

Daily Insight

Conditions of NBU portfolio reprofiling

Key messages of the today's comments

THURSDAY, 5 OCTOBER 2017

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Following the Treasury's continued negative operations, along with the NBU's negative non-monetary operations, as the Treasury absorbed UAH0.86bn as other operations were negative UAH0.10bn, the net exchange of cash into reserves was UAH0.21bn of inflows. The NBU via its monetary operations absorbed UAH0.24bn. 2

Conditions of NBU portfolio reprofiling adopted.....2

Yesterday, the Cabinet of Ministers adopted a resolution about conditions of the new debt deal, and could eminently exchange UAH219.56bn of local currency bonds out of UAH361bn of bonds in the NBU's portfolio. This should distribute more evenly the schedule of debt repayments, as the NBU holds nearly 52% of all domestic bonds outstanding. Most debt repayments will be transferred to 2025-2047 with the main part to be repaid starting in 2032. 2

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Hryvnia exceeds 26.83

The weakening of hryvnia continued for the eleventh consecutive trading session. As of Wednesday, the hryvnia depreciated against the US dollar another 0.4% to 26.8088 USD/UAH. High demand on foreign currency continues to weigh on the hryvnia, and, as a result, the NBU entered the market with a currency auction. The total amount of submitted bids amounted to US\$45m with US\$38.6m of satisfied at weighted average rate of 26.7988 USD/UAH. Thus, the hryvnia was sold for 26.57 USD/UAH versus 26.82 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.32% to 104.83; in year-on-year terms, it is up 3.2% from 101.58 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 4 October 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 4 October 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.30	+10bp	+70bp
Banks reserves (UAHm)	43,082	+2.16	-13.37
Deposit certificates* (UAHm)	34,196	-5.26	-45.06
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.7500	+0.11	-1.29
Total trade volume (US\$m)	243.98	+11.62	+43.85
UAH index CPI-based	104.825	-0.32	-2.94
UAH index PPI-based	161.560	-0.32	-4.05
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	457bp	-10bp	-196bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,537.74	+0.12	+13.35
MSCI EM	1,101.84	+0.44	+27.78
US dollar index (DXY)	93.458	-0.12	-8.56
EUR / USD	1.1759	+0.13	+11.81
Crude oil WTI (US\$/bbl)	49.98	-0.87	-6.96
Crude oil BRENT (US\$/bbl)	55.80	-0.36	-1.80
CRB, commodities index	181.29	+0.22	-5.83
Gold (US\$/ounce)	1,274.96	+0.26	+10.65

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity declines further

Following the Treasury's continued negative operations, along with the NBU's negative non-monetary operations, as the Treasury absorbed UAH0.86bn as other operations were negative UAH0.10bn, the net exchange of cash into reserves was UAH0.21bn of inflows. The NBU via its monetary operations absorbed UAH0.24bn.

As the result of a tender on 14-day CDs, banks reinvested all of the redemption of similar CDs, with an additional UAH0.45bn of new certificates. The number of banks that purchased these CDs rose to 42 from 36, who received payments (according to tender held on 19 September). Meanwhile, ON CDs fell UAH2.35bn and total CDs outstanding declined UAH1.90bn. Banks' correspondent accounts with the NBU rose UAH0.91bn to UAH43.08bn and total liquidity declined UAH0.99bn to UAH77.28bn.

ICU view: The impact from both authorities remains in line, and yesterday was increased by FX auctions, most likely causing additional liquidity decline. Paltry debt repayments appear to have not supported liquidity. At the same time, as banks purchased new 14-day CDs on Tuesday, liquidity has a chance to become steady or recover soon.

Conditions of NBU portfolio reprofiling adopted

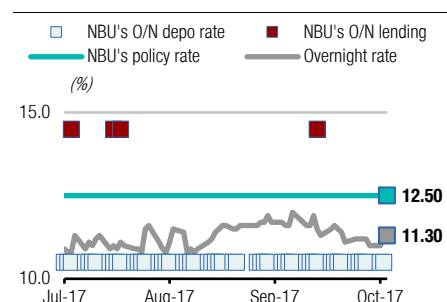
Yesterday, the Cabinet of Ministers adopted a resolution about conditions of the new debt deal, and could eminently exchange UAH219.56bn of local currency bonds out of UAH361bn of bonds in the NBU's portfolio. This should distribute more evenly the schedule of debt repayments, as the NBU holds nearly 52% of all domestic bonds outstanding. Most debt repayments will be transferred to 2025-2047 with the main part to be repaid starting in 2032.

Approximately one-third of the reprofiled debt will be replaced with bonds with a fixed coupon rate in the range of 8.12-11.30% with redemptions scheduled from 2025 and up to 2035. Other bonds will have floating rates based on inflation and will be increased by 220bp. These bonds will have redemptions dated from 2036 and up to 2047 in similar amounts.

ICU view: After this deal, the MoF will significantly decrease pressure on some years, especially the next three years, when domestic debt redemptions are incredibly large. In 2019, debt redemptions will decrease from nearly UAH100bn to approximately UAH30bn (currently issued debt). This deal, along with the Eurobond buy-back, has softened debt pressure. At the same time, lower payments to the NBU will decrease reverse payments to the budget as extra revenues of NBU.

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Interest rates in the banks' reserves market (three months through 4 October 2017)



Source: Bloomberg, ICU.

Key indicators (as of 4 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.30	+10bp	+10bp	-40bp	+70bp
ON \$ swap	11.65	+6bp	-9bp	-158bp	+17bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	43,082	+2.16	-5.35	-3.29	-13.37
DepCerts ³	34,196	-5.26	-9.23	-5.27	-45.06
Total	77,278	-1.26	-7.11	-4.18	-30.98
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	N/A	N/A	N/A	N/A	N/A
Banks	N/A	N/A	N/A	N/A	N/A
Residents	N/A	N/A	N/A	N/A	N/A
Non-res ⁴	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	14.86	+375bp	+360bp	+479bp	-745bp
3 months	12.94	+102bp	+97bp	+140bp	-913bp
6 months	12.55	-322bp	+51bp	+71bp	-550bp
1 year	11.77	+26bp	+21bp	+26bp	-421bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	457	-10bp	-11bp	-48bp	-196bp

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

Hryvnia exceeds 26.8

The weakening of hryvnia continued for the eleventh consecutive trading session. As of Wednesday, the hryvnia depreciated against the US dollar another 0.4% to 26.8088 USD/UAH. High demand on foreign currency continues to weigh on the hryvna, and, as a result, the NBU entered the market with a currency auction. The total amount of submitted bids amounted to US\$45m with US\$38.6m of satisfied at weighted average rate of 26.7988 USD/UAH. Thus, the hryvna was sold for 26.57 USD/UAH versus 26.82 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.32% to 104.83; in year-on-year terms, it is up 3.2% from 101.58 last year.

The American currency traded lower from the previous day on Wednesday. Positive macroeconomic statistics didn't influence the dollar much. The private sector added 135,000 jobs on September, exceeding the forecast of 125,000. Additionally, the non-manufacturing PMI index rose to 59.8 compared with the previous 55.3, when the non-manufacturing business activity index increased to 61.3 from 57.5. The FRS head did not comment on the economy or monetary policy. At the same time, the probability of December's key policy rate hike reached 83%. Thus, the DXY index traded at 93.259 - 93.612, closing down 0.1% to 93.458.

The euro increased against the dollar on the back of the USD's weakness. However, the weak statistics on retail sales in the Eurozone weighed on the euro. Moreover, retail sales declined 0.5% in August from the previous month, during which economists expected 0.4% growth. The situation around Catalonia also had a negative impact on the euro. Nevertheless, the EUR/USD pair traded within 1.1736 - 1.1788 EUR/USD, having appreciated 0.1% to 1.1759 EUR/USD.

On Wednesday, the ruble was influenced by declining oil prices and simultaneously by the weakening dollar. Obviously, the weak greenback overweighed and pushed the Russian currency to grow. Thus, at the end of the day, the ruble traded within 57.5295-58.0258 USD/RUB, having appreciated 0.5% to 57.6716.

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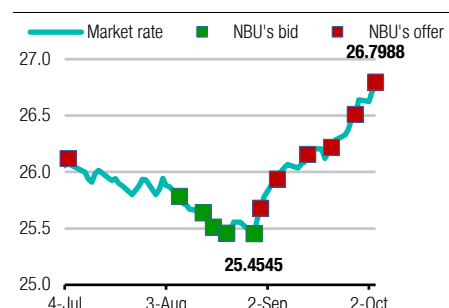
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 4 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.7500	+0.11	+1.00	+3.18	-1.29
USD ¹	93.458	-0.12	+0.10	+0.89	-8.56
EUR	1.1759	+0.13	+0.12	-1.15	+11.81
JPY	112.7600	-0.08	-0.07	+2.77	-3.59
GBP ²	1.3248	+0.08	-1.04	+2.45	+7.36
CNY	N/A	N/A	N/A	N/A	N/A
RUB	57.6716	-0.47	-0.91	-0.27	-6.28

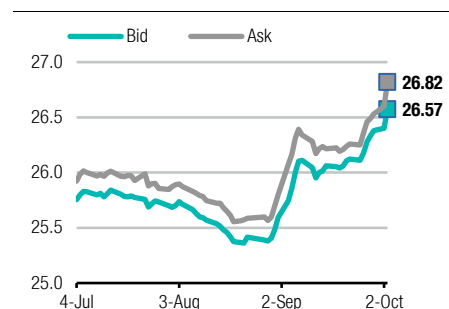
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 4 October 2017)



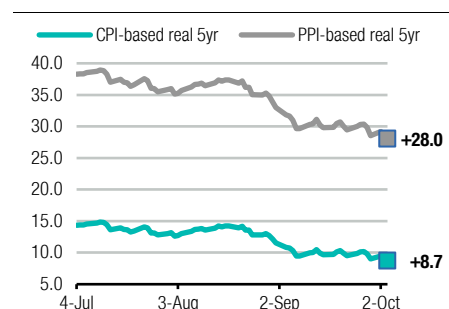
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 4 October 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 4 October 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)

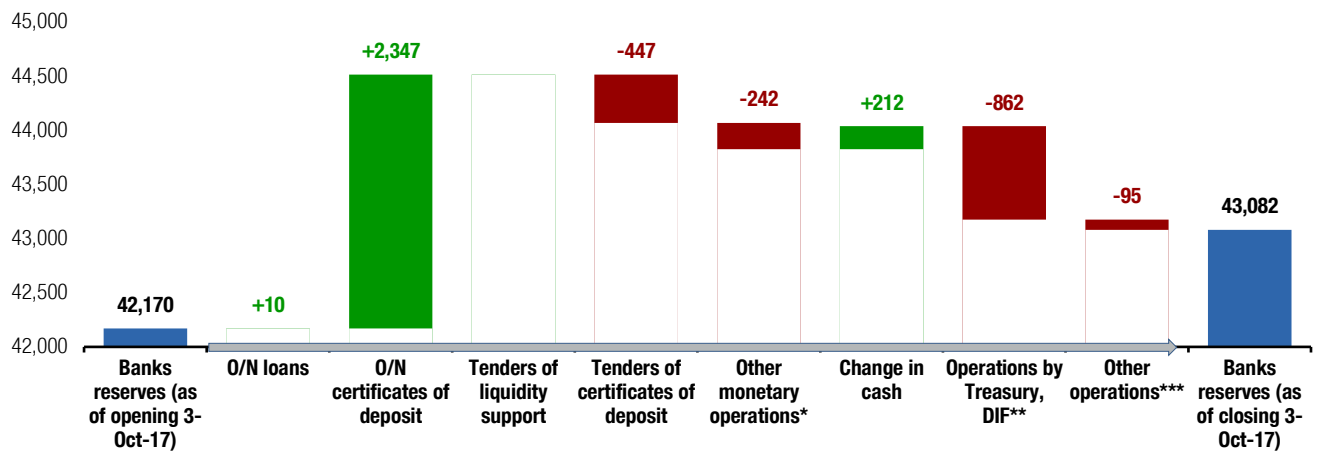
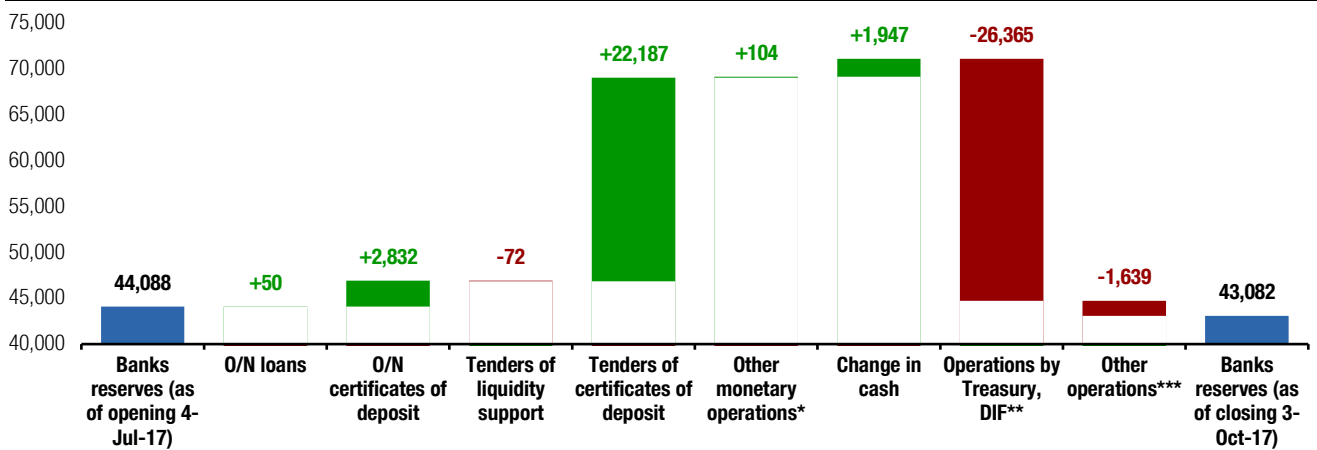
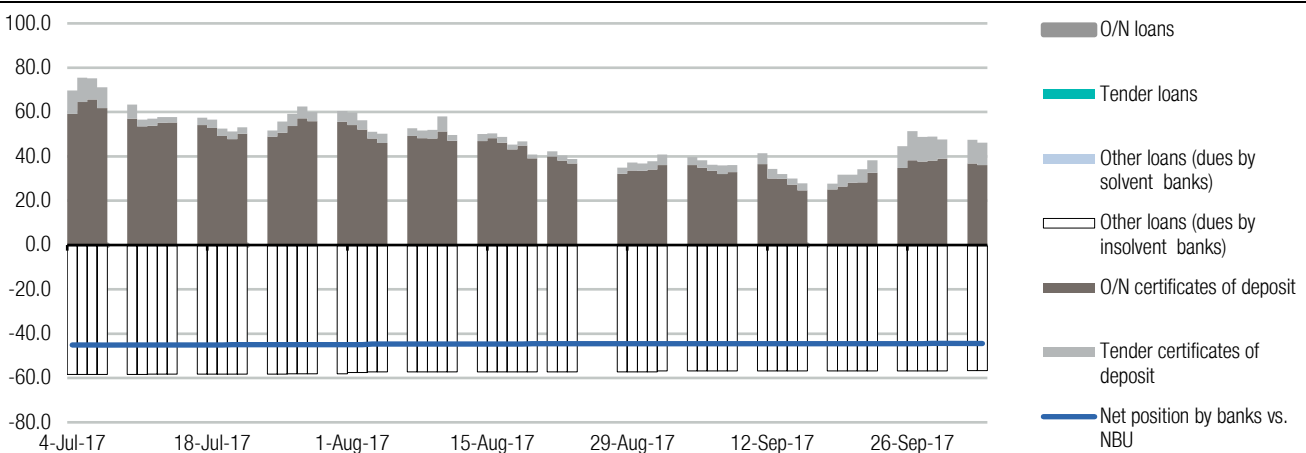


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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