

Daily Insight

Liquidity insufficient recovery

Key messages of the today's comments

FRIDAY, 10 NOVEMBER 2017

Domestic liquidity

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Liquidity insufficient recovery2

Despite an anticipated decline from a SWAP deal about UAH2.5bn, liquidity slightly increased this Wednesday. The NBU appears to have purchased a new portion of FX, decreasing the negative impact of a SWAP repayment to minus UAH1.53bn. The increase in liquidity was caused by non-monetary operations as the Treasury increased expenditures after fund collections fell significantly. Treasury operations injected UAH3.37bn and banks also exchanged UAH1.08bn in cash. 2

Foreign exchange markets

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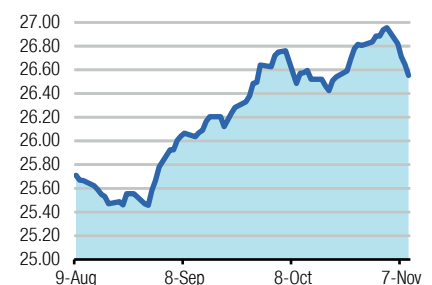
UAH continues to rise3

The hryvnia extended its gains on Thursday and strengthened another 0.3% against the USD to 26.5586 USD/UAH as inflation in Ukraine slowed to 14.6% YoY in October from 16.4% YoY in September. At the same time, the globally weaker US dollar pushed up demand for the hryvnia in the local FX market. On Thursday, in the Ukrainian cash market, the hryvnia sold for 26.67 USD/UAH versus 26.84 to buy. Its CPI-based real trade-weighted index rose 0.2% to 106.89; in year-on-year terms, it is down 3.32% from 110.56 last year. While a reduced pace of inflation does increase the purchasing power of the hryvnia, our in-house calculations of the CPI- and PPI indices show that it is overvalued. 3

Appendix #1: Domestic liquidity

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Ukraine's hryvnia exchange rate per US dollar (three months through 9 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 9 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.00	+40bp	+140bp
Banks reserves (UAHm)	38,186	-9.05	-23.22
Deposit certificates* (UAHm)	37,505	+14.32	-39.74
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.5525	-0.35	-2.02
Total trade volume (US\$m)	189.11	-6.72	+11.50
UAH index CPI-based	106.886	+0.20	-1.03
UAH index PPI-based	164.736	+0.20	-2.16
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	447bp	-7bp	-206bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,584.62	-0.38	+15.45
MSCI EM	1,133.78	-0.08	+31.49
US dollar index (DXY)	94.444	-0.44	-7.60
EUR / USD	1.1642	+0.41	+10.70
Crude oil WTI (US\$/bbl)	57.17	+0.63	+6.42
Crude oil BRENT (US\$/bbl)	63.93	+0.69	+12.51
CRB, commodities index	191.87	-0.01	-0.33
Gold (US\$/ounce)	1,285.13	+0.30	+11.53

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity insufficient recovery

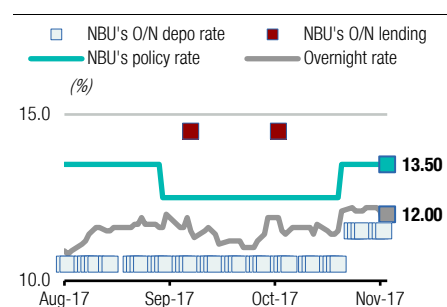
Despite an anticipated decline from a SWAP deal about UAH2.5bn, liquidity slightly increased this Wednesday. The NBU appears to have purchased a new portion of FX, decreasing the negative impact of a SWAP repayment to minus UAH1.53bn. The increase in liquidity was caused by non-monetary operations as the Treasury increased expenditures after fund collections fell significantly. Treasury operations injected UAH3.37bn and banks also exchanged UAH1.08bn in cash.

As a result of these cashflows, liquidity rose UAH0.90bn to UAH75.69bn, including a significant reallocation of funds from reserves into CDs. The NBU sold UAH0.30bn of 3-month CDs at 15.25%, while the major increase in CDs outstanding was in ON CDs as banks purchased UAH4.40bn more of these CDs to increase the amount outstanding to UAH12.69bn. As a result, total CDs outstanding rose UAH4.70bn to UAH37.51bn while banks' correspondent accounts with the NBU fell UAH3.80bn to UAH38.19bn.

ICU view: *The significant reallocation of funds yesterday into CDs should be short-lived as most likely some banks increased reserves using ON and 2-week CDs redemptions. Also, the increase in liquidity should be short-lived and inflows from the NBU via the FX market, combined with an increase in budget expenditures, should mostly offset fund outflows via quarterly tax payments.*

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Interest rates in the banks' reserves market (three months through 9 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 9 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	12.00	+40bp	-10bp	+10bp	+140bp
ON \$ swap	12.08	+40bp	-67bp	-54bp	+61bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	38,186	-9.05	-5.17	-10.01	-23.22
DepCerts ³	37,505	+14.32	+1.36	+23.15	-39.74
Total	75,691	+1.20	-2.04	+3.84	-32.40
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	N/A	N/A	N/A	N/A	N/A
Banks	N/A	N/A	N/A	N/A	N/A
Residents	N/A	N/A	N/A	N/A	N/A
Non-res ⁴	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	15.74	+109bp	-63bp	+335bp	-657bp
3 months	14.76	+7bp	-18bp	+245bp	-730bp
6 months	12.58	+9bp	-9bp	+31bp	-546bp
1 year	11.66	+2bp	+1bp	+3bp	-433bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	447	-7bp	+7bp	-3bp	-206bp

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 continues to rise

The hryvnia extended its gains on Thursday and strengthened another 0.3% against the USD to 26.5586 USD/UAH as inflation in Ukraine slowed to 14.6% YoY in October from 16.4% YoY in September. At the same time, the globally weaker US dollar pushed up demand for the hryvnia in the local FX market. On Thursday, in the Ukrainian cash market, the hryvnia sold for 26.67 USD/UAH versus 26.84 to buy. Its CPI-based real trade-weighted index rose 0.2% to 106.89; in year-on-year terms, it is down 3.32% from 110.56 last year. While a reduced pace of inflation does increase the purchasing power of the hryvnia, our in-house calculations of the CPI- and PPI indices show that it is overvalued.

The US dollar traded broadly lower against the basket of other major currencies due to weak statistics of the labor market. According to a report released on Thursday, initial jobless claims rose more than expected last week, quelling optimism over the strength of the US labor market. At the same time, the greenback came under pressure following the news that Senate would delay corporate tax cuts until 2019. The DXY index traded at 94.42-94.96, closing down 0.4% to 94.44.

The euro strengthened 0.4% to 1.1642 EUR/USD, boosted by a revised Eurozone real GDP outlook. The European Commission increased its real GDP forecast to 2.2% and 2.1% growth in 2017 and 2018, respectively, versus May's expected the growth of 1.7% and 1.8%, respectively. At the same time, the ECB representative stated that the regulator will support the economy of the Eurozone until it can continue to grow without stimulus.

The Chinese renminbi weakened 0.2% against the greenback to 6.6402 USD/CNY as the central bank of China lowered the daily reference rate by 0.07% to 6.6325 USD/CNY. In addition, the increase in inflation to 1.9% YoY in October from 1.6% YoY in September created some pressure on the Chinese currency. The Russian ruble struggled to find direction on Thursday as stable oil prices had little impact. On the other hand, higher demand in the local FX market persisted as Russian firms have significant external debt repayments scheduled in November and December. The ruble traded at 59.1122-59.4756 USD/RUB, closing down 0.1% to 59.2864 USD/RUB.

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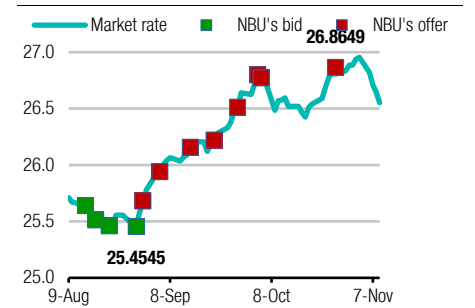
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 9 November 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.5525	-0.35	-1.43	+0.25	-2.02
USD ¹	94.444	-0.44	-0.25	+0.82	-7.60
EUR	1.1642	+0.41	-0.14	-0.83	+10.70
JPY	113.4700	-0.35	-0.53	+0.70	-2.98
GBP ²	1.3145	+0.22	+0.66	+0.02	+6.52
CNY	6.6402	+0.18	+0.47	+0.23	-4.39
RUB	59.2864	+0.09	+1.88	+1.71	-3.66

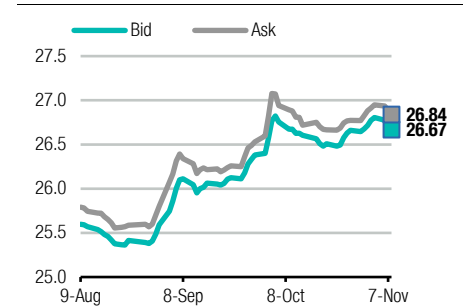
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 9 November 2017)



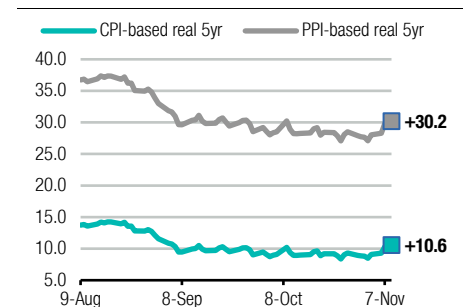
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 9 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 9 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)

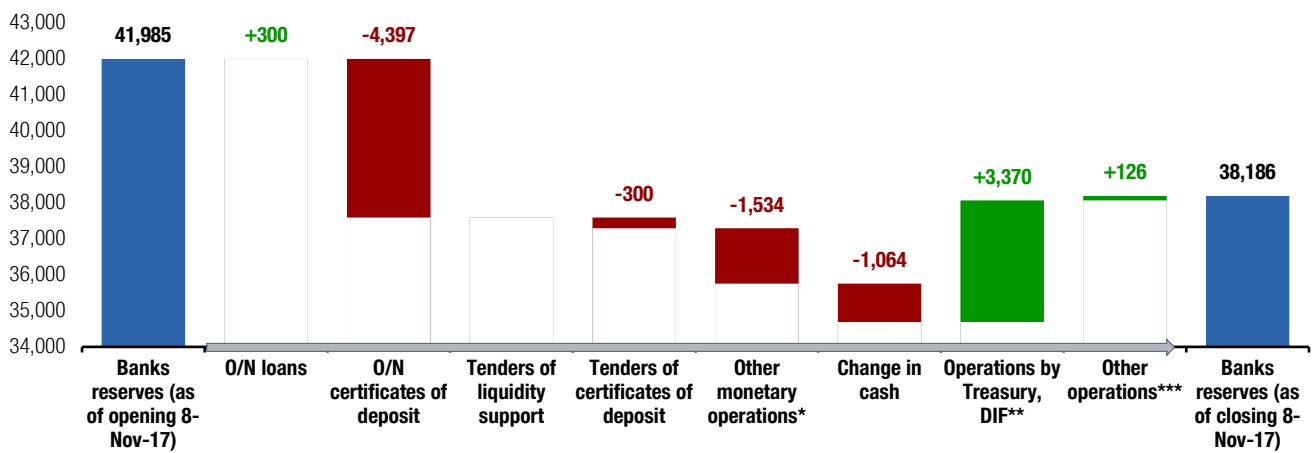
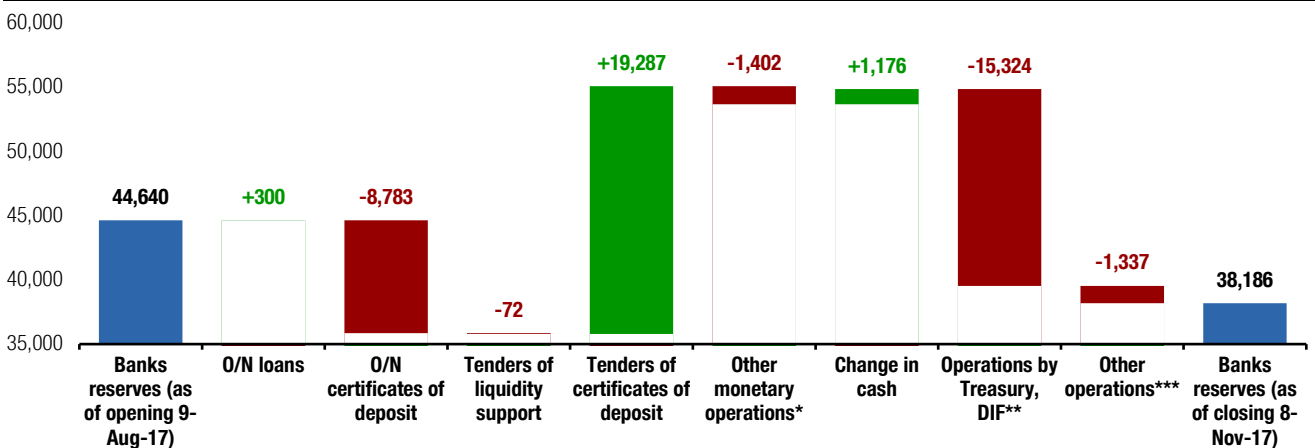
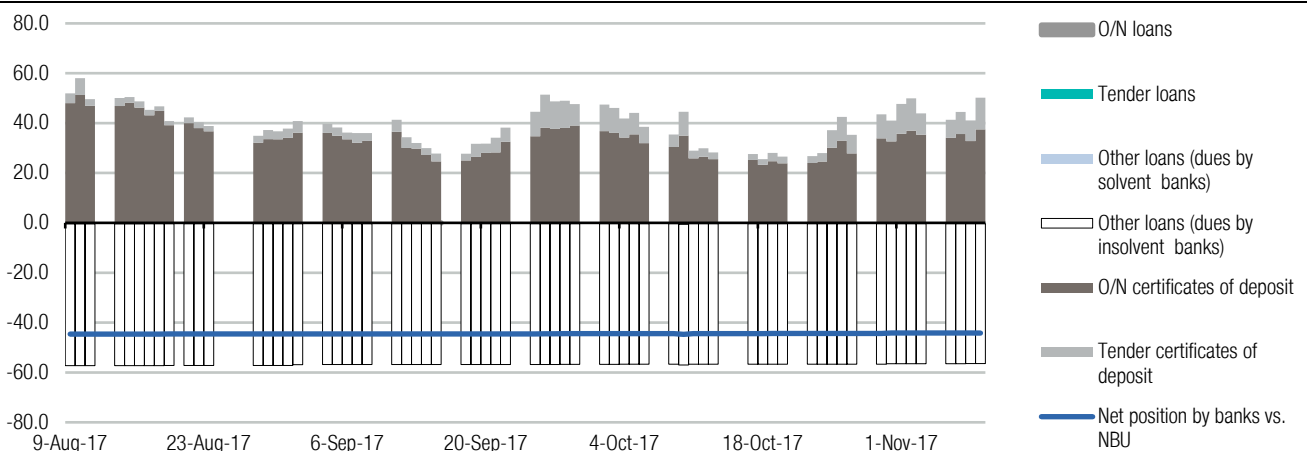


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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