

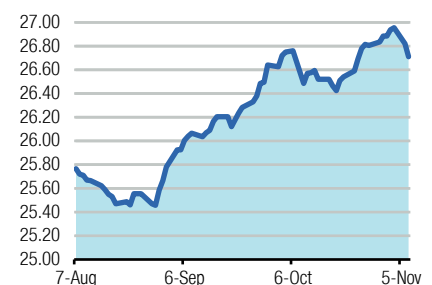
# Daily Insight

## Liquidity remains volatile

### Key messages of the today's comments

WEDNESDAY, 8 NOVEMBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 7 November 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 7 November 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)	41,608	-0.43	-16.34
Deposit certificates* (UAHm)	35,641	+4.60	-42.74
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.7100	-0.41	-1.44
Total trade volume (US\$m)	295.71	-4.29	+74.34
UAH index CPI-based	106.572	+0.94	-1.32
UAH index PPI-based	164.253	+0.94	-2.45
<b>UKRAINE SOVEREIGN EUROBOOND MARKET</b>			
CDS 5yr	446bp	+6bp	-207bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,590.64	-0.02	+15.71
MSCI EM	1,134.55	+0.31	+31.58
US dollar index (DXY)	94.913	+0.16	-7.14
EUR / USD	1.1587	-0.20	+10.17
Crude oil WTI (US\$/bbl)	57.20	-0.26	+6.48
Crude oil BRENT (US\$/bbl)	63.69	-0.90	+12.09
CRB, commodities index	191.85	-0.37	-0.35
Gold (US\$/ounce)	1,275.31	-0.53	+10.68

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

Source: Bloomberg, ICU.

#### Domestic liquidity **2**

##### Liquidity remains volatile .....2

This Monday, liquidity was up UAH1.39bn to UAH77.25bn, very close to the level seen at the end of last Thursday, most likely the result of NBU monetary operations and autonomous operations. The NBU provided UAH0.81bn via its operations, most likely via FX purchases, as there were no loans issued that day. Non-monetary operations provided UAH0.58bn, including UAH0.88bn of inflows from the Treasury and UAH0.9bn of other operations while outflows via reserves exchange in cash amounted to UAH0.39bn. **2**

##### MoF rejects demand .....2

Yesterday's auction was cancelled as the MoF decided to reject all bids. For the second time in 2H17, the MoF did this to avoid raising interest rates for such a low amount of funds. The last time this occurred was in September 2017. **2**

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

##### UAH extends gains .....3

The hryvnia strengthened another 0.4% against the USD to 26.7513 USD/UAH, boosted by positive macroeconomic data. Ukraine's FX reserves rose for the third straight month and hit a new high since early 2014, having increased to US\$18.74bn. At the same time, the EBRD confirmed its real GDP outlook for Ukraine at 2% growth for full-year 2017. In the Ukrainian cash market, the hryvnia sold for 26.77 USD/UAH versus 26.94 to buy. Its CPI-based real trade-weighted index rose 0.94% to 106.57; in year-on-year terms, it is down 2.4% from 109.20 last year. **3**

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

# Domestic liquidity

## Liquidity remains volatile

This Monday, liquidity was up UAH1.39bn to UAH77.25bn, very close to the level seen at the end of last Thursday, most likely the result of NBU monetary operations and autonomous operations. The NBU provided UAH0.81bn via its operations, most likely via FX purchases, as there were no loans issued that day. Non-monetary operations provided UAH0.58bn, including UAH0.88bn of inflows from the Treasury and UAH0.9bn of other operations while outflows via reserves exchange in cash amounted to UAH0.39bn.

All additional liquidity was invested in ON CDs with a portion of funds reallocated from reserves. Banks' correspondent accounts with the NBU slid UAH0.18bn to UAH41.61bn while total CDs outstanding was up UAH1.57bn to UAH35.64bn. ON CDs outstanding rose to UAH8.83bn.

**ICU view: Liquidity remains volatile, slightly below UAH80bn, and potential risks of a decline due to quarterly tax payments remain high. The main sources for inflows to liquidity also remain the same, including an increase in budget expenditures which should accelerate due to the end of the year and also due to the NBU's purchase of FX to decrease exchange rate volatility.**

## MoF rejects demand

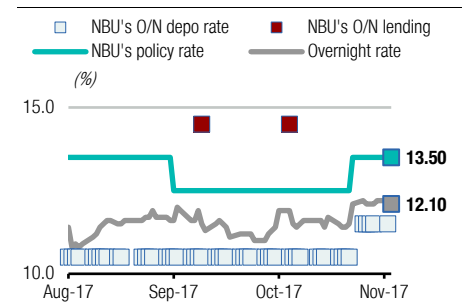
Yesterday's auction was cancelled as the MoF decided to reject all bids. For the second time in 2H17, the MoF did this to avoid raising interest rates for such a low amount of funds. The last time this occurred was in September 2017.

Total demand of UAH10.42m came from three bids, all at 15.00%, up 6bp for the cut-off rate and 12bp for the weighted-average rate. There was little information about the bids, as there could be only one competitive and two non-competitive bids.

**ICU view: The MoF's decision was anticipated and plainly signaled that higher interest rates will be not accepted by the MoF, especially for low funds. At next week's scheduled auction for 5-year bonds, the MoF will accept bids no higher than 15.40%, similar to last week's increase in yield for bonds with a shorter maturity.**

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

## Interest rates in the banks' reserves market (three months through 7 November 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 7 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	13.50	+0bp	+0bp	+100bp	-50bp
ON rate	12.10	-10bp	+0bp	+20bp	+150bp
ON \$ swap	12.02	-13bp	-52bp	+0bp	+55bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	41,608	-0.43	-8.12	-5.65	-16.34
DepCerts <sup>3</sup>	35,641	+4.60	+9.14	+11.41	-42.74
<b>Total</b>	<b>77,249</b>	<b>+1.83</b>	<b>-0.89</b>	<b>+1.52</b>	<b>-31.01</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	314,865	-0.07	+0.20	+1.71	+82.58
Residents	22,939	-0.73	-1.90	-2.78	+45.25
Non-res <sup>4</sup>	4,780	+0.00	+3.59	+70.73	-24.74
<b>Total</b>	<b>703,157</b>	<b>-0.05</b>	<b>+0.05</b>	<b>+0.95</b>	<b>+27.66</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	16.01	+116bp	+53bp	+414bp	-630bp
3 months	16.78	+203bp	+183bp	+428bp	-528bp
6 months	12.73	+17bp	+11bp	+60bp	-531bp
1 year	11.74	+12bp	+9bp	+7bp	-425bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	446	+6bp	+8bp	-11bp	-207bp

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 extends gains

The hryvnia strengthened another 0.4% against the USD to 26.7513 USD/UAH, boosted by positive macroeconomic data. Ukraine's FX reserves rose for the third straight month and hit a new high since early 2014, having increased to US\$18.74bn. At the same time, the EBRD confirmed its real GDP outlook for Ukraine at 2% growth for full-year 2017. In the Ukrainian cash market, the hryvnia sold for 26.77 USD/UAH versus 26.94 to buy. Its CPI-based real trade-weighted index rose 0.94% to 106.57; in year-on-year terms, it is down 2.4% from 109.20 last year.

The US dollar traded broadly higher against the basket of other major currencies on Tuesday in reaction to data that showed that the majority of traders continue to abandon bearish bets on the USD. At the same time, revived hopes for tax reform pushed the USD higher since Republican lawmakers began revising their proposed overhaul of the US tax system. Thus, the DXY index rose 0.2% to 94.91.

The euro was negatively affected by the USD's strength as well as by mixed macroeconomic statistics. Eurozone retail sales rose 0.7% MoM and surged 3.7% YoY, while the retail PMI fell to 51.1 in October. On the other hand, German industrial production dropped 1.6% MoM, more than expected. On Tuesday, the euro traded at 1.1554-1.1616 EUR/USD, closing down 0.2% to 1.1587 EUR/USD.

The Chinese renminbi weakened 0.1% to 6.6405 USD/CNY under pressure of the country's FX reserves data which rose less-than-expected in October - to US\$3,109bn. Despite high oil prices, the Russian ruble dropped 1.9% to 59.3773 USD/RUB after Monday's surge of 1.3%. The Russian currency was influenced by excess demand for the USD in the local FX market and decreased investor interest in carry trade operations amid greater probability of a third interest rate hike in the USA.

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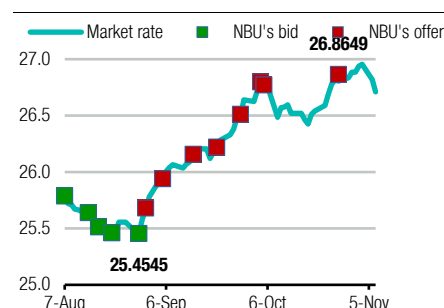
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 7 November 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.7100	-0.41	-0.65	-0.19	-1.44
USD <sup>1</sup>	94.913	+0.16	+0.38	+1.19	-7.14
EUR	1.1587	-0.20	-0.51	-1.22	+10.17
JPY	114.0100	+0.26	+0.33	+1.21	-2.52
GBP <sup>2</sup>	1.3166	-0.04	-0.88	+0.77	+6.69
CNY	6.6405	+0.10	+0.08	-0.18	-4.38
RUB	59.3773	+1.89	+1.77	+2.12	-3.51

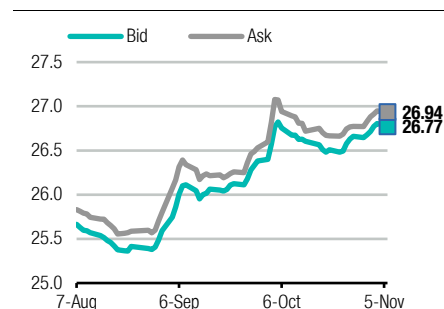
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 7 November 2017)



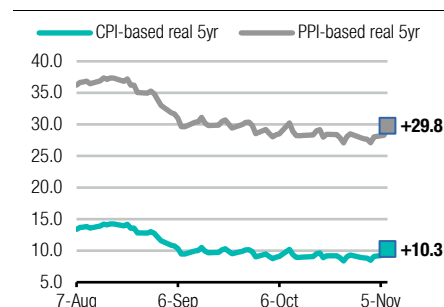
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 7 November 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 7 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)

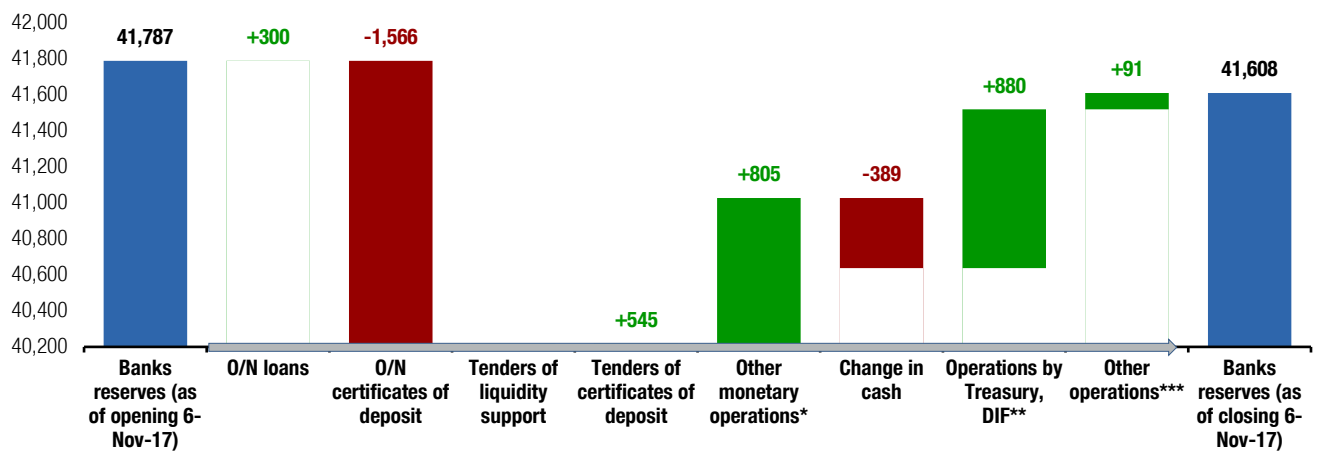
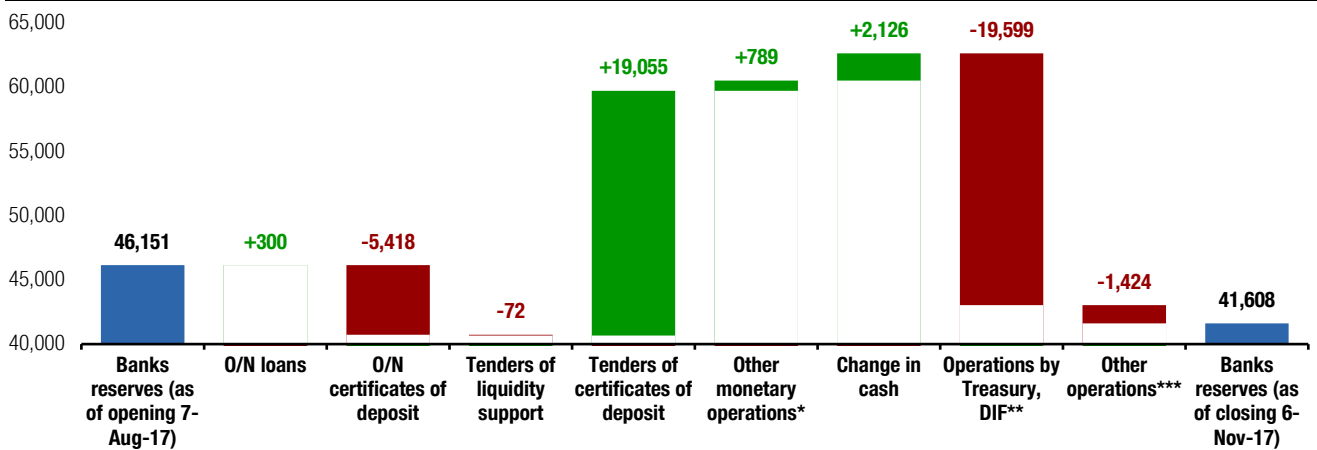
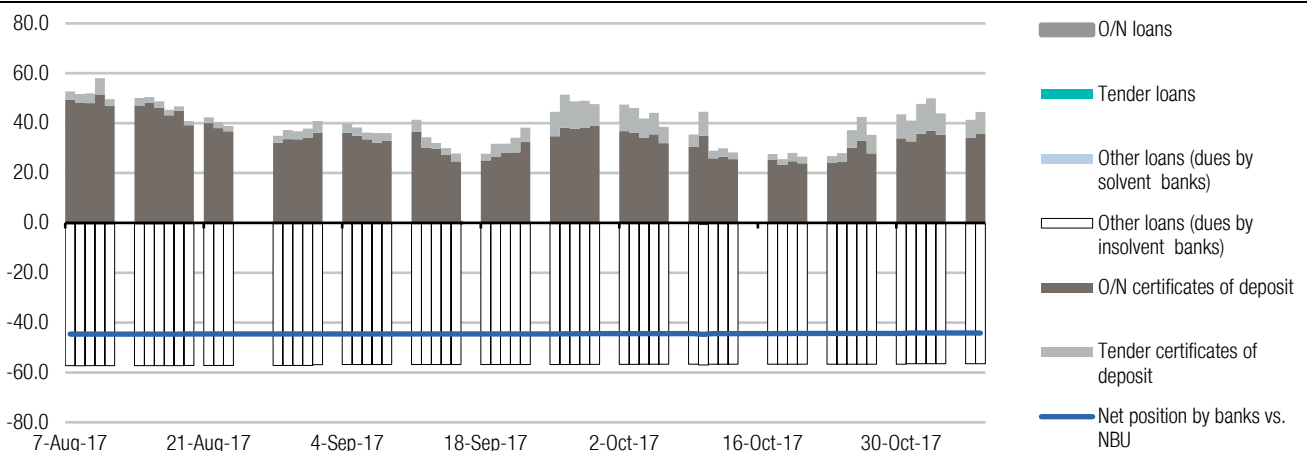


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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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