

# Daily Insight

## NBU increases key rate to 13.50%

### Key messages of the today's comments

MONDAY, 30 OCTOBER 2017

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##### NBU increases key monetary rate to 13.50%.....2

Last Thursday, the NBU decided to increase, effective October 27, its key monetary rate 100bp to 13.50%, just 50bp below the 14.00% level set a year ago. Also, starting from last Friday, the NBU rose interest rates to 11.50% for ON CDs and 13.50% for 14-days CDs. Also interest rates could rise for 3-month CDs above the 14.35% cut-off rate set last week. The bond market could have a different reaction to the NBU's decision. 2

##### Liquidity declines .....2

After rising for four days, liquidity declined significantly last Thursday as the Treasury increased tax collections more than twice. Total banking sector liquidity declined UAH2.31bn to UAH83.09bn, as banks' correspondent accounts balance increased UAH2.82bn to UAH55.20bn and CDs outstanding declined UAH5.13bn to UAH27.89bn. 2

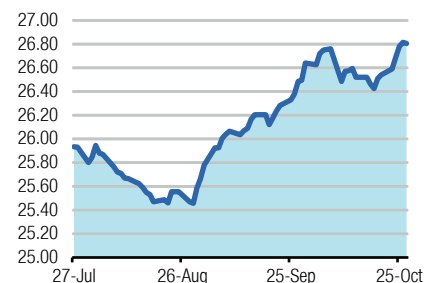
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##### Hryvnia on 6-month low.....3

For the seventh consecutive trading session, the hryvnia declined against the US dollar at Friday's opening, but by the end of the day this decline was somewhat offset when the NBU entered the market to sell USD. Total demand for the currency at the auction amounted to US\$100.4m, of which US\$86.1m at an average weighted rate of 26.8649 USD/UAH was sold. Thus, the hryvnia weakened on Friday by 0.2% to 26.8578 USD/UAH. It sold for 26.63 USD/UAH versus 26.77 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.27% to 105.56; in year-on-year terms, it is up 1.15% from 104.36 last year. 3

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#### Ukraine's hryvnia exchange rate per US dollar (three months through 27 October 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 27 October 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	12.10	+60bp	+150bp
Banks reserves (UAHm)	55,202	+5.38	+11.00
Deposit certificates* (UAHm)	27,889	-15.53	-55.19
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.8050	-0.04	-1.09
Total trade volume (US\$m)	341.15	+40.02	+101.13
UAH index CPI-based	105.557	+0.27	-2.26
UAH index PPI-based	162.688	+0.27	-3.38
<b>UKRAINE SOVEREIGN EUROBOOND MARKET</b>			
CDS 5yr	447bp	-2bp	-206bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,581.07	+0.81	+15.29
MSCI EM	1,110.22	+0.18	+28.76
US dollar index (DXY)	94.916	+0.32	-7.14
EUR / USD	1.1608	-0.37	+10.37
Crude oil WTI (US\$/bbl)	53.90	+2.39	+0.34
Crude oil BRENT (US\$/bbl)	60.44	+1.92	+6.37
CRB, commodities index	186.89	+0.51	-2.92
Gold (US\$/ounce)	1,273.88	+0.55	+10.55

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

Source: Bloomberg, ICU.

# Domestic liquidity

## NBU increases key monetary rate to 13.50%

Last Thursday, the NBU decided to increase, effective October 27, its key monetary rate 100bp to 13.50%, just 50bp below the 14.00% level set a year ago. Also, starting from last Friday, the NBU rose interest rates to 11.50% for ON CDs and 13.50% for 14-days CDs. Also interest rates could rise for 3-month CDs above the 14.35% cut-off rate set last week. The bond market could have a different reaction to the NBU's decision.

During this year, the government bond market had a quiet reaction on NBU decisions on key rate decreases, and interest rates at the primary bond market used to decline less significantly, by about half of what occurred of the key rate movement. We could see the spread tighten between the bond market and key rate. While a higher key rate could increase the cost of funds at the market, primary market demand mostly came from non-residents (who purchased about 80% of local currency bonds last week, by our assumption).

**ICU view: If interest rates at the secondary market rise, and primary market rates stay at the current level, we could see the spread widen between these two markets. As a result, the primary market mostly attracts demand from non-residents, while domestic demand is more at the secondary market. But this spread could be insufficient, and interest rates rise by no more than 50bp in the primary market.**

## Liquidity declines

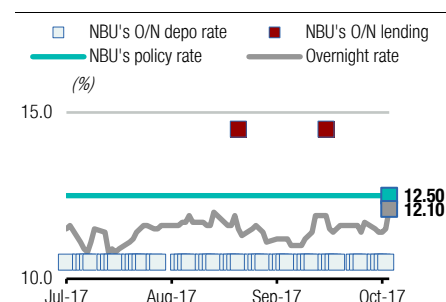
After rising for four days, liquidity declined significantly last Thursday as the Treasury increased tax collections more than twice. Total banking sector liquidity declined UAH2.31bn to UAH83.09bn, as banks' correspondent accounts balance increased UAH2.82bn to UAH55.20bn and CDs outstanding declined UAH5.13bn to UAH27.89bn.

Outflows caused by non-monetary operations were UAH2.30bn mostly by the Treasury, which absorbed UAH2.57bn, while exchanges of cash into reserves offset only a small portion of these outflows. Another UAH0.01bn of funds were absorbed by the NBU.

**ICU view: Pressure from month-end tax payments rose, and liquidity expectedly started to decline. An FX auction held by the NBU last Friday should increase pressure and could accelerate liquidity's decline.**

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## Interest rates in the banks' reserves market (three months through 27 October 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 27 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	12.10	+60bp	+40bp	+90bp	+150bp
ON \$ swap	11.86	+78bp	+26bp	+13bp	+39bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	55,202	+5.38	+7.58	+21.27	+11.00
DepCerts <sup>3</sup>	27,889	-15.53	+16.80	-25.97	-55.19
<b>Total</b>	<b>83,091</b>	<b>-2.70</b>	<b>+10.51</b>	<b>-0.12</b>	<b>-25.79</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	314,269	+1.38	+1.92	+2.03	+82.36
Residents	23,021	+0.42	-1.65	-1.06	+46.83
Non-res <sup>4</sup>	4,597	+9.28	+42.49	+71.65	-27.63
<b>Total</b>	<b>702,459</b>	<b>+0.68</b>	<b>+0.99</b>	<b>+0.90</b>	<b>+27.60</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	15.78	-72bp	+393bp	+452bp	-653bp
3 months	15.17	+23bp	+278bp	+320bp	-689bp
6 months	12.67	-2bp	+51bp	+63bp	-538bp
1 year	11.71	+5bp	+1bp	+14bp	-428bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	447	-2bp	-31bp	-20bp	-206bp

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 on 6-month low

For the seventh consecutive trading session, the hryvnia declined against the US dollar at Friday's opening, but by the end of the day this decline was somewhat offset when the NBU entered the market to sell USD. Total demand for the currency at the auction amounted to US\$100.4m, of which US\$86.1m at an average weighted rate of 26.8649 USD/UAH was sold. Thus, the hryvnia weakened on Friday by 0.2% to 26.8578 USD/UAH. It sold for 26.63 USD/UAH versus 26.77 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.27% to 105.56; in year-on-year terms, it is up 1.15% from 104.36 last year.

The US dollar rose during the trading day on Friday and reached a three-month high, supported by strong macroeconomic statistics, particularly on third quarter economic growth, up 3% from the previous quarter versus an expected 2.5%. Increased chances of tax reform and the appointment of a new head of the Fed also contributed to the growth of the USD. The DXY index traded at 94.731 - 95.15, closing up 0.3% to 94.916.

The euro continues to decline against the US dollar after the ECB's announcement to taper a quantitative easing program. However, the rhetoric was rather dovish, giving no confidence to investors, particularly in light of the strong dollar. The EUR/USD pair traded within 1.1575 - 1.1657 EUR/USD, having decreased 0.4% to 1.1608 EUR/USD. In the absence of other factors and the growth of the US dollar, the Chinese yuan also fell against the USD on Friday by 0.1% to 6.6505 USD/CNY.

The Russian ruble was rather volatile as oil prices rose sharply at the end of the day due to the expectation of continuing the OPEC deal through the end of 2018, which supported the ruble. However, the strong dollar and the Central Bank's key rate cut of 0.25 bp to 8.25% on Friday weakened the ruble to trade at 57.758-58.7617 USD/RUB, down 0.4% to 58.0975.

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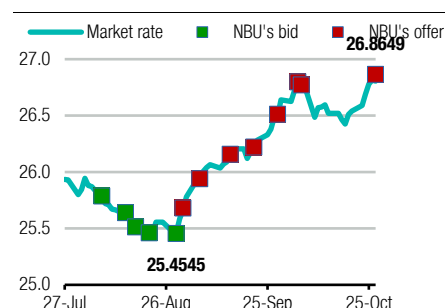
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 27 October 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.8050	-0.04	+1.00	+1.21	-1.09
USD <sup>1</sup>	94.916	+0.32	+1.30	+1.67	-7.14
EUR	1.1608	-0.37	-1.49	-1.17	+10.37
JPY	113.6700	-0.27	+0.13	+0.74	-2.81
GBP <sup>2</sup>	1.3128	-0.25	-0.47	-1.93	+6.39
CNY	6.6505	+0.12	+0.45	+0.12	-4.24
RUB	58.0975	+0.43	+1.05	-0.18	-5.59

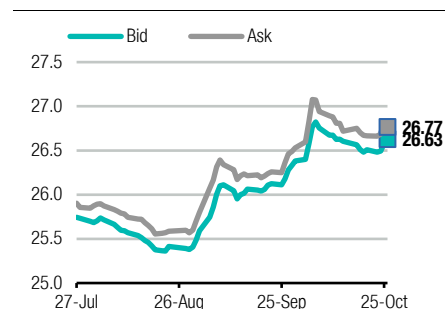
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 27 October 2017)



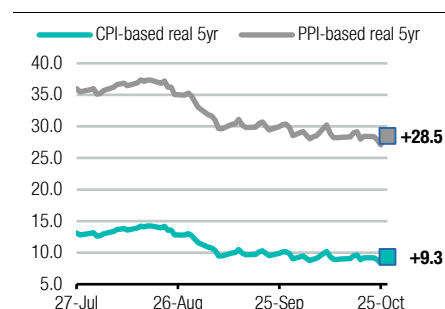
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 27 October 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 27 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)

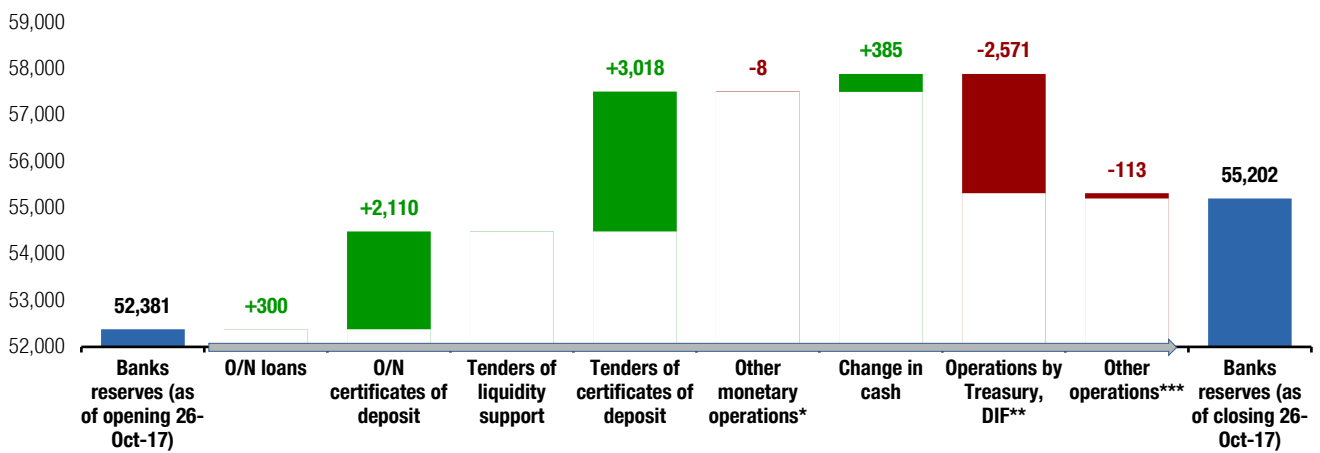
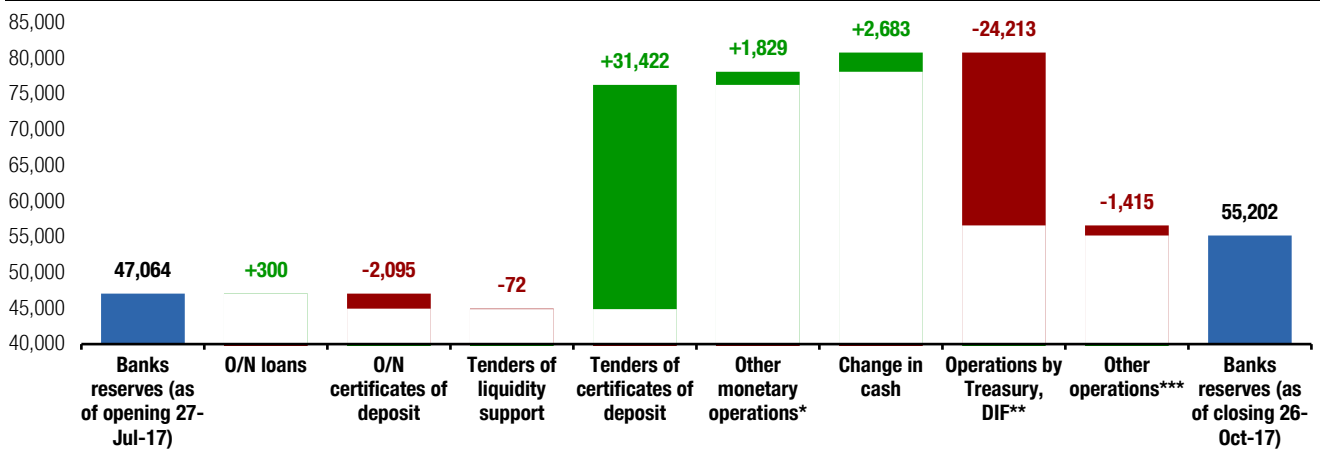
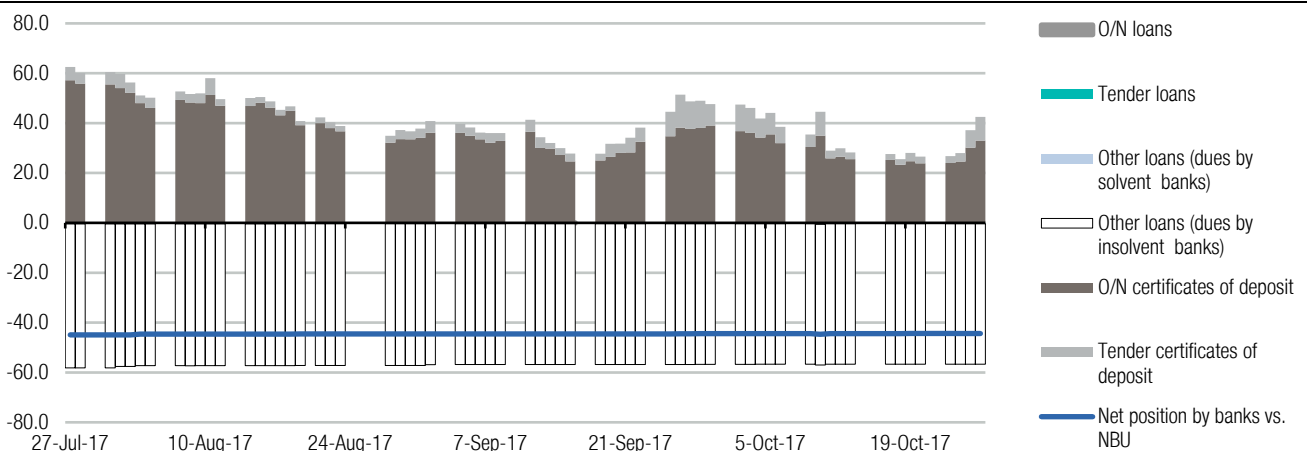


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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