

# Daily Insight

## Hryvnia declines

### Key messages of the today's comments

TUESDAY, 24 OCTOBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 23 October 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 23 October 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.50	-20bp	+90bp
Banks reserves (UAHm)	51,469	+0.31	+3.49
Deposit certificates* (UAHm)	23,981	+0.44	-61.47
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.5900	+0.19	-1.88
Total trade volume (US\$m)	231.90	-15.37	+36.72
UAH index CPI-based	105.392	+0.01	-2.42
UAH index PPI-based	162.435	+0.01	-3.53

#### UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	470bp	-8bp	-183bp
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#### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,564.98	-0.40	+14.57
MSCI EM	1,115.90	-0.34	+29.41
US dollar index (DXY)	93.936	+0.25	-8.10
EUR / USD	1.1749	-0.30	+11.71
Crude oil WTI (US\$/bbl)	51.90	+0.12	-3.39
Crude oil BRENT (US\$/bbl)	57.37	-0.66	+0.97
CRB, commodities index	184.71	+0.32	-4.05
Gold (US\$/ounce)	1,282.24	+0.14	+11.28

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

Source: Bloomberg, ICU.

#### Domestic liquidity

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##### Insufficient increase in liquidity.....2

This week started with banking sector liquidity (excluding the government bond portfolio) at UAH75.45bn, up UAH0.26bn from the previous day. Banks' correspondent accounts with the NBU rose UAH0.16bn to UAH51.47bn and total CDs outstanding was up UAH0.10bn to UAH23.98bn.

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##### Primary auction today.....2

Changes in today's auction schedule resulted in a tightening of the bond offering to the 5-year local currency bond and 2-year USD-denominated bond. The other three issues were not announced for today.

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#### Foreign exchange markets

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##### Hryvnia declines.....3

At the beginning of the week, the hryvnia continued to decline against the US dollar, a trend which continues from the end of last week, the third consecutive day of the weakening of the hryvnia's exchange rate. Strengthening of the USD in world markets had a negative effect on the hryvnia, which declined 0.1% to 26.5768 USD/UAH on Monday. The hryvnia sold for 26.51 USD/UAH versus 26.67 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.01% to 105.39; in year-on-year terms, it is up 1.67% from 103.63 last year.

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#### Appendix #1: Domestic liquidity

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# Domestic liquidity

## Insufficient increase in liquidity

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Budget expenditures were UAH0.63bn more than collected revenues, offset by a decline in reserves caused by an exchange in cash and other operations of UAH0.27bn and UAH0.09bn, respectively. As a result of these cashflows, non-monetary operations provided UAH0.26bn of additional liquidity.

**ICU view: The Treasury paid UAH0.30bn in VAT refunds which were actually the source for the increase in liquidity. The current level of liquidity is too low; without additional inflows, liquidity could decline further.**

## Primary auction today

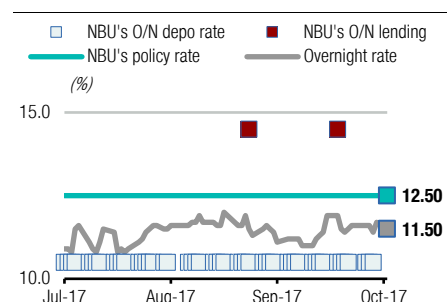
Changes in today's auction schedule resulted in a tightening of the bond offering to the 5-year local currency bond and 2-year USD-denominated bond. The other three issues were not announced for today.

The most likely, demand for the 5-year bond will exceed UAH1bn, which correlates with the amount of rejected demand last week. Most likely, not all bidders will agree with last week's cut-off rate nor the weighted average rate as they could not submit or will submit bids with interest rates above 15%. Demand for FX-denominated bonds should come to hundreds of millions of dollars.

**ICU view: Demand for local currency bonds will be concentrated at around 15.00%, forcing the MoF to choose the optimal balance between the cost of borrowing and the amount of possible proceeds. However, an increase in the cut-off rate is impossible. For USD-denominated bonds, the cut-off rate could decline to 5.30%.**

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

## Interest rates in the banks' reserves market (three months through 23 October 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 23 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	11.50	-20bp	-10bp	+40bp	+90bp
ON \$ swap	11.85	-20bp	+0bp	+13bp	+38bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	51,469	+0.31	+5.80	+5.33	+3.49
DepCerts <sup>3</sup>	23,981	+0.44	-6.24	-26.35	-61.47
<b>Total</b>	<b>75,450</b>	<b>+0.35</b>	<b>+1.65</b>	<b>-7.34</b>	<b>-32.62</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	308,464	+0.04	-0.01	+0.33	+78.99
Residents	23,419	+0.05	-0.28	+0.20	+49.37
Non-res <sup>4</sup>	3,226	+0.01	+6.06	+20.42	-49.20
<b>Total</b>	<b>695,682</b>	<b>+0.02</b>	<b>+0.01</b>	<b>-0.01</b>	<b>+26.37</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	15.80	+395bp	+397bp	+384bp	-651bp
3 months	14.70	+231bp	+256bp	+27bp	-737bp
6 months	12.57	+41bp	+40bp	+47bp	-548bp
1 year	11.61	-8bp	-4bp	-6bp	-438bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	470	-8bp	+3bp	+30bp	-183bp

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 declines

At the beginning of the week, the hryvnia continued to decline against the US dollar, a trend which continues from the end of last week, the third consecutive day of the weakening of the hryvnia's exchange rate. Strengthening of the USD in world markets had a negative effect on the hryvnia, which declined 0.1% to 26.5768 USD/UAH on Monday. The hryvnia sold for 26.51 USD/UAH versus 26.67 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.01% to 105.39; in year-on-year terms, it is up 1.67% from 103.63 last year.

The US dollar rose during the trading session on Monday against other major currencies. Growth against the Japanese yen was due to the re-election of Shinzo Abe, the prime minister of Japan, which reduces the likelihood of a soft monetary policy. Important statistical information that may affect the rate of the American currency, namely the preliminary estimate of US GDP growth, will be published in the second half of the week. Thus, as of Monday, the DXY index traded at 93.679 - 94.017, closing up 0.25% to 93.936.

The euro on Monday fell against the US dollar, due to the situation surrounding Catalonia. The Spanish government wants to deprive the region of autonomy, which continues to pressure the European currency, creating uncertainty among investors. Thus, the EUR/USD pair traded within 1.1725 - 1.1777 EUR/USD, having depreciated 0.3% to 1.1749 EUR/USD. The People's Bank of China lowered the official yuan exchange rate. On Monday, the currency continued to decline against the US dollar. The renminbi traded at 6.6281 - 6.6407 USD/CNY and depreciated 0.3% to 6.64 USD/CNY.

On Monday, the Russian ruble strengthened against the US dollar during the day despite the strengthening of the latter in the global markets. Oil was very volatile during the day and did not have a significant impact on the ruble, which clearly strengthened on the eve of the start of the tax period. Nevertheless, satiation changed to the end of trading session, and at Monday's close, the ruble traded at 57.2429-57.815 USD/RUB, down 0.1% to 57.5408.

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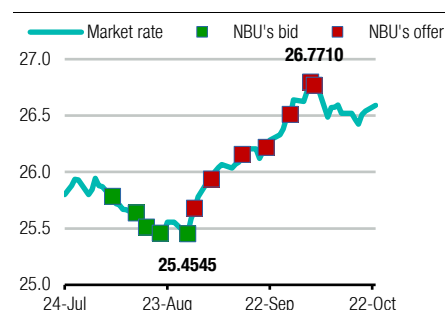
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 23 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.5900	+0.19	+0.26	+1.17	-1.88
USD <sup>1</sup>	93.936	+0.25	+0.67	+1.91	-8.10
EUR	1.1749	-0.30	-0.40	-1.69	+11.71
JPY	113.4300	-0.08	+1.11	+1.29	-3.02
GBP <sup>2</sup>	1.3198	+0.06	-0.40	-2.27	+6.95
CNY	6.6400	+0.29	+0.76	+0.76	-4.39
RUB	57.5408	+0.08	+0.47	+0.07	-6.49

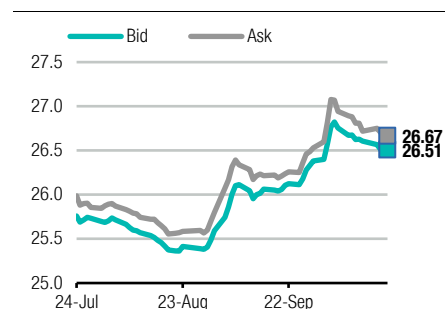
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 23 October 2017)



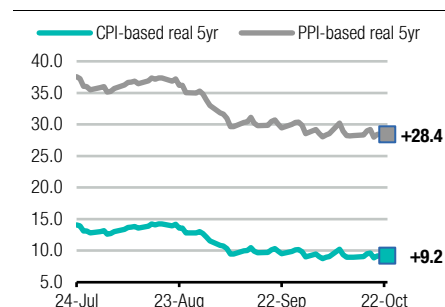
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 23 October 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 23 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)

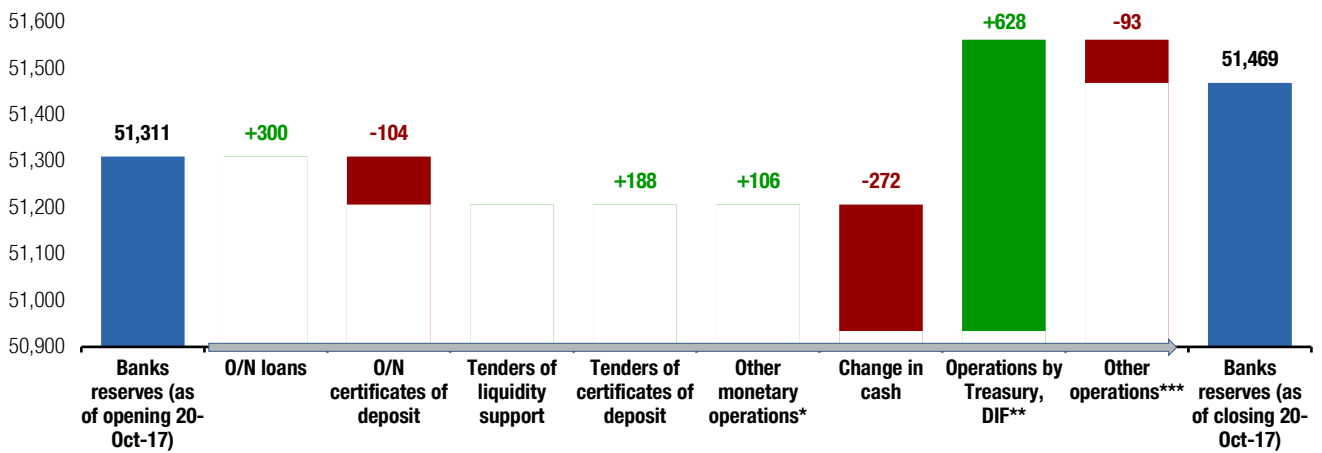
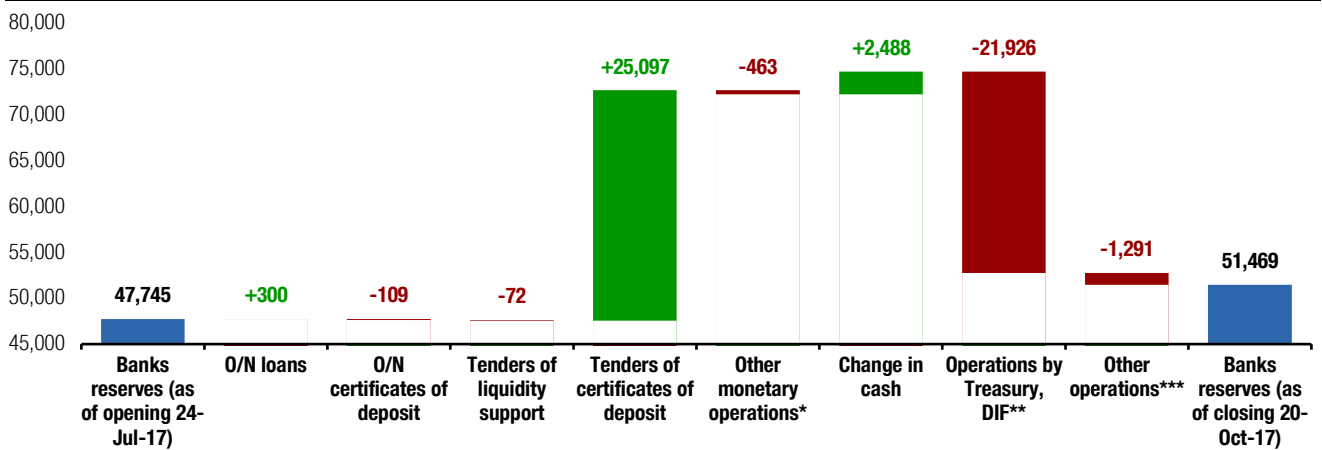
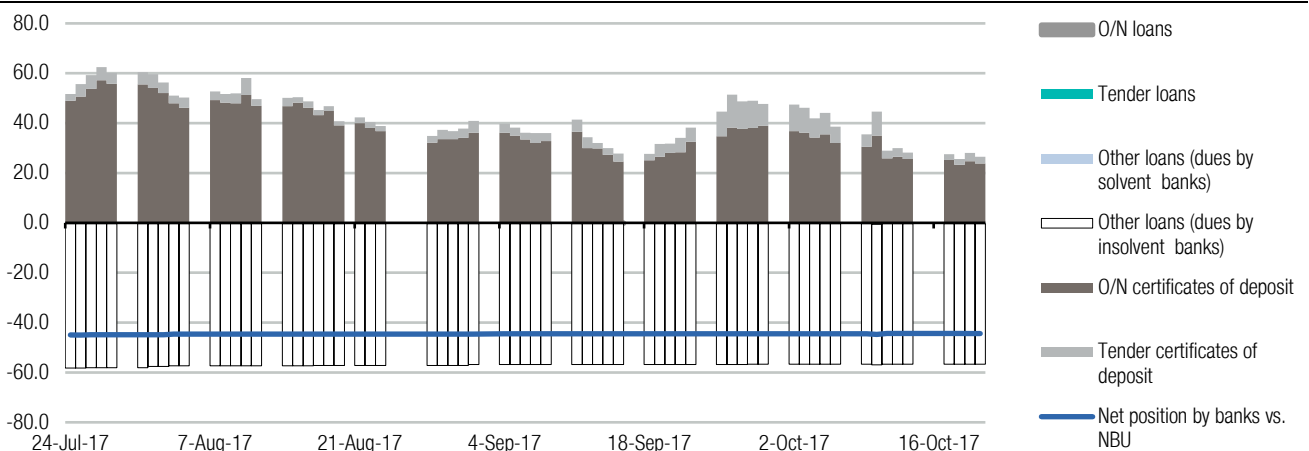


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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