

Daily Insight

UAH remains stronger than 26.9/USD

Key messages of the today's comments

THURSDAY, 2 NOVEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 1 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 1 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.10	+0bp	+150bp
Banks reserves (UAHm)	43,681	-3.54	-12.17
Deposit certificates* (UAHm)	35,732	+9.42	-42.59
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.8850	+0.00	-0.79
Total trade volume (US\$m)	188.99	+25.47	+11.42
UAH index CPI-based	105.086	-0.03	-2.70
UAH index PPI-based	161.963	-0.03	-3.81
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	450bp	+12bp	-203bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,575.26	+0.09	+15.03
MSCI EM	N/A		
US dollar index (DXY)	94.667	+0.12	-7.38
EUR / USD	1.1639	-0.06	+10.67
Crude oil WTI (US\$/bbl)	54.72	+0.63	+1.86
Crude oil BRENT (US\$/bbl)	61.26	+0.53	+7.81
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,275.09	+0.32	+10.66

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity 2

Liquidity continues to rise.....2

October ended with liquidity up UAH1.47bn to UAH79.41bn as CDs outstanding rose. Banks' correspondent accounts with the NBU declined UAH1.60bn to UAH43.68bn while total CDs outstanding rose UAH3.08bn to UAH35.73bn. Banks purchased UAH5.08bn of 2-week CDs against UAH5.62bn of CDs issued two weeks ago that were redeemed, while total ON CDs rose UAH3.62bn to UAH11.96bn. 2

Foreign exchange markets 3

UAH remains stronger than 26.9/USD3

The hryvnia remained almost flat against the USD on Wednesday, having closed down 0.06% to 26.8784 USD/UAH. The NBU's decision to raise the key policy rate by 100bp to 13.5% since October 27, along with the FX auction conducted by the regulator on the same day, supported the hryvnia and halted its nearly two-week depreciation in which it fell 1.7% against the USD. On Wednesday, in the Ukrainian cash market, it sold for 26.68 USD/UAH versus 26.83 to buy. Its CPI-based real trade-weighted index fell 0.03% to 105.086; in year-on-year terms, it is down 0.56% from 105.675 last year. At the same time, despite the fact that the hryvnia is near the 6-month low, our in-house calculations of the CPI- and PPI indices show that it is still overvalued. 3

Appendix #1: Domestic liquidity 4

Domestic liquidity

Liquidity continues to rise

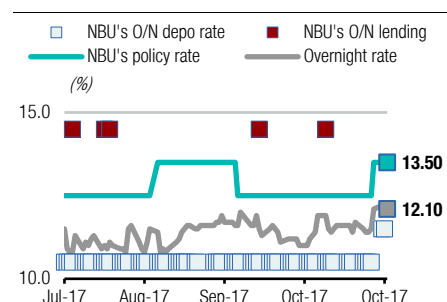
October ended with liquidity up UAH1.47bn to UAH79.41bn as CDs outstanding rose. Banks' correspondent accounts with the NBU declined UAH1.60bn to UAH43.68bn while total CDs outstanding rose UAH3.08bn to UAH35.73bn. Banks purchased UAH5.08bn of 2-week CDs against UAH5.62bn of CDs issued two weeks ago that were redeemed, while total ON CDs rose UAH3.62bn to UAH11.96bn.

The increase was supported by non-monetary operations of UAH1.49bn versus outflows via monetary operations of UAH0.02bn. Banks continued to exchange cash in reserves with net inflows to liquidity of UAH0.68bn, while the Treasury provided UAH0.78bn from its transactions. An additional UAH0.03bn comes from other non-monetary operations.

ICU view: During the last two days of October, liquidity rose mostly due to moving funds from cash in reserves and keeping Treasury operations balance close to zero or with a positive impact on liquidity. While liquidity remains close to UAH80bn currently, it could be absorbed by the NBU via Treasury FX auctions.

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Interest rates in the banks' reserves market (three months through 1 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 1 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	13.50	+0bp	+100bp	+100bp	-50bp
ON rate	12.10	+0bp	+70bp	+110bp	+150bp
ON \$ swap	12.06	+0bp	+50bp	-26bp	+59bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	43,681	-3.54	-17.49	+3.08	-12.17
DepCerts ³	35,732	+9.42	+18.52	-8.39	-42.59
Total	79,413	+1.89	-4.42	-2.42	-29.08
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	314,091	+0.26	+1.79	+2.14	+82.73
Residents	23,271	-1.17	+0.17	-2.05	+46.69
Non-res ⁴	4,614	+3.60	+48.16	+70.80	-24.74
Total	702,549	+0.10	+1.03	+0.93	+27.75
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	15.54	+6bp	-98bp	+443bp	-677bp
3 months	14.96	+1bp	+17bp	+325bp	-710bp
6 months	12.75	+12bp	+14bp	+79bp	-530bp
1 year	11.65	+1bp	+3bp	+15bp	-434bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	450	+12bp	+10bp	-12bp	-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 remains stronger than 26.9/USD

The hryvnia remained almost flat against the USD on Wednesday, having closed down 0.06% to 26.8784 USD/UAH. The NBU's decision to raise the key policy rate by 100bp to 13.5% since October 27, along with the FX auction conducted by the regulator on the same day, supported the hryvnia and halted its nearly two-week depreciation in which it fell 1.7% against the USD. On Wednesday, in the Ukrainian cash market, it sold for 26.68 USD/UAH versus 26.83 to buy. Its CPI-based real trade-weighted index fell 0.03% to 105.086; in year-on-year terms, it is down 0.56% from 105.675 last year. At the same time, despite the fact that the hryvnia is near the 6-month low, our in-house calculations of the CPI- and PPI indices show that it is still overvalued.

The US dollar traded firmer against other major currencies on the back of solid macroeconomic statistics. According to Wednesday's ADP report, US private employers added more jobs than expected in October, which means that the economy is gaining momentum. At the same time, the ISM manufacturing index fell to 58.7 in October, but remained near the 7-year high. The DXY index was 94.51-94.85, closing up 0.3% to 94.82.

The strength of the USD had an opposite effect on the euro, which closed down 0.2% to 1.1619 EUR/USD. At the same time, the Chinese renminbi extended its gains and strengthened 0.5% against the greenback to 6.6 USD/CNY. It is worth noting that the CNY's strength bolsters the hryvnia.

The Russian ruble increased as a result of rising oil prices, which hit fresh high since summer 2015. Yet its appreciation is constrained by the possible imposition of new sanctions on Russia. It traded within 58.0292-58.4085 and closed up 0.3% to 58.1869 USD/RUB.

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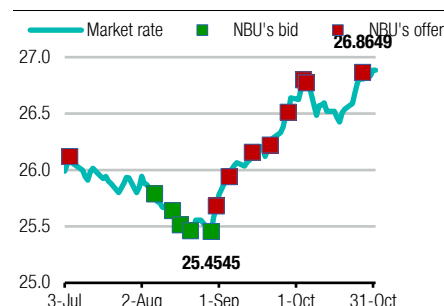
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 1 November 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8850	+0.00	+0.39	+0.92	-0.79
USD ¹	94.667	+0.12	+1.02	+1.71	-7.38
EUR	1.1639	-0.06	-1.47	-1.48	+10.67
JPY	113.9400	+0.26	+0.18	+1.27	-2.58
GBP ²	1.3284	+0.01	+0.17	-0.85	+7.65
CNY	6.6215	-0.20	-0.27	-0.47	-4.66
RUB	58.2072	-0.23	+0.78	+1.13	-5.41

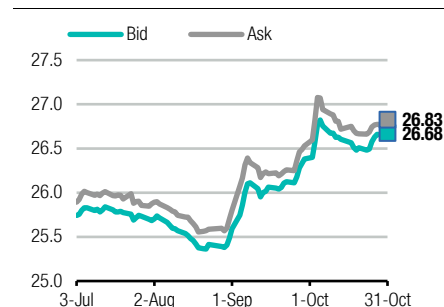
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 1 November 2017)



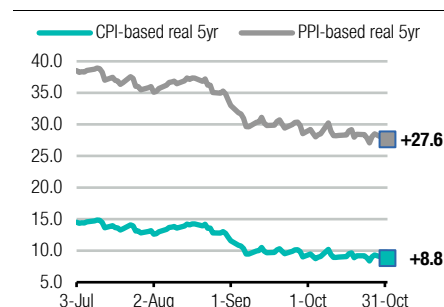
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 1 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 1 November 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)

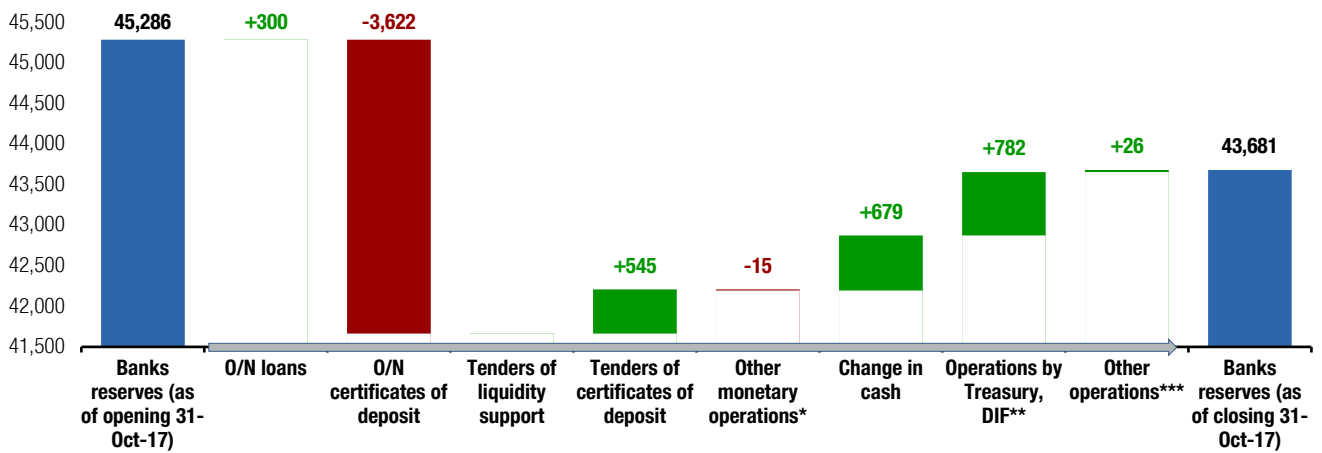
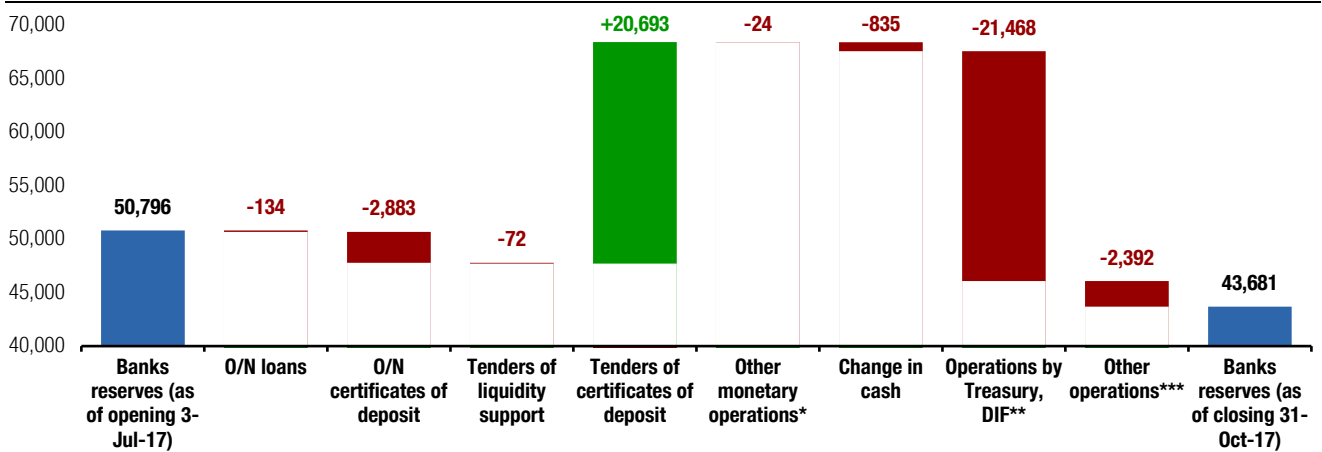
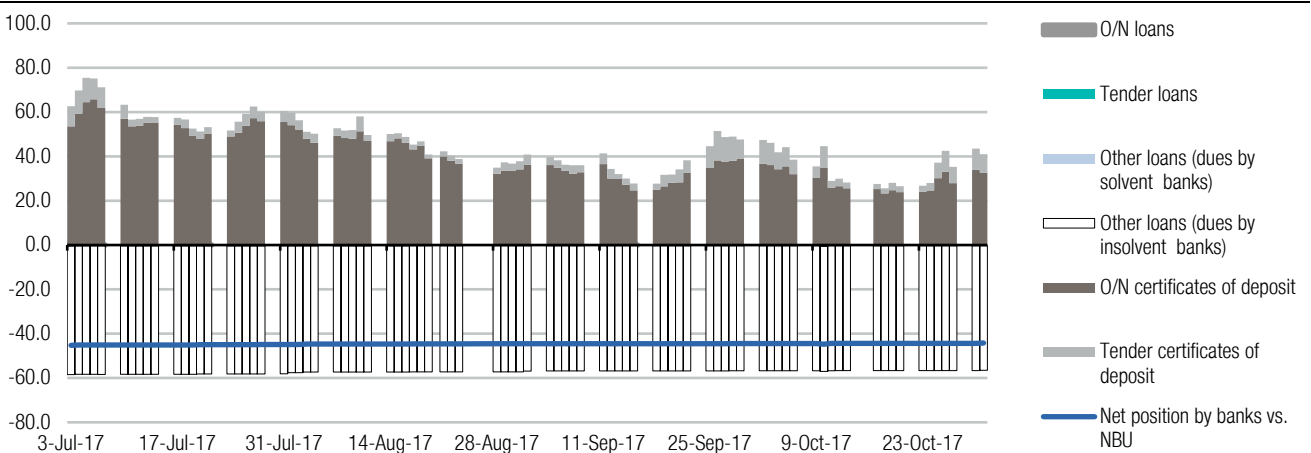


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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