

Daily Insight

Real wages in Ukraine up 11.6% in

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As fund outflows to the budget significantly rose last Friday, the impact of non-monetary operations on caused liquidity to decline UAH2.37bn, including a Treasury absorption of UAH3.35bn which was partially offset by an increase in cash. This week started with UAH104.79bn of liquidity, which is UAH2.3bn less than the day before.

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Real wages in Ukraine up 11.6% in December 3

Real wages in Ukraine rose 11.6% YoY and 18.6% MoM in December 2016, per data from the State Statistics Agency. The average monthly nominal wage of a full-time employee in Ukraine in December 2016 increased by 23.8% compared with December 2015 and 19.8% compared with November 2016 and reached UAH6,475.

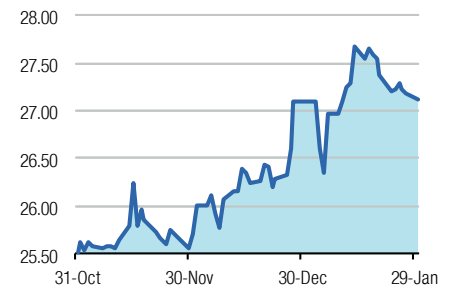
Ukraine's state budget deficit at UAH70.1bn in 2016 3

The deficit of Ukraine's state budget increased by 1.6 times and amounted to UAH70.1bn, or 3% of GDP in the full-year 2016, per data from the State Treasury Service. The deficit of the general fund amounted to UAH63.7bn. The legal deficit ceiling set by the state budget was at UAH83.7bn and at UAH68.9bn for the general fund. Revenues from privatization increased 24.8% YoY to UAH190m, instead of the expected UAH17bn.

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TUESDAY, 31 JANUARY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 30 January 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 30 January 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.00	+10bp	+140bp
Banks reserves (UAHm)	46,335	-1.66	-8.37
Deposit certificates* (UAHm)	32,948	-6.88	-50.71
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.1200	-0.26	+0.07
Total trade volume (US\$m)	164.92	+28.96	-2.77
UAH index PCI-based	102.736	+0.12	-1.07
UAH index PPI-based	162.491	+0.12	-1.07
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	597bp	+0bp	+0bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,280.90	-0.60	+1.88
MSCI EM	913.09	-0.31	+5.89
US dollar index (DXY)	100.430	-0.10	-1.74
EUR / USD	1.0695	-0.04	+1.69
Crude oil WTI (US\$/bbl)	52.63	-1.02	-2.03
Crude oil BRENT (US\$/bbl)	55.23	-0.52	-2.80
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,195.56	+0.36	+3.76

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to decline

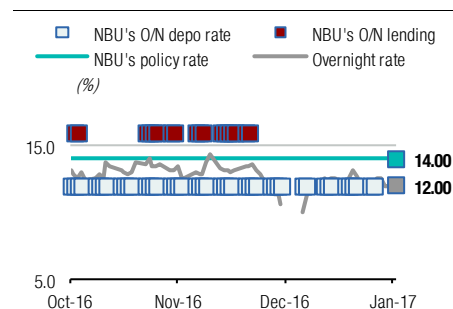
As fund outflows to the budget significantly rose last Friday, the impact of non-monetary operations on caused liquidity to decline UAH2.37bn, including a Treasury absorption of UAH3.35bn which was partially offset by an increase in cash. This week started with UAH104.79bn of liquidity, which is UAH2.3bn less than the day before.

Banks' correspondent accounts with the NBU fell UAH 4.24bn while total CDs outstanding rose UAH1.87bn. Total CDs outstanding returned to the level similar to last Thursday morning, as the NBU did not sell 14-day CDs last Thursday.

Investment implications: Outflows to the budget via month-end tax payments rose as the Treasury also could have decreased expenditures. As the last day of month-end tax payments was yesterday, liquidity could decline again today, but is expected to remain above UAH100bn.

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Interest rates in the banks' reserves market (three months through 30 January 2017)



Source: Bloomberg, ICU.

Key indicators (as of 30 January 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	12.00	+10bp	+10bp	+140bp	+140bp
KYIV PRIME RATES (%)					
Overnight	13.00	+8bp	+0bp	+0bp	+0bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.00	-8bp	-8bp	-50bp	-50bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	+0bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	46,335	-1.66	-16.71	-8.37	-8.37
DepCerts ³	32,948	-6.88	-41.09	-50.71	-50.71
Total	79,283	-3.83	-28.60	-31.90	-31.90
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	383,344	+0.00	+0.00	+7.64	+7.64
Banks	254,202	-0.03	-0.20	+47.50	+47.50
Residents	24,010	+0.01	+0.83	+53.14	+53.14
Non-res ⁴	6,321	-0.07	-0.74	-0.48	-0.48
Total	667,876	-0.01	-0.05	+21.32	+21.32
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	N/A	N/A	N/A	N/A	N/A
6 months	N/A	N/A	N/A	N/A	N/A
9 months	N/A	N/A	N/A	N/A	N/A
1 year	N/A	N/A	N/A	N/A	N/A
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	597	+0bp	+0bp	+0bp	+0bp

Notes: [1] NBU's key policy rate; [2] stock of banks' reserves held at NBU; [3] stock of NBU's short-term bonds; [4] non-residents.

Source: Bloomberg, ICU.

Foreign exchange markets

Real wages in Ukraine up 11.6% in December

Real wages in Ukraine rose 11.6% YoY and 18.6% MoM in December 2016, per data from the State Statistics Agency. The average monthly nominal wage of a full-time employee in Ukraine in December 2016 increased by 23.8% compared with December 2015 and 19.8% compared with November 2016 and reached UAH6,475.

The average monthly nominal wage amounted to UAH5,406 in November and UAH5,350 in October. The highest rate of average wages of full-time employees was registered in Kyiv, where it was UAH11,000, while the Ternopil region saw the lowest average wage being UAH4,781. At the same time, the highest rate of average wages was registered in air transportation services, where it amounted to UAH27,300, while pharmaceutical production with UAH12,800 was in second place.

Investment application: Wage growth is set to continue this year albeit at a single-digit inflation-adjusted rate (after near 15% real YoY growth rates seen in 2H16). There are two factors behind this: first, during 2014-16, the wage share in GDP dropped to 38%, an all time low, from the previous 44-50% range; second, the government has been under political pressure to prop up household consumption with a minimum wage increase since January 2017.

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Ukraine's state budget deficit at UAH70.1bn in 2016

The deficit of Ukraine's state budget increased by 1.6 times and amounted to UAH70.1bn, or 3% of GDP in the full-year 2016, per data from the State Treasury Service. The deficit of the general fund amounted to UAH63.7bn. The legal deficit ceiling set by the state budget was at UAH83.7bn and at UAH68.9bn for the general fund. Revenues from privatization increased 24.8% YoY to UAH190m, instead of the expected UAH17bn.

Changes in the volume of budget funds brought UAH21.9bn, while debt financing transactions amounted to UAH177.3bn. Ukraine issued bonds worth UAH129.2bn for recapitalization of the state banks and financing the Individuals' Deposit Guarantee Fund. The deficit of the consolidated budget amounted to UAH 54.7bn, including the deficit of the general fund at UAH8.3, while local budgets had a surplus of UAH 15.45bn. Ukraine's state budget deficit amounted to UAH45.2bn, or 2.27% of GDP in full-year 2015, with the legal deficit ceiling size set at UAH75.96bn.

Investment application: Fiscal policy is tight. The government continued incremental fiscal consolidation in 2016 and is set to resume the policy in 2017. Public debt remained flat in 2016 at 80% of GDP, despite nationalization of the largest private bank last December. At the end of 2017, public debt is projected to be at the lower end of the 75-80% range.

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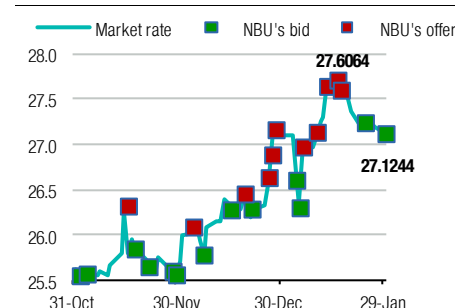
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 30 січня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.1200	-0.26	-0.29	+0.07	+0.07
USD ¹	100.430	-0.10	+0.27	-1.74	-1.74
EUR	1.0695	-0.04	-0.65	+1.69	+1.69
JPY	113.7700	-1.16	+0.94	-2.73	-2.73
GBP ²	1.2486	-0.55	-0.39	+1.18	+1.18
CNY	N/A	N/A	N/A	N/A	N/A
RUB	59.9112	+0.06	+0.60	-2.64	-2.64

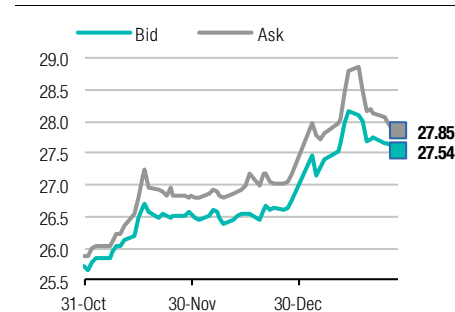
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 30 January 2017)



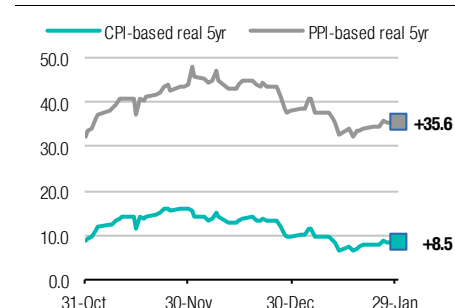
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 30 January 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 30 January 2017)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

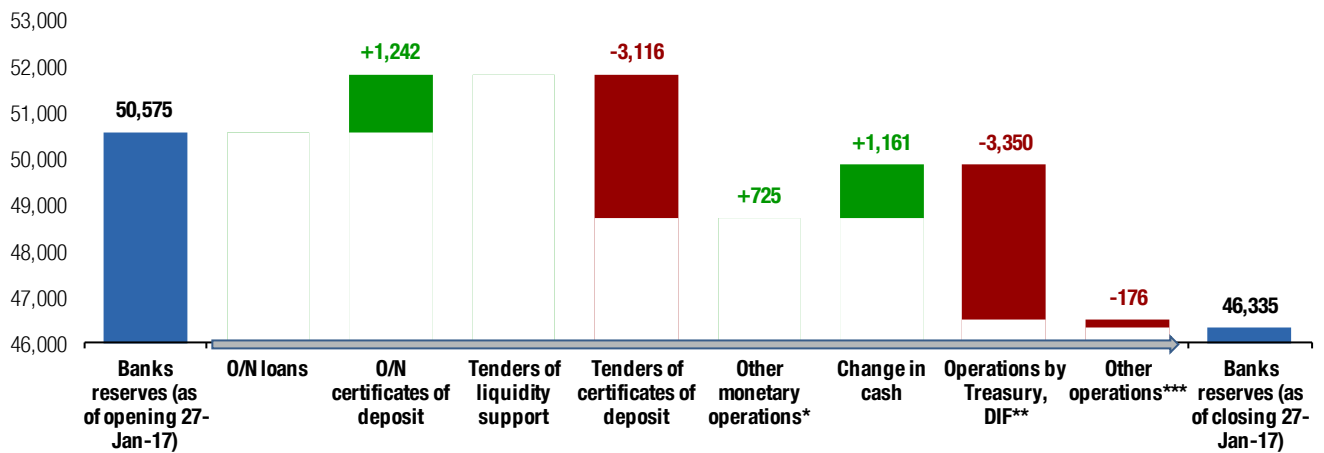
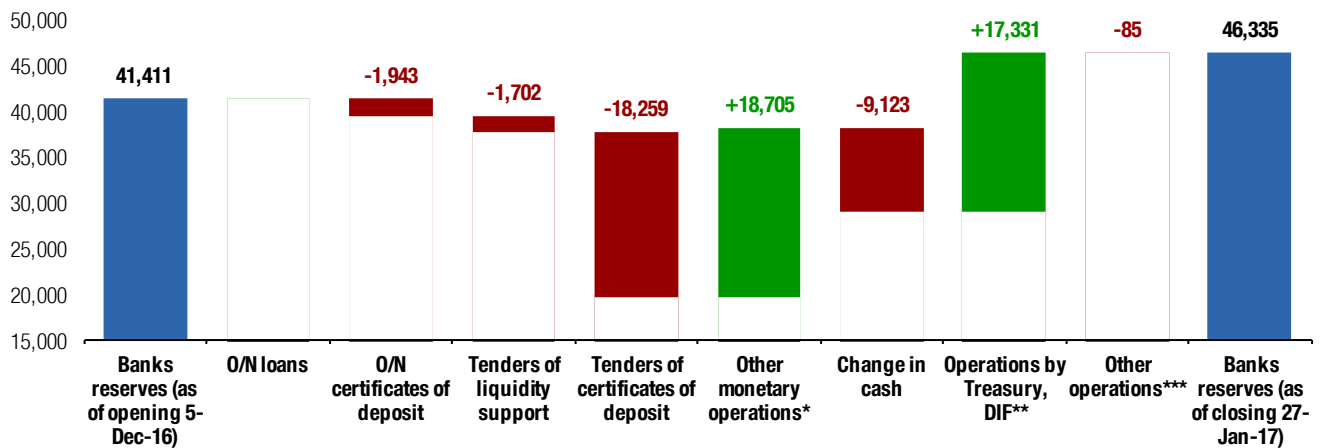
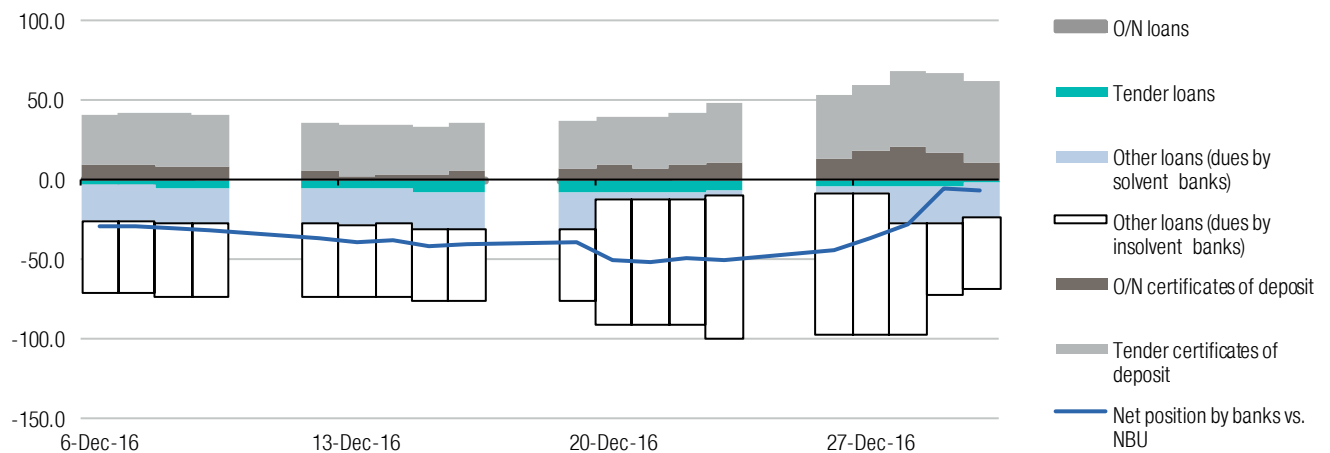


Chart 2. Banks reserves usages over last 30-day period (UAHm)



Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;
 * operations repo, purchase and sale of government bonds, FX market interventions, stabilisation loans, FX swap agreements; ** DIF – deposit insurance fund;
 *** interest payments on NBU's loans and on NBU's certificates of deposit, other operations. Source: NBU, ICU.

Chart 3. Stocks of NBU's monetary instruments and net position by banks versus NBU (UAHbn)



Source: NBU, ICU.

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