

Daily Insight

UAH declines further

Key messages of the today's comments

Domestic liquidity **2**

NBU supports liquidity.....2

Following Wednesday's liquidity increase by an additional UAH2.31bn to UAH85.40bn, a level last seen in August 2017, for the second consecutive day, banks' correspondent accounts with the NBU declined UAH0.56bn to UAH52.38bn while total CDs outstanding rose UAH2.87bn, mostly due to the purchase of ON CDs. Banks purchased UAH2.50bn of ON CDs more than the amount redeemed and UAH0.37bn of 77-day CDs at 14.35%. These 77-day CDs are deemed 3-month CDs which the NBU sold at auction, of which it accepted 12 out of 16 bids, satisfying 81% of demand. Rejected bids had rates up to 14.55%.

Foreign exchange markets **3**

UAH declines further3

The hryvnia extended its losses on Thursday, having weakened another 0.2% to 26.8266 USD/UAH, as a result of the strengthening US dollar in world FX markets. Demand for USD in the local market exceeded supply. At the same time, the National Bank of Ukraine reacted to rising inflation by increasing the key policy rate by 1ppt to 13.5%, which should support the Ukrainian currency. In the Ukrainian cash market, the hryvnia sold for 26.58 USD/UAH versus 26.74 to buy. Its CPI-based real trade-weighted index rose 0.65% to 105.27; in year-on-year terms, it is up 0.7% from 104.54 last year.

Appendix #1: Domestic liquidity **4**

FRIDAY, 27 OCTOBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 26 October 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 26 October 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.50	+10bp	+90bp
Banks reserves (UAHm)	52,381	-1.06	+5.33
Deposit certificates* (UAHm)	33,017	+9.52	-46.95
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.8150	+0.13	-1.05
Total trade volume (US\$m)	243.64	+4.10	+43.64
UAH index CPI-based	105.268	+0.65	-2.53
UAH index PPI-based	162.243	+0.65	-3.64

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	450bp	+10bp	-203bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,560.40	+0.13	+14.36
MSCI EM	1,108.17	-0.53	+28.52
US dollar index (DXY)	94.612	+0.96	-7.43
EUR / USD	1.1651	-1.37	+10.78
Crude oil WTI (US\$/bbl)	52.64	+0.88	-2.01
Crude oil BRENT (US\$/bbl)	59.30	+1.47	+4.36
CRB, commodities index	185.94	+0.29	-3.42
Gold (US\$/ounce)	1,266.97	-0.82	+9.95

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

NBU supports liquidity

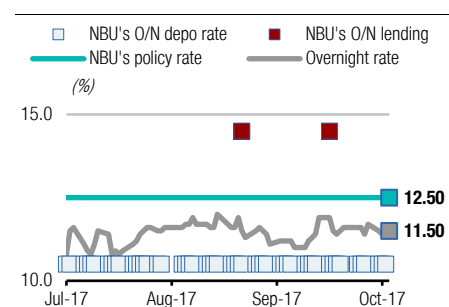
Following Wednesday's liquidity increase by an additional UAH2.31bn to UAH85.40bn, a level last seen in August 2017, for the second consecutive day, banks' correspondent accounts with the NBU declined UAH0.56bn to UAH52.38bn while total CDs outstanding rose UAH2.87bn, mostly due to the purchase of ON CDs. Banks purchased UAH2.50bn of ON CDs more than the amount redeemed and UAH0.37bn of 77-day CDs at 14.35%. These 77-day CDs are deemed 3-month CDs which the NBU sold at auction, of which it accepted 12 out of 16 bids, satisfying 81% of demand. Rejected bids had rates up to 14.55%.

The increase in liquidity was supported by the NBU, via SWAP deals with one bank, providing UAH2.48bn of funds for two weeks at 14.50%. These funds were the main source for the liquidity increase and offset of outflows via non-monetary operations of UAH0.17bn. The Treasury absorbed UAH0.75bn of liquidity while banks exchanged UAH0.61bn of cash in reserves. Also, UAH0.02bn of outflows were caused by other non-monetary operations.

ICU view: Liquidity continued to increase on new inflows from NBU, which was in line with the low collection of taxes despite month-end tax payments this week. The NBU's injection of funds via a SWAP should be short-lived but should decrease the risk of liquidity falling to a new yearly low. At the same time, repayment of these funds to the NBU could have little impact on liquidity if budget expenditures are accelerated.

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Interest rates in the banks' reserves market (three months through 26 October 2017)



Source: Bloomberg, ICU.

Key indicators (as of 26 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	11.50	+10bp	+10bp	+30bp	+90bp
ON \$ swap	11.35	-2bp	-30bp	-56bp	-12bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	52,381	-1.06	+1.38	+13.59	+5.33
DepCerts ³	33,017	+9.52	+33.66	-13.52	-46.95
Total	85,398	+2.78	+11.82	+1.31	-23.73
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	309,994	+0.20	+0.65	+0.70	+79.88
Residents	22,925	-0.15	-2.26	-1.40	+46.22
Non-res ⁴	4,206	+30.37	+30.39	+57.07	-33.78
Total	697,698	+0.22	+0.35	+0.25	+26.74
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	16.50	-2bp	+430bp	+550bp	-581bp
3 months	14.95	+15bp	+278bp	+306bp	-712bp
6 months	12.68	+7bp	+52bp	+70bp	-536bp
1 year	11.65	+3bp	-1bp	+10bp	-434bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	450	+10bp	-29bp	-16bp	-203bp

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 declines further

The hryvnia extended its losses on Thursday, having weakened another 0.2% to 26.8266 USD/UAH, as a result of the strengthening US dollar in world FX markets. Demand for USD in the local market exceeded supply. At the same time, the National Bank of Ukraine reacted to rising inflation by increasing the key policy rate by 1ppt to 13.5%, which should support the Ukrainian currency. In the Ukrainian cash market, the hryvnia sold for 26.58 USD/UAH versus 26.74 to buy. Its CPI-based real trade-weighted index rose 0.65% to 105.27; in year-on-year terms, it is up 0.7% from 104.54 last year.

The greenback was boosted by solid macroeconomic data as well as the euro's plunge. The number of initial jobless claims rose less than expected in the week ending October 21 and hit a new low since 1973, bolstering optimism over the health of the labor market. At the same time, investors are awaiting the appointment of the next Fed chairman, as the decision is forthcoming. On Thursday, the DXY index surged 1% to 94.61.

The euro dropped 1.4% to 1.1651 EUR/USD on the back of the ECB's meeting outcome as the European regulator announced tapering QE program. Since January 2018 the asset purchase volume will be halved to EUR30bn a month, down from current level of EUR60bn a month. The QE program was extended to the end of September 2018 and may be extended beyond, while Mario Draghi noted that the asset purchase volume can also be raised if necessary. At the same time, the European Central Bank left interest rates unchanged, which was widely expected by market.

With no significant changes of oil prices in the world commodity market, the Russian ruble remained relatively flat against the greenback as investors await the opportunity for a look forward to the policy meeting of the central bank of Russia scheduled for today. Thus, the ruble closed down 0.15% to 57.8481 USD/RUB. At the same time, the Chinese renminbi remained almost unchanged against the greenback for the third consecutive trading session, having closed down 0.05% to 6.6426 USD/CNY.

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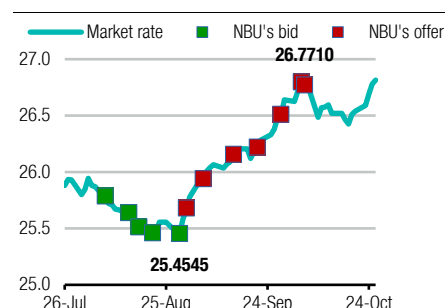
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 26 October 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8150	+0.13	+1.15	+1.65	-1.05
USD ¹	94.612	+0.96	+1.44	+1.77	-7.43
EUR	1.1651	-1.37	-1.70	-1.20	+10.78
JPY	113.9800	+0.21	+1.28	+1.55	-2.55
GBP ²	1.3161	-0.76	+0.02	-2.21	+6.65
CNY	6.6426	+0.05	+0.44	+0.04	-4.35
RUB	57.8481	+0.16	+0.99	+0.02	-6.00

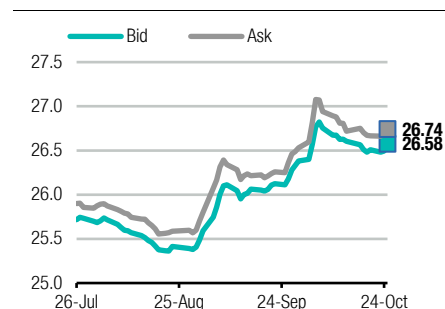
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 26 October 2017)



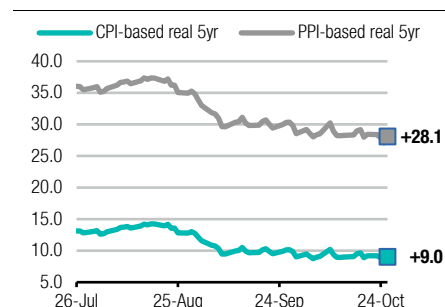
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 26 October 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 26 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)

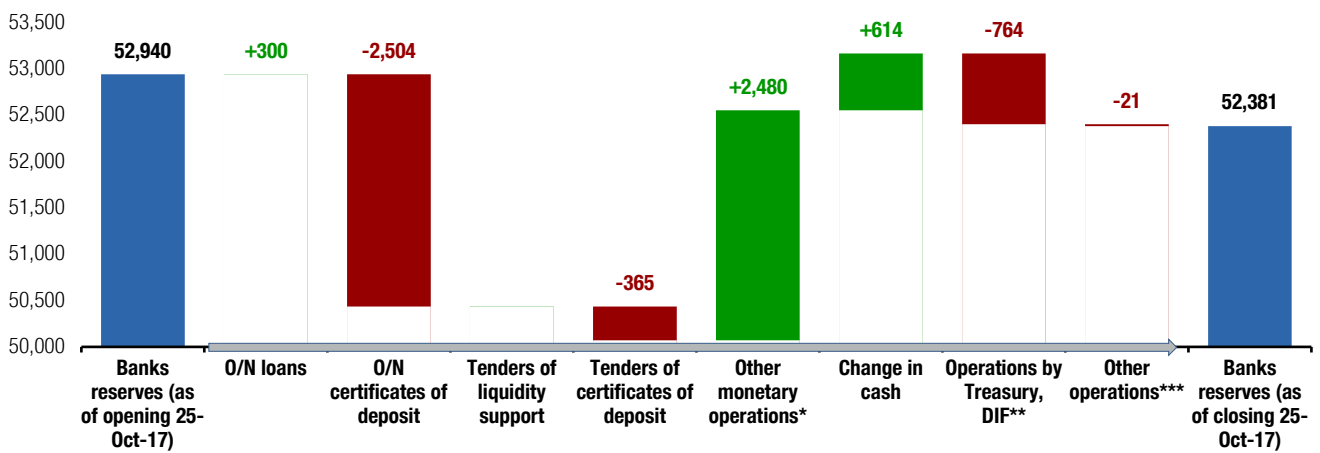
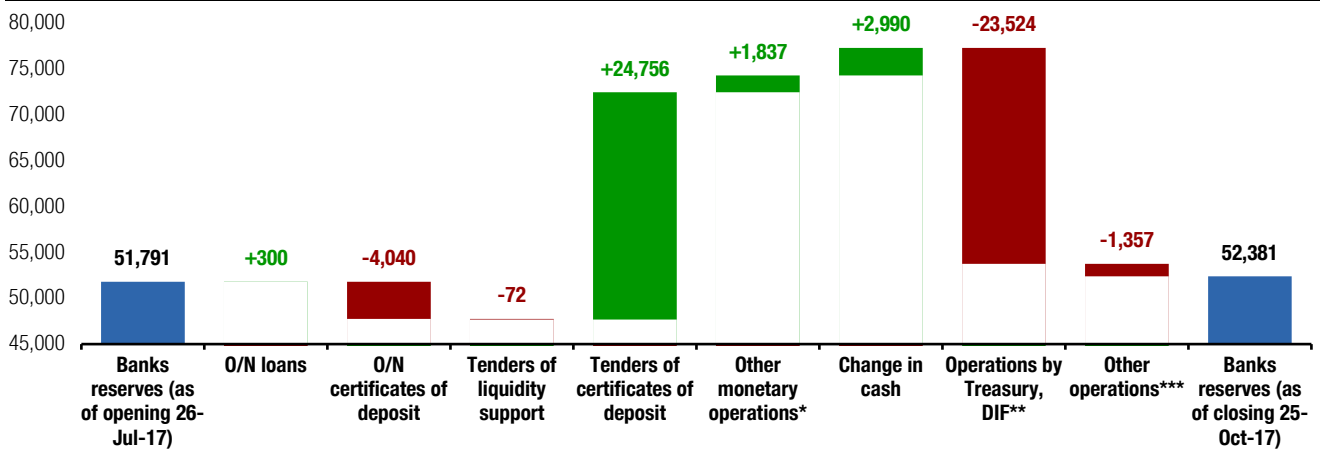
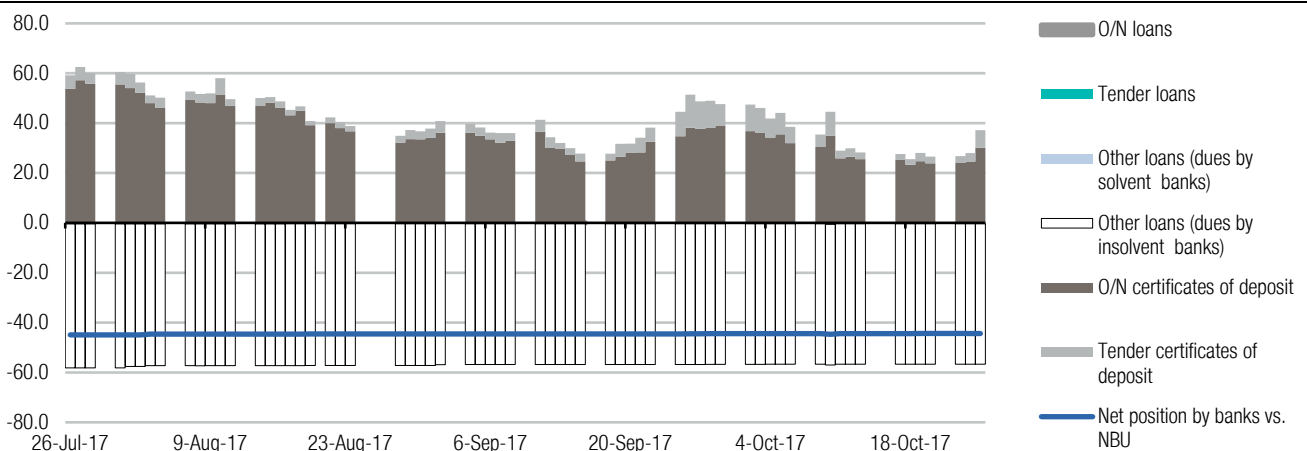


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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