

Daily Insight

Hryvnia on the rise

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This Tuesday, liquidity significantly fell due to a significant absorption of funds to Treasury accounts and decline in budget expenditures. As the result, outflows caused by non-monetary operations amounted to UAH3.50bn, including UAH2.46bn of funds absorbed by the Treasury. Moreover, UAH1.05bn of reserves were exchanged in cash, while only UAH0.01bn of inflows came from other non-monetary operations.

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The hryvnia strengthened for the third consecutive trading session -- on Wednesday it rose another 0.4% to 26.6362 USD/UAH. The Ukrainian currency already gained 1.2% against the greenback this week. The key driver of appreciation was excess demand for the hryvnia in the domestic FX market, as investors began preparing for third quarter tax payments which start next Monday. Meanwhile, banking sector liquidity fell to the second lowest rate this year (see comment on liquidity), which also increases demand for the hryvnia. In the Ukrainian cash market, the hryvnia sold for 26.72 USD/UAH versus 26.89 to buy. Its CPI-based real trade-weighted index rose 0.10% to 106.676; in year-on-year terms, it is down 2.96% from 109.93 last year.

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Appendix #1: Domestic liquidity

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THURSDAY, 9 NOVEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 8 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 8 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	11.60	-50bp	+100bp
Banks reserves (UAHm)	41,985	+0.91	-15.58
Deposit certificates* (UAHm)	32,808	-7.95	-47.29
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.6450	-0.24	-1.68
Total trade volume (US\$m)	202.75	-31.44	+19.53
UAH index CPI-based	106.676	+0.10	-1.23
UAH index PPI-based	164.414	+0.10	-2.35

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	454bp	+8bp	-199bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,594.38	+0.14	+15.88
MSCI EM	1,134.68	+0.01	+31.59
US dollar index (DXY)	94.866	-0.05	-7.19
EUR / USD	1.1595	+0.07	+10.25
Crude oil WTI (US\$/bbl)	56.81	-0.68	+5.75
Crude oil BRENT (US\$/bbl)	63.49	-0.31	+11.74
CRB, commodities index	191.89	+0.02	-0.32
Gold (US\$/ounce)	1,281.35	+0.47	+11.20

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity at month's low

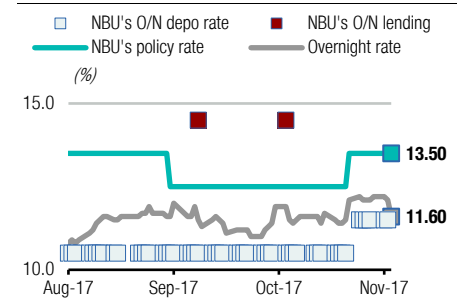
This Tuesday, liquidity significantly fell due to a significant absorption of funds to Treasury accounts and decline in budget expenditures. As the result, outflows caused by non-monetary operations amounted to UAH3.50bn, including UAH2.46bn of funds absorbed by the Treasury. Moreover, UAH1.05bn of reserves were exchanged in cash, while only UAH0.01bn of inflows came from other non-monetary operations.

At the same time, the NBU provided UAH1.05bn of funds via its monetary operations, most likely from the NBU purchasing a new portion of FX and offsetting the outflow of funds to cash. As a result, banking sector liquidity fell UAH2.46bn to UAH74.79bn, this month's low. Banks decreased CDs outstanding by UAH2.83bn to UAH32.81bn, including a withdrawal of funds mostly from 2-week CDs, decreasing the amount outstanding by UAH2.29bn. ON CDs outstanding declined UAH0.54bn. Banks' correspondent accounts with the NBU rose UAH0.38bn to UAH41.99bn.

ICU view: *The decline in liquidity during the first week is routine and most likely short-lived. However, this month such a decline to a new low could increase negative pressure on the cost of funds, especially as next week quarterly tax payments begin.*

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Interest rates in the banks' reserves market (three months through 8 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 8 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	11.60	-50bp	-50bp	-30bp	+100bp
ON \$ swap	11.86	-44bp	-20bp	+0bp	+39bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	41,985	+0.91	-3.88	-4.80	-15.58
DepCerts ³	32,808	-7.95	-8.18	+2.56	-47.29
Total	74,793	-3.18	-5.82	-1.71	-33.20
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	314,647	-0.07	+0.18	+1.71	+82.58
Residents	22,773	-0.73	-2.14	-2.78	+45.25
Non-res ⁴	4,780	+0.00	+3.59	+70.73	-24.74
Total	702,772	-0.05	+0.03	+0.95	+27.66
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	14.65	-136bp	-89bp	+278bp	-766bp
3 months	14.69	-209bp	-27bp	+219bp	-737bp
6 months	12.49	-24bp	-26bp	+36bp	-555bp
1 year	11.64	-10bp	-1bp	-2bp	-435bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	454	+8bp	+4bp	-3bp	-199bp

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 on the rise

The hryvnia strengthened for the third consecutive trading session -- on Wednesday it rose another 0.4% to 26.6362 USD/UAH. The Ukrainian currency already gained 1.2% against the greenback this week. The key driver of appreciation was excess demand for the hryvnia in the domestic FX market, as investors began preparing for third quarter tax payments which start next Monday. Meanwhile, banking sector liquidity fell to the second lowest rate this year (see comment on liquidity), which also increases demand for the hryvnia. In the Ukrainian cash market, the hryvnia sold for 26.72 USD/UAH versus 26.89 to buy. Its CPI-based real trade-weighted index rose 0.10% to 106.676; in year-on-year terms, it is down 2.96% from 109.93 last year.

The US dollar remained broadly stable against the basket of other major currencies as investors were looking to new information regarding tax reform in the USA. The tax reform plan currently under discussion in the US Senate is riddled with rumors that the tax overhaul could be delayed by a year to comply with Senate rules. On Wednesday, the DXY index traded at 94.78-94.97, closing down 0.1% to 94.87.

Without any important macroeconomic statistics on Wednesday, the euro traded slightly higher against the weaker greenback, causing it to close up 0.1% to 1.1595 EUR/USD. The Chinese renminbi strengthened against the greenback by 0.2% to 6.6280 USD/CNY after declining for three consecutive trading sessions. At the same time, the volatility of the renminbi fell to the lowest level since September.

The Russian ruble moved in line with oil prices which were unstable on the back of the situation in Saudi Arabia. At the same time, it is worth noting that the central bank of Russia did not sell the planned volume of domestic bonds for the first time in 1.5 months, which indicates a decrease in investors' appetite for Russian debt denominated in local currency and lower demand for the ruble. On Wednesday, the ruble traded at 58.0731-59.5816 USD/RUB, closing up 0.2% to 59.2345 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](#).

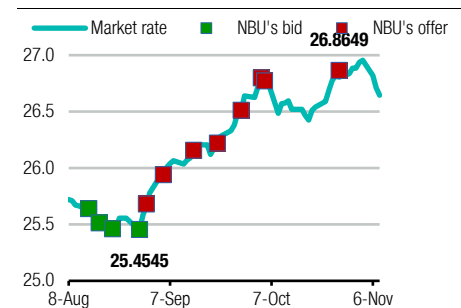
Key indicators (as of 8 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.6450	-0.24	-0.89	-0.43	-1.68
USD ¹	94.866	-0.05	+0.21	+1.14	-7.19
EUR	1.1595	+0.07	-0.38	-1.15	+10.25
JPY	113.8700	-0.12	-0.06	+1.08	-2.64
GBP ²	1.3116	-0.38	-1.26	+0.38	+6.29
CNY	6.6280	-0.19	+0.10	-0.37	-4.56
RUB	59.2345	-0.24	+1.76	+1.87	-3.74

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

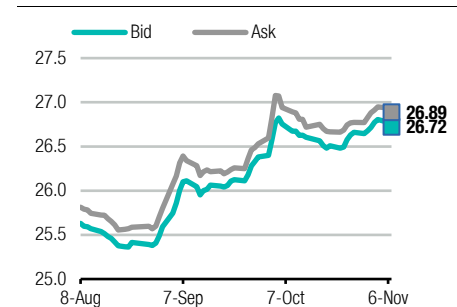
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 8 November 2017)



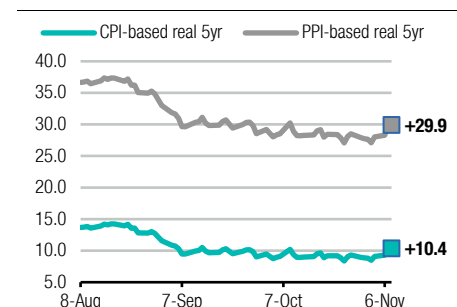
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 8 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 8 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)

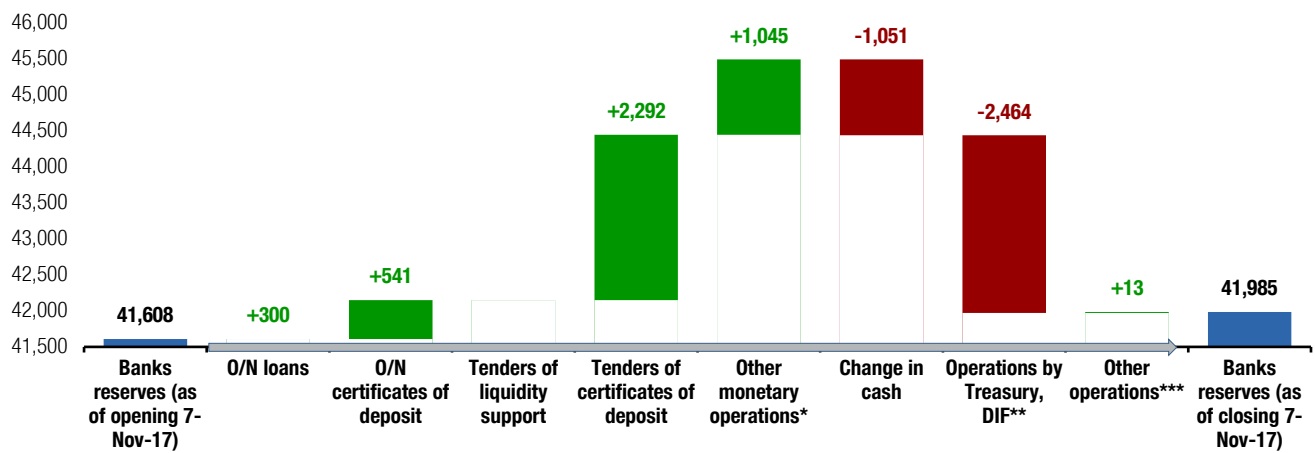
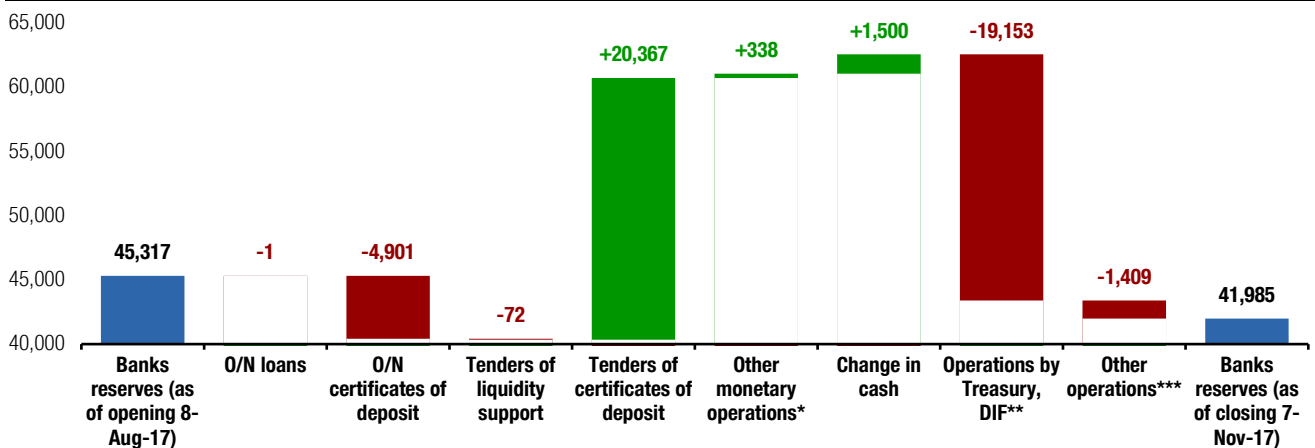


Chart 2. Banks reserves usages over last 90-day period (UAHm)

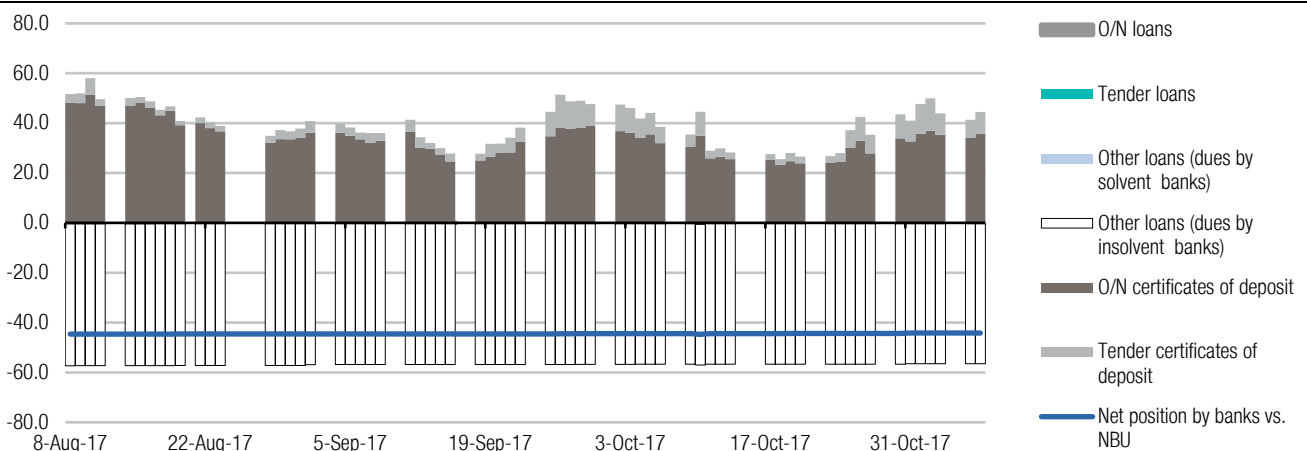


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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