

Daily Insight

UAH up 1.7% last week

Key messages of the today's comments

Domestic liquidity 2

CDs outstanding increase2

Last Thursday, banks once more increased the amount of funds invested in CDs and slightly changed their structure. Total CDs outstanding rose UAH1.03bn to UAH38.53bn, hitting this month's high, where banks increased 2-week CDs by UAH4.42bn, reallocating UAH3.39bn from ON CDs and UAH1.03bn from reserves. Banks' correspondent accounts with the NBU fell UAH1.41bn to UAH36.78bn, the lowest level this month, pushing liquidity down UAH0.38bn to UAH75.31bn. 2

Government bondholders' structure2

Last Friday, the NBU published the structure of government bondholders, and for the first time dividing the group of other residents from individual investors. This new structure of information was applied for data starting from beginning of this year. According to the new information, the NBU holds 51.36% of total bonds outstanding, banks are the second largest holder with 44.66%, non-bank residents hold 3.10%, non-residents have 0.76%, and individuals with 0.13%. 2

Foreign exchange markets 3

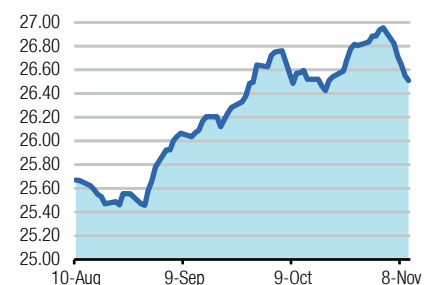
UAH up 1.7% last week3

On Friday, the hryvnia strengthened another 0.2% against the US dollar to 26.5167 USD/UAH. During the UAH rally which continued last week, it appreciated 1.7%, as a result of the following: (1) excess demand for the hryvnia in the domestic FX market, as investors were preparing for third quarter tax payments which start today; (2) low liquidity (see comment on liquidity); and (3) relatively stable US dollar in world FX markets. 3

Appendix #1: Domestic liquidity 4

MONDAY, 13 NOVEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 10 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 10 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.50	+50bp	+190bp
Banks reserves (UAHm)	36,776	-3.69	-26.05
Deposit certificates* (UAHm)	38,531	+2.74	-38.09
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.5100	-0.16	-2.18
Total trade volume (US\$m)	250.98	+32.71	+47.97
UAH index CPI-based	106.950	+0.06	-0.97
UAH index PPI-based	164.835	+0.06	-2.10

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	446bp	-1bp	-207bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,582.30	-0.09	+15.34
MSCI EM	1,128.49	-0.47	+30.87
US dollar index (DXY)	94.391	-0.06	-7.65
EUR / USD	1.1665	+0.20	+10.92
Crude oil WTI (US\$/bbl)	56.74	-0.75	+5.62
Crude oil BRENT (US\$/bbl)	63.52	-0.64	+11.79
CRB, commodities index	191.65	-0.12	-0.45
Gold (US\$/ounce)	1,275.47	-0.75	+10.69

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

CDs outstanding increase

Last Thursday, banks once more increased the amount of funds invested in CDs and slightly changed their structure. Total CDs outstanding rose UAH1.03bn to UAH38.53bn, hitting this month's high, where banks increased 2-week CDs by UAH4.42bn, reallocating UAH3.39bn from ON CDs and UAH1.03bn from reserves. Banks' correspondent accounts with the NBU fell UAH1.41bn to UAH36.78bn, the lowest level this month, pushing liquidity down UAH0.38bn to UAH75.31bn.

The key negative impact on liquidity was the net exchange of reserves in cash of UAH1.75bn with non-monetary operations of just UAH0.49bn as most of the cash outflow was offset by the Treasury's increase in expenditures while UAH0.11bn of outflows was compensated by NBU monetary operations.

ICU view: *These recent fund outflows to cash have become routine recently, but Treasury injections have supported liquidity and softened the declines to stabilize liquidity prior to quarterly tax payments.*

Government bondholders' structure

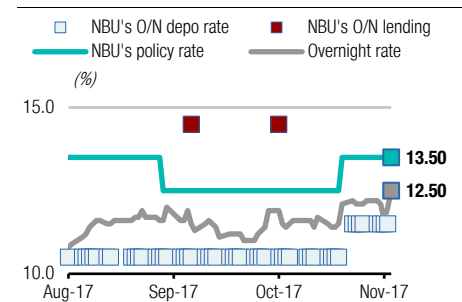
Last Friday, the NBU published the structure of government bondholders, and for the first time dividing the group of other residents from individual investors. This new structure of information was applied for data starting from beginning of this year. According to the new information, the NBU holds 51.36% of total bonds outstanding, banks are the second largest holder with 44.66%, non-bank residents hold 3.10%, non-residents have 0.76%, and individuals with 0.13%.

While individuals hold a paltry amount of total bonds outstanding, their portfolio has increased nine-fold since the beginning of the year, from UAH0.10bn to UAH0.90 at the end of last week. The largest purchase was in May, when the portfolio rose UAH0.31bn.

ICU view: *Improving NBU statistics are very positive, as individuals aggressively seek alternatives for banks' deposits and their portfolio and share of bonds outstanding should continue to increase.*

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Interest rates in the banks' reserves market (three months through 10 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 10 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	12.50	+50bp	+30bp	+100bp	+190bp
ON \$ swap	12.40	+39bp	+15bp	+47bp	+93bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	36,776	-3.69	-12.74	-7.93	-26.05
DepCerts ³	38,531	+2.74	+8.93	+10.06	-38.09
Total	75,307	-0.51	-2.85	+0.47	-32.74
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	313,512	-0.10	-0.50	+1.64	+81.92
Residents	21,778	+0.13	-1.59	-3.84	-7.65
Non-res ⁴	5,308	-0.13	+11.05	+89.62	-16.42
Total	702,071	-0.04	-0.20	+0.98	+27.53
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	15.86	+12bp	+5bp	+375bp	-645bp
3 months	15.25	+49bp	+5bp	+304bp	-682bp
6 months	12.62	+4bp	+3bp	+46bp	-542bp
1 year	11.78	+11bp	+8bp	+17bp	-421bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	446	-1bp	+6bp	-4bp	-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 up 1.7% last week

On Friday, the hryvnia strengthened another 0.2% against the US dollar to 26.5167 USD/UAH. During the UAH rally which continued last week, it appreciated 1.7%, as a result of the following: (1) excess demand for the hryvnia in the domestic FX market, as investors were preparing for third quarter tax payments which start today; (2) low liquidity (see comment on liquidity); and (3) relatively stable US dollar in world FX markets.

On Friday, in the Ukrainian cash market, the hryvnia sold for 26.62USD/UAH versus 26.80 to buy. Its CPI-based real trade-weighted index rose 0.06% to 106.59. At the same time, in year-on-year terms, the CPI-based real trade-weighted index turned negative last week and was down 3.27% from 110.56 last year. This means that the hryvnia's purchasing power has fallen 3.27% from the same period last year.

The USD traded lower against the basket of other major currencies on the back of fears that corporate tax cuts could be delayed until 2019. In addition, the US consumer confidence index fell short of expectations, showing that consumer confidence is decreasing. On Friday, the DXY index traded at 94.26-94.65, closing down 0.1% to 94.39.

At the end of the week, the euro closed up 0.2% to 1.1665 EUR/USD, boosted by the greenback's weakness and the ECB statement. Governing Council member Ewald Nowotny said that the European regulator may end the QE program in September 2018 if the economy develops as the ECB expects.

The Chinese renminbi was almost flat against the greenback, closing at 6.6409 USD/CNY, while the Russian ruble strengthened 0.2% to 59.1593 USD/RUB on the back of still high oil prices. At the same time, despite higher oil prices, which grew 2.3% last week, the Russian currency weakened 0.2% over the same period due to a decrease in investors' interest in carry trade operations and lower demand for the ruble.

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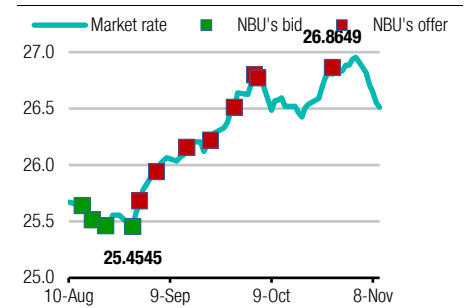
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 10 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.5100	-0.16	-1.65	-0.23	-2.18
USD ¹	94.391	-0.06	-0.58	+1.18	-7.65
EUR	1.1665	+0.20	+0.49	-1.21	+10.92
JPY	113.5300	+0.05	-0.47	+0.96	-2.93
GBP ²	1.3196	+0.39	+0.91	-0.05	+6.94
CNY	6.6409	+0.01	+0.03	+1.01	-4.38
RUB	59.1593	-0.21	+0.17	+2.04	-3.86

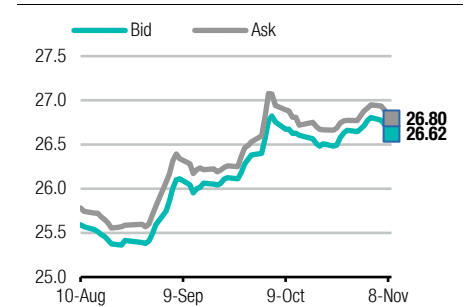
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 10 November 2017)



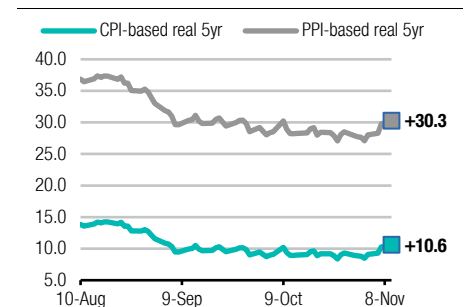
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 10 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 10 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)

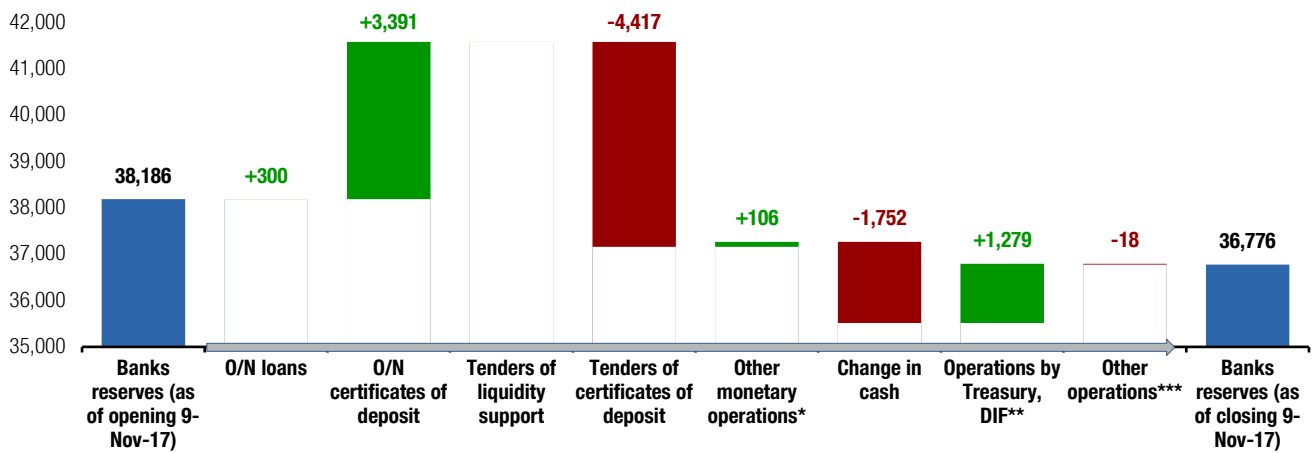
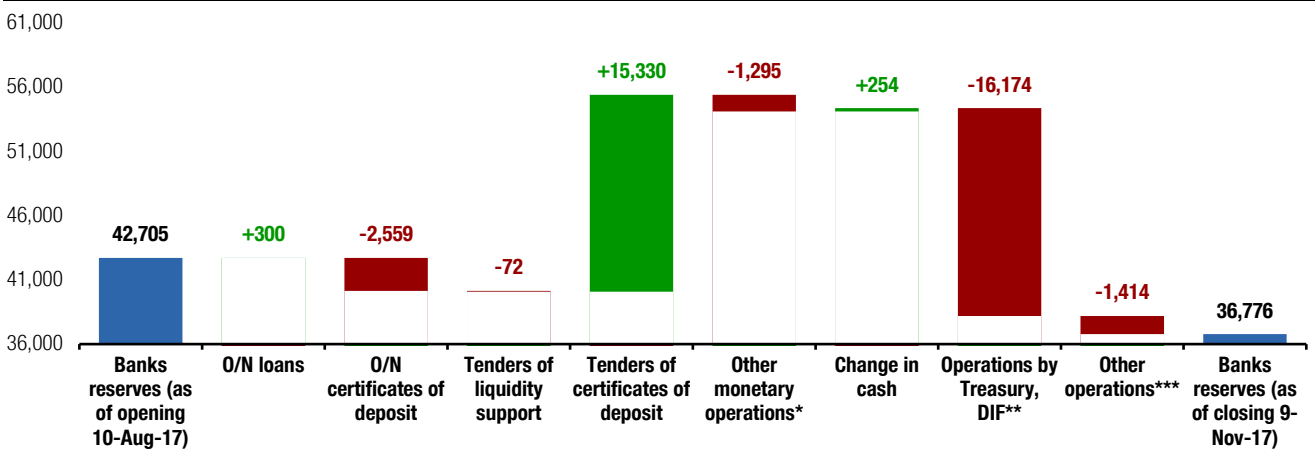
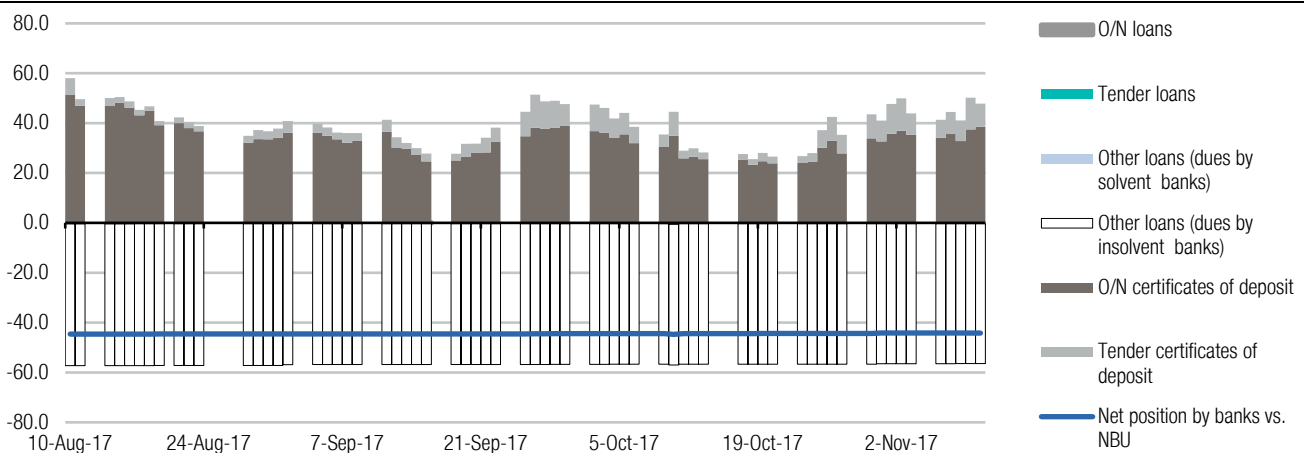


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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