

# Daily Insight

## Liquidity remains steady

### Key messages of the today's comments

#### Domestic liquidity 2

##### Liquidity remains steady .....2

This Monday, liquidity remained rather steady, down a slight UAH0.09bn to UAH75.54bn, as banks continued to keep funds in reserves and decrease the amount of CDs outstanding. Banks balanced their operations, keeping reserve exchanges into cash at a minimum, while most fund absorption was caused by the Treasury, resulting in a net negative impact from non-monetary operations of UAH0.12bn, of which UAH0.03bn was offset by the NBU via ON loans to two banks. 2

##### Yield curve remains unchanged .....2

The MoF yet again rejected demand for bonds this month, maintaining the yield curve set at the end of October. Yesterday demand of UAH200m (par value) was up nearly twenty-fold from last week at a single bid of 14.90%, or 20bp above the cut-off rate set two weeks ago. 2

#### Foreign exchange markets 3

##### Hryvnia down slightly .....3

The hryvnia's strengthening trend reversed on Tuesday, down by 0.03% to 26.4964 USD/UAH, despite the weakened USD in world markets. The decrease was rather insignificant, and the hryvnia remained stronger than 26.5/USD. However, it should be noted that at the beginning of trading, the weighted average exchange rate of the national currency reached 26.55 USD/UAH. In the local market, demand for foreign currency increased, which led to a slight decrease of the hryvnia. It sold for 26.53USD/UAH versus 26.72 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.07% to 107.13; in year-on-year terms, it is down 3.24% from 110.72 last year. 3

#### Appendix #1: Domestic liquidity 4

WEDNESDAY, 15 NOVEMBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 14 November 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 14 November 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.30	+0bp	+170bp
Banks reserves (UAHm)	47,556	+1.90	-4.37
Deposit certificates* (UAHm)	27,983	-3.38	-55.04
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.4600	-0.19	-2.36
Total trade volume (US\$m)	195.34	+26.92	+15.17
UAH index CPI-based	107.132	+0.07	-0.80
UAH index PPI-based	165.116	+0.07	-1.93
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	435bp	-5bp	-218bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,578.87	-0.23	+15.19
MSCI EM	1,118.32	-0.44	+29.69
US dollar index (DXY)	93.827	-0.70	-8.20
EUR / USD	1.1798	+1.12	+12.18
Crude oil WTI (US\$/bbl)	55.70	-1.87	+3.69
Crude oil BRENT (US\$/bbl)	62.21	-1.50	+9.49
CRB, commodities index	189.06	-1.25	-1.79
Gold (US\$/ounce)	1,280.40	+0.16	+11.12

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity remains steady

This Monday, liquidity remained rather steady, down a slight UAH0.09bn to UAH75.54bn, as banks continued to keep funds in reserves and decrease the amount of CDs outstanding. Banks balanced their operations, keeping reserve exchanges into cash at a minimum, while most fund absorption was caused by the Treasury, resulting in a net negative impact from non-monetary operations of UAH0.12bn, of which UAH0.03bn was offset by the NBU via ON loans to two banks.

By the end of Monday, correspondent accounts with the NBU were at UAH47.56bn, up UAH0.89, while total CDs outstanding fell UAH0.98bn to UAH27.98bn, the new low of this month. Outstanding ON CDs fell to UAH0.98bn.

**ICU view: Liquidity remained steady but could fall significantly to this year's low as minimal budget expenditures and small VAT refunds could cause further, albeit short-lived, declines. The withdrawal of local budget deposits could put additional pressure on liquidity.**

## Yield curve remains unchanged

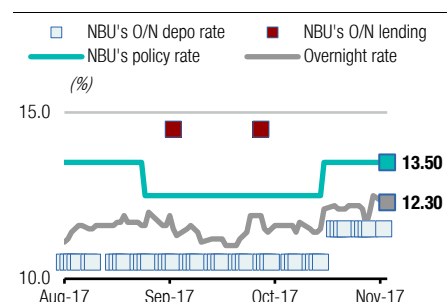
The MoF yet again rejected demand for bonds this month, maintaining the yield curve set at the end of October. Yesterday demand of UAH200m (par value) was up nearly twenty-fold from last week at a single bid of 14.90%, or 20bp above the cut-off rate set two weeks ago.

Current low debt repayments and high rates due to quarterly and month-end tax payment obligations do not support the current yield curve. This was the second consecutive week that banks submitted bids above the cutoff rate.

**ICU view: Next week, demand for local currency bonds should be low and bid interest rates could like be submitted above the yield curve. However, the majority of demand should be concentrated on 2-year FX-denominated bonds next week most likely will rates higher by a few basis points at worst. Demand for FX-denominated bonds is expected to be at least US\$300m as next week the MoF is scheduled to repay US\$288.69m in FX debt repayments. Beyond refinancing repayments, there could be additional new demand.**

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## Interest rates in the banks' reserves market (three months through 14 November 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 14 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	12.30	+0bp	+20bp	+70bp	+170bp
ON \$ swap	12.72	+10bp	+70bp	+0bp	+125bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	47,556	+1.90	+14.30	-2.24	-4.37
DepCerts <sup>3</sup>	27,983	-3.38	-21.49	+9.41	-55.04
<b>Total</b>	<b>75,539</b>	<b>-0.12</b>	<b>-2.21</b>	<b>+1.77</b>	<b>-32.54</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	313,286	-0.03	-0.50	+1.55	+81.79
Residents	21,772	-0.13	-1.19	-4.06	-7.68
Non-res <sup>4</sup>	5,299	-0.02	+10.85	+74.18	-16.58
<b>Total</b>	<b>701,814</b>	<b>-0.02</b>	<b>-0.19</b>	<b>+0.89</b>	<b>+27.48</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	17.91	+302bp	+190bp	+606bp	-440bp
3 months	15.81	+103bp	-97bp	+331bp	-626bp
6 months	13.09	+49bp	+36bp	+93bp	-495bp
1 year	11.94	+29bp	+20bp	+19bp	-405bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	435	-5bp	-11bp	-19bp	-218bp

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 down slightly

The hryvnia's strengthening trend reversed on Tuesday, down by 0.03% to 26.4964 USD/UAH, despite the weakened USD in world markets. The decrease was rather insignificant, and the hryvnia remained stronger than 26.5/USD. However, it should be noted that at the beginning of trading, the weighted average exchange rate of the national currency reached 26.55 USD/UAH. In the local market, demand for foreign currency increased, which led to a slight decrease of the hryvnia. It sold for 26.53USD/UAH versus 26.72 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.07% to 107.13; in year-on-year terms, it is down 3.24% from 110.72 last year.

The US dollar fell significantly during the trading session on Tuesday after strengthening slightly the day before. Uncertainty about the future of tax reform along with the strengthening euro dominated the trading day. Although US producer prices in October rose 0.4% MoM, exceeding forecasts and core PPI rose 2.4% annualized against expectations of 2.3%, this data did not affect the exchange rate. The DXY index traded at 93.746-94.542, closing down 0.7% to 93.827.

The euro increased significantly following the positive macroeconomic report of high 3Q17 Eurozone and European Union growth of 0.6% in QoQ terms. Germany grew 0.8% QoQ (versus 0.6% in 2Q17). The EUR/USD pair traded within 1.1662-1.1805 EUR/USD, up 1.1% to 1.1798 EUR/USD on Tuesday. The Chinese yuan strengthened against the weakened USD despite the slowdown in Chinese production growth and retail sales. The renminbi traded at 6.6349 - 6.6441 USD/CNY and rose 0.1% to 6.6361.

Falling oil prices caused the Russian ruble to decline against the US dollar as both local and Russian corporate demand to fulfill foreign debt repayments exerted additional pressure. Moreover, Rosstat estimated Russian 3Q17 GDP growth at 1.8% YoY versus 2.5% in 2Q17, as the ruble traded at 59.2991-60.5 USD/RUB, closing down 1.8% to 60.4639.

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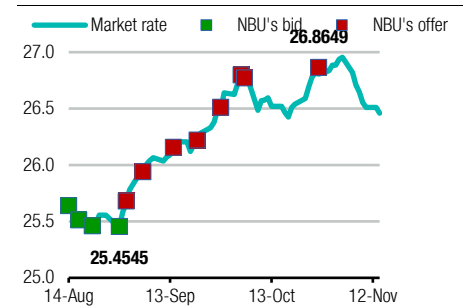
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 14 November 2017)

	Last	Daily	Weekly	Monthly	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.4600	-0.19	-0.94	-0.23	-2.36
USD <sup>1</sup>	93.827	-0.70	-1.14	+0.79	-8.20
EUR	1.1798	+1.12	+1.82	-0.19	+12.18
JPY	113.4600	-0.14	-0.48	+1.47	-2.99
GBP <sup>2</sup>	1.3165	+0.37	-0.01	-0.90	+6.69
CNY	6.6361	-0.07	-0.07	+0.86	-4.45
RUB	60.4639	+1.80	+1.83	+5.45	-1.74

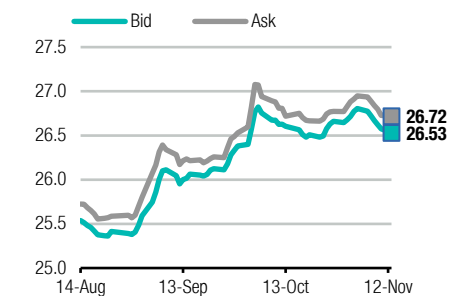
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 14 November 2017)



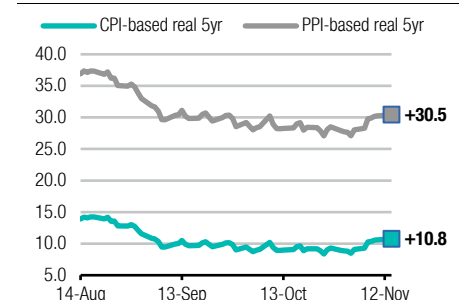
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 14 November 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 14 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)

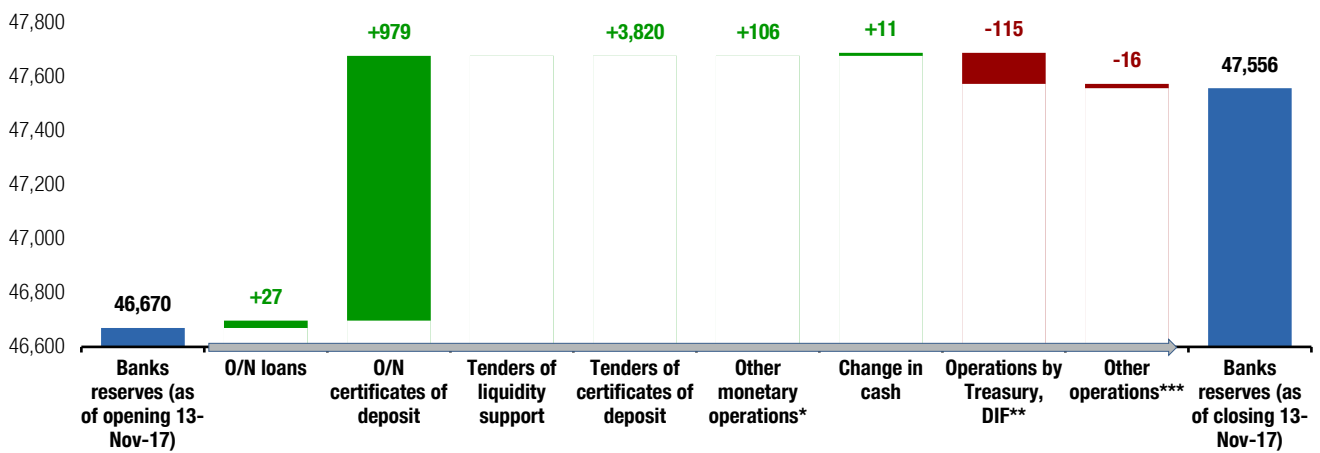
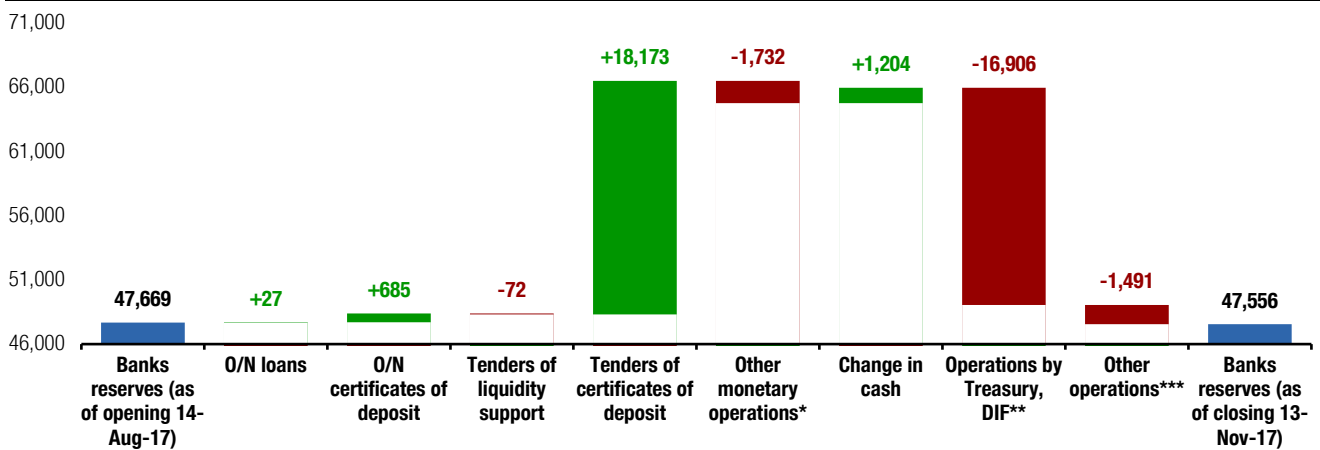
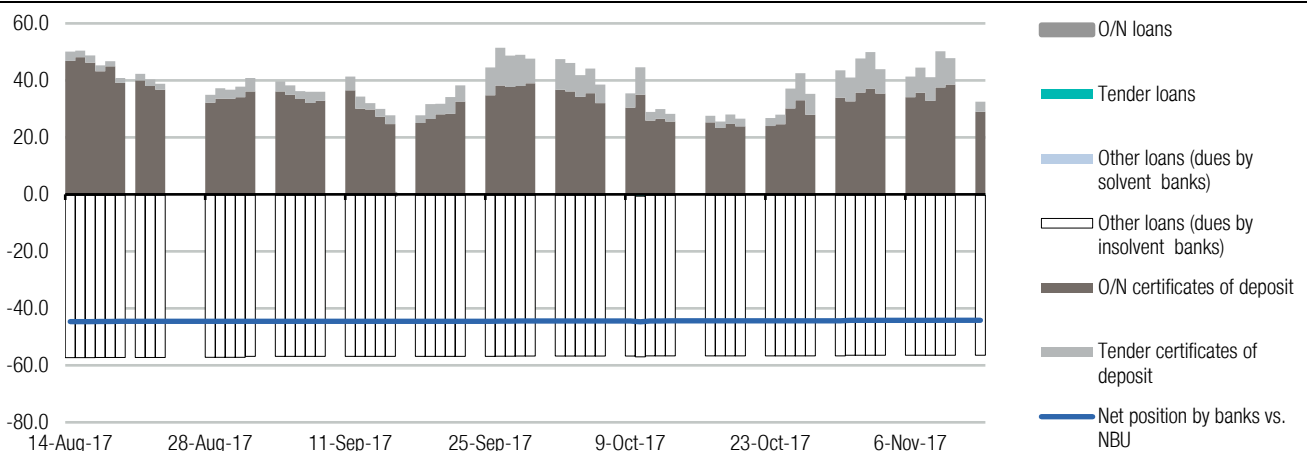


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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