

Daily Insight

The UAH strengthens 0.4% against the greenback

Key messages of the today's comments

TUESDAY, 7 NOVEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 6 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 6 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.20	+0bp	+160bp
Banks reserves (UAHm)	41,787	-0.84	-15.98
Deposit certificates* (UAHm)	26,811	-24.20	-56.92
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.8200	-0.50	-1.03
Total trade volume (US\$m)	308.95	+34.21	+82.15
UAH index CPI-based	105.578	+0.19	-2.24
UAH index PPI-based	162.721	+0.19	-3.36
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	440bp	+0bp	-213bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,591.13	+0.13	+15.74
MSCI EM	1,131.03	+0.43	+31.17
US dollar index (DXY)	94.757	-0.19	-7.29
EUR / USD	1.1610	+0.02	+10.39
Crude oil WTI (US\$/bbl)	57.35	+3.07	+6.76
Crude oil BRENT (US\$/bbl)	64.27	+3.54	+13.11
CRB, commodities index	192.57	+1.68	+0.03
Gold (US\$/ounce)	1,282.07	+0.97	+11.26

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

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Liquidity declines

Non-monetary operations last Friday caused banking sector liquidity to decline UAH1.65bn to UAH75.86bn through the end of last week. The Treasury collected UAH0.64bn more of funds over expenditures last Friday as banks continued to exchange reserves into cash, netting negative UAH0.95bn for liquidity. An additional outflow via other operations amounted to UAH0.03bn.

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3-year bond offering

Today, the MoF will offer at auction only one bond issue with a 3-year maturity. Because other issues scheduled for this week and included in last week's preliminary announcement did not collect sufficient demand, they most likely were not announced yesterday..

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Foreign exchange markets

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The UAH strengthens 0.4% against the greenback

At the beginning of the week, the hryvnia strengthened 0.4% to 26.8503 USD/UAH after falling for four consecutive trading sessions, most likely because of the start of exporters' preparing for third quarter tax payments (which will begin next week). At the same time, the liquidity level remains near this year's low (see comment on liquidity). On Monday, in the Ukrainian cash market, the hryvnia sold for 26.81 USD/UAH versus 26.95 to buy. Its CPI-based real trade-weighted index rose 0.19% to 105.58; in year-on-year terms, it is down 2.6% from 108.32 last year.

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Appendix #1: Domestic liquidity

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Domestic liquidity

Liquidity declines

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Banks' correspondent accounts with the NBU declined a slight UAH0.36bn to UAH41.77bn due to a reallocation of funds from CDs. Total CDs outstanding declined UAH1.30bn to UAH34.08bn due to lower ON CDs.

ICU view: Fund outflows came mostly due to an increase in cash in banks with the usual movement of funds during the first half of the month with a further exchange to cash. The Treasury last Friday had a negative impact on cashflows, and there is a high risk that outflows could accelerate further next week due to quarterly tax payments; liquidity could decline below UAH70bn.

3-year bond offering

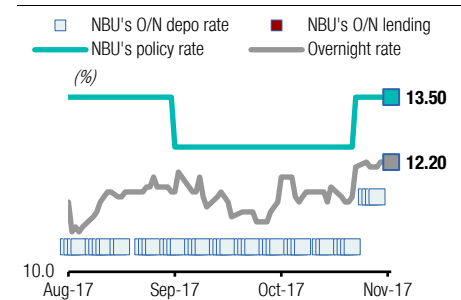
Today, the MoF will offer at auction only one bond issue with a 3-year maturity. Because other issues scheduled for this week and included in last week's preliminary announcement did not collect sufficient demand, they most likely were not announced yesterday.

An August 2020 issue sold four times over the last two months at total par value of UAH2.23bn will be offered tomorrow. Last week, the MoF increased interest rates for this issue, raising the weighted average rate to 14.88% and the cut-off rate to 14.94%. Last week, total demand amounted to UAH0.35bn for this bond.

ICU view: Most likely, there will be low demand and bids should be concentrated at last week's cut-off rate. This week, the MoF could reject bids above 14.94% or decrease the cut-off rate if the main portion of demand is below last week's cut-off rate.

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Interest rates in the banks' reserves market (three months through 6 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 6 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	+0bp	+0bp	+30bp	+160bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	41,787	-0.84	-4.03	-5.25	-15.98
DepCerts ³	26,811	-24.20	-20.96	-16.19	-56.92
Total	68,598	-11.50	-11.44	-9.85	-38.74
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	315,080	-0.01	+0.24	+1.85	+82.83
Residents	23,174	+0.61	+0.41	-1.07	+47.81
Non-res ⁴	4,780	-0.01	+3.96	+70.72	-24.75
Total	703,606	+0.02	+0.14	+1.07	+27.81
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	14.85	-96bp	-91bp	+298bp	-746bp
3 months	14.75	-44bp	-12bp	+225bp	-731bp
6 months	12.56	-3bp	-9bp	+43bp	-548bp
1 year	11.62	-8bp	-3bp	-4bp	-437bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	440	+0bp	+5bp	-17bp	-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

The UAH strengthens 0.4% against the greenback

At the beginning of the week, the hryvnia strengthened 0.4% to 26.8503 USD/UAH after falling for four consecutive trading sessions, most likely because of the start of exporters' preparing for third quarter tax payments (which will begin next week). At the same time, the liquidity level remains near this year's low (see comment on liquidity). On Monday, in the Ukrainian cash market, the hryvnia sold for 26.81 USD/UAH versus 26.95 to buy. Its CPI-based real trade-weighted index rose 0.19% to 105.58; in year-on-year terms, it is down 2.6% from 108.32 last year.

The US dollar was boosted at the end of last week thanks to higher-than-expected US factory orders and service sector data. On Monday, the greenback remained steady against the basket of other major currencies, while the DXY hit an intraday high of 95.08. The US currency was supported by expectations that the Fed will increase the key policy rate one more time. However, investors remained cautious amid concerns over the tax reform plan in the USA. Thus, the DXY index was in the 94.69–95.08 range, closing down 0.2% to 94.76.

The euro received little support from the better-than-expected PMI reading. Investor concerns about the future of the QE program indicate doubts of whether the ECB will be able to achieve its inflation target of 2%. The greenback's strength also fed into the euro's weakness in the first part of the trading session. However, the single European currency managed to recover all losses by the end of the trading session and closed at 1.1610 EUR/USD.

The Chinese renminbi turned to modest growth, having strengthened 0.1% to 6.6338 USD/CNY after falling for two trading sessions. The Russian ruble appreciated 1.3% against the USD to 58.2763 USD/RUB, boosted by the surge of oil prices, which hit a 2-year high on Monday, driven mostly by arrests in Saudi Arabia.

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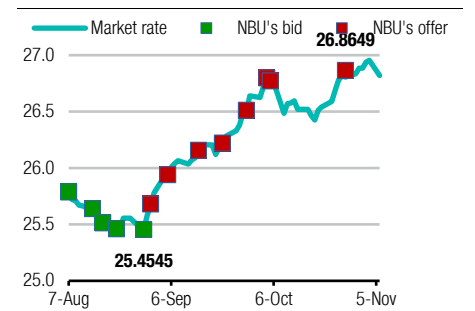
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 6 November 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8200	-0.50	-0.06	+0.22	-1.03
USD ¹	94.757	-0.19	+0.21	+1.02	-7.29
EUR	1.1610	+0.02	-0.35	-1.02	+10.39
JPY	113.7100	-0.32	+0.47	+0.94	-2.78
GBP ²	1.3171	+0.72	-0.28	+0.80	+6.73
CNY	6.6338	-0.08	-0.19	-0.29	-4.48
RUB	58.2763	-1.32	+0.53	+0.22	-5.30

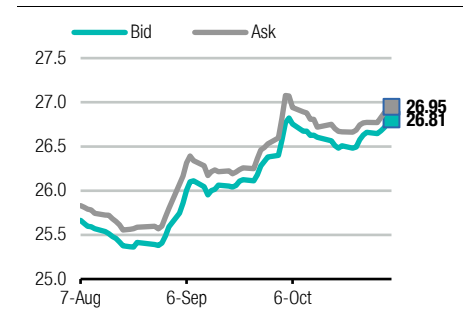
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 6 November 2017)



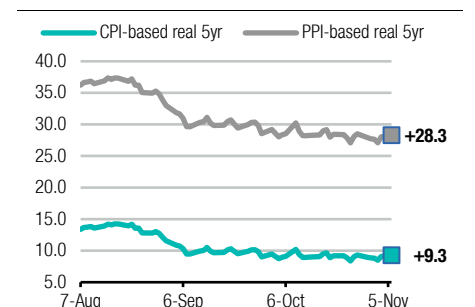
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 6 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 6 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)

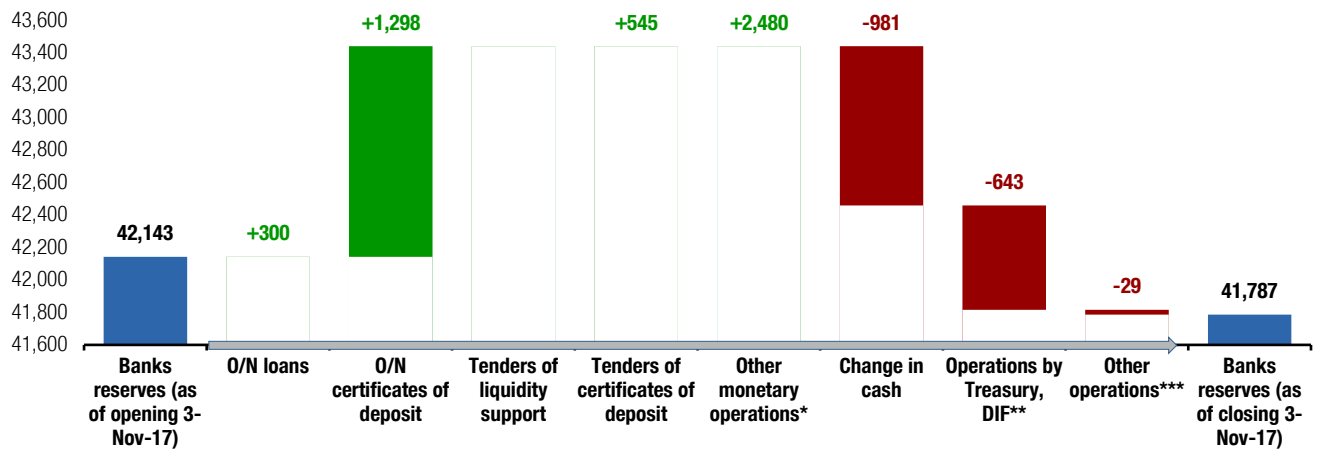
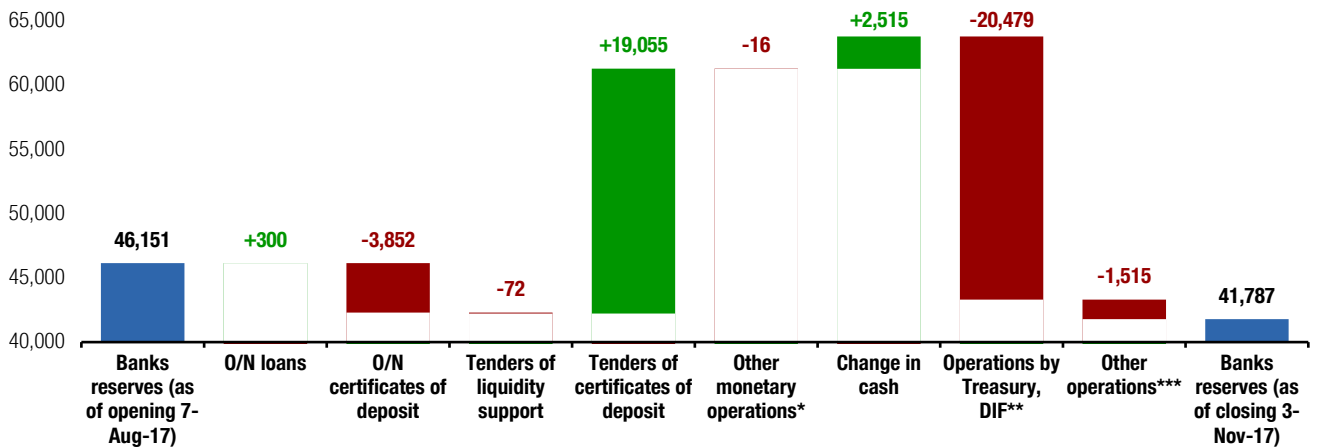
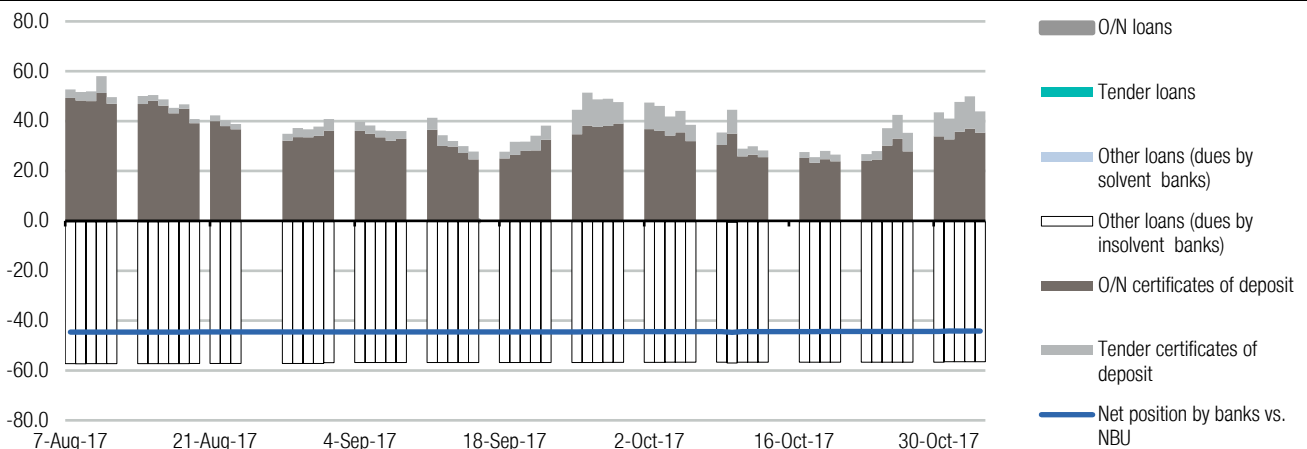


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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