



ECONOMICS | INTEREST RATES | FX MARKETS

28 July 2022

**UKRAINIAN
CAPITAL MARKETS
REVIEW**

	Rating	Outlook	Last update	This week in focus: NBU makes FX rates meet, but not for long
Fitch	C	-	22.07.2022	The NBU has re-fixed the official exchange rate at 36.5686 UAH per USD. The action came in line with our expectations. Although it doesn't imply phasing out of the fixed FX rate regime yet, the attempt to balance supply and demand is an important step in this way. We admit returning to floating FX rate by the end of the year. But this still requires a number of assumptions to come true.
S&P	CCC+	NEGATIVE	27.05.2022	
Moody's	Caa3	NEGATIVE	20.05.2022	
R&I	B-	-	28.02.2022	

Figure 1. UAH exchange rate (UAH per USD)

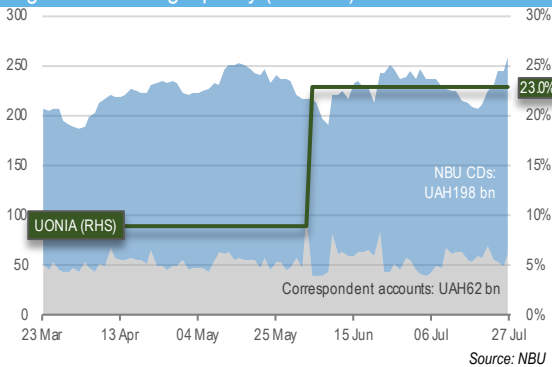


FX and interest rates: Cash USD/UAH rate keeps distance to the official one

The hryvnia set the new historical low in the cash market. The USD/UAH pair fell 9.3% to 40.23 following the NBU's official rate re-fixing at 36.5686 UAH per USD on July 21.

Along with the official rate adjustment, the central bank has tightened restrictions on withdrawals abroad, splitting the monthly limit of UAH50th (in hryvnia equivalent) into four weekly ones. Although the cash market has been set apart from the interbank one since the Russian invasion, the action has given rise to speculations about a possible decline in paper money supply, as the new limit, combined with the rate adjustment, erases opportunities for so-called "credit card tourism".

Figure 2. Banking liquidity (UAH bn)

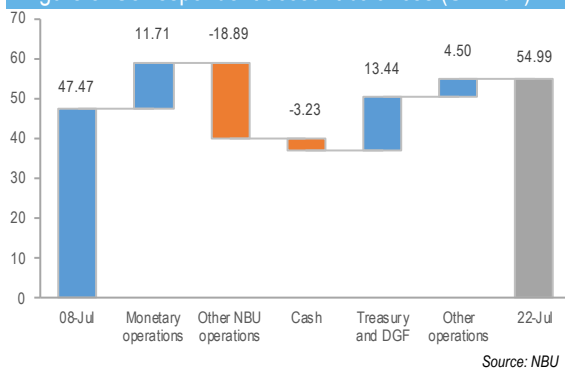


The interbank market, which much exceeds the cash one in trade volumes, seems to have reacted as the NBU expected. Last week net FX sales by the central bank fell to USD86mn from more than USD0.9bn in an average week starting from mid-May.

The "grain deal", which could enable partial resumption of grain exports via the Black sea, as well as FinMin's gradual concession in interest rates for the public debt, may reinforce the central bank's attempts to balance the market.

The major challenge ahead for the local currency might pose typical for early autumn seasonal hryvnia devaluation. It is unlikely to trigger another adjustment, at least by the end of 3Q, but the gap between exchange rates might again expand dramatically.

Figure 3. Correspondent account balances (UAH bn)



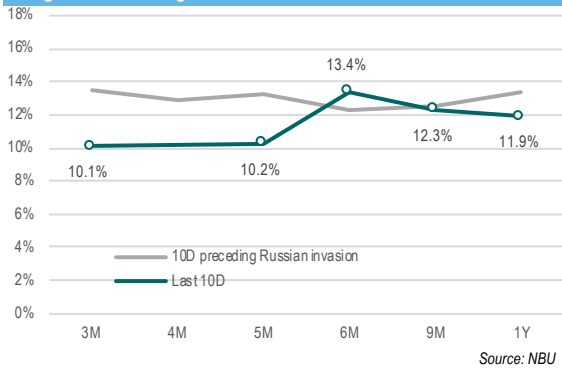
Banking system liquidity recovered above UAH230bn after a short-lived decline below the UAH200bn threshold.

Despite hryvnia slipping to the vicinity of 40 against the U.S. dollar following the official rate re-fixing, no spike in demand for cash hryvnia followed.

The outflow seen in mid-July has mostly to do with tax payments. In the last decade of June, the State treasury has again become the source of liquidity.



Figure 4. Local government bonds in UAH

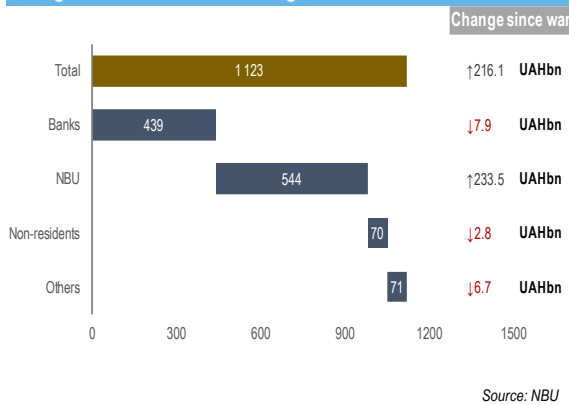


Government bond market

FinMin seems to have heeded the NBU's advice to raise interest rates for the public debt. The ministry lifted the yield for annual hryvnia bonds by 3pp to 14% at the auction on July 19 and by another 2pp at the next one, taking place on July 26. The concession helped the issuer to find demand for some UAH6.2bn worth of government bonds in total. Worth noting, that the total bids submitted for UAH bonds at the last two auctions exceeded UAH15bn. But the max bid rate, ranging from 18% for annual bonds to 24% for the 3m securities, seems to have been way above the one FinMin is ready to accept.

There was also an adjustment in rates for USD-denominated debt. The marginal rate for 5m bonds was lifted by 50bp to 4%, and for the longer ones – by 80bp, to 4.5%. The latter, however, was cut back by 50bp at the last auction.

Figure 5. Position in local government bonds in UAH

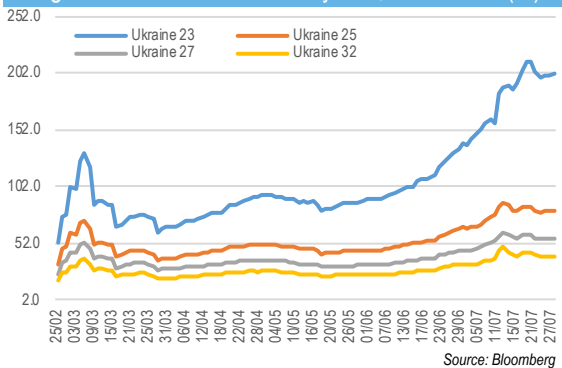


Generally, **despite rate concessions, demand for public debt remains low** and notably well below the amount of debt coming due.

Ukraine has requested to postpone foreign debt payments for two years. The consent solicitation offer covers bonds for more than USD20bn in face value. Despite preceding assurances by FinMin of timely servicing its debts, the move did not come as a surprise. The bondholders' decision will be announced on August 10. The ministry assures explicit support of the plan. The move is unlikely to have any effect on the local market.

Some state-controlled entities have followed the pattern. In the meantime, Naftogaz has faced a default. While the company received the refusal to postpone debt servicing for two years, the government did not provide its consent to make the necessary payments.

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



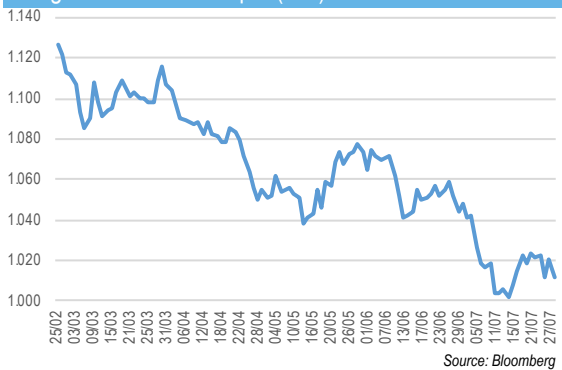
EUR/USD rebounds above 1.0200 after visiting parity

The euro has managed to regain composure and advance to the 1.0200 region against the U.S. dollar on the ECB decision to push benchmark rates up by 50 basis points, bringing its deposit rate to 0%.

The first hike for 11 years came on the back of rising concerns about runaway inflation in the regions, outweighing fears of slowing growth induced by Russia's war in Ukraine.

The ECB has also introduced the Transmission Protection Instrument (TPI), a bond protection plan designed to cap borrowing costs across the region and limit fragmentation for indebted countries in southern Europe.

Figure 7. EUR USD spot (mid)

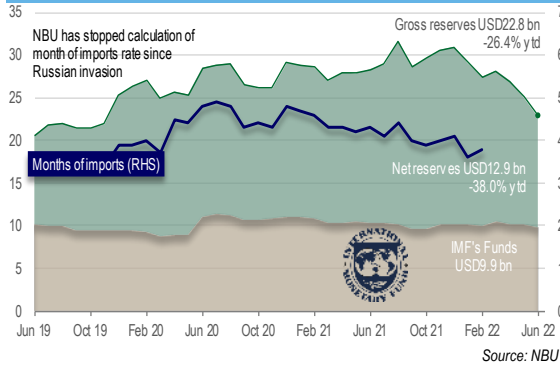


Renewed market chatter surrounding the likelihood of an economic slowdown in the euro area in the medium term seems to have resurfaced and weighed on the European currency again. The core member of the European Union (EU), Germany may face severe heat amid its higher dependency on Russian energy imports.

Meanwhile, the Federal Reserve escalated its interest rates to 2.25-2.50%. The Fed is seeing interest rates near 3.5% by the end of the year but will be making rate hike decisions on a meeting-by-meeting basis. The action came in line with market expectations and was rather negative for the USD.

In the meantime, **the U.S. government debt prices were lower in reaction to the Fed's statements.** The 10-year Treasury note rose by 6 basis points to 2.7977%. Yields move inversely to prices and one basis point is equal to 0.01%.

Figure 8. NBU FX reserves (EOM)



NBU makes FX rates meet, but not for long

The NBU has re-fixed the official exchange rate at 36.5686 UAH per USD - up by 25% from the level set following the Russian invasion - aligning it closer to the cash market one. The action came in line with our expectations (see our report of July 14). Although it doesn't imply phasing out of the fixed FX rate regime yet, the attempt to balance supply and demand is an important step in this way. We admit returning to floating FX rate by the end of the year with the USD/UAH rate depreciation above 42. But this still requires a number of assumptions to come true.

The central bank protects reserves. While cash and cashless markets are separated at the moment, the import was one of the bridges allowing businesses and households to make use of the preferential FX rate. Before abolishment on July 7, the term critical covered more than 90% of the pre-war visible imports. Along with the tax-free regime for car imports (was removed on July 1), it gave rise to imports recovering much faster than exports, with the imbalance draining about USD1bn of FX reserves per week.

Desperation measures are still around. In the perspective of the next one-two months, we see the alignment of the two FX rates should help cool down demand for foreign currency at the interbank market and spur extra supply by exporters, struggling to meet their running costs in the context of expensive hryvnia and FX bids fixed at the official rate.

But the cash rate is likely to get out of whack with the interbank one again in autumn when agricultural producers start selling off fresh crops and converting their revenues back into foreign currency. Inflation breakthrough above the key rate by that time could add to pressure on the hryvnia.

We see little risk for another re-fixing, but admit returning to the floating FX rate by the end of the year with the official rate depreciation above 42 hryvnias per U.S. dollar. Another adjustment could much undermine the fixed rate stabilizing effect on the expectations the NBU counts on. Assuming Ukraine manages to improve exports by the end of 3Q22, and notably regain access to seaports, we expect the central bank could let the FX rate float, in the meantime holding much of restrictions on cross-border transactions to avoid uncontrolled FX supply-demand imbalance.

Figure 9. NBU FX market interventions, USDbn

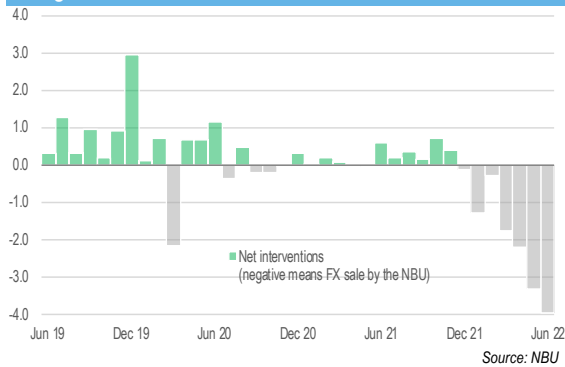
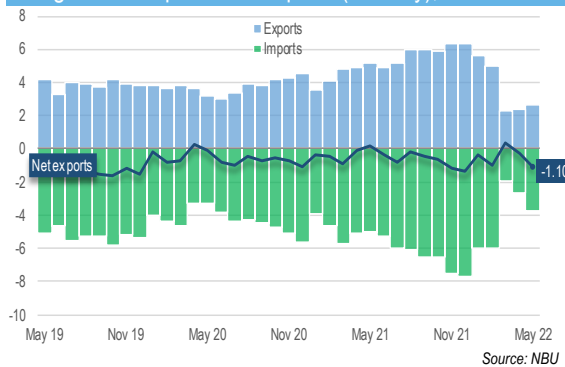


Figure 10. Exports and Imports (monthly), USDbn



UKRAINIAN CAPITAL MARKETS REVIEW

Key Macroeconomic Indicators								
	2015	2016	2017	2018	2019	2020	2021	2022E
Real sector								
Real GDP (%YoY)	-9.8	2.4	2.5	3.4	3.2	-3.8	3.4	-40.0
Industrial production (%YoY)	-12.3	4.0	1.1	3.0	-0.5	-4.5	1.1	NA
Retail sales (%YoY)	-19.8	4.3	6.5	6.2	10.3	8.4	10.7	NA
Unemployment rate end of year (ILO, working age)	9.1	9.3	9.5	8.8	8.2	9.5	9.3*	NA
Nominal GDP (UAH bn)	1 989	2 385	2 984	3 561	3 975	4 222	5 460	NA
Nominal GDP (USD bn)	90	93	112	131	155	157	201	NA
Prices								
CPI (average %YoY)	48.5	14.9	14.4	11.0	7.9	2.7	9.4	19.9
CPI (end of year %YoY)	43.3	12.4	13.7	9.8	4.1	5.0	10.5	32.9
Real average wage growth (%YoY)	-20.2	9.0	19.1	12.5	9.8	7.4	11.9	NA
Fiscal balance (% of GDP)								
State budget deficit (without Naftogaz)	2.3	2.9	1.6	2.4	1.8	5.2	3.6	NA
Total public debt (% of GDP)	79.4	81.0	71.8	61.0	51.6	60.8	48.9	NA
External balance								
Exports of goods and services (USD bn)	47.9	46.0	53.9	59.2	63.6	60.7	81.5	NA
Imports of goods and services (USD bn)	50.2	52.5	62.7	70.6	76.1	63.1	84.5	NA
Current account balance (USD bn)	5.0	-1.9	-3.5	-6.4	-4.1	5.3	-2.1	NA
Current account balance (% of GDP)	5.6	-2.0	-3.1	-4.9	-2.7	3.4	-1.0	NA
Net FDI (USD bn)	-0.4	3.8	3.7	4.5	5.2	-0.1	6.0	NA
Foreign exchange reserves (end of year)	13.3	15.5	18.8	20.8	25.3	29.1	30.9	NA
Imports coverage (months of imports of goods)	3.4	3.7	3.6	3.5	3.9	4.8	4.1	NA
Interest and exchange rates								
NBU discount rate (% end of year)	22.0	14.0	14.5	18.0	13.5	6.0	9.0	25.0
Exchange rate (USD/UAH) end of year	24.0	27.2	28.1	27.7	23.7	28.3	27.3	42.0
Exchange rate (EUR/UAH) end of year	26.2	28.4	33.5	31.7	26.4	34.7	30.9	NA

*estimates, no official data yet available

UKRAINIAN CAPITAL MARKETS REVIEW

FOUR WEEKS AHEAD

Mon	Tue	Wed	Thu	Fri	Sat	Sun
25.07.2022	26.07.2022	27.07.2022	28.07.2022	29.07.2022	30.07.2022	31.07.2022
		LGB % UAH 87.8mn LGB* % UAH 554.0mn LGB* P UAH 2 500.0mn LGB P UAH 6 403.2mn Fed: FOMC	Ukrstat: Nominal & Real Wage	NBU: BoP		
01.08.2022	02.08.2022	03.08.2022	04.08.2022	05.08.2022	06.08.2022	07.08.2022
IMF SDR 38.2mn FGB % USD 33.7mn Ukrstat: Industrial Production NBU: Minutes		LGB* % UAH 700.3mn LGB % UAH 1 279.2mn LGB P UAH 15 526.1mn	IMF SDR 98.5mn LGB % USD 6.5mn Ukrstat: GDP flash estimate			NBU: FX Reserves (deadline - 7th day)
08.08.2022	09.08.2022	10.08.2022	11.08.2022	12.08.2022	13.08.2022	14.08.2022
		LGB* % UAH 448.0mn LGB P UAH 4 050.6mn Ukrstat: Price indices				
15.08.2022	16.08.2022	17.08.2022	18.08.2022	19.08.2022	20.08.2022	21.08.2022
		LGB* % UAH 198.2mn LGB % UAH 733.9mn				

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

Viktoriiia Nebeska

Market Making Government Bonds
(+38044) 201-22-74
viktoriiia.nebeska@ukrsibbank.com

Oleksandr Kredentser

Fixed Income Dealer
(+38044) 298-83-35
oleksandr.kredentser@ukrsibbank.com



Mykhailo Kharchuk

Market Analysis
(+38044) 537-49-75
mykhailo.kharchuk@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

Distribution:

macro@ukrsibbank.com

Important Disclaimer

Legal Notice: This document is CONFIDENTIAL AND FOR DISCUSSION PURPOSES ONLY; it constitutes a marketing communication and has been prepared by a Sales and Marketing function within PUBLIC JOINT STOCK COMPANY "UKRSIBBANK" that is the part of BNP Paribas Group (hereafter – JSC "UKRSIBBANK") and/or its subsidiaries or affiliates (collectively "we" or "BNP Paribas"). As a confidential document it is submitted to selected recipients only and it may not be made available (in whole or in part) to any other person without BNP Paribas' written consent. This document is neither investment research nor investment recommendation, it doesn't suggest to engage in any action, does not constitute or form any part of any offer to sell or issue and is not a solicitation of any offer to purchase any financial instrument, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on in connection with, any contract or investment decision. To the extent that any transaction is subsequently entered into between the recipient and BNP Paribas, such transaction will be entered into upon such terms as may be agreed by the parties in the relevant documentation.

The information contained in this document has been obtained from sources believed to be reliable, but there is no guarantee of the accuracy, completeness or suitability for any particular purpose of such information or that such information has been independently verified by JSC "UKRSIBBANK" or by any person. None of BNP Paribas, its members, directors, officers, agents or employees accepts any responsibility or liability whatsoever or makes any representation or warranty, express or implied, as to the accuracy or completeness of the information, or any opinions based thereon, contained in this document and it should not be used in place of professional advice. Additional information may be provided on request, at our discretion. Any scenarios, assumptions, historical or simulated performances, indicative prices or examples of potential transactions or returns are included for illustrative purposes only. Past performance is not indicative of future results. Investors may get back less than they invested. JSC "UKRSIBBANK" gives no assurance that any favourable scenarios described are likely to happen, that it is possible to trade on the terms described herein or that any potential returns illustrated can be achieved. This document is current as at the date of its production and JSC "UKRSIBBANK" is under no obligation to update or keep current the information herein. In providing this document, JSC "UKRSIBBANK" offers no investment, financial, legal, tax or any other type of advice to, and has no fiduciary duty towards, recipients. Certain strategies and/or potential transactions discussed in this document may involve the use of derivatives which may be complex in nature and may give rise to substantial risks, including the risk of total or partial loss of any investment or losses without limitation and which should only be undertaken by those with the requisite knowledge and experience. JSC "UKRSIBBANK" makes no representation and gives no warranty as to the results to be obtained from any investment, strategy or transaction, or as to whether any strategy, security or transaction described herein may be suitable for recipients' financial needs, circumstances or requirements. Recipients must make their own assessment of strategies, securities and/or potential transactions detailed herein, using such professional advisors as they deem appropriate. JSC "UKRSIBBANK" accepts no liability for any direct or consequential losses arising from any action taken in connection with or reliance on the information contained in this document even where advised of the possibility of such losses.

As a bank with a wide range of activities JSC "UKRSIBBANK" may face conflicts of interest and you should be aware that JSC "UKRSIBBANK" and/or any of its affiliates may be long or short, for their own account or as agent, in investments, transactions or strategies referred to in this document or related products before the material is published to clients and that it may engage in transactions in a manner inconsistent with the views expressed in this document, either for their own account or for the account of their clients. Additionally, JSC "UKRSIBBANK" may have acted as an investment banker or may have provided significant advice or investment services to companies or in relation to investments mentioned in this document. The information in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction where (a) the distribution or use of such information would be contrary to law or regulations, or (b) JSC "UKRSIBBANK" or a JSC "UKRSIBBANK" affiliate would become subject to new or additional legal or regulatory requirements. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly.

This document is being communicated by JSC "UKRSIBBANK", 2/12 Andriivska street, Kyiv, 04070, Ukraine; tel: +380 44 590 06 90 (www.my.ukrsibbank.com). © JSC "UKRSIBBANK" 2022. All rights reserved.