

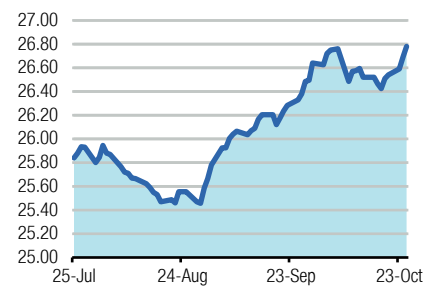
Daily Insight

Liquidity increase continues

Key messages of the today's comments

THURSDAY, 26 OCTOBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 25 October 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 25 October 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.40	+0bp	+80bp
Banks reserves (UAHm)	52,940	-0.79	+6.45
Deposit certificates* (UAHm)	30,148	+22.62	-51.56
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.7800	+0.34	-1.18
Total trade volume (US\$m)	234.04	-10.05	+37.98
UAH index CPI-based	104.588	-0.46	-3.16
UAH index PPI-based	161.195	-0.46	-4.26

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	440bp	+9bp	-213bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,557.15	-0.47	+14.22
MSCI EM	1,114.09	+0.07	+29.20
US dollar index (DXY)	93.711	-0.07	-8.32
EUR / USD	1.1813	+0.44	+12.32
Crude oil WTI (US\$/bbl)	52.18	-0.55	-2.87
Crude oil BRENT (US\$/bbl)	58.44	+0.19	+2.85
CRB, commodities index	185.40	-0.23	-3.69
Gold (US\$/ounce)	1,277.42	+0.05	+10.86

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

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Liquidity increase continues

As the end of Tuesday, liquidity rose UAH5.14bn to UAH83.09bn, the record high since the end of September. Most of the additional funds were allocated to CDs, as banks increased total CDs outstanding by UAH5.56bn to UAH30.15bn, with ON CDs up UAH3.59bn to UAH7.0bn and 2-week CDs were up UAH1.97bn. At the same time, banks' correspondent accounts balance with the NBU declined UAH0.42bn to UAH52.94bn.

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Foreign exchange markets

3

UAH extends losses

The hryvnia weakened another 0.4% to 26.77 USD/UAH, down for the fifth consecutive trading session, most because of the UAH5.14bn surge in liquidity on Tuesday (see comment on liquidity). Additional pressure was from the MoF selling US\$170.3m in USD-denominated bonds on Tuesday which increased demand for the greenback in the domestic market. On Thursday and Friday, the hryvnia may be supported by October tax payments. Yesterday, in the Ukrainian cash market, the hryvnia sold for 26.49 USD/UAH versus 26.68 to buy. Its CPI-based real trade-weighted index fell 0.46% to 104.59; in year-on-year terms, it is up 1.05% from 103.5 last year.

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Appendix #1: Domestic liquidity

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Domestic liquidity

Liquidity increase continues

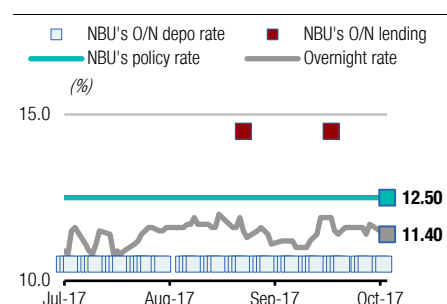
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The main inflow to liquidity for the second consecutive day was caused by Treasury, which paid UAH5.19bn in VAT refunds. But, the same as on Monday, the Treasury's impact on liquidity was less significant, as part of these funds was spent on covering the negative balance of regular Treasury operations, decreasing impact to UAH4.48bn. Banks increased reserves as they exchanged UAH0.67bn of cash while only UAH0.01bn of outflow was seen via other non-monetary operations.

ICU view: The banking system for the second consecutive day received additional funds from VAT refunds, but Treasury data show that collected revenues were quite low, which also supported liquidity to increase above UAH83bn. While tax collections could have increased yesterday, Tuesday's auction also caused fund outflows as banks paid UAH1.20bn for new local-currency bonds and received only UAH0.52bn of repayments. At the same time, some banks continued to purchase 3-month CDs and very high interest rates, as yesterday the NBU sold UAH0.37bn of CDs with a 77-day tenor at 14.35%, up 10bp from last week's tender.

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Interest rates in the banks' reserves market (three months through 25 October 2017)



Source: Bloomberg, ICU.

Key indicators (as of 25 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	11.40	+0bp	-20bp	+20bp	+80bp
ON \$ swap	11.56	-13bp	-16bp	-26bp	+9bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	52,940	-0.79	-0.27	+7.81	+6.45
DepCerts ³	30,148	+22.62	+29.45	-13.24	-51.56
Total	83,088	+6.60	+8.79	-0.91	-25.79
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	309,374	+0.26	+0.47	+0.61	+79.52
Residents	22,960	-1.90	-2.15	-1.93	+46.44
Non-res ⁴	3,226	+0.02	+6.02	+20.43	-49.20
Total	696,133	+0.05	+0.16	+0.04	+26.45
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	16.52	+73bp	+375bp	+552bp	-579bp
3 months	14.80	-7bp	+256bp	+282bp	-727bp
6 months	12.61	-4bp	+40bp	+56bp	-544bp
1 year	11.62	-1bp	-4bp	+5bp	-437bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	440	+9bp	-38bp	-29bp	-213bp

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

UAH extends losses

The hryvnia weakened another 0.4% to 26.77 USD/UAH, down for the fifth consecutive trading session, most because of the UAH5.14bn surge in liquidity on Tuesday (see comment on liquidity). Additional pressure was from the MoF selling US\$170.3m in USD-denominated bonds on Tuesday which increased demand for the greenback in the domestic market. On Thursday and Friday, the hryvnia may be supported by October tax payments. Yesterday, in the Ukrainian cash market, the hryvnia sold for 26.49 USD/UAH versus 26.68 to buy. Its CPI-based real trade-weighted index fell 0.46% to 104.59; in year-on-year terms, it is up 1.05% from 103.5 last year.

The US dollar traded higher against other major currencies on Wednesday, being boosted by solid macroeconomic data -- the US durable goods orders rose more than expected in September, while new home sales hit the highest level since October 2007. However, in the second part of the trading session, the greenback trimmed gains due to the euro's strengthening. At the same time, market players are awaiting the appointment of the next head of the Fed, which should take place before November 3. On Wednesday, the DXY index declined 0.1% to 93.71.

The euro strengthened 0.4% against the greenback to 1.1753 EUR/USD ahead of the ECB policy meeting, where the regulator is expected to announce the tapering of asset purchasing. The euro was also supported by the increased Ifo business climate index in Germany, as it hit an all-time high in October.

The Russian ruble was boosted by October tax payments and carry trade operations in the first half of the trading session. However, due to declining oil prices, the Russian currency trimmed gains and even turned to decline, having weakened 0.2% to 57.7544 USD/RUB.

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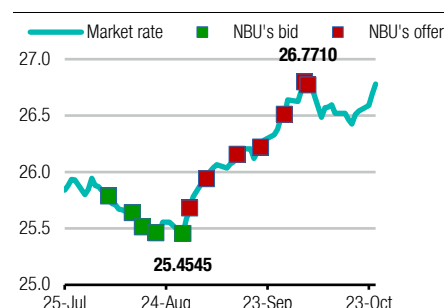
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 25 October 2017)

	Last	Daily	Weekly	Monthly	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.7800	+0.34	+1.34	+1.71	-1.18
USD ¹	93.711	-0.07	+0.37	+1.15	-8.32
EUR	1.1813	+0.44	+0.22	-0.30	+12.32
JPY	113.7400	-0.14	+0.71	+1.80	-2.75
GBP ²	1.3262	+0.97	+0.43	-1.51	+7.47
CNY	6.6391	+0.05	+0.18	+0.27	-4.40
RUB	57.7544	+0.19	+0.49	+0.36	-6.15

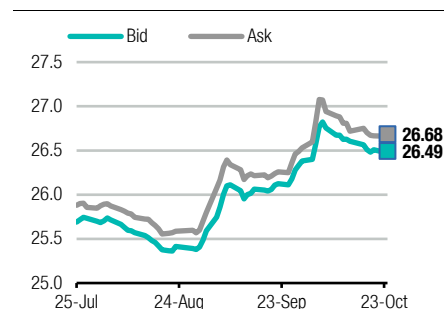
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 25 October 2017)



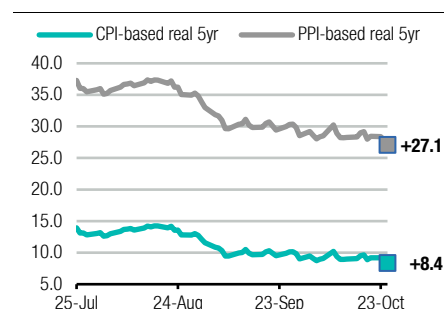
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 25 October 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 25 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)

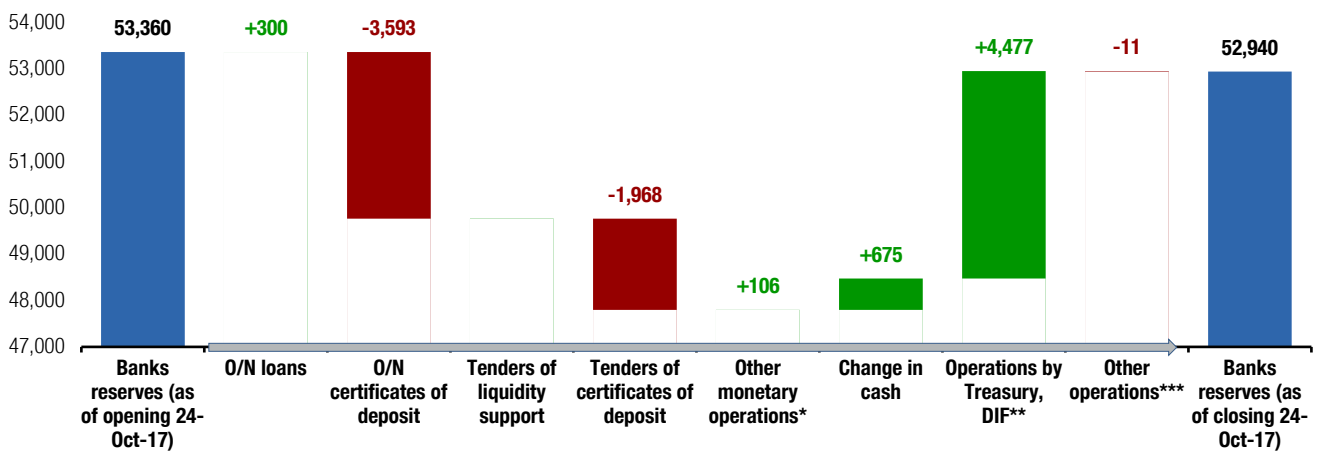
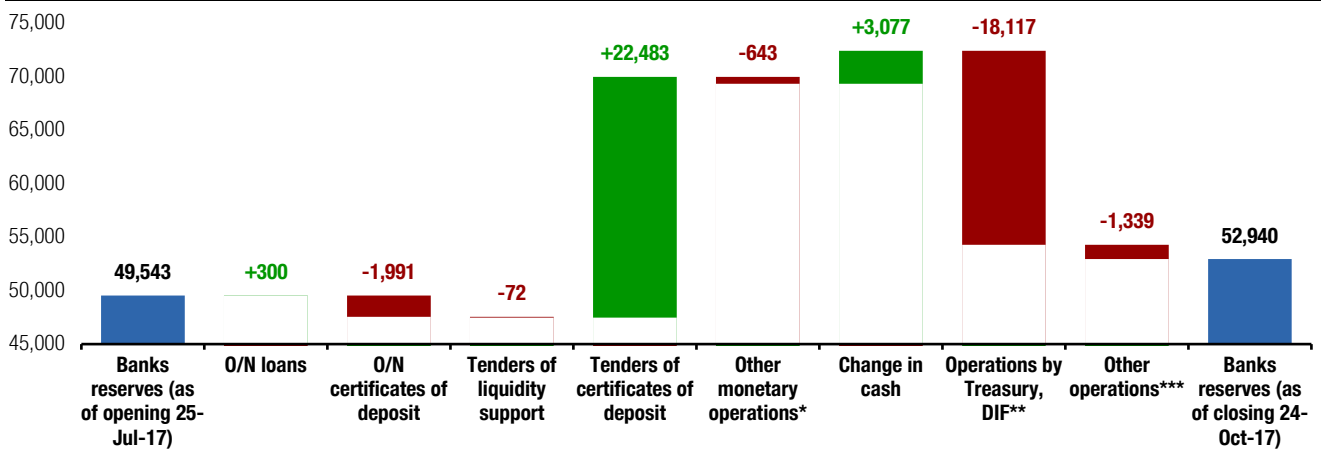


Chart 2. Banks reserves usages over last 90-day period (UAHm)

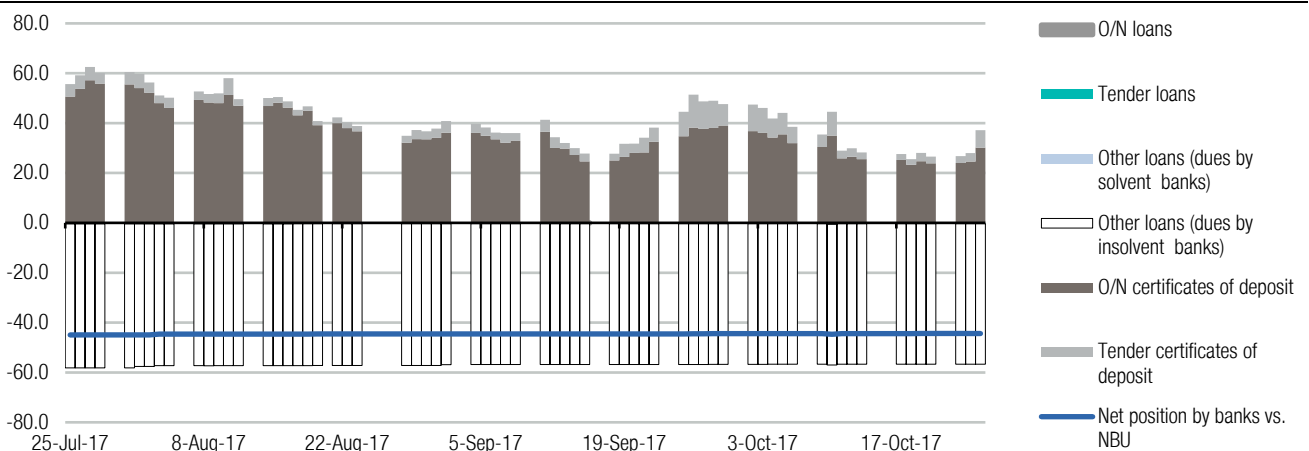


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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