

# Daily Insight

## Hryvnia declines again

### Key messages of the today's comments

#### Domestic liquidity 2

##### Liquidity up on VAT refunds .....2

This Monday, although the Treasury paid UAH2.34bn in VAT refunds, causing liquidity to rise, positive impact of Treasury operations amounted to only UAH1.67bn. Additional support came from an exchange of cash into reserves that caused reserves to increase UAH0.85bn. 2

##### The MoF satisfied demand rejected last week .....2

Yesterday, the MoF received demand for the 5-year local currency bond just UAH5m lower than was rejected last week, but at interest rates from 14.95% to 16.00%. Yesterday's demand was concentrated around 15.00%, and the MoF rejected only two bids with interest rates above 15.00%, amounting to UAH0.10bn. The MoF satisfied almost all demand for this bond. The weighted average rate was set at 14.99%, just 1bp below the cut-off rate, so demand was submitted at interest rates within the 5bp range, mostly at or close to 15.00%. 2

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

The hryvnia depreciated against the US dollar for the fourth consecutive trading session despite the fact that the US currency declined in world markets. The UAH2.5bn increase in liquidity in the banking system caused the hryvnia to fall, which by the end of Tuesday lost 0.4% to 26.67 USD/UAH. It sold for 26.48 USD/UAH versus 26.68 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.3% to 105.07; in year-on-year terms, it is up 1.37% from 103.63 last year. 3

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### WEDNESDAY, 25 OCTOBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 24 October 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 24 October 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.40	-10bp	+80bp
Banks reserves (UAHm)	53,360	+3.67	+7.30
Deposit certificates* (UAHm)	24,587	+2.53	-60.50
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.6900	+0.38	-1.51
Total trade volume (US\$m)	260.18	+12.19	+53.39
UAH index CPI-based	105.071	-0.30	-2.71
UAH index PPI-based	161.940	-0.30	-3.82
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	431bp	-39bp	-222bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,569.13	+0.16	+14.75
MSCI EM	1,113.32	-0.23	+29.12
US dollar index (DXY)	93.772	-0.17	-8.26
EUR / USD	1.1761	+0.10	+11.83
Crude oil WTI (US\$/bbl)	52.47	+1.10	-2.33
Crude oil BRENT (US\$/bbl)	58.33	+1.67	+2.66
CRB, commodities index	185.82	+0.60	-3.47
Gold (US\$/ounce)	1,276.83	-0.42	+10.81

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity up on VAT refunds

This Monday, although the Treasury paid UAH2.34bn in VAT refunds, causing liquidity to rise, positive impact of Treasury operations amounted to only UAH1.67bn. Additional support came from an exchange of cash into reserves that caused reserves to increase UAH0.85bn.

Finally, autonomous non-monetary operations caused liquidity to increase UAH2.50bn to UAH77.95bn as banks' correspondent accounts with the NBU rose UAH1.89bn to UAH53.36bn and total CDs outstanding were up UAH0.61bn to UAH24.89bn.

**ICU view: VAT refunds were very important to increase liquidity, especially as collected revenues on Monday were little changed from the previous day. Although current expenditures were not significant, as the net impact on Treasury operations was significantly lower than VAT refunds, yesterday's UAH5.19bn VAT refund should support liquidity to stay at its usual level, as the total balance will depend on other Treasury operations.**

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

## The MoF satisfied demand rejected last week

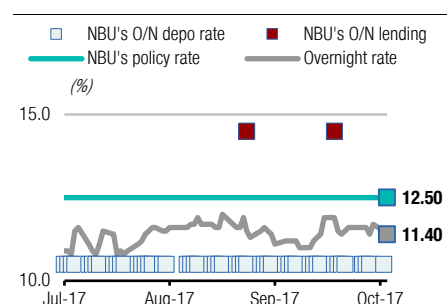
Yesterday, the MoF received demand for the 5-year local currency bond just UAH5m lower than was rejected last week, but at interest rates from 14.95% to 16.00%. Yesterday's demand was concentrated around 15.00%, and the MoF rejected only two bids with interest rates above 15.00%, amounting to UAH0.10bn. The MoF satisfied almost all demand for this bond. The weighted average rate was set at 14.99%, just 1bp below the cut-off rate, so demand was submitted at interest rates within the 5bp range, mostly at or close to 15.00%.

USD-denominated bonds also received significant demand of US\$175.34m from which the MoF rejected only one bid for US\$5m at 5.80%. The cut-off and weighted average rates were set at 5.40%, matching the cut-off rate of two other auctions of 2-year FX-denominated bonds.

**ICU view: The primary bond market remains steady, without volatility in interest rates, and with significant demand for the 5-year bond. At the same time, demand was concentrated at the cut-off rate and seems ready to stabilize further, without attempts to change this level from either the market or the issuer.**

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## Interest rates in the banks' reserves market (three months through 24 October 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 24 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	11.40	-10bp	-20bp	+30bp	+80bp
ON \$ swap	11.43	+2bp	-25bp	-29bp	-4bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	53,360	+3.67	+5.39	+9.20	+7.30
DepCerts <sup>3</sup>	24,587	+2.53	-2.63	-24.49	-60.50
<b>Total</b>	<b>77,947</b>	<b>+3.31</b>	<b>+2.72</b>	<b>-4.27</b>	<b>-30.39</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	308,585	+0.04	+0.16	+0.37	+79.06
Residents	23,405	-0.06	-0.41	+0.15	+49.28
Non-res <sup>4</sup>	3,226	-0.01	+6.04	+20.41	-49.21
<b>Total</b>	<b>695,789</b>	<b>+0.02</b>	<b>+0.08</b>	<b>+0.01</b>	<b>+26.39</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	15.79	-1bp	+445bp	+384bp	-652bp
3 months	14.87	+17bp	+289bp	+44bp	-720bp
6 months	12.65	+8bp	+57bp	+55bp	-540bp
1 year	11.63	+2bp	+3bp	-4bp	-436bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	431	-39bp	-44bp	-9bp	-222bp

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 again

The hryvnia depreciated against the US dollar for the fourth consecutive trading session despite the fact that the US currency declined in world markets. The UAH2.5bn increase in liquidity in the banking system caused the hryvnia to fall, which by the end of Tuesday lost 0.4% to 26.67 USD/UAH. It sold for 26.48 USD/UAH versus 26.68 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.3% to 105.07; in year-on-year terms, it is up 1.37% from 103.63 last year.

The US dollar traded below the numbers of the previous day as part of the correction on Tuesday. Investors are waiting for information on the appointment of the next head of the Fed, which should take place before November 3. As US President Donald Trump said, he has three main candidates for the office, including the current head of the Fed. In general, the trading session was rather restrained for the US currency. The DXY index traded at 93.682 - 93.992, closing down 0.2% to 93.772.

The euro traded higher against the US dollar as investors await the ECB's announcement of the tapering of the quantitative easing program. The EUR/USD pair traded within 1.1743 - 1.1793 EUR/USD, having increased 0.1% to 1.1761 EUR/USD. The Chinese yuan also increased against the dollar on Tuesday. The renminbi traded at 6.6274 - 6.6365 USD/CNY and appreciated 0.1% to 6.6358 USD/CNY.

The Russian ruble decreased against the dollar on Tuesday, despite by rising oil prices and the relative weakness of the US currency, also ahead of the Central Bank of Russia's meeting this week. As of Tuesday, the ruble traded at 57.3792-57.7076 USD/RUB, down 0.2% to 57.6476.

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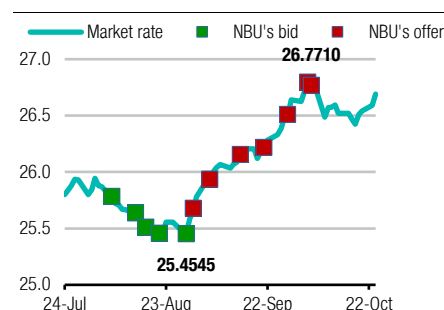
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 24 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.6900	+0.38	+0.85	+1.55	-1.51
USD <sup>1</sup>	93.772	-0.17	+0.31	+1.74	-8.26
EUR	1.1761	+0.10	-0.04	-1.59	+11.83
JPY	113.9000	+0.41	+1.52	+1.71	-2.62
GBP <sup>2</sup>	1.3134	-0.48	-0.42	-2.74	+6.43
CNY	6.6358	-0.06	+0.18	+0.69	-4.45
RUB	57.6476	+0.19	+0.52	+0.25	-6.32

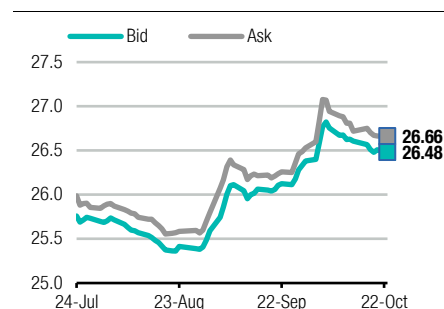
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 24 October 2017)



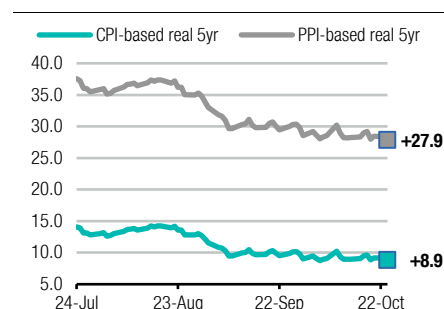
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 24 October 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 24 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)

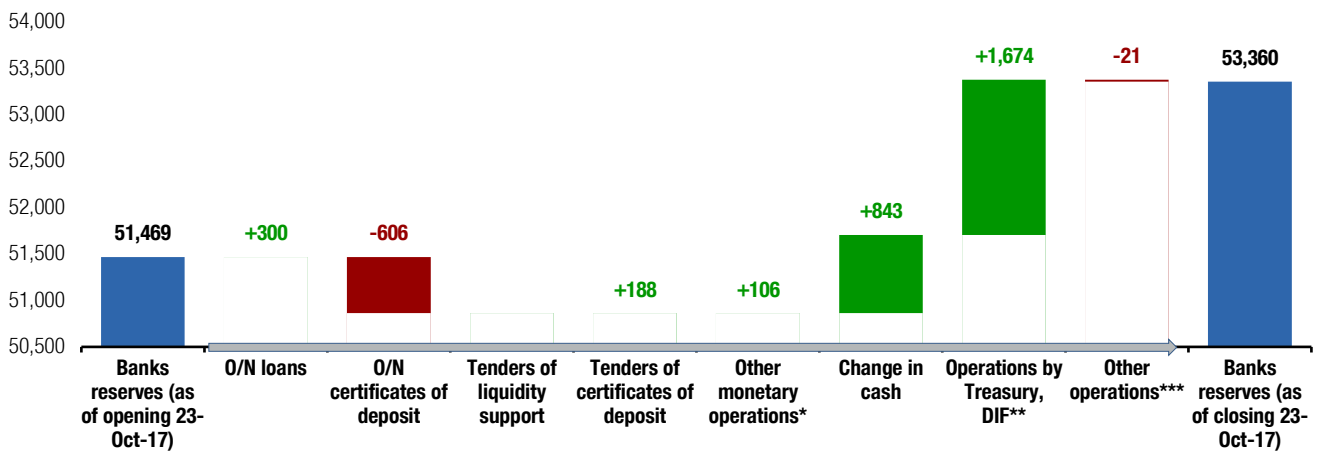
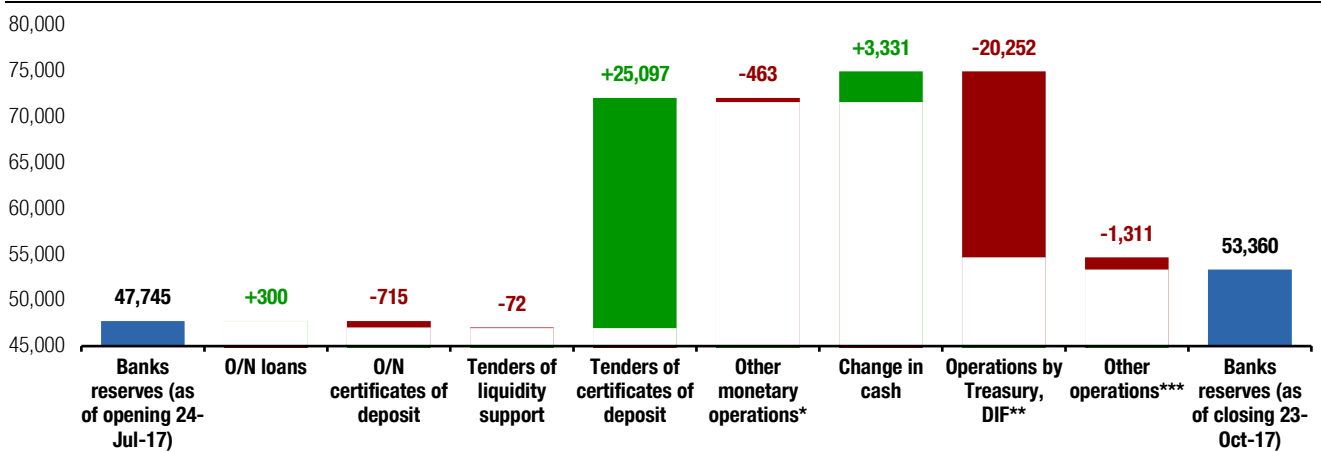
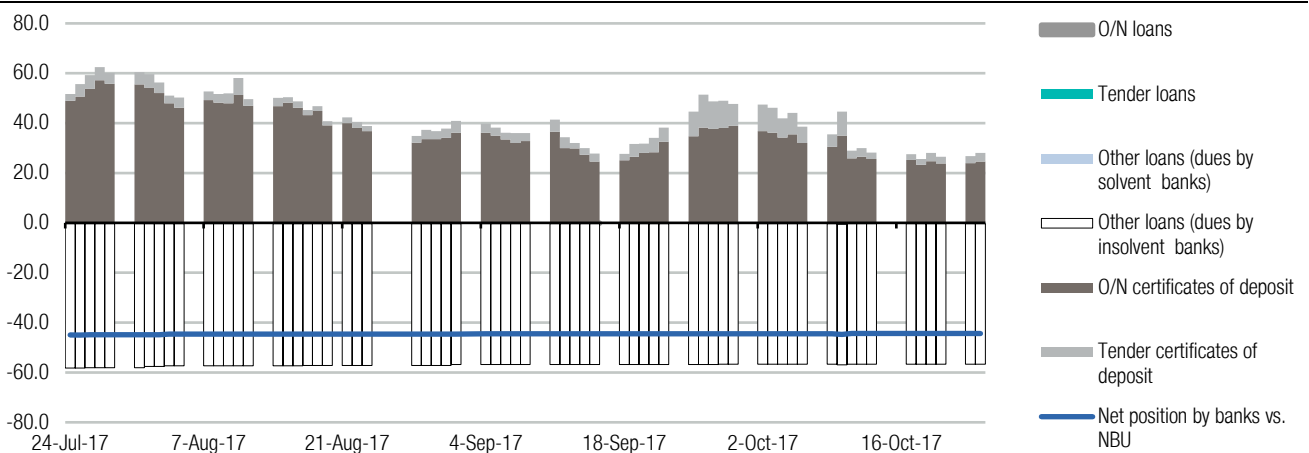


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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