

Daily Insight

Hryvnia close to 27/USD

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After declining significantly since last Wednesday, banking sector liquidity stabilized last Thursday, up UAH0.25bn to UAH77.52bn as a result of the positive impact of non-monetary operations which provided UAH0.25bn of additional funds. Banks increased the exchange of reserves into cash, with a net outflow of UAH0.03bn, while the Treasury provided UAH0.28bn of funds after its daily transactions. The Treasury received UAH2.7bn of funds, raising total budget expenditures to UAH3.0bn. 2

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Hryvnia close to 27/USD3

On the last day of the week, the hryvnia continued to decline against the USD to close to 27 USD/UAH as a result of higher demand for foreign currency over supply. During the week, the hryvnia fell by 0.3%; increasing the month's decline to 0.8%. As of Friday, the hryvnia fell by 0.1% to 26..9626 USD/UAH. It sold for 26.77 USD/UAH versus 26.91 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.59% to 105.38; in year-on-year terms, it is down 2.03% from 107.56 last year. 3

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MONDAY, 6 NOVEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 3 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 3 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.20	+10bp	+160bp
Banks reserves (UAHm)	42,143	+4.66	-15.26
Deposit certificates* (UAHm)	35,373	-4.40	-43.17
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.9550	+0.06	-0.54
Total trade volume (US\$m)	230.21	+15.71	+35.73
UAH index CPI-based	105.375	+0.59	-2.43
UAH index PPI-based	162.407	+0.59	-3.54

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	440bp	+0bp	-213bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,587.84	+0.31	+15.59
MSCI EM	1,126.18	-0.10	+30.61
US dollar index (DXY)	94.941	+0.27	-7.11
EUR / USD	1.1608	-0.43	+10.37
Crude oil WTI (US\$/bbl)	55.64	+2.02	+3.57
Crude oil BRENT (US\$/bbl)	62.07	+2.39	+9.24
CRB, commodities index	189.38	+0.67	-1.63
Gold (US\$/ounce)	1,269.72	-0.50	+10.19

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity stabilizes

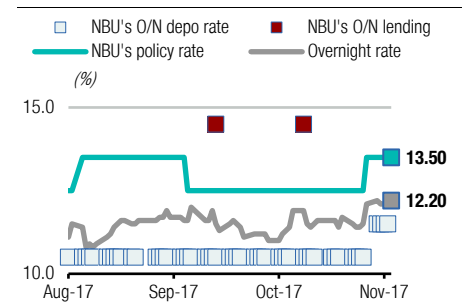
After declining significantly since last Wednesday, banking sector liquidity stabilized last Thursday, up UAH0.25bn to UAH77.52bn as a result of the positive impact of non-monetary operations which provided UAH0.25bn of additional funds. Banks increased the exchange of reserves into cash, with a net outflow of UAH0.03bn, while the Treasury provided UAH0.28bn of funds after its daily transactions. The Treasury received UAH2.7bn of funds, raising total budget expenditures to UAH3.0bn.

Banks' correspondent accounts with the NBU rose UAH1.87bn to UAH42.14bn while total CDs outstanding declined UAH1.63bn to UAH35.37bn. Banks decreased the amount of ON CDs, withdrawing UAH4.39bn from these instruments, reallocating UAH2.77bn of funds into 2-week CDs.

ICU view: Currently, total liquidity remains steady at the normal level seen over the past two months. Banks increased their investments in 2-week CDs with redemptions in advance of quarterly tax payments scheduled for the second week of this month. So, this week liquidity should remain steady, and possibly decline on Wednesday, when one bank will repay a large amount of local currency funds to the NBU in accordance with a SWAP deal.

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Interest rates in the banks' reserves market (three months through 3 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 3 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	13.50	+0bp	+0bp	+100bp	-50bp
ON rate	12.20	+10bp	+10bp	+100bp	+160bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	42,143	+4.66	-23.66	-0.06	-15.26
DepCerts ³	35,373	-4.40	+26.83	-2.00	-43.17
Total	77,516	+0.32	-6.71	-0.96	-30.77
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	315,098	+0.06	+0.26	+1.99	+82.84
Residents	23,033	+0.15	+0.05	-1.09	+46.91
Non-res ⁴	4,780	+0.00	+3.99	+70.77	-24.74
Total	703,484	+0.03	+0.15	+0.89	+27.79
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	15.81	-56bp	+3bp	+471bp	-650bp
3 months	15.20	+25bp	+2bp	+328bp	-687bp
6 months	12.59	-8bp	-7bp	-317bp	-545bp
1 year	11.70	+4bp	-1bp	+18bp	-429bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	440	+0bp	-7bp	-27bp	-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

Hryvnia close to 27/USD

On the last day of the week, the hryvnia continued to decline against the USD to close to 27 USD/UAH as a result of higher demand for foreign currency over supply. During the week, the hryvnia fell by 0.3%; increasing the month's decline to 0.8%. As of Friday, the hryvnia fell by 0.1% to 26.9626 USD/UAH. It sold for 26.77 USD/UAH versus 26.91 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.59% to 105.38; in year-on-year terms, it is down 2.03% from 107.56 last year.

The US dollar was quite volatile on Friday because of contrasting macroeconomic statistics. While the negative foreign trade balance increased by 1.7%, exceeding the forecast, and the number of jobs grew less than expected, the non-manufacturing PMI index grew to a 12-year record high of 60.1 points. The DXY index traded at 94.408-95.015, closing up 0.3% to 94.941.

The euro weakened in response to the strong US statistics released in the second half of Friday's trading session. Thus, the EUR/USD traded within 1.1599-1.169 EUR/USD, down 0.4% to 1.1608 EUR/USD. The Chinese yuan declined yet again against the dollar, trading at 6.6065 - 6.6393 USD/CNY, down 0.45% to 6.639.

The Russian ruble also declined as the USD strengthened. Oil prices were rather volatile but stayed above US\$60.5 per barrel, having little impact, as the ruble traded at 58.1532-59.2801 USD/RUB, down 1.5% to 59.0564.

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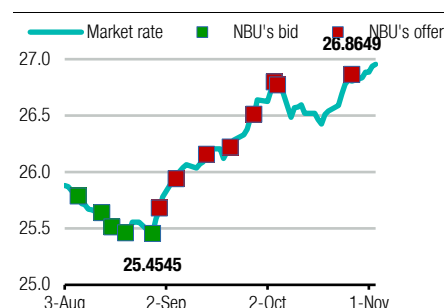
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 3 November 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.9550	+0.06	+0.56	+0.88	-0.54
USD ¹	94.941	+0.27	+0.03	+1.47	-7.11
EUR	1.1608	-0.43	+0.00	-1.16	+10.37
JPY	114.0700	-0.01	+0.35	+1.08	-2.47
GBP ²	1.3077	+0.14	-0.39	-1.21	+5.97
CNY	6.6390	+0.45	-0.17	-0.21	-4.41
RUB	59.0564	+1.49	+1.65	+1.92	-4.03

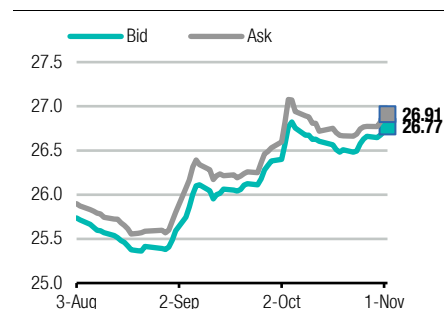
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 3 November 2017)



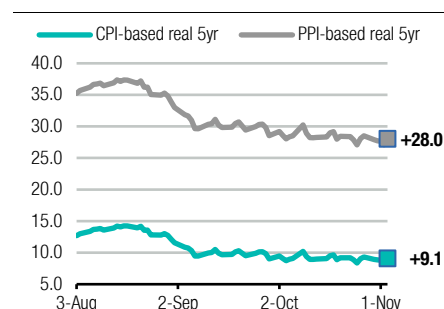
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 3 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 3 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)

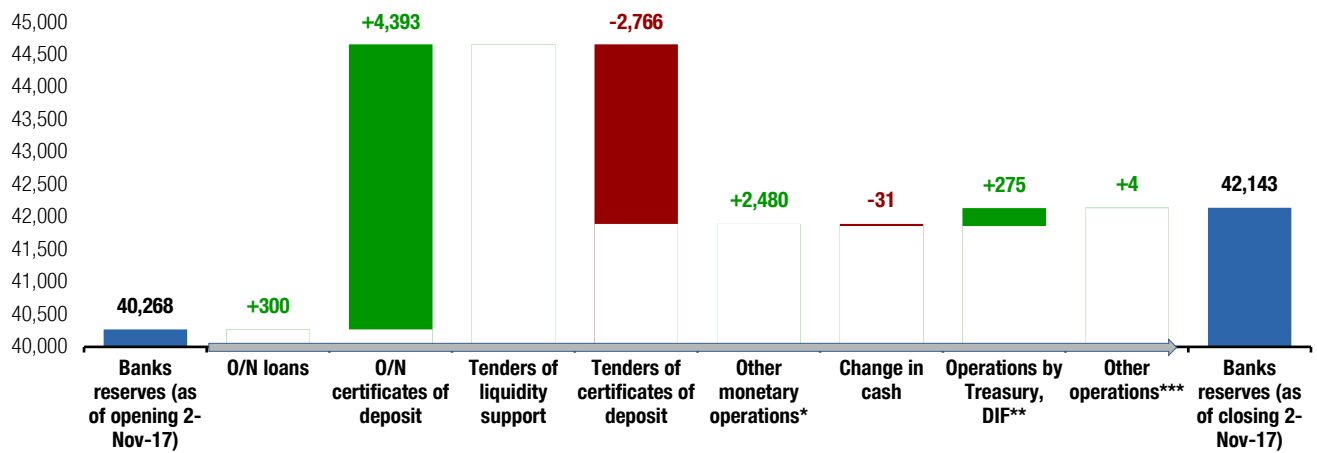
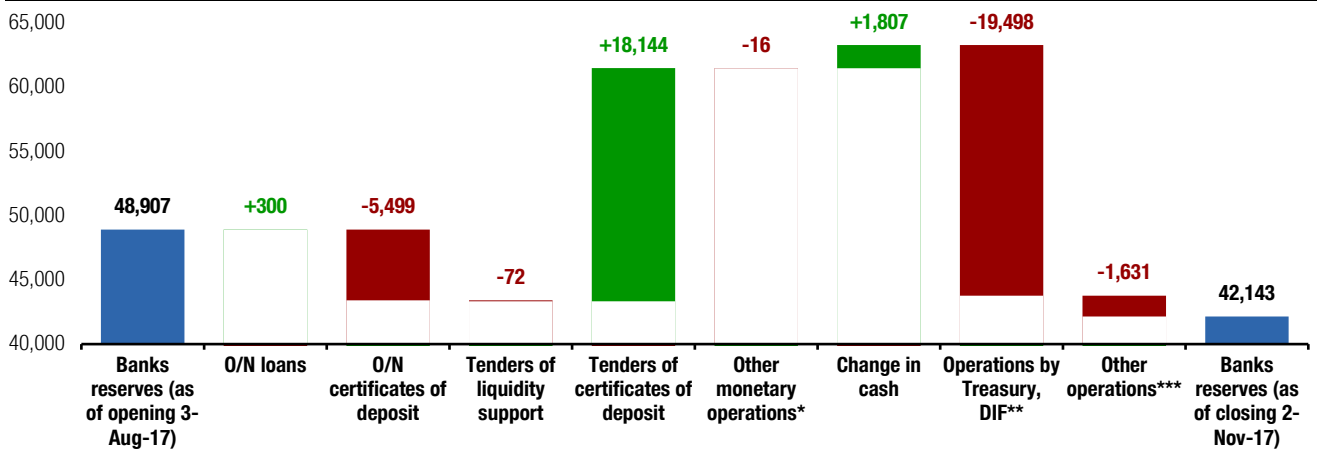
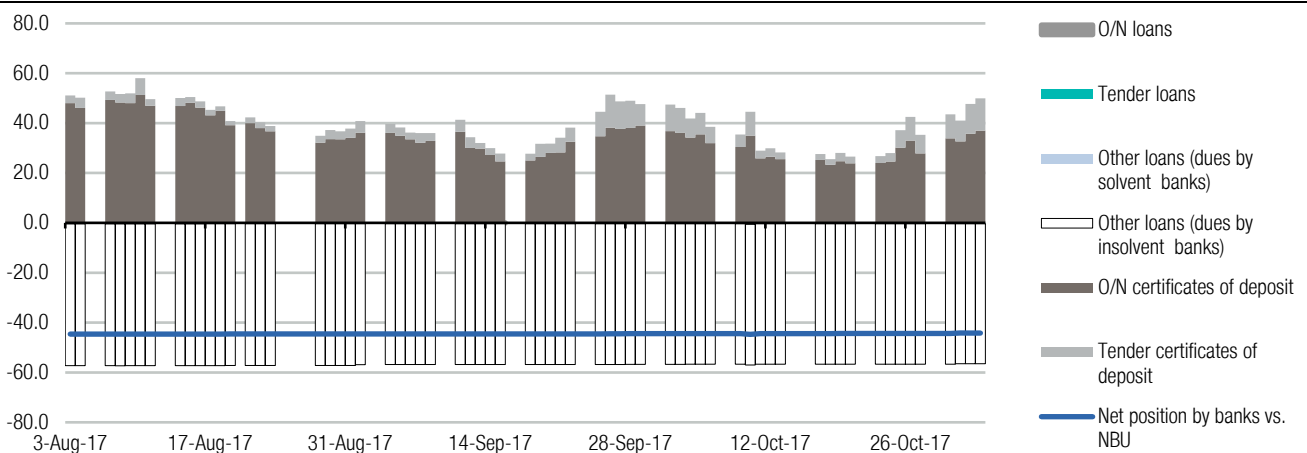


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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