

# Ukraine places USD 2bn Eurobonds

Hryvnia retail deposits decline. MoF accumulated large liquidity surplus. FX reserves unchanged on government borrowings

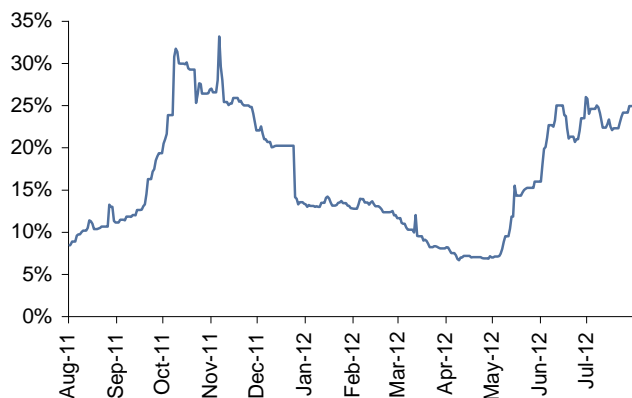
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## Hryvnia retail deposits decline

### Hryvnia liquidity drains further

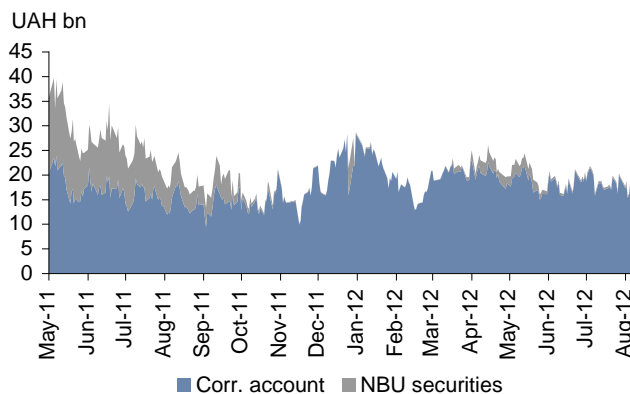
August 17 is the deadline for companies to make their quarterly tax payments. For banks, this means a decline in their hryvnia liquidity and the MoF seeing their highest levels of excess liquidity for the full year. It has now become customary for overnight rates to hit above 20%, while the 1M rate is stable at 24%. Banks are struggling to attract hryvnia deposits, as the population expects the hryvnia to devalue. In July, hryvnia retail deposits declined by 0.4% m/m, while those denominated in foreign currency grew by 2.1% m/m. During the coming months, we may well see intensifying outflows of hryvnia deposits and increasing demand for foreign currency. This will be a double hit for banks and interest rates will rise further.

## Interest rates soar 1M Kievprime rate



Source: Bloomberg

## Banking system liquidity remains very low Banking system liquidity (accounts within NBU)



Source: NBU, Erste Group Research

## Ukraine placed USD 2bn Eurobonds

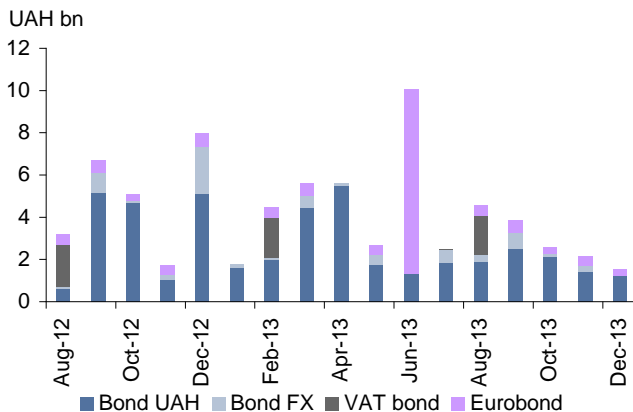
### Ukraine returned to external market borrowings

On July 18, the MoF managed to place USD 2bn in 5Y Eurobonds at 9.25%. Considering that Spain placed Eurobonds at 7%, the yield on Ukrainian securities does not seem high. Last year, in June, Ukraine placed the same tenor bonds at 6.25%. Higher yields are due to the intensifying EU debt crisis. The demand for bonds was surprisingly very high, topping USD 6bn. The absence of the IMF program did not scare off investors. The government will still have to intensify its borrowing on the domestic market to fulfill its plans for the year. As for August, the MoF does not intend to borrow more funds than it needs for debt service. According to the August schedule of primary bonds placements, the MoF will only issue 5Y and 7Y bonds, which find only interest among state-owned banks. Seasonally, the state budget has a greater need

for funds from September on. By the end of autumn, we may well see the introduction of bonds with much shorter maturities, maybe even less than 1Y.

### July maturity schedule very light

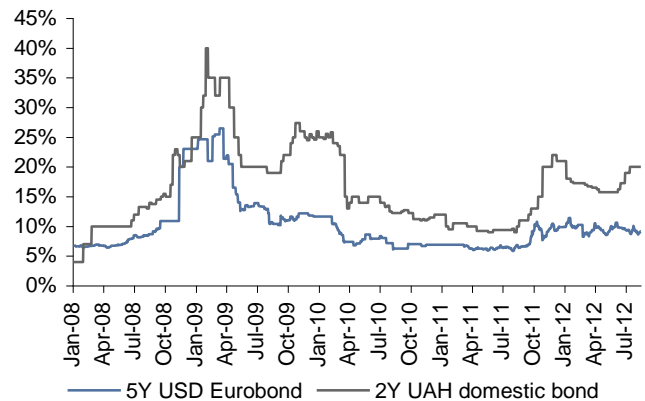
Public debt maturity schedule



Source: Erste Group Research

### Yields on government debt remains high

Eurobond and domestic government bond yields



Source: Bloomberg, Erste Group Research

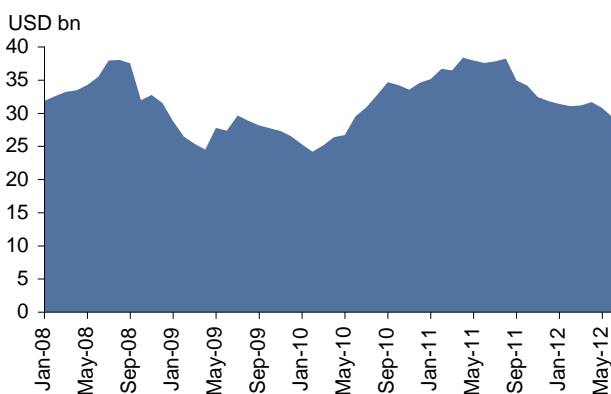
### FX reserves unchanged on government borrowing

#### Hryvnia continues to weaken

International reserves of Ukraine increased in July by 2.6%, to USD 30bn. The increase in reserves was mainly due to the receipt of funds by the government from the placing of 5Y Eurobonds amounting to USD 2bn. From now on, demand for foreign currency will gradually rise, as the population is getting more edgy on possible hryvnia devaluation. The hryvnia's current peg to the USD is likely to be tested hard in the period from September to November. Independent of whether the NBU will be able to keep the hryvnia stable, FX reserves will drain significantly on the back of rising FX demand.

### FX reserves decline

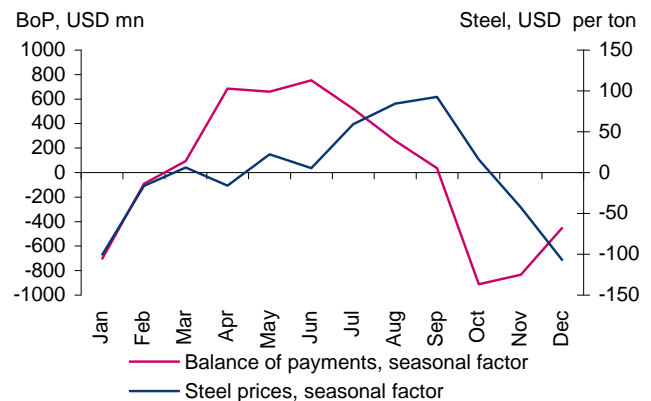
Gross NBU FX reserves



Source: NBU

### Hryvnia seasonally stronger in next few months

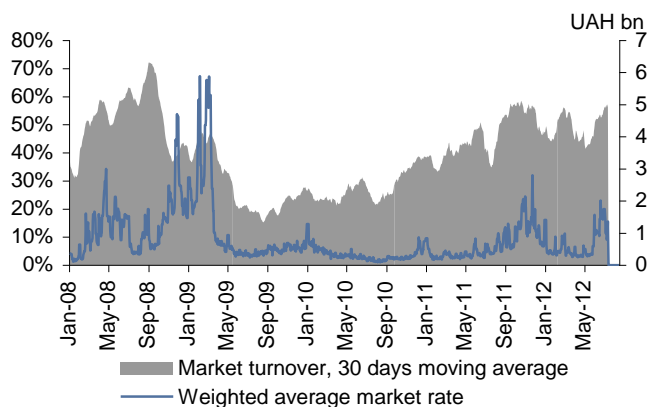
Steel prices and balance of payments seasonality



Source: Erste Group Research

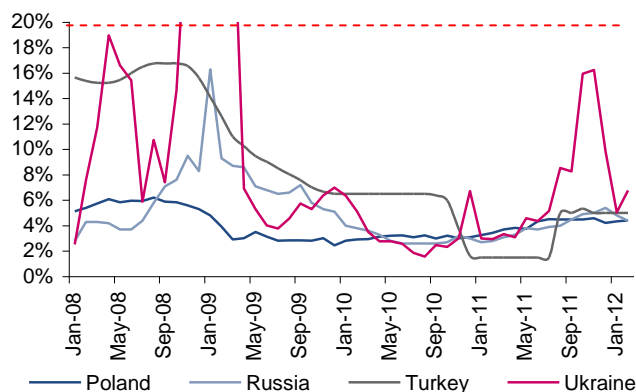
## Money market

### Interbank money market



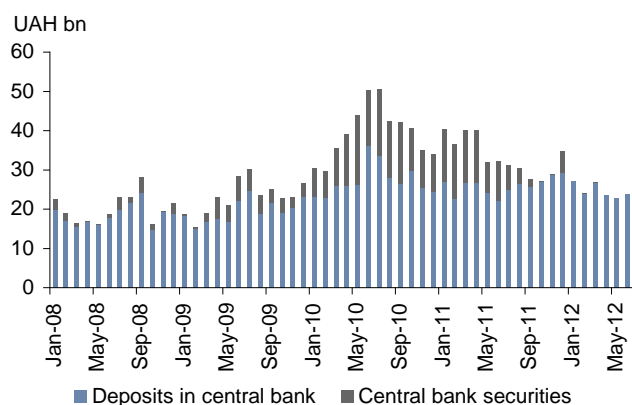
Source: NBU

### Money market rates



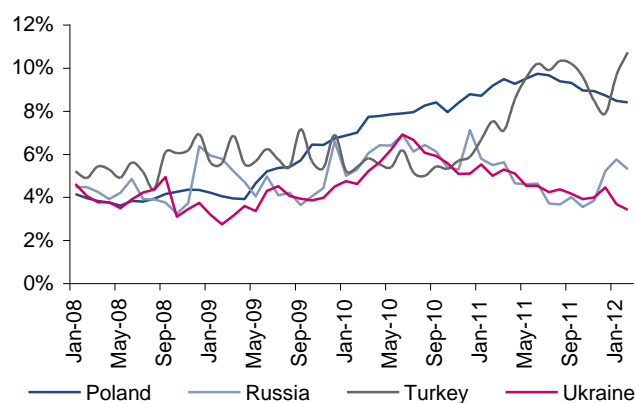
Source: IMF

### Banks' claims on central bank



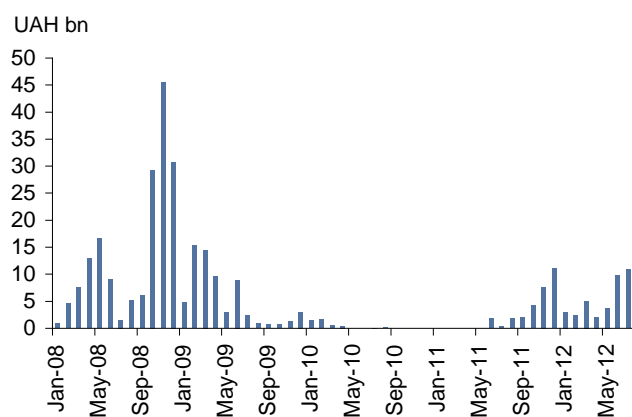
Source: NBU

### Banks' claims on central bank, % of GDP



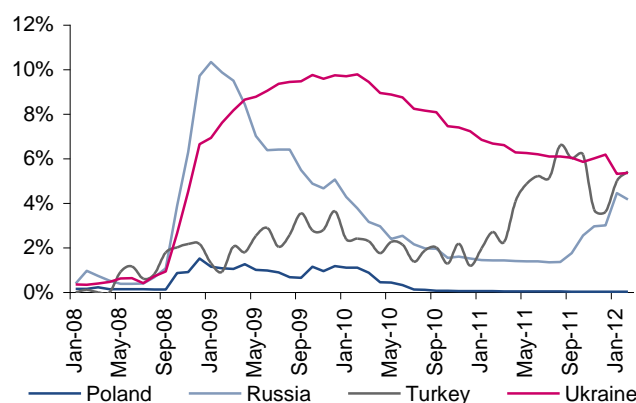
Source: IMF

### NBU refinancing turnover



Source: NBU

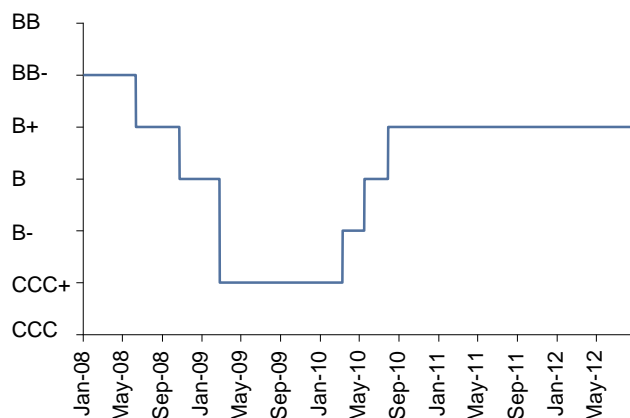
### Central bank's claims on banks, % of GDP



Source: IMF

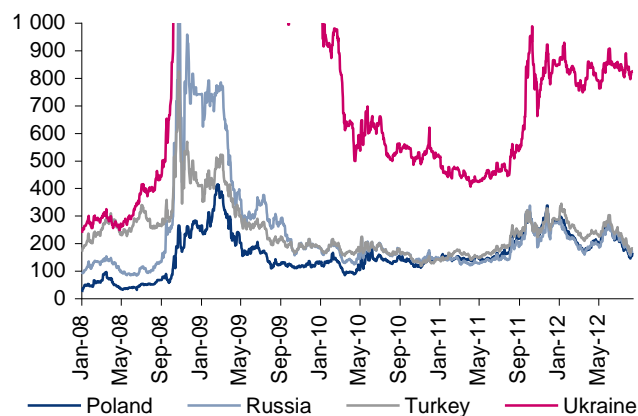
## Debt market

### S&P long-term foreign currency rating



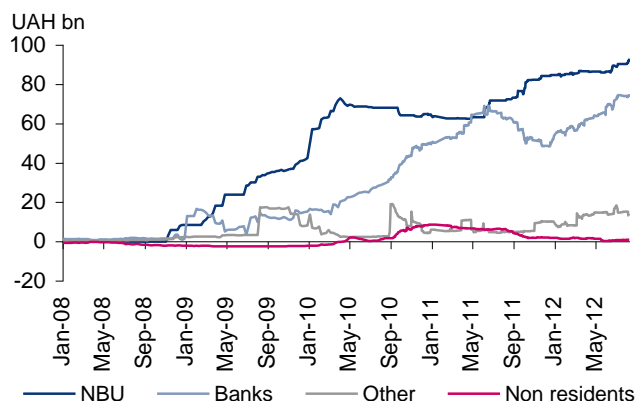
Source: Bloomberg

### Sovereign CDS spreads



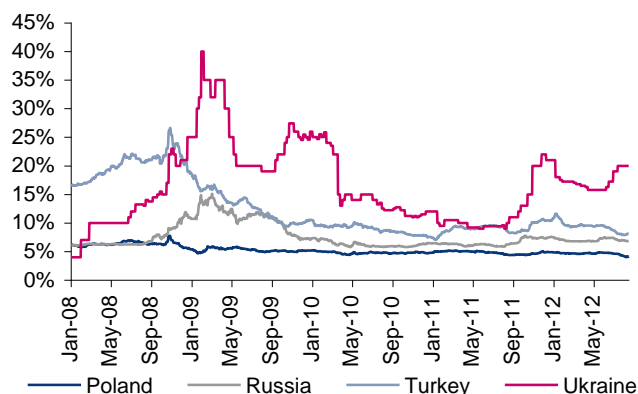
Source: Bloomberg

### Changes in government bond holdings since 2008



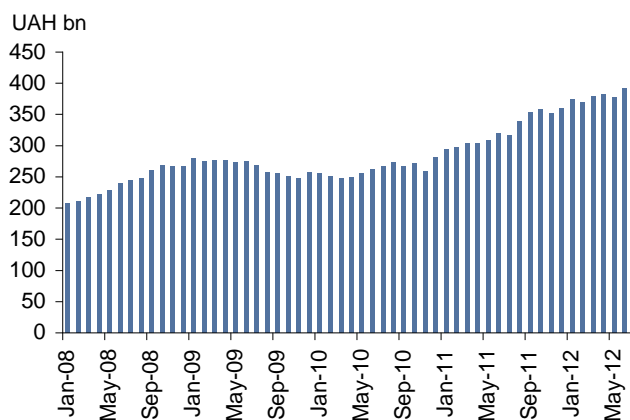
Source: NBU

### 2Y government bond yields



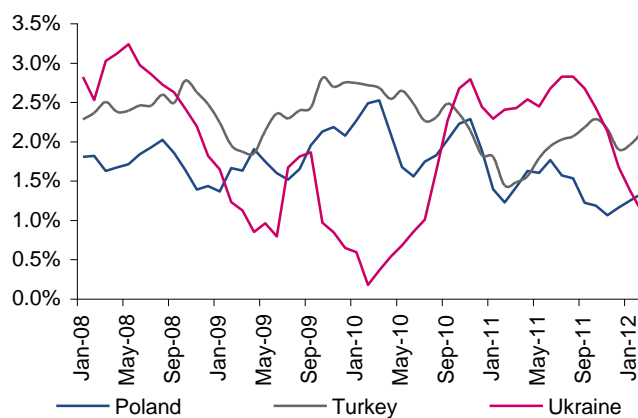
Source: Bloomberg, Erste Group research

### Budget incomes (12 months trailing)



Source: NBU, Erste Group research

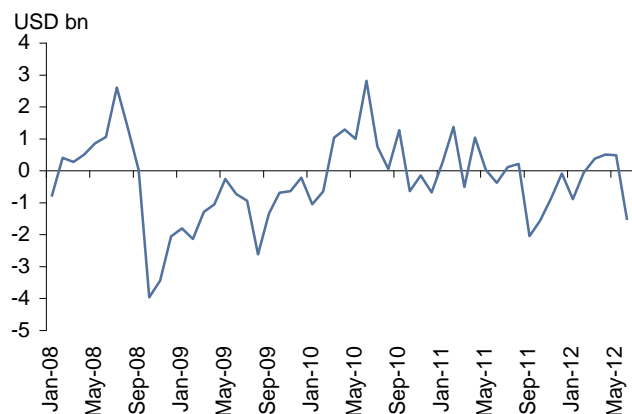
### Government liquidity, % of GDP, 3M mov. average



Source: IMF, Erste Group research

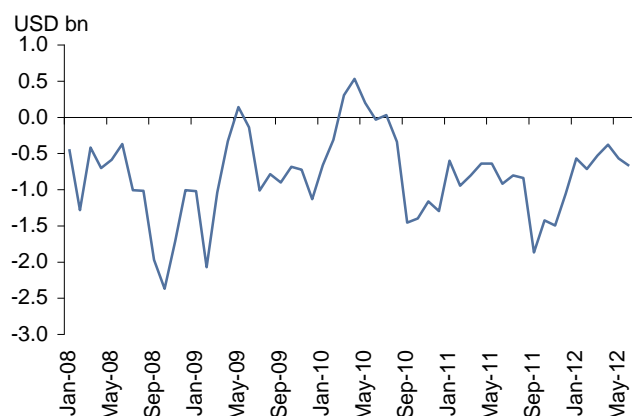
## FX market

### Balance of payments



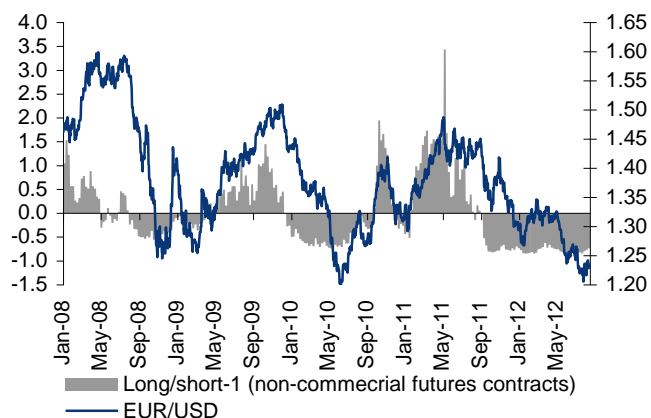
Source: NBU

### Net FX cash imports



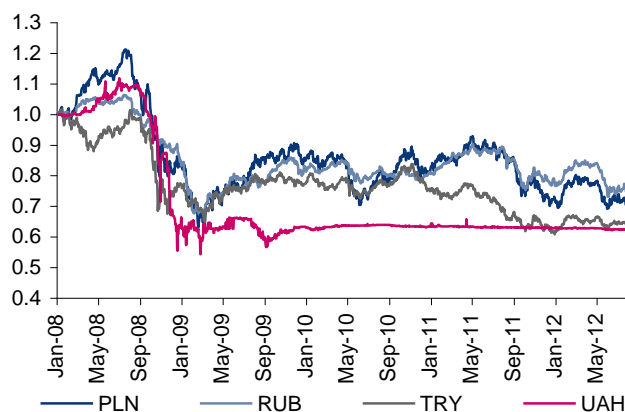
Source: NBU

### EUR/USD



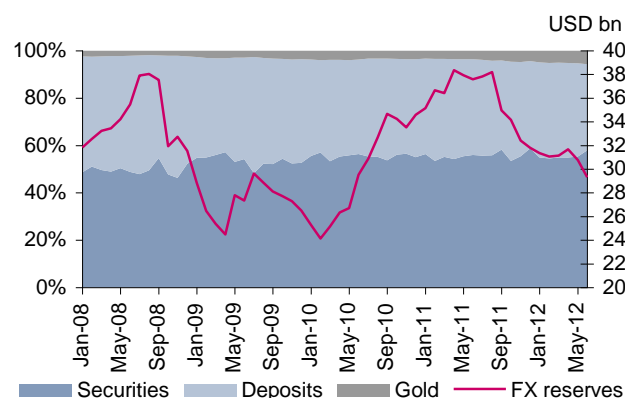
Source: NBU

### USD vs. CEE currencies, January 1, 2008 = 1



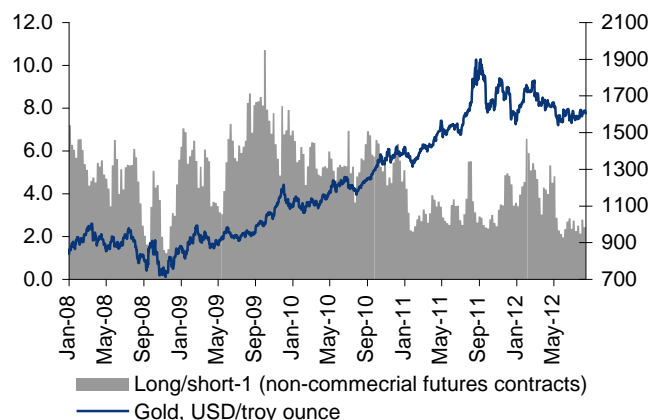
Source: Bloomberg, Erste Group research

### FX reserves



Source: NBU

### Gold price



Source: NBU

## Macro forecasts

	2008	2009	2010	2011	2012F	2013F
Nominal GDP (UAH bn)	948	915	1 095	1 314	1 386	1 622
Population (mn)	46.1	46.0	45.8	45.6	45.3	45.1
GDP per capita (UAH)	1 928	1 704	2 243	2 777	2 831	2 740
Real GDP (y/y %)	2.3	-14.8	4.2	5.2	1.0	3.0
Private Consumption (y/y %)	12.0	-14.9	7.0	14.0	2.0	-2.0
Fixed Capital Formation (y/y %)	2.0	-50.5	4.9	9.0	5.0	-20.0
Nominal Wages (UAH)	1 806	1 906	2 239	2 633	2 804	3 141
Nominal Wages (y/y %)	33.7	4.0	17.5	17.6	6.5	12.0
Retail sales (y/y %)	18.6	-16.6	7.6	14.7	2.0	-2.0
Industrial production (y/y %)	-3.1	-21.9	11.0	7.6	-1.0	4.0
CPI (y/y, average %)	25.2	16.2	9.4	8.0	1.1	12.0
CPI (y/y, year-end %)	22.3	13.0	9.2	4.6	3.0	14.0
Unemployment (%)	6.4	8.8	8.1	8.0	7.9	8.0
Exports fob (UAH, bn)	449	438	551	708	675	797
Imports cif (UAH, bn)	525	454	582	782	807	795
Trade balance (% of GDP)	-7.9	-1.7	-2.9	-5.6	-9.6	0.1
Foreign direct investment (% of GDP)	6.1	3.8	4.3	4.2	4.0	5.0
Current account balance (% of GDP)	-6.7	-1.7	-1.9	-5.6	-8.6	1.1
Govt. budget balance (% of GDP)	-1.2	-6.3	-5.9	-2.6	-2.5	-2.0
Public debt (% of GDP)	20.0	34.6	42.0	30.6	30.2	30.8
Foreign debt (% of GDP)	55.4	90.9	80.0	76.7	72.7	81.6
Central bank intervention rate, average	12.00	11.10	8.90	7.75	7.65	7.50
Central bank intervention rate, year-end	12.00	10.25	7.75	7.75	7.50	7.50
Short term interest rate 1M, average	14.80	17.97	7.72	10.20	13.90	12.25
Short term interest rate 1M, year-end	23.60	18.10	6.50	25.00	28.00	12.00
Long term interest rate 2Y, average	12.90	25.40	15.40	11.90	16.60	14.75
Long term interest rate 2Y, year-end	25.00	26.00	12.00	19.00	25.00	14.50
USD/UAH average	5.25	8.07	7.95	7.98	8.00	10.50
USD/UAH year-end	7.80	7.98	7.98	8.00	8.00	10.50
EUR/UAH average	7.67	11.34	10.51	11.11	10.80	13.13
EUR/UAH year-end	10.67	11.67	10.66	10.37	10.80	13.13
Outstanding Loans (UAH bn)	734	718	724	792	851	1 063
Outstanding Deposits (UAH bn)	358	328	414	497	535	710
Disposable income of households (UAH bn)	638	674	813	1 251	1 373	1 579
Savings rate (% of disposable income)	10.6	12.2	16.7	10.1	11.0	14.0

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