

Daily Insight

Hryvnia appreciates above 26.5/USD

Key messages of the today's comments

TUESDAY, 14 NOVEMBER 2017

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Liquidity steady2

Last week, liquidity remained rather steady at UAH75bn, up UAH0.33bn last Friday to UAH75.63bn, but following a significant UAH9.57bn reallocation from CDs to reserves at the end of the week. Banks received UAH3.82bn of 2-week CD redemptions and decreased total ON CDs by UAH5.75bn. As a result, total CDs outstanding fell UAH9.57bn to UAH28.96bn while banks' correspondent accounts with the NBU rose UAH9.89bn to UAH46.67bn. 2

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Hryvnia appreciates above 26.5/USD3

Since the beginning of the week, despite moderate growth of the USD in world markets, demand for hryvnia remains high, forcing market players to sell the foreign currency. Thus, according to the results of trades on Monday, the national currency increased by 0.1% to 26.488 USD/UAH. It sold for 26.57 USD/UAH versus 26.73 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.1% to 107.05; in year-on-year terms, it is down 2.93% from 110.74 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 13 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 13 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.30	-20bp	+170bp
Banks reserves (UAHm)	46,670	+26.90	-6.16
Deposit certificates* (UAHm)	28,962	-24.83	-53.47
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.5100	+0.00	-2.18
Total trade volume (US\$m)	153.91	-38.68	-9.26
UAH index CPI-based	107.052	+0.10	-0.88
UAH index PPI-based	164.993	+0.10	-2.01
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	440bp	-6bp	-213bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,584.84	+0.10	+15.45
MSCI EM	1,123.26	-0.46	+30.27
US dollar index (DXY)	94.490	+0.10	-7.55
EUR / USD	1.1667	+0.02	+10.93
Crude oil WTI (US\$/bbl)	56.76	+0.04	+5.66
Crude oil BRENT (US\$/bbl)	63.16	-0.57	+11.16
CRB, commodities index	191.45	-0.10	-0.55
Gold (US\$/ounce)	1,278.37	+0.23	+10.94

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity steady

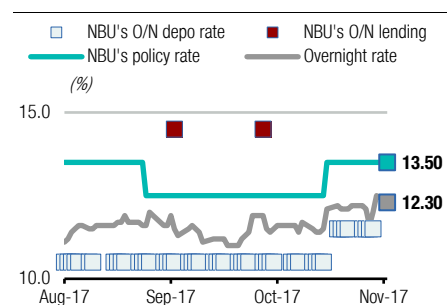
Last week, liquidity remained rather steady at UAH75bn, up UAH0.33bn last Friday to UAH75.63bn, but following a significant UAH9.57bn reallocation from CDs to reserves at the end of the week. Banks received UAH3.82bn of 2-week CD redemptions and decreased total ON CDs by UAH5.75bn. As a result, total CDs outstanding fell UAH9.57bn to UAH28.96bn while banks' correspondent accounts with the NBU rose UAH9.89bn to UAH46.67bn.

The increase in liquidity was supported by non-monetary operations. As outflows from the exchange of reserves in cash amounted to UAH1.59bn, the Treasury spent UAH1.91bn more than it collected into the budget.

ICU view: *The accumulation of funds in reserves might have occurred to meet reserve requirements and in preparation for quarterly tax payments. The stabilization and increase in liquidity could be short-lived and could have begun to decline yesterday due to outflows to Treasury accounts. Without additional inflows from the Treasury, this week liquidity could fall significantly and cause money market interest rates to rise.*

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Interest rates in the banks' reserves market (three months through 13 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 13 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	12.30	-20bp	+10bp	+70bp	+170bp
ON \$ swap	12.42	-9bp	-8bp	+0bp	+95bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	46,670	+26.90	+11.69	-4.07	-6.16
DepCerts ³	28,962	-24.83	-15.01	+13.23	-53.47
Total	75,632	+0.43	-0.30	+1.90	-32.45
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	313,367	-0.05	-0.54	+1.58	+81.83
Residents	21,800	+0.10	-2.11	-3.94	-7.56
Non-res ⁴	5,300	-0.17	+10.88	+74.21	-16.56
Total	701,922	-0.02	-0.24	+0.91	+27.50
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	14.89	-98bp	+4bp	+304bp	-742bp
3 months	14.78	-47bp	+3bp	+229bp	-728bp
6 months	12.60	-2bp	+4bp	+44bp	-544bp
1 year	11.65	-13bp	+3bp	-10bp	-434bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	440	-6bp	+0bp	-14bp	-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

Hryvnia appreciates above 26.5/USD

Since the beginning of the week, despite moderate growth of the USD in world markets, demand for hryvnia remains high, forcing market players to sell the foreign currency. Thus, according to the results of trades on Monday, the national currency increased by 0.1% to 26.488 USD/UAH. It sold for 26.57 USD/UAH versus 26.73 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.1% to 107.05; in year-on-year terms, it is down 2.93% from 110.74 last year.

The US dollar rose slightly on Monday, after falling 0.6% last week. Amidst quiet news, it should increase within the correction as investors anticipate the upcoming tax reform. The DXY index traded at 94.401-94.641, closing up 0.1% to 94.49.

The euro, traditionally moving inversely to the US currency but slightly firming to the end of trading session, and having traded within 1.1638-1.1675 EUR/USD, remained stable from the previous day at 1.1667 EUR/USD on Monday. The Chinese yuan was stable at 6.6338 - 6.6517 USD/CNY.

The Russian currency continues to fall against the US dollar despite rather high oil prices as high demand for foreign currency plays against the ruble. However, in the second half of November, tax payments, should cause it to rebound. It traded at 58.9905-59.5991 USD/RUB and fell 0.4% to 59.3955.

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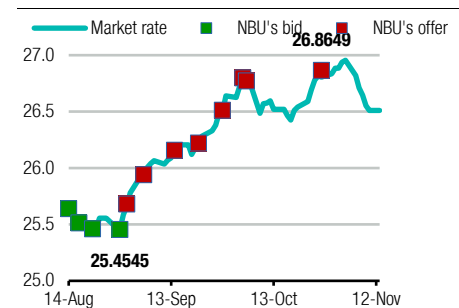
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 13 November 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.5100	+0.00	-1.16	-0.04	-2.18
USD ¹	94.490	+0.10	-0.28	+1.50	-7.55
EUR	1.1667	+0.02	+0.49	-1.29	+10.93
JPY	113.6200	+0.08	-0.08	+1.61	-2.86
GBP ²	1.3116	-0.61	-0.42	-1.27	+6.29
CNY	6.6405	-0.01	+0.10	+0.93	-4.38
RUB	59.3955	+0.40	+1.92	+3.58	-3.48

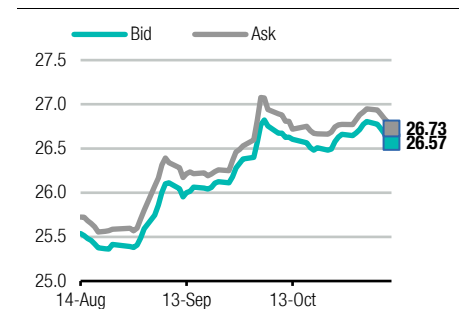
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 13 November 2017)



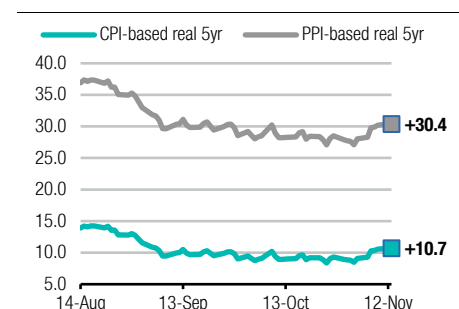
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 13 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 13 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)

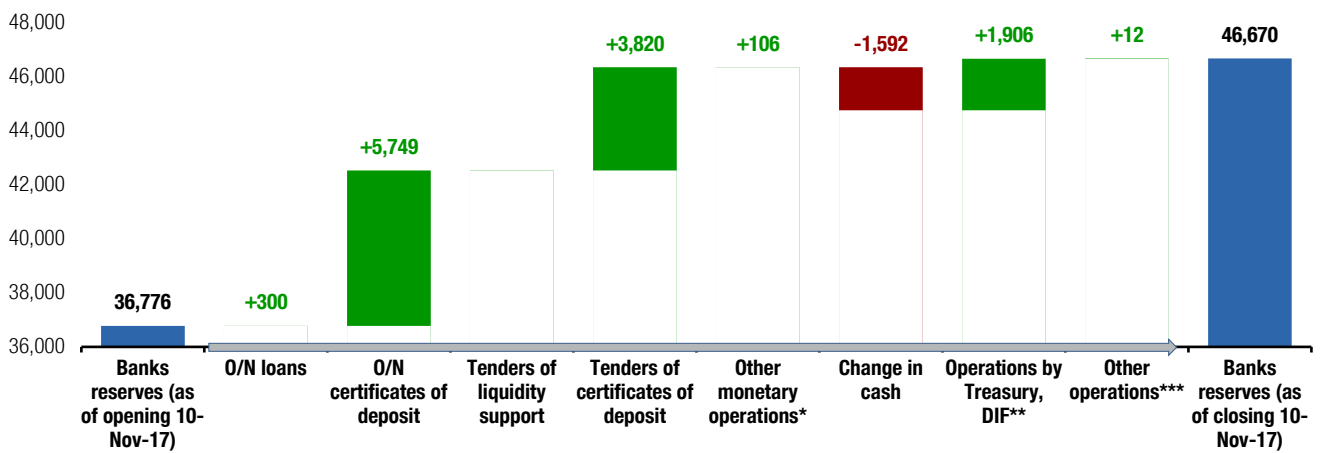
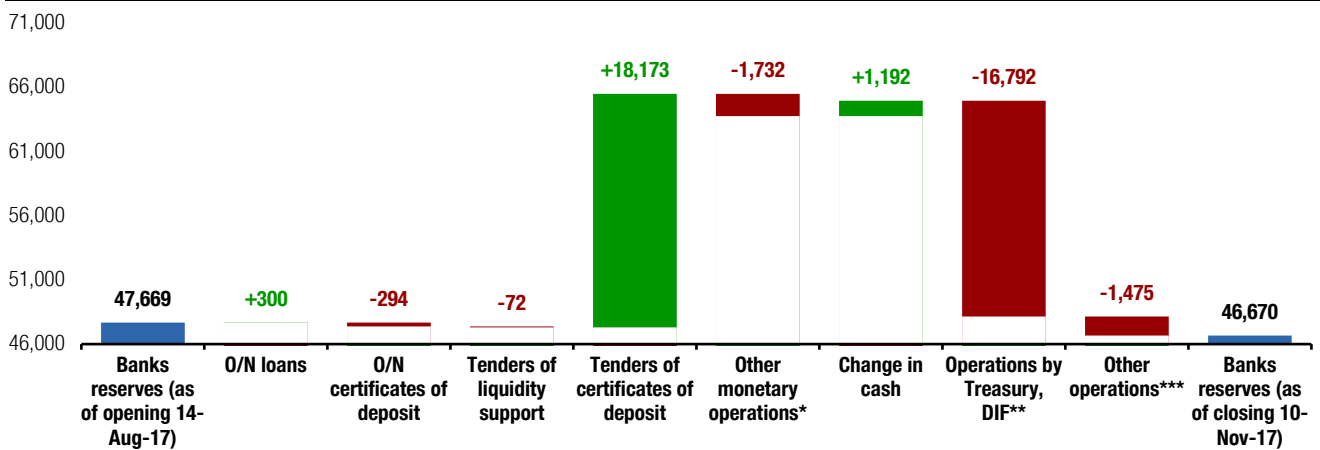
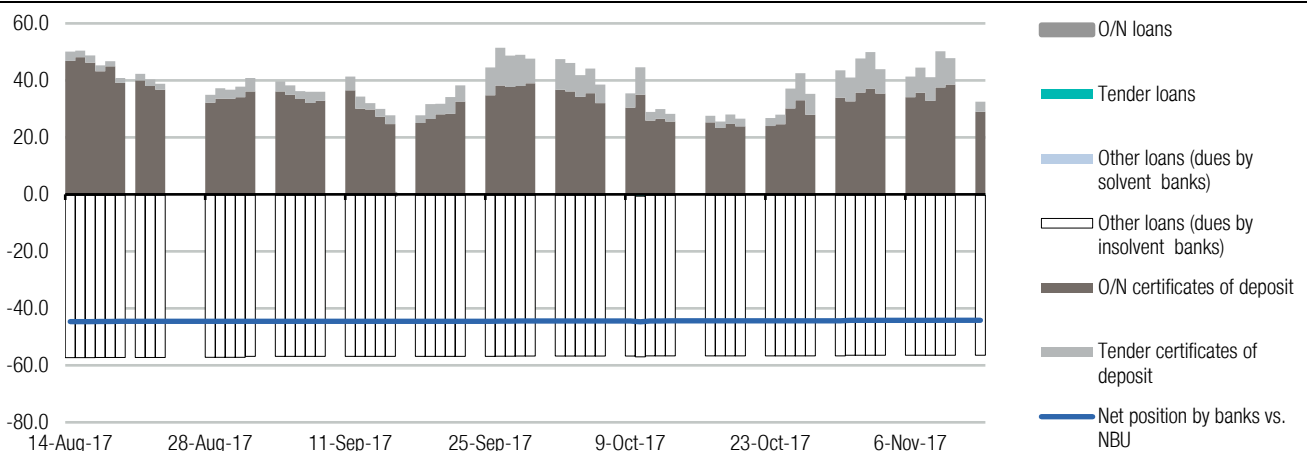


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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