

Daily Insight

NBU revises inflation forecast to 9.1%

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Liquidity reallocates to CDs 2

Following Monday's tender, total CDs outstanding rose UAH4.02bn to UAH72.48bn yesterday, the record high since February 2016, while total banking sector liquidity remained steady with a slight increase of UAH0.12bn to UAH111.31bn as banks' correspondent accounts with the NBU fell UAH3.90bn to UAH38.83bn.

Ukraine's state debt rises 22.7% to UAH1.93tn in 2016 2

Total public Ukrainian sovereign debt rose 22.7% to UAH1.93tn in January through December 2016. According to the NBU's estimate, Ukraine's gross domestic product was UAH2.36tn in current prices in 2016, with national debt at 81.8% of GDP at the end of the year. External public debt was UAH980.2bn, or 50.8% of total debt and internal public debt was UAH670.65bn or 34.75% of total debt. Publicly granted debt amounted to UAH278.9bn or 14.45% of total debt.

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NBU revises inflation forecast to 9.1% for 2017 3

The NBU upwardly revised its outlook from 8% to 9.1%, and has retained its 2018 inflation outlook at 6%. The inflation forecasts remain within the announced target bands (8% ± 2 pp for 2017 and 6% ± 2 pp for 2018). The revised inflation outlook is affected by a twofold increase in the minimum wage.

Ukraine's current account deficit surges to US\$3.4bn in 2016 3

Ukraine's current account deficit balance of payments rose a whopping 18-fold to US\$3.4bn, or 3.6% of GDP in 2016, compared with US\$186m, or 0.2% of GDP in 2015, per data from the NBU. The deficit increase is due to reduced exports of goods and imports to Ukraine.

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WEDNESDAY, 8 FEBRUARY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 7 February 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 7 February 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	38,834	-9.13	-21.91
Deposit certificates* (UAHm)	6,281	-41.21	-89.91
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.9700	-0.46	-0.48
Total trade volume (US\$m)	N/A		
UAH index PCI-based	102.879	+1.06	-0.94
UAH index PPI-based	162.718	+1.06	-0.94
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	621bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,293.08	+0.02	+2.42
MSCI EM	919.80	-0.35	+6.67
US dollar index (DXY)	100.260	+0.35	-1.91
EUR / USD	1.0683	-0.62	+1.58
Crude oil WTI (US\$/bbl)	52.17	-1.58	-2.89
Crude oil BRENT (US\$/bbl)	55.05	-1.20	-3.12
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,233.92	-0.12	+7.09

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity reallocates to CDs

Following Monday's tender, total CDs outstanding rose UAH4.02bn to UAH72.48bn yesterday, the record high since February 2016, while total banking sector liquidity remained steady with a slight increase of UAH0.12bn to UAH111.31bn as banks' correspondent accounts with the NBU fell UAH3.90bn to UAH38.83bn.

Non-monetary cashflows had an insignificant impact on liquidity, mostly supporting its level. The Treasury spent more than it collected while cash also slightly. Additional funds were provided by the NBU via an FX auction, but it was also insufficient.

Investment implications: *Liquidity remained rather steady, albeit as a result of several sources of support and injections. This week, we could see a similar level of liquidity, probably with the main impact on liquidity from Treasury operations.*

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Ukraine's state debt rises 22.7% to UAH1.93tn in 2016

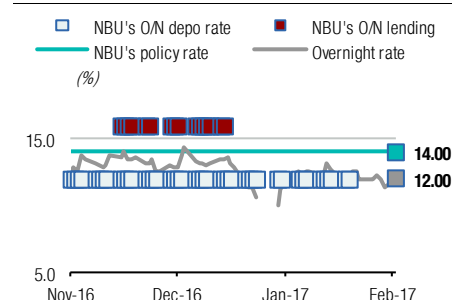
Total public Ukrainian sovereign debt rose 22.7% to UAH1.93tn in January through December 2016. According to the NBU's estimate, Ukraine's gross domestic product was UAH2.36tn in current prices in 2016, with national debt at 81.8% of GDP at the end of the year. External public debt was UAH980.2bn, or 50.8% of total debt and internal public debt was UAH670.65bn or 34.75% of total debt. Publicly granted debt amounted to UAH278.9bn or 14.45% of total debt.

Ukraine's public and publicly granted debt rose by UAH357.6bn in 2016. The key growth driver was government borrowings to finance budget expenditures, the recapitalization of Privatbank and the Deposit Guarantee Fund, and the devaluation of the national currency. In US dollar terms, public and publicly granted debt rose 8.3% to US\$70.97bn in 2016.

Investment implications: *Nominal increase in the size of government debt is nearly compensated by nominal GDP growth of more than 18% YoY (such an increase was reported for the 9M16 period, so the full-year increase should be similar).*

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Interest rates in the banks' reserves market (three months through 7 February 2017)



Source: Bloomberg, ICU.

Key indicators (as of 7 February 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	N/A	N/A	N/A	N/A	N/A
Overnight	N/A	N/A	N/A	N/A	N/A
KYIV PRIME RATES (%)					
Overnight	12.92	+0bp	-8bp	+0bp	-8bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.08	+0bp	+0bp	-25bp	-42bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	+0bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	38,834	-9.13	-14.78	-0.98	-21.91
DepCerts ³	6,281	-41.21	-79.53	-91.47	-89.91
Total	45,115	-15.55	-40.83	-60.01	-59.71
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	383,344	+0.00	+0.00	+0.37	+7.64
Banks	254,591	+0.27	+0.26	+1.02	+47.73
Residents	23,881	-0.11	-0.45	+1.76	+52.32
Non-res ⁴	6,335	+0.59	+0.46	+0.90	-0.26
Total	668,150	+0.11	+0.09	+0.67	+21.37
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	621	+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

NBU revises inflation forecast to 9.1% for 2017

The NBU upwardly revised its outlook from 8% to 9.1%, and has retained its 2018 inflation outlook at 6%. The inflation forecasts remain within the announced target bands (8% \pm 2 pp for 2017 and 6% \pm 2 pp for 2018). The revised inflation outlook is affected by a twofold increase in the minimum wage.

The NBU expects core inflation to come in at 6.3% and raw materials inflation at 7%, mainly due to the recovery of domestic demand. Over the intermediate term, core inflation is forecast to be 5%. Consumer prices rose 12.4% in 2016. Producer prices surged 35.7% in 2016, mainly affected by growth of global commodity prices. Producer prices are forecasted to grow 10.2% in 2017.

Investment implications: We agree with the forecast, given ongoing weak domestic demand.

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Ukraine's current account deficit surges to US\$3.4bn in 2016

Ukraine's current account deficit balance of payments rose a whopping 18-fold to US\$3.4bn, or 3.6% of GDP in 2016, compared with US\$186m, or 0.2% of GDP in 2015, per data from the NBU. The deficit increase is due to reduced exports of goods and imports to Ukraine.

Exports of goods rose 5.2% YoY to US\$33.6bn. Exports of food products rose 5.4% YoY, mainly driven by a 15.1% increase in sunflower oil and oilseeds exports. Exports of other commodity groups declined due to unfavorable prices on world commodity markets.

Imports rose 3.8% YoY to US\$40.4bn. Non-energy imports rose 16.2% YoY, large increases in imports were registered in engineering products, up 37.9% YoY, chemical industrial products, up 10.1% YoY, and in food products, up 13.4% YoY. Energy imports decreased 27.9% YoY, primary due to the decline in imports of natural gas.

Capital flows (net borrowing) rose to US\$4.6bn in 2016 versus US\$582m in 2015. The net inflow of foreign direct investment increased to US\$3.4bn in 2016 versus US\$3bn in 2015. At the end of 2016, Ukraine's balance of payments showed a surplus of US\$1.3bn versus a surplus of US\$849m in 2015.

Investment implications: This deficit has been nominally compensated by FDIs. In 2017, the same pattern of BoP is expected.

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

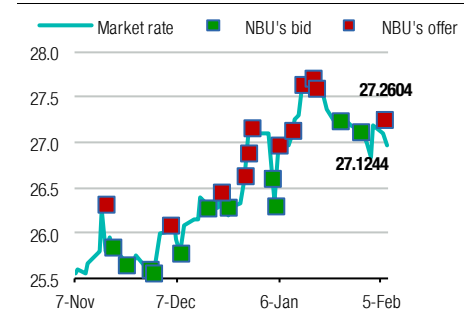
Key indicators (as of 7 лютого 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.9700	-0.46	-0.44	-0.02	-0.48
USD ¹	100.260	+0.35	+0.75	-1.92	-1.91
EUR	1.0683	-0.62	-1.07	+1.43	+1.58
JPY	112.3900	+0.58	-0.36	-3.96	-3.91
GBP ²	1.2509	+0.32	-0.56	+1.81	+1.37
CNY	6.8853	+0.32	+0.02	-0.56	-0.86
RUB	59.4870	+0.94	-1.17	-0.23	-3.33

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

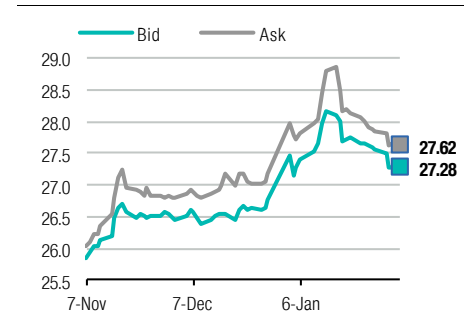
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 7 February 2017)



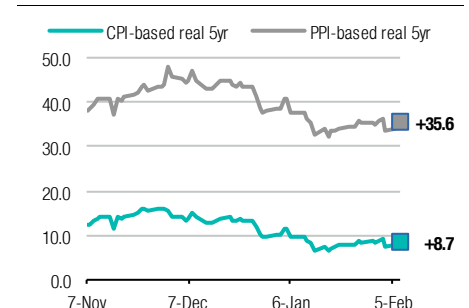
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 7 February 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 7 February 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)

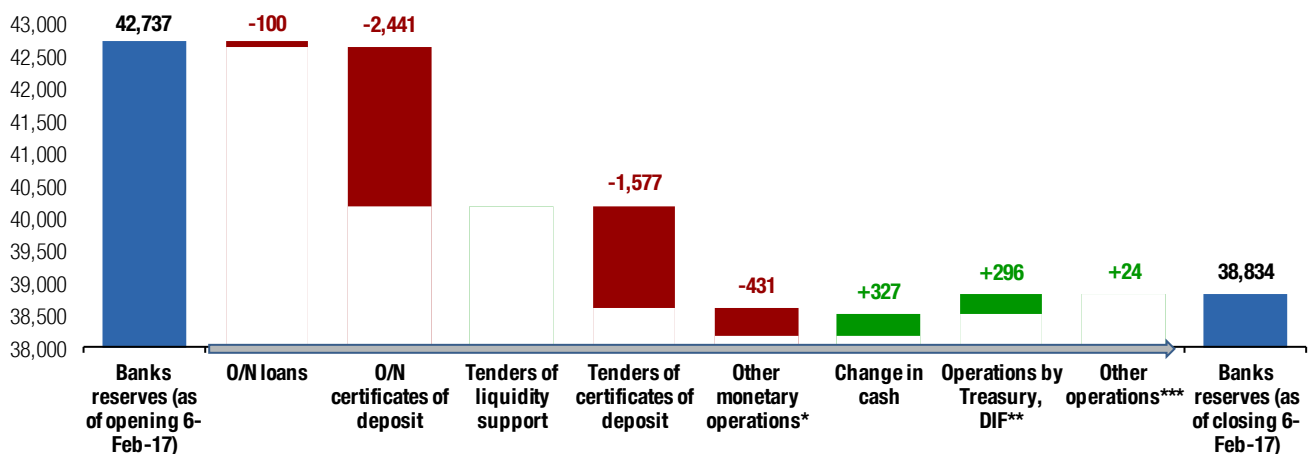
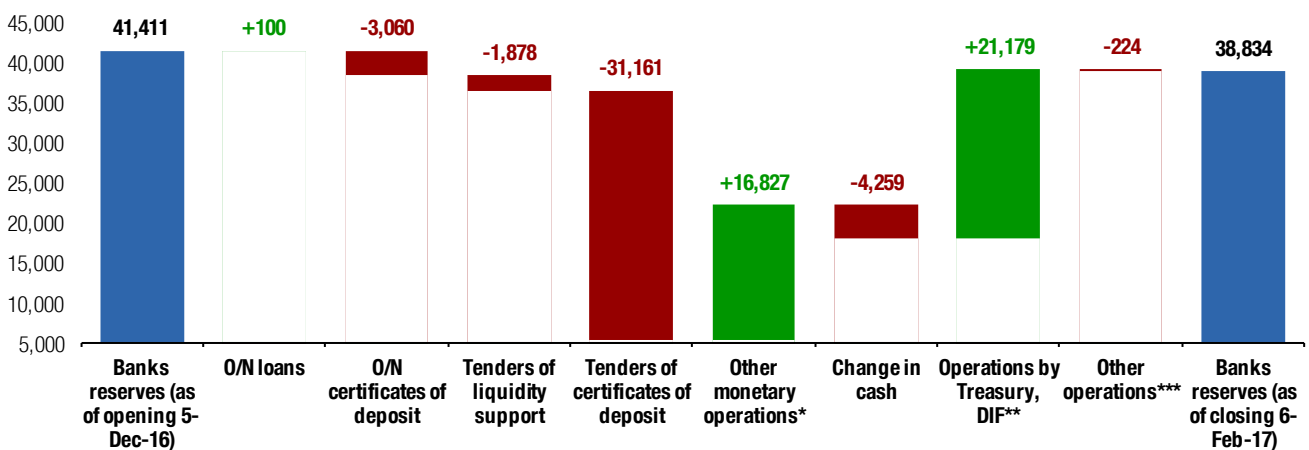


Chart 2. Banks reserves usages over last 30-day period (UAHm)

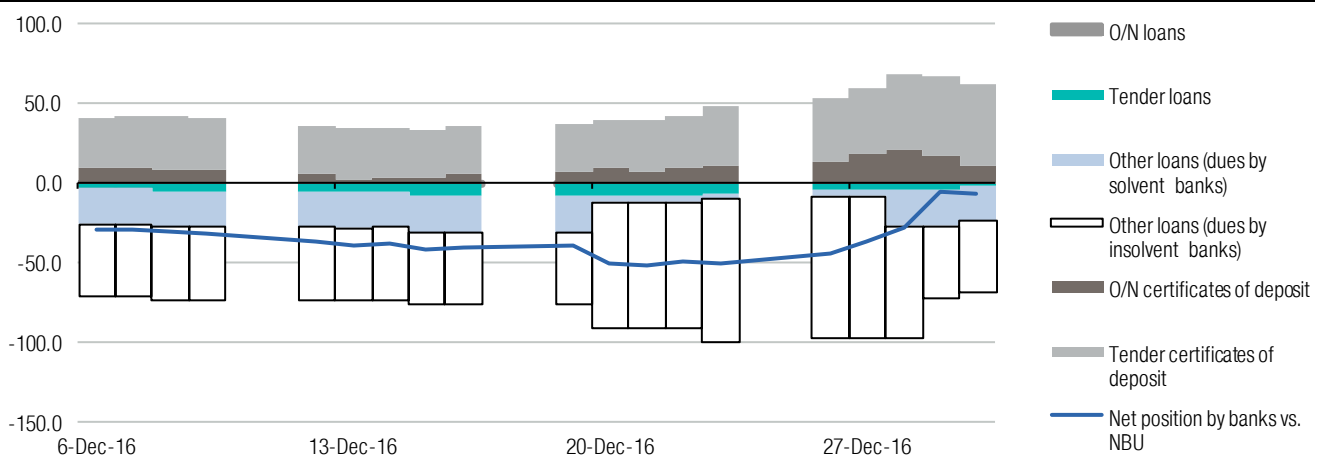


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142;

* 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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