

Daily Insight

Hryvnia continues to appreciate

Key messages of the today's comments

THURSDAY, 19 OCTOBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 18 October 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 18 October 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.60	+0bp	+100bp
Banks reserves (UAHm)	53,082	+4.84	+6.74
Deposit certificates* (UAHm)	23,290	-7.77	-62.58
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.4250	-0.15	-2.49
Total trade volume (US\$m)	228.35	+23.12	+34.63
UAH index CPI-based	105.821	+0.13	-2.02
UAH index PPI-based	163.095	+0.13	-3.13
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	478bp	+3bp	-175bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,561.26	+0.07	+14.40
MSCI EM	1,126.90	+0.11	+30.69
US dollar index (DXY)	93.363	-0.13	-8.66
EUR / USD	1.1787	+0.18	+12.08
Crude oil WTI (US\$/bbl)	52.04	+0.31	-3.13
Crude oil BRENT (US\$/bbl)	58.15	+0.47	+2.34
CRB, commodities index	183.99	-0.13	-4.43
Gold (US\$/ounce)	1,281.06	-0.28	+11.18

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

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Liquidity increases slightly

On the first business day this week, banking sector liquidity (excluding the government bond portfolio) continued to rise, but only UAH0.49bn to UAH76.37bn. Banks' correspondent accounts with the NBU rose UAH2.45bn to UAH53.08bn while total CDs outstanding fell UAH1.96bn to UAH23.29bn, the record low of this year.

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Foreign exchange markets

3

Hryvnia continues to appreciate

The national currency on Wednesday continued its trend from the previous day and continued to strengthen against the US dollar. In the absence of other fundamental factors and external shocks, the hryvnia is rising because of high demand. The strengthening USD does not affect the hryvnia at the time as it appreciated another 0.2% against the dollar to 26.4255 USD/UAH. The hryvnia sold for 26.56 USD/UAH versus 26.75 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.13% to 105.82; in year-on-year terms, it is up 2.36% from 103.38 last year.

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Appendix #1: Domestic liquidity

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Domestic liquidity

Liquidity increases slightly

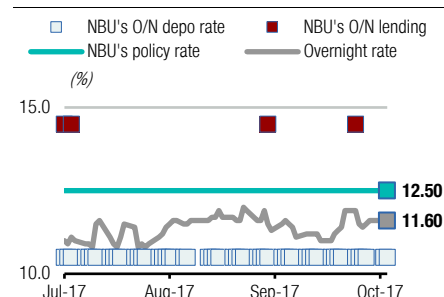
On the first business day this week, banking sector liquidity (excluding the government bond portfolio) continued to rise, but only UAH0.49bn to UAH76.37bn. Banks' correspondent accounts with the NBU rose UAH2.45bn to UAH53.08bn while total CDs outstanding fell UAH1.96bn to UAH23.29bn, the record low of this year.

Additional liquidity was received from different sources. The largest amount was UAH0.37bn of funds via "other monetary operations" for the NBU, most likely via operations with FX, and an additional UAH0.12bn came from non-monetary operations. Ultimately, banks exchanged UAH0.78bn, which combined with other non-monetary operations, resulted in a UAH0.02bn offset of outflows to the budget of UAH0.69bn and provided additional liquidity.

ICU view: After the extended weekend, demand for cash declined, and banks returned a portion of reserves withdrawn last week. However, the decline in budget expenditures following extraordinarily large expenditures last Friday, actually reduced the positive impact from the cash exchange. Moreover, the Treasury paid UAH0.60bn in VAT refunds, more than one third of those paid this month, increasing the probability that liquidity will continue to recover. On a negative note, the NBU once again increased the interest rate for 3-month CDs by 25bp to 14.25% yesterday, signaling that the current cost of funds for 3-months is too high, as it was 18bp above the weighted average rate for 11-month bonds sold on Tuesday.

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Interest rates in the banks' reserves market (three months through 18 October 2017)



Source: Bloomberg, ICU.

Key indicators (as of 18 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	11.60	+0bp	+20bp	+10bp	+100bp
ON \$ swap	11.72	+8bp	+6bp	-61bp	+25bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	53,082	+4.84	+3.68	+1.71	+6.74
DepCerts ³	23,290	-7.77	-10.01	-7.06	-62.58
Total	76,372	+0.64	-0.92	-1.13	-31.79
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	307,930	-0.06	-0.20	+0.22	+78.68
Residents	23,465	-0.15	-0.03	-0.02	+49.66
Non-res ⁴	3,043	+0.04	+8.27	+36.06	-52.09
Total	695,011	-0.03	-0.05	-0.03	+26.25
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.77	+142bp	+16bp	-352bp	-954bp
3 months	12.24	+26bp	+6bp	-26bp	-983bp
6 months	12.21	+13bp	+5bp	-17bp	-584bp
1 year	11.67	+7bp	+2bp	-22bp	-432bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	478	+3bp	+28bp	+67bp	-175bp

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 continues to appreciate

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On Wednesday, the US dollar was quite volatile in anticipation of the announcement of a new head of the Fed, which may take place before November 3. Today, Donald Trump will meet with current Fed Chairman Janet Yellen to discuss the possibility of her future re-appointment. Negative news included September housing starts decreasing by 4.7% from the previous month. The DXY index traded at 93.359 - 93.797, closing down 0.1% to 93.363.

The euro on Wednesday traded in a fairly wide range after it hit a low as it rebounded and even slightly increased above its average level compared to the American currency as it traded within 1.173-1.1805 EUR/USD, closing up 0.2% to 1.1787 EUR/USD. The renminbi on Wednesday continued to depreciate against the dollar after another cut in the official exchange rate; it traded at 6.6062-6.628 USD/CNY and depreciated 0.1% to 6.6274 USD/CNY.

Higher oil prices on Wednesday had no impact on the ruble, which was rather volatile but gradually continued to depreciate. Demand for the US currency curtailed the ruble and the higher oil prices provided no support. It traded at 57.0807-57.5066 USD/RUB, and closed down 0.2% to 57.4712.

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

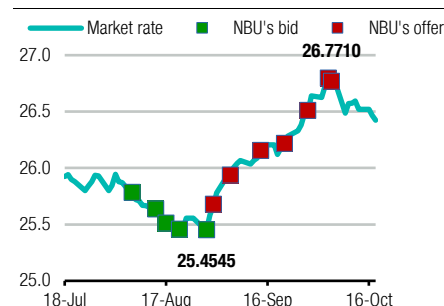
Key indicators (as of 18 October 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.4250	-0.15	-0.56	+0.84	-2.49
USD ¹	93.363	-0.13	+0.37	+1.61	-8.66
EUR	1.1787	+0.18	-0.61	-1.30	+12.08
JPY	112.9400	+0.66	+0.39	+1.52	-3.44
GBP ²	1.3205	+0.11	-0.14	-2.83	+7.01
CNY	6.6274	+0.06	+0.56	+1.11	-4.57
RUB	57.4712	+0.21	-0.59	-0.39	-6.61

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

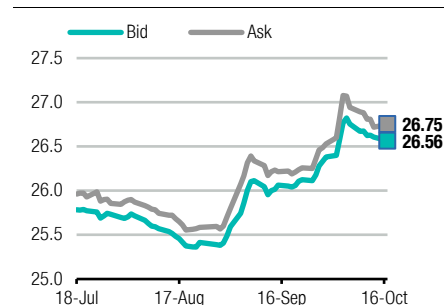
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 18 October 2017)



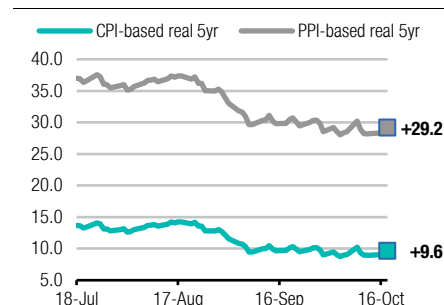
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 18 October 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 18 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)

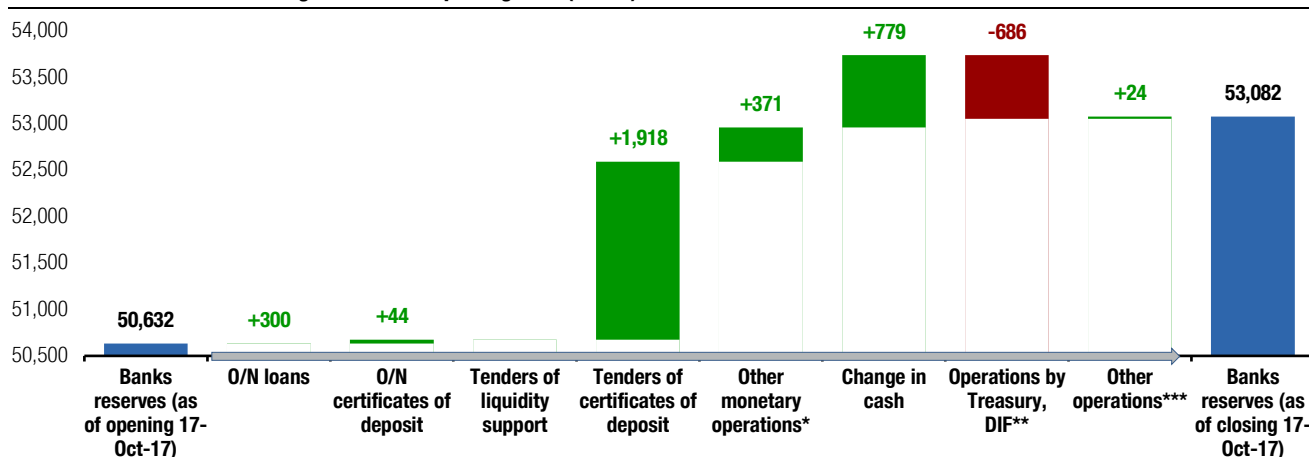
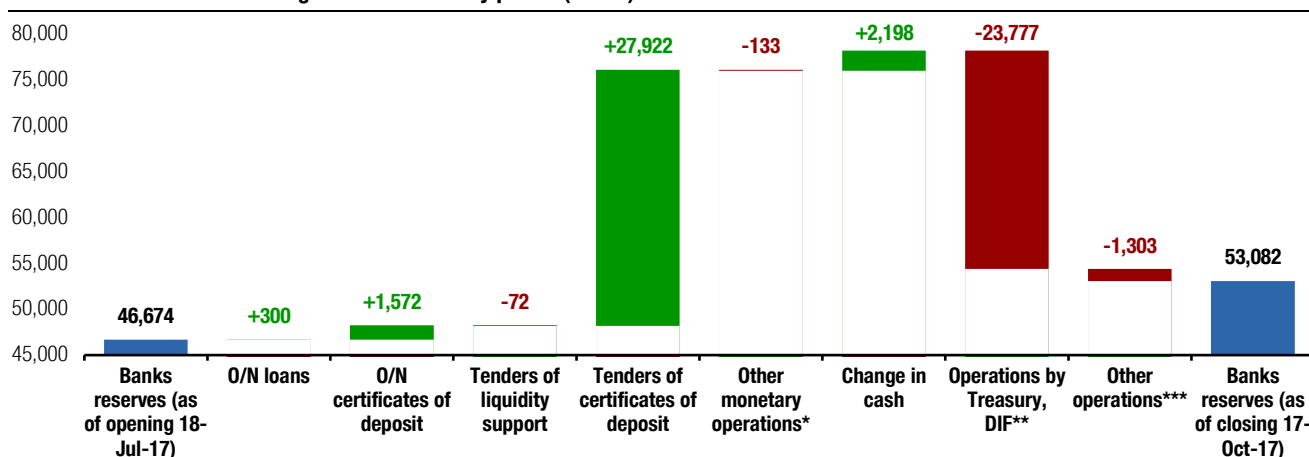


Chart 2. Banks reserves usages over last 90-day period (UAHm)

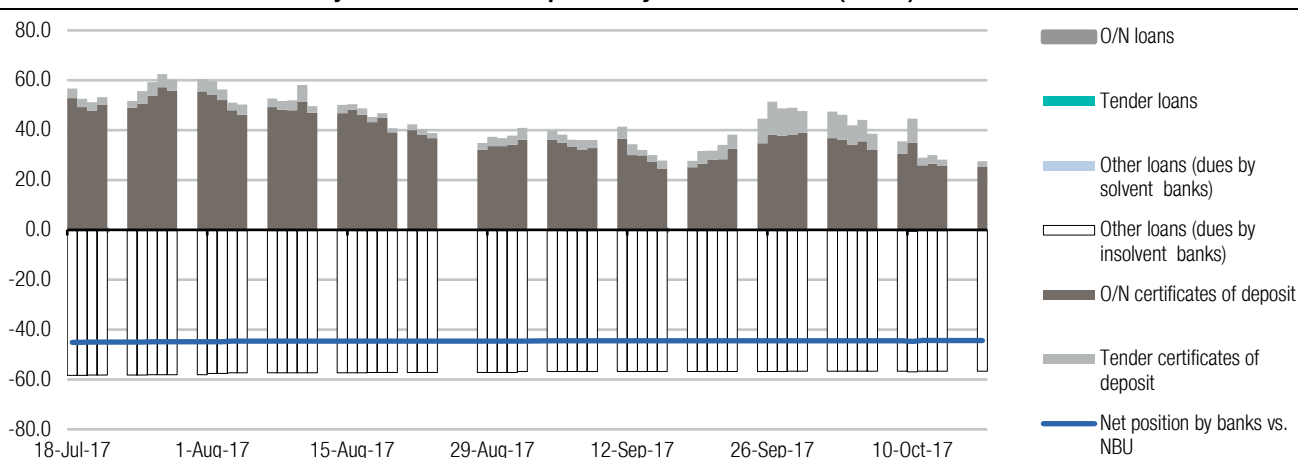


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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