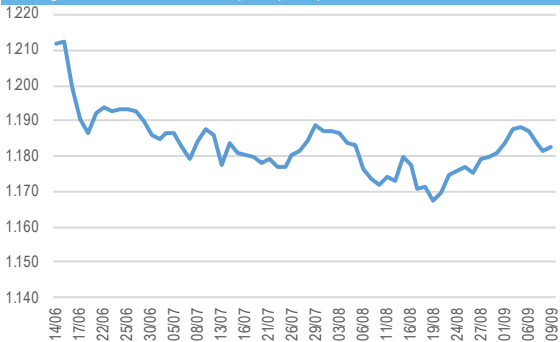


USD firms up against EUR on rising concerns over Delta variant

Sustained USD buying dragged the EUR/USD rate lower for the fourth consecutive session on Thursday (September 9). The pair was moving towards the 1.180 mark, down 0.6% over the week.

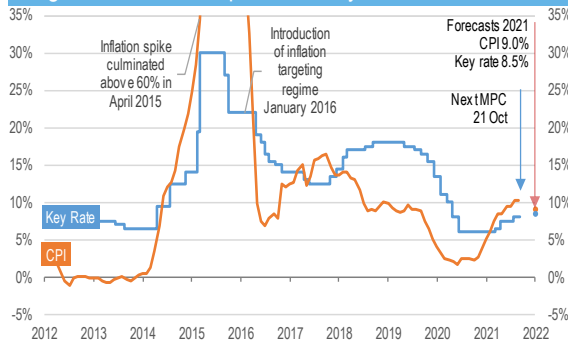
Fresh news on the progress of the Delta variant of the coronavirus has again caught the eye of markets, raising doubts about the sustainability of economic recovery both in the country and in the old continent. The dollar typically firms up in a risk-averse scenario. And this was evident from a sharp pullback in the global equity markets, which benefited the safe-haven U.S. dollar and U.S. Treasuries. Returns on 10-year Treasuries fell nearly 4bp to 1.33% by Wednesday.

Figure 7. EUR USD spot (mid)



Unimpressive ECB did not add support to the euro. Markets had been eagerly awaiting the Frankfurt institution's latest policy decision for signs of an imminent unwinding of pandemic-era stimulus, amid surging inflation and strong economic growth. The European Central Bank kept its monetary policy unchanged on Thursday but opted to slow down the pace of net asset purchases under its pandemic emergency purchase program. Because of a surge in Eurozone inflation to a 10-year high, the euro was already up ahead of the event. Therefore, the euro bulls failed to gain respite from meeting expectations statements of the ECB head.

Figure 8. Consumer prices vs Key rate evolution



NBU delivers another rate hike to anchor inflation expectations

Ukraine's central bank hiked interest rates for the third time over the year as stubbornly elevated and above-target consumer price increases keep weighing on inflation expectations. The NBU boosted its key interest rate by a half-point to 8.5% after a similar hike in July that did little to tame inflation, currently running at almost double the bank's target. The NBU expects an easing in consumer price pressure in 4Q, yet it has resorted to another rate hike in order to curb forecasts worsening while inflation runs hot. The central bank also announced the phasing out of extraordinary supportive measures starting from October, as the economy shows a buoyant recovery and no longer needs such a backstop.

Consumer prices index remained unchanged in August. Yet annual inflation keeps running at 10.2%, reflecting a lingering effect of the global commodities price boom that followed a strong rebound of the global economy from the coronavirus crisis, as well as recovery in local consumers demand.

While prices for food and apparels continued declining, energy prices took another leap. The cost of natural gas climbed 2.1% in August from July. The correspondent prices are now 96.1% higher than a year earlier. Petrol became more expensive by 1.9% over the last month. This amounts to a 32.2% jump compared with August 2020.

With CPI growth running twice as high as the central bank's target of 5% and inflation expectations for the next 12 months remaining above the upper bound of the target range of ± 1 pp, the NBU had little choice but to talk tough.

The policy actions will help rein in inflation expectations and change the trajectory of inflation toward a decline, according to the NBU.

Indeed, when prices and wages remain high, inflation concerns go along with that. Yet if all that makes an argument for immediate action, the NBU restrained from announcing further policy tightening, not to mention a pro forma clause of readiness to take action if conditions deteriorate.

While fundamental pressure remains high, the central bank appeared little concerned about CPI growth this year. The NBU sticks to expectations of inflation deceleration in 4Q and even admitted a slight improvement in its year-end expectations following the upcoming macro forecasts update in October.

The focus of the NBU seems to have been on the evolution of inflation in 2022. The bank suggests that the return of inflation into the target range in 2022 will come on the back of the waning effect of last year's low comparison base, past policy tightening, and correction of global commodity prices. And the last factor apparently the most important one for it will not only set a future prices trend but also define a policy easing schedule in 2022.

Along with the key rate hike, the NBU announced the phasing out of its long-term refinancing tenders and interest rate swap auctions, as well as reducing the maturity of refinancing loans to 30 days from 90 days. The actions will come into force on October 1.

Local banks have by far successfully passed the Covid-induced crisis. With the economy performing a buoyant recovery, there is no need for such a supportive measure anymore, according to the deputy governor of the NBU Yuriy Heletiy.

Depending on the future evolution of banking liquidity and the way the government is going to utilize its hefty tax incomes, the foregoing measures could for some time increase demand for the local currency, hence adding to pressure on USD/UAH rate.

Figure 9. Monthly inflation

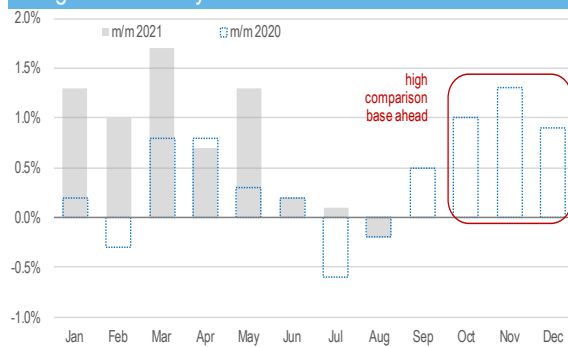


Figure 10. Contribution to monthly inflation

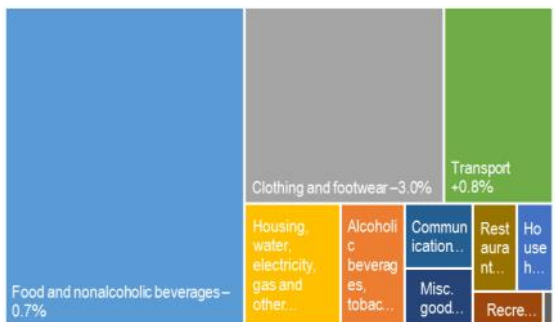
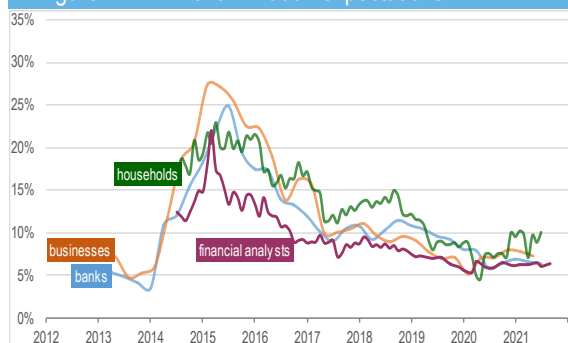


Figure 11. 12-month inflation expectations



UKRAINIAN CAPITAL MARKETS WEEKLY

Key Macroeconomic Indicators								
	2015	2016	2017	2018	2019	2020	2021E	2022F
Real sector								
Real GDP (%YoY)	-9.8	2.4	2.5	3.4	3.2	-4.0	3.1	3.8
Industrial production (%YoY)	-12.3	4.0	1.1	3.0	-0.5	-4.5	1.5	1.0
Retail sales (%YoY)	-19.8	4.3	6.5	6.2	10.3	8.4	9.2	10.0
Unemployment rate end of year (ILO, working age)	9.1	9.3	9.5	8.8	8.2	10.1*	9.3	8.5
Nominal GDP (UAH bn)	1 989	2 385	2 984	3 561	3 975	4 194	4 748	5 319
Nominal GDP (USD bn)	90	93	112	131	155	156	171	186
Prices								
CPI (average %YoY)	48.5	14.9	14.4	11.0	7.9	2.7	9.2	7.1
CPI (end of year %YoY)	43.3	12.4	13.7	9.8	4.1	5.0	9.0	5.0
Real average wage growth (%YoY)	-20.2	9.0	19.1	12.5	9.8	7.4	8.0	3.0
Fiscal balance (% of GDP)								
State budget deficit (without Naftogaz)	2.3	2.9	1.6	2.4	1.8	5.5*	3.0	2.5
Total public debt (% of GDP)	79.4	81.0	71.8	61.0	51.6	64.4*	64.6	61.5
External balance								
Exports of goods and services (USD bn)	47.9	46.0	53.9	59.2	63.6	60.6	62.6	65.0
Imports of goods and services (USD bn)	50.2	52.5	62.7	70.6	76.1	62.3	72.5	78.0
Current account balance (USD bn)	5.0	-1.9	-3.5	-6.4	-4.1	6.6	-0.6	-3.2
Current account balance (% of GDP)	5.6	-2.0	-3.1	-4.9	-2.7	4.2	-0.4	-1.7
Net FDI (USD bn)	-0.5	3.8	3.7	4.5	5.9	-0.4	2.0	3.0
Foreign exchange reserves (end of year)	13.3	15.5	18.8	20.8	25.3	29.1	31.0	32.5
Imports coverage (months of imports of goods)	3.4	3.7	3.6	3.5	3.9	4.8	5.1	5.0
Interest and exchange rates								
NBU discount rate (% end of year)	22.0	14.0	14.5	18.0	13.5	6.0	8.5	6.0
Exchange rate (USD/UAH) end of year	24.0	27.2	28.1	27.7	23.7	28.3	28.0	29.8
Exchange rate (EUR/UAH) end of year	26.2	28.4	33.5	31.7	26.4	34.7	32.3	36.1

*estimates, no official data yet available



UKRSIBBANK
BNP PARIBAS GROUP

The bank
for a changing
world

UKRAINIAN CAPITAL MARKETS WEEKLY

FOUR WEEKS AHEAD

Mon	Tue	Wed	Thu	Fri	Sat	Sun
06.09.2021	07.09.2021	08.09.2021	09.09.2021	10.09.2021	11.09.2021	12.09.2021
Ukrstat: Business confidence	NBU: FX Reserves (deadline - 7th day)	LGB* % UAH 682.7mn LGB % UAH 1 066.7mn	NBU: MPC Ukrstat: Price indices ECB: MPC NBU: Monetary Statistics			
13.09.2021	14.09.2021	15.09.2021	16.09.2021	17.09.2021	18.09.2021	19.09.2021
IMF SDR 295.5mn		LGB % UAH 118.3mn LGB* % UAH 199.6mn LGB P UAH 1 000.0mn FGB % USD 94.3mn	IMF SDR 59.7mn	NBU: External Debt		
20.09.2021	21.09.2021	22.09.2021	23.09.2021	24.09.2021	25.09.2021	26.09.2021
NBU: Minutes Ukrstat: GDP Ukrstat: Retail trade		LGB % UAH 162.5mn LGB* % UAH 864.8mn Ukrstat: Industrial Production Fed: FOMC			FGB % USD 110.6mn	
27.09.2021	28.09.2021	29.09.2021	30.09.2021	01.10.2021	02.10.2021	03.10.2021
	Ukrstat: Nominal & Real Wage	LGB* % UAH 512.5mn LGB P UAH 11 848.3mn LGB % UAH 910.0mn FGB P USD 1 000.0mn FGB % USD 7.4mn	LGB % USD 2.1mn NBU: BoP Supervisory Board			

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



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

Viktoriia Nebeska

Market Making Government Bonds

(+38044) 201-22-74 viktoriia.nebeska@ukrsibbank.com

Platon Yachmenov

Fixed Income Dealer

(+38044) 230-48-54 platon.yachmenov@ukrsibbank.com

Mykhailo Kharchuk

Market Analysis

(+38044) 537-49-75 mykhailo.kharchuk@ukrsibbank.com

Distribution of Capital Markets Weekly report:

macro@ukrsibbank.com



FX Business

Kostiantyn Rupchev

Head of FX Sales

(+38044) 537-50-04 kostiantyn.rupchev@ukrsibbank.com

Corporate Business

Ievgen Kulikov

Head of MNC team

(+38044) 201-22-43 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.