

# Daily Insight

## UAH near 6-month low

### Key messages of the today's comments

#### Domestic liquidity **2**

##### Liquidity steady .....2

After falling significantly at the end of last week, liquidity stabilized and slightly increased so far this week, up UAH0.48bn to UAH77.94bn, due to the positive impact from non-monetary operations while total CDs declined after being reallocated to reserves. Banks' correspondent accounts with the NBU rose UAH1.74bn to UAH45.29bn while total CDs outstanding fell UAH1.27bn to UAH32.66bn as ON CDs declined. **2**

##### Primary market interest rates up .....2

Yesterday, the MoF decided to accept offered interest rates, moving the yield curve up 35-44bp by cut-off rates and 38-58bp by weighted-average rates. The MoF accepted all bids to receive UAH1.1bn of budget proceeds today. **2**

#### Foreign exchange markets **3**

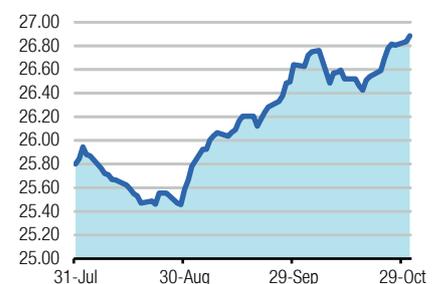
##### UAH near 6-month low .....3

The hryvnia extended its downward trend on Tuesday, having weakened 0.1% to 26.8620 USD/UAH, after some correction at the beginning of the week. Excess demand for the greenback in the domestic FX market amid revived hopes for the tax reform in the USA and a possible USD appreciation fed into the UAH's weakness. At the same time, excess demand for the USD overpowered tax payments, which, along with low liquidity, traditionally supports the Ukrainian currency. Thus, in the Ukrainian cash market, the hryvnia sold for 26.65 USD/UAH versus 26.77 to buy. Its CPI-based real trade-weighted index fell 0.08% to 105.12; in year-on-year terms, it is up 0.9% from 104.13 last year. **3**

#### Appendix #1: Domestic liquidity **4**

WEDNESDAY, 1 NOVEMBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 31 October 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 31 October 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.10	-10bp	+150bp
Banks reserves (UAHm)	45,286	+4.01	-8.94
Deposit certificates* (UAHm)	32,655	-3.73	-47.53
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.8850	+0.19	-0.79
Total trade volume (US\$m)	150.63	-26.40	-11.19
UAH index CPI-based	105.116	-0.08	-2.67
UAH index PPI-based	162.009	-0.08	-3.78
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	438bp	+3bp	-215bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,575.26	+0.09	+15.03
MSCI EM	1,119.08	+0.32	+29.78
US dollar index (DXY)	94.552	-0.01	-7.49
EUR / USD	1.1646	-0.04	+10.74
Crude oil WTI (US\$/bbl)	54.38	+0.42	+1.23
Crude oil BRENT (US\$/bbl)	60.94	+0.07	+7.25
CRB, commodities index	187.56	+0.01	-2.57
Gold (US\$/ounce)	1,271.07	-0.41	+10.31

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity steady

After falling significantly at the end of last week, liquidity stabilized and slightly increased so far this week, up UAH0.48bn to UAH77.94bn, due to the positive impact from non-monetary operations while total CDs declined after being reallocated to reserves. Banks' correspondent accounts with the NBU rose UAH1.74bn to UAH45.29bn while total CDs outstanding fell UAH1.27bn to UAH32.66bn as ON CDs declined.

Positive non-monetary operations increased liquidity. Treasury operations were very balanced with UAH0.37bn of outflows; while Treasury accounts received over UAH7.6bn, other operations contributed UAH0.21bn to outflows. Banks exchanged UAH1.06bn of cash in reserves, offsetting outflows and causing liquidity to rise.

**ICU view:** *As usual at the end of month, banks decreased the amount of cash to match low outflows to the Treasury this Monday, thus supporting liquidity to stabilize. Over the next few days, we could cash operation outflows of reserves in cash to the FX market. We also anticipate outflows to Treasury accounts, especially in the second week of November.*

## Primary market interest rates up

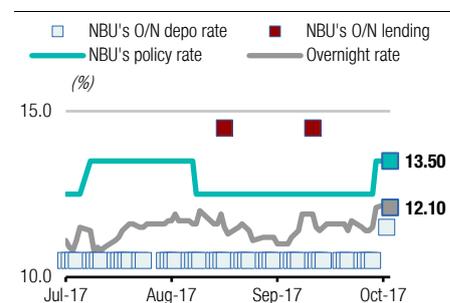
Yesterday, the MoF decided to accept offered interest rates, moving the yield curve up 35-44bp by cut-off rates and 38-58bp by weighted-average rates. The MoF accepted all bids to receive UAH1.1bn of budget proceeds today.

The largest demand was for the 10-month bond, at UAH510m, for which the increase in rates was the largest. The weighted-average rate was up 58bp to 14.65% and the cut-off rate rose to 14.70%. For the 2-year and 3-year bonds, the weighted-average rates rose 45bp and 38bp, respectively, while cut-off rates were up 39bp and 44bp, respectively.

**ICU view:** *The cut-off rates expectedly rose less than 50bp, similar to the market's reaction to the NBU's lowering the key rate earlier this year. Yesterday, the MoF essentially confirmed that auctions will be held under market conditions.*

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

## Interest rates in the banks' reserves market (three months through 31 October 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 31 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	13.50	+0bp	+100bp	+100bp	-50bp
ON rate	12.10	-10bp	+70bp	+110bp	+150bp
ON \$ swap	12.55	-12ppt	+112bp	+22bp	+108bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	45,286	+4.01	-15.13	+6.87	-8.94
DepCerts <sup>3</sup>	32,655	-3.73	+32.81	-16.28	-47.53
<b>Total</b>	<b>77,941</b>	<b>+0.62</b>	<b>-0.01</b>	<b>-4.22</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	314,015	-0.10	+1.76	+1.85	+82.21
Residents	23,214	+0.58	-0.82	-1.13	+48.06
Non-res <sup>4</sup>	4,614	+0.37	+43.04	+64.88	-27.35
<b>Total</b>	<b>702,416</b>	<b>-0.02</b>	<b>+0.95</b>	<b>+0.80</b>	<b>+27.59</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	15.48	-27bp	-31bp	+437bp	-683bp
3 months	14.95	+8bp	+8bp	+324bp	-712bp
6 months	12.62	-3bp	-3bp	+67bp	-542bp
1 year	11.65	+0bp	+1bp	+15bp	-434bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	438	+3bp	+6bp	-24bp	-215bp

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 near 6-month low

The hryvnia extended its downward trend on Tuesday, having weakened 0.1% to 26.8620 USD/UAH, after some correction at the beginning of the week. Excess demand for the greenback in the domestic FX market amid revived hopes for the tax reform in the USA and a possible USD appreciation fed into the UAH's weakness. At the same time, excess demand for the USD overpowered tax payments, which, along with low liquidity, traditionally supports the Ukrainian currency. Thus, in the Ukrainian cash market, the hryvnia sold for 26.65 USD/UAH versus 26.77 to buy. Its CPI-based real trade-weighted index fell 0.08% to 105.12; in year-on-year terms, it is up 0.9% from 104.13 last year.

The greenback remained relatively flat against other major currencies on Tuesday. US consumer confidence rose more than expected, hitting the highest level since December 2000. At the same time, the US Employment cost index increased 2.5% in annualized terms in October, hitting a 9-year high. However, investors fear that the recent charges of Paul Manafort, Trump's former campaign manager, would divert Trump's attention away from tax reform. On Tuesday, the DXY index traded in the 94.45-94.70 range, having closed at 94.55.

The euro struggled to find direction as it was under the influence of mixed macroeconomic statistics. The Eurozone GDP rose 0.6% QoQ and 2.5% YoY, beating the forecast, while the unemployment fell to 8.9% in September, the lowest rate since January 2009. At the same time, the Eurozone's headline inflation slowed to 1.4% YoY last month, away from the ECB's target of 2%. The euro traded at 1.1625-1.1661 EUR/USD, closed down 0.04% to 1.1646 EUR/USD.

The Chinese renminbi strengthened for the second consecutive day as it closed up 0.2% to 6.635 USD/CNY on Tuesday. The central bank of China reported that it has unwound all of its currency forward positions as of the end of September, which were used to support the renminbi. Thus, it is expected that the regulator will allow the renminbi to be market-driven.

The Russian ruble declined against the greenback by 0.6% to 58.3 USD/RUB due to fueled speculation of new economic sanctions. It was also under pressure after Russia's Minister of Finance stated that several regions of Russia need about RUB60bn to resolve their debt problems.

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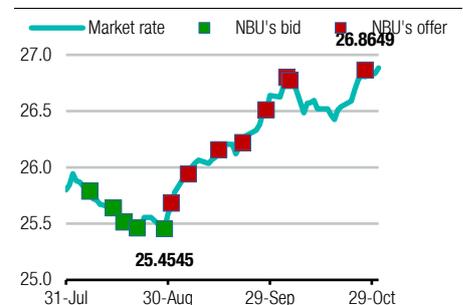
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 31 October 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.8850	+0.19	+0.73	+0.92	-0.79
USD <sup>1</sup>	94.552	-0.01	+0.83	+1.59	-7.49
EUR	1.1646	-0.04	-0.98	-1.42	+10.74
JPY	113.6400	+0.41	-0.23	+1.00	-2.84
GBP <sup>2</sup>	1.3283	+0.57	+1.13	-0.86	+7.64
CNY	6.6350	-0.17	-0.01	-0.27	-4.46
RUB	58.3425	+0.64	+1.21	+1.37	-5.19

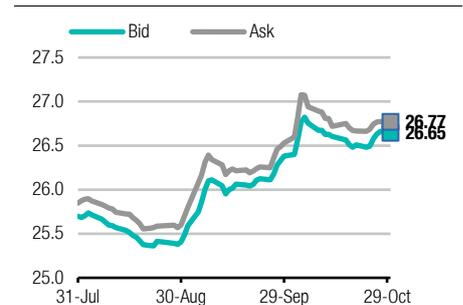
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 31 October 2017)



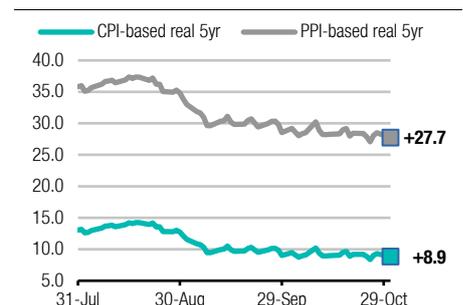
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 31 October 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 31 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)

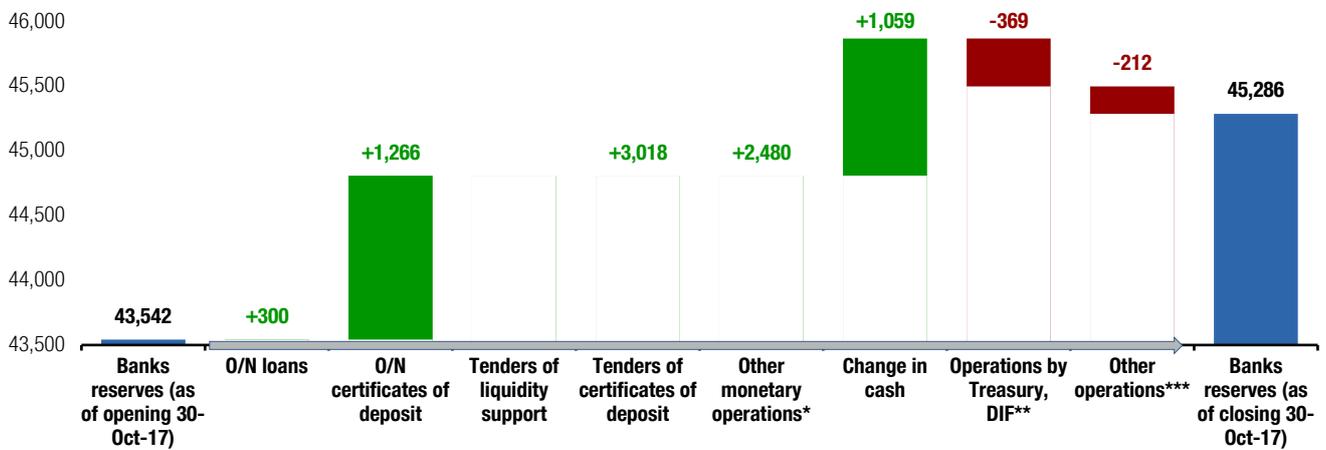
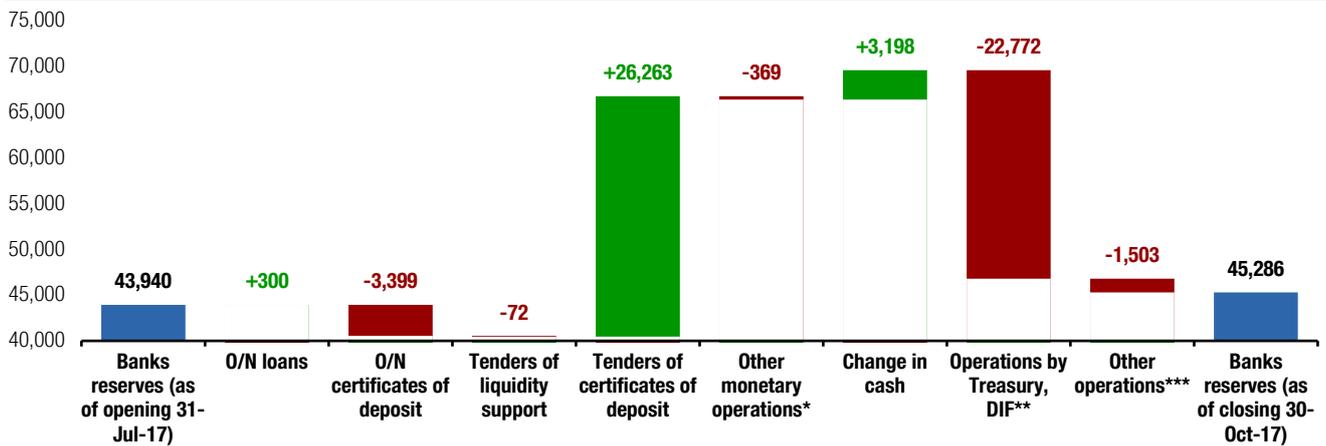
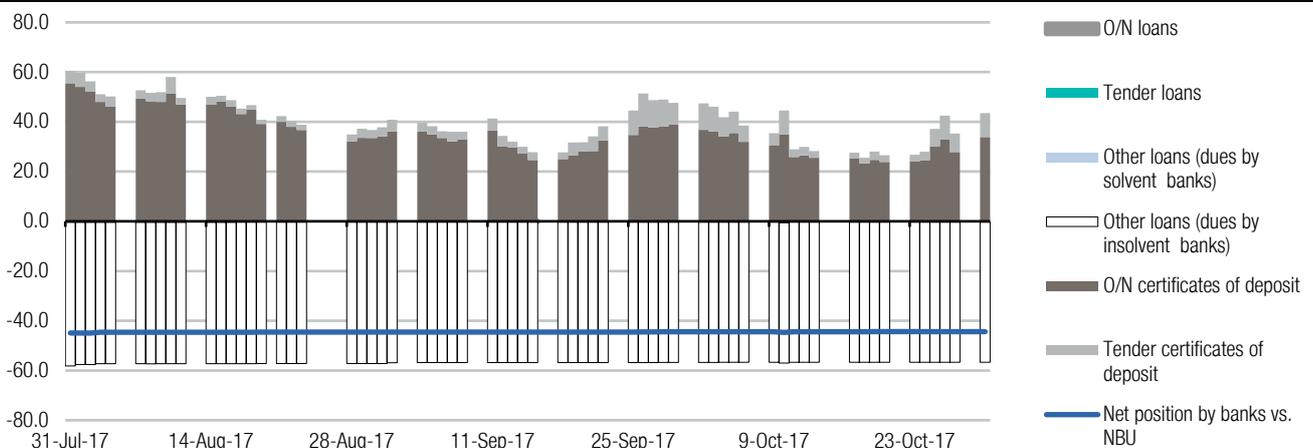


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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