

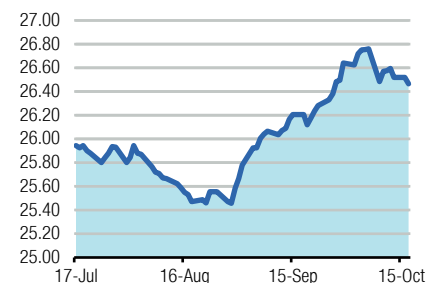
# Daily Insight

## Dollar depreciates beneath 26.5

### Key messages of the today's comments

WEDNESDAY, 18 OCTOBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 17 October 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 17 October 2017)

|   | Last     | Daily<br>chg (%) | YTD<br>chg (%) |
|---|----------|------------------|----------------|
| <b>DOMESTIC LIQUIDITY</b>                 |          |                  |                |
| NBU key policy rate (%)                   | 12.50    | +0bp             | -150bp         |
| Overnight rate (interbank)                | 11.60    | +0bp             | +100bp         |
| Banks reserves (UAHm)                     | 50,632   | +4.08            | +1.81          |
| Deposit certificates* (UAHm)              | 25,252   | -1.27            | -59.43         |
| <b>FOREIGN EXCHANGE MARKET</b>            |          |                  |                |
| UAH per US dollar                         | 26.4650  | -0.21            | -2.34          |
| Total trade volume (US\$m)                | 185.47   | +6.24            | +9.35          |
| UAH index CPI-based                       | 105.681  | +0.44            | -2.15          |
| UAH index PPI-based                       | 162.880  | +0.44            | -3.26          |
| <b>UKRAINE SOVEREIGN EUROBOND MARKET</b>  |          |                  |                |
| CDS 5yr                                   | 475bp    | +8bp             | -178bp         |
| <b>GLOBAL FINANCIAL MARKET INDICATORS</b> |          |                  |                |
| S&P 500                                   | 2,559.36 | +0.07            | +14.32         |
| MSCI EM                                   | 1,125.67 | -0.54            | +30.55         |
| US dollar index (DXY)                     | 93.486   | +0.19            | -8.54          |
| EUR / USD                                 | 1.1766   | -0.25            | +11.88         |
| Crude oil WTI (US\$/bbl)                  | 51.88    | +0.02            | -3.43          |
| Crude oil BRENT (US\$/bbl)                | 57.88    | +0.10            | +1.87          |
| CRB, commodities index                    | 184.24   | -0.21            | -4.30          |
| Gold (US\$/ounce)                         | 1,284.61 | -0.81            | +11.49         |

Notes: \* NBU's short-term bonds.

Source: Bloomberg, ICU.

### Domestic liquidity **2**

#### Treasury finances pension payments ..... 2

Last Friday, the Treasury supported liquidity to increase to UAH75.88bn. The net balance of operations with budget funds was UAH3.28bn with nearly half spent to offset cash outflows via operations. As the net amount of reserves exchanged into cash was UAH1.62bn, non-monetary autonomous operations caused a net inflow of UAH1.66bn, the same increase in banking sector liquidity (excluding the gov't bond portfolio). **2**

#### 5-year bonds placed at primary auction ..... 2

Yesterday, the MoF attracted UAH1.75bn in bids for the 11-month and 5-year bonds offered. However, as interest rates bid were high, the MoF accepted only 26% of the demand and received only UAH0.45bn in proceeds. **2**

### Foreign exchange markets **3**

#### Dollar depreciates beneath 26.5..... 3

Last week, the hryvnia moved quite differently. However, by the end of the week it strengthened by 0.8%. At the beginning of this week, after a long weekend, it continued to strengthen and rose against the US dollar by 0.2% to 26.4843 USD/UAH. On the local FX market, there is high demand for the hryvnia, so even the strengthening of the dollar in global markets did not hold back the growth of the national currency. Thus, the hryvnia sold for 26.6USD/UAH versus 26.72 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.44% to 105.68; in year-on-year terms, it is up 2.37% from 103.18 last year. **3**

### Appendix #1: Domestic liquidity **4**

# Domestic liquidity

## Treasury finances pension payments

Last Friday, the Treasury supported liquidity to increase to UAH75.88bn. The net balance of operations with budget funds was UAH3.28bn with nearly half spent to offset cash outflows via operations. As the net amount of reserves exchanged into cash was UAH1.62bn, non-monetary autonomous operations caused a net inflow of UAH1.66bn, the same increase in banking sector liquidity (excluding the govt bond portfolio).

Banks' correspondent accounts with the NBU rose UAH1.98bn to UAH50.63bn, which included inflows and UAH0.32bn reallocated from CDs. As a result, total CDs outstanding declined to UAH25.25bn, the lowest amount this month.

**ICU view:** *With a stable exchange of reserves in cash, it was last Friday's large financing of pension payments that enabled an increase to a positive balance of budget operations. According to the Treasury, expenditures amounted to UAH3.79bn, causing liquidity to rise.*

## 5-year bonds placed at primary auction

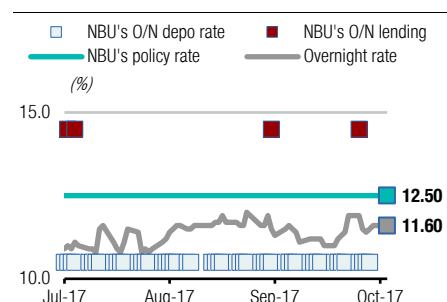
Yesterday, the MoF attracted UAH1.75bn in bids for the 11-month and 5-year bonds offered. However, as interest rates bid were high, the MoF accepted only 26% of the demand and received only UAH0.45bn in proceeds.

Demand for the 11-month bond was UAH0.06bn at 14.00% to 14.35%. The MoF decreased the weighted-average interest rate to 14.07%, down 28bp from the last auction. The MoF accepted only three of the seven bids for the 5-year bond which were no higher than 15.00%; it set the weighted-average rate at 14.91% as the lowest rate was 14.75%. The MoF received UAH0.39bn of funds for the 5-year as it rejected UAH1.30bn of demand at interest rates up to 16.00%.

**ICU view:** *Having a large amount of funds at Treasury accounts, the MoF rejected higher rates and set a new guideline for the next auction scheduled in November. Over the next month, significant demand could go to 2- or 3-year bonds which are more liquid at the market.*

**Taras Kotovych, Kyiv, (044) 377-7040 ext.724**

## Interest rates in the banks' reserves market (three months through 17 October 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 17 October 2017)

|   | Last           | Daily        | Weekly       | Monthly      | YTD           |
|---|----------------|--------------|--------------|--------------|---------------|
|   | chg (%)        | chg (%)      | chg (%)      | chg (%)      | chg (%)       |
| <b>BANKS' RESERVES MARKET (%)</b>                   |                |              |              |              |               |
| NBU rate <sup>1</sup>                               | 12.50          | +0bp         | +0bp         | +0bp         | -150bp        |
| ON rate   | 11.60          | +0bp         | +10bp        | +30bp        | +100bp        |
| ON \$ swap  | 11.68          | -4bp         | -25bp        | -82bp        | +21bp         |
| <b>DOMESTIC LIQUIDITY (UAH MILLION)</b>             |                |              |              |              |               |
| Reserves <sup>2</sup>                               | 50,632         | +4.08        | +26.76       | +0.75        | +1.81         |
| DepCerts <sup>3</sup>                               | 25,252         | -1.27        | -27.87       | +2.50        | -59.43        |
| <b>Total</b>  | <b>75,884</b>  | <b>+2.24</b> | <b>+1.24</b> | <b>+1.32</b> | <b>-32.23</b> |
| <b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b> |                |              |              |              |               |
| NBU   | 360,573        | +0.00        | +0.00        | -0.46        | +1.24         |
| Banks   | 308,107        | -0.12        | -0.11        | +0.34        | +78.78        |
| Residents   | 23,501         | +0.07        | +0.29        | +0.37        | +49.89        |
| Non-res <sup>4</sup>                                | 3,042          | +0.00        | +8.67        | +36.21       | -52.10        |
| <b>Total</b>  | <b>695,224</b> | <b>-0.05</b> | <b>+0.00</b> | <b>+0.04</b> | <b>+26.29</b> |
| <b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>     |                |              |              |              |               |
| 1 month   | 11.34          | -48bp        | -77bp        | -85bp        | -11ppt        |
| 3 months  | 11.98          | -16bp        | -23bp        | -7bp         | -10ppt        |
| 6 months  | 12.08          | -9bp         | -8bp         | +1bp         | -597bp        |
| 1 year  | 11.60          | -5bp         | +0bp         | -8bp         | -439bp        |
| <b>UKRAINE SOVEREIGN EUROBOND MARKET</b>            |                |              |              |              |               |
| CDS 5yr   | 475            | +8bp         | +25bp        | +30bp        | -178bp        |

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

## Dollar depreciates beneath 26.5

Last week, the hryvnia moved quite differently. However, by the end of the week it strengthened by 0.8%. At the beginning of this week, after a long weekend, it continued to strengthen and rose against the US dollar by 0.2% to 26.4843 USD/UAH. On the local FX market, there is high demand for the hryvnia, so even the strengthening of the dollar in global markets did not hold back the growth of the national currency. Thus, the hryvnia sold for 26.6USD/UAH versus 26.72 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.44% to 105.68; in year-on-year terms, it is up 2.37% from 103.18 last year.

The USD on Tuesday rose against other major currencies. The dollar was supported by news on the possible appointment of Stanford economist John Taylor as the next head of the Fed. In addition, import and export prices rose more than expected in September, namely UP 0.7% and 0.8%, respectively. Moreover, industrial production grew by 0.3% compared to the previous month, which is in line with expectations and versus a 0.7% drop in August. The DXY index traded at 93.281 - 93.729, closing up 0.2% to 93.486.

The euro on Tuesday moved opposite the US dollar and accordingly decreased. In addition to the dollar strengthening on world markets, the euro was negatively affected by much less than expected growth of German economic sentiment, which reduces optimism about the economy of the Eurozone. Thus, the EUR/USD pair traded within 1.1736 - 1.18 EUR/USD, having depreciated 0.25% to 1.1766 EUR/USD. On Tuesday, before the start of the congress of the Communist Party of China, the renminbi traded at 6.5928 -6.6248 USD/CNY and depreciated 0.5% to 6.6236 USD/CNY.

The Russian ruble was traditionally under the influence of oil prices and fluctuations of the American currency. Oil prices increased during the day, but this time the ruble did not move upwards as growth of the USD was a decisive factor. At Tuesday's close, the ruble traded at 57.152-57.5452 USD/RUB, down 0.1% to 57.3509.

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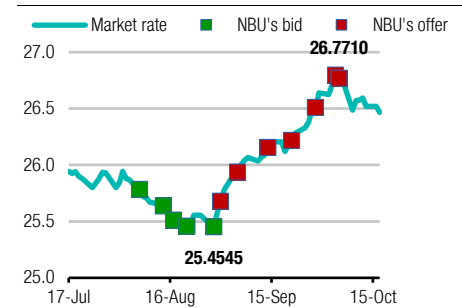
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 17 October 2017)

|   | Last     | Daily   | Weekly  | Monthly | YTD     |
|---|----------|---------|---------|---------|---------|
|   | chg (%)  | chg (%) | chg (%) | chg (%) | chg (%) |
| <b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND) |          |         |         |         |         |
| UAH   | 26.4650  | -0.21   | -0.40   | +0.99   | -2.34   |
| USD <sup>1</sup>  | 93.486   | +0.19   | +0.21   | +1.76   | -8.54   |
| EUR   | 1.1766   | -0.25   | -0.36   | -1.50   | +11.88  |
| JPY   | 112.2000 | +0.01   | -0.22   | +1.24   | -4.07   |
| GBP <sup>2</sup>  | 1.3190   | -0.46   | -0.10   | -2.97   | +6.89   |
| CNY   | 6.6236   | +0.51   | +0.75   | +1.08   | -4.63   |
| RUB   | 57.3509  | +0.14   | -1.08   | -0.32   | -6.80   |

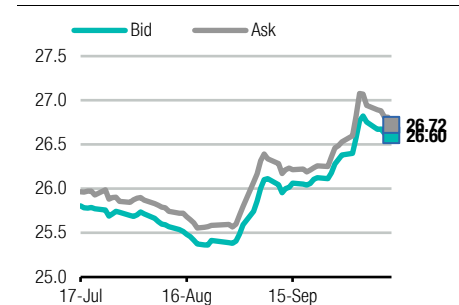
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 17 October 2017)



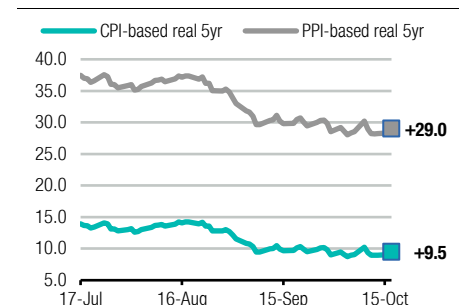
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 17 October 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 17 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)

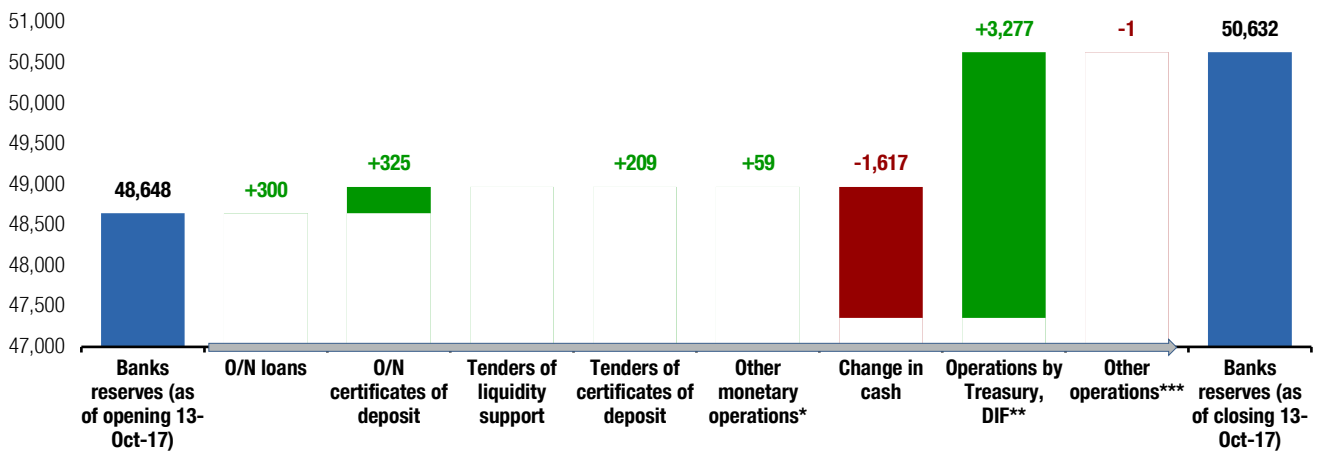
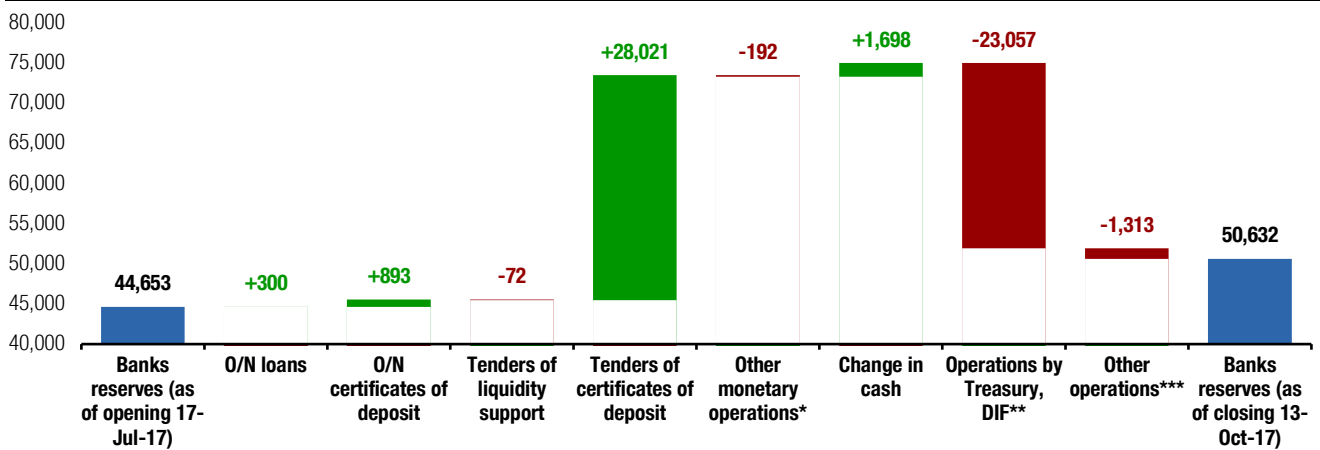
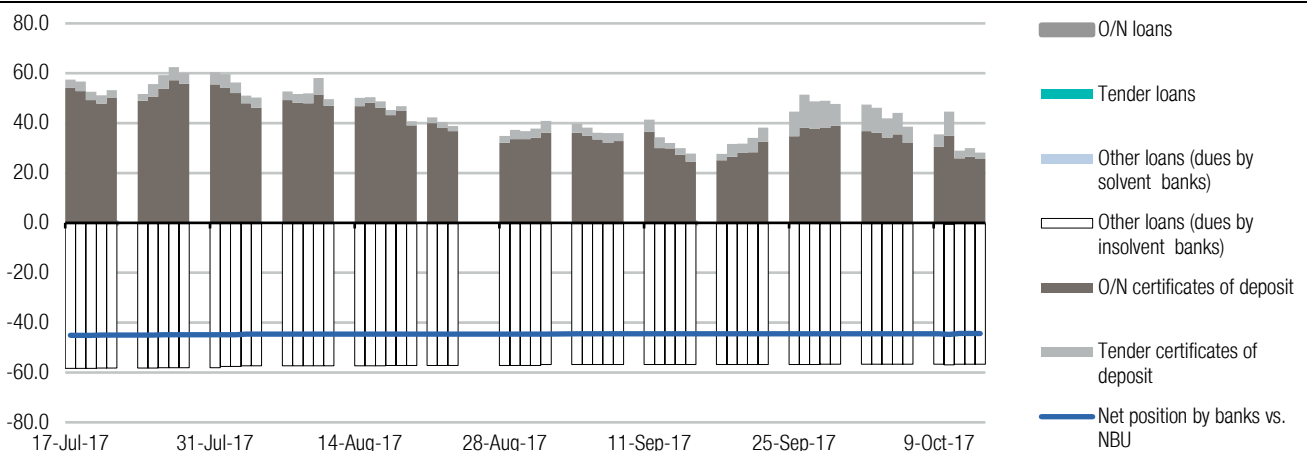


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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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