

Daily Insight

Hryvnia close to 26.5 USD/UAH

Key messages of the today's comments

FRIDAY, 17 NOVEMBER 2017

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This Wednesday, the NBU issued a UAH3.0bn loan to one banks for 84 days and provided UAH0.26bn via other monetary operations. Additionally non-monetary operations had a positive net balance of UAH0.06bn as the Treasury's operations balance was positive at UAH0.32bn, which offset outflows via reserves exchanged into cash and outflows via other operations. 2

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Hryvnia close to 26.5 USD/UAH3

The hryvnia remained almost unchanged against the USD on Thursday, having closed slightly up to 26.4764 USD/UAH. Being supported by tax payments for the third period and a globally weak US dollar, the Ukrainian currency strengthened 1.7% last week and held steady yesterday near 26.5 USD/UAH. On Thursday, in the local market the hryvnia sold for 26.57 USD/UAH versus 26.76 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.07% to 106.87; in year-on-year terms, it is down 3.47% from 110.71 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 16 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 16 November 2017)

| | Last | Daily chg (%) | YTD chg (%) |
|---|----------|---------------|-------------|
| DOMESTIC LIQUIDITY | | | |
| NBU key policy rate (%) | 13.50 | +0bp | -50bp |
| Overnight rate (interbank) | 13.00 | +0bp | +240bp |
| Banks reserves (UAHm) | 50,829 | +6.63 | +2.21 |
| Deposit certificates* (UAHm) | 25,865 | +0.62 | -58.44 |
| FOREIGN EXCHANGE MARKET | | | |
| UAH per US dollar | 26.4775 | -0.01 | -2.30 |
| Total trade volume (US\$m) | 194.28 | -3.94 | +14.54 |
| UAH index CPI-based | 106.870 | -0.07 | -1.05 |
| UAH index PPI-based | 164.713 | -0.07 | -2.17 |
| UKRAINE SOVEREIGN EUROBOND MARKET | | | |
| CDS 5yr | 434bp | -3bp | -219bp |
| GLOBAL FINANCIAL MARKET INDICATORS | | | |
| S&P 500 | 2,585.64 | +0.82 | +15.49 |
| MSCI EM | 1,125.35 | +1.28 | +30.51 |
| US dollar index (DXY) | 93.932 | +0.13 | -8.10 |
| EUR / USD | 1.1770 | -0.18 | +11.91 |
| Crude oil WTI (US\$/bbl) | 55.14 | -0.34 | +2.64 |
| Crude oil BRENT (US\$/bbl) | 61.36 | -0.82 | +7.99 |
| CRB, commodities index | 188.25 | -0.21 | -2.22 |
| Gold (US\$/ounce) | 1,278.70 | +0.05 | +10.97 |

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

NBU supports liquidity

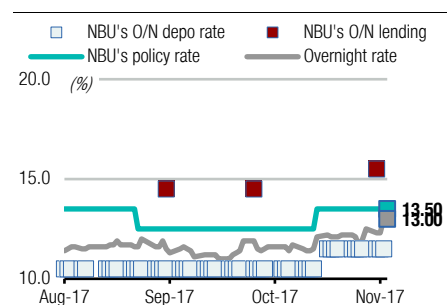
This Wednesday, the NBU issued a UAH3.0bn loan to one banks for 84 days and provided UAH0.26bn via other monetary operations. Additionally non-monetary operations had a positive net balance of UAH0.06bn as the Treasury's operations balance was positive at UAH0.32bn, which offset outflows via reserves exchanged into cash and outflows via other operations.

Total banking sector liquidity was up UAH3.32bn to UAH76.69bn as banks correspondent accounts with the NBU increased UAH3.16bn to UAH50.83bn, this month's high, and total CDs outstanding rose UAH0.16bn to UAH25.87bn. Banks decreased ON CDs outstanding by UAH0.14bn while purchasing UAH0.30bn of 3-month CDs at 15.25%, unchanged from last week.

ICU view: *The NBU issued loans to support banks, signaling that current level of liquidity level is insufficient to satisfy tax payments. However, as the Treasury met the positive balance in operations despite a significant UAH7.52bn increase in revenues collected on Wednesday. However, only NBU operations gave liquidity a chance to rise significantly. Without this, liquidity could fall to a new record low this year.*

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Interest rates in the banks' reserves market (three months through 16 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 16 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 | 13.00 | +0bp | +100bp | +140bp | +240bp |
| ON \$ swap | 12.47 | +20bp | +38bp | +0bp | +100bp |
| DOMESTIC LIQUIDITY (UAH MILLION) | | | | | |
| Reserves ² | 50,829 | +6.63 | +33.11 | +4.48 | +2.21 |
| DepCerts ³ | 25,865 | +0.62 | -31.04 | +1.13 | -58.44 |
| Total | 76,694 | +4.53 | +1.32 | +3.33 | -31.51 |
| BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION) | | | | | |
| NBU | 360,573 | +0.00 | +0.00 | +0.00 | +1.24 |
| Banks | 312,860 | -0.01 | -0.31 | +1.40 | +81.52 |
| Residents | 21,639 | -0.07 | -0.58 | -4.72 | -8.31 |
| Non-res ⁴ | 5,299 | -0.01 | -0.32 | +74.18 | -16.58 |
| Total | 701,267 | -0.01 | -0.16 | +0.81 | +27.38 |
| IMPLIED YIELDS OF THE UAH NDF MARKET (%) | | | | | |
| 1 month | 16.31 | +51bp | +57bp | +449bp | -600bp |
| 3 months | 14.95 | -16bp | +19bp | +281bp | -711bp |
| 6 months | 12.65 | -10bp | +6bp | +48bp | -540bp |
| 1 year | 11.69 | -7bp | +3bp | +4bp | -430bp |
| UKRAINE SOVEREIGN EUROBOND MARKET | | | | | |
| CDS 5yr | 434 | -3bp | -13bp | -33bp | -219bp |

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 close to 26.5 USD/UAH

The hryvnia remained almost unchanged against the USD on Thursday, having closed slightly up to 26.4764 USD/UAH. Being supported by tax payments for the third period and a globally weak US dollar, the Ukrainian currency strengthened 1.7% last week and held steady yesterday near 26.5 USD/UAH. On Thursday, in the local market the hryvnia sold for 26.57 USD/UAH versus 26.76 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.07% to 106.87; in year-on-year terms, it is down 3.47% from 110.71 last year.

The greenback traded higher against the basket of other major currencies on Thursday on the back of mixed macroeconomic statistics. Initial jobless claims unexpectedly rose last week, while the Philadelphia manufacturing index fell more than expected in November. At the same time, the US industrial production posted growth of 0.9% MoM in October, beating forecasts. Thus, the DXY Index traded at 93.77-94.00, closing up 0.1% to 93.93.

The euro was under pressure from falling inflation in the Eurozone, which slowed to 1.4% YoY in October from 1.5% YoY in September. At the same time, the ECB representatives stated yesterday that the inflation rate is moving in line with the regulator's expectations and investors should not expect further increases in asset purchases. The euro fell 0.2% against the greenback to 1.1770 EUR/USD.

This week, the Russian ruble moved independently from oil prices -- on Thursday, the ruble strengthened 0.9% to 59.6907 USD/RUB, while oil prices continued to decline. The Russian currency got support from the approaching tax payments, as the stronger US dollar in the local FX market has allows the exporters to get more ruble liquidity; hence, they sell foreign currency and buy the local currency, boosting demand for it.

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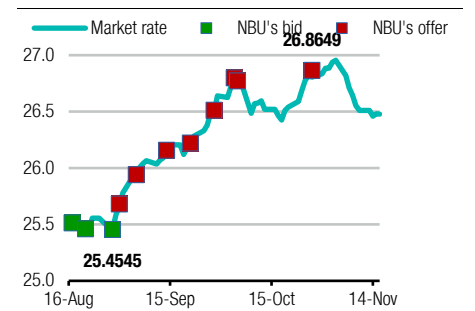
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 16 November 2017)

| | Last | Daily | Weekly | Monthly | YTD |
|---|----------|---------|---------|---------|---------|
| | chg (%) | chg (%) | chg (%) | chg (%) | chg (%) |
| EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND) | | | | | |
| UAH | 26.4775 | -0.01 | -0.28 | -0.16 | -2.30 |
| USD ¹ | 93.932 | +0.13 | -0.54 | +0.66 | -8.10 |
| EUR | 1.1770 | -0.18 | +1.10 | -0.22 | +11.91 |
| JPY | 113.0600 | +0.16 | -0.36 | +0.78 | -3.33 |
| GBP ² | 1.3195 | +0.18 | +0.38 | -0.42 | +6.93 |
| CNY | 6.6303 | +0.10 | -0.15 | +0.61 | -4.53 |
| RUB | 59.6907 | -0.87 | +0.68 | +4.23 | -3.00 |

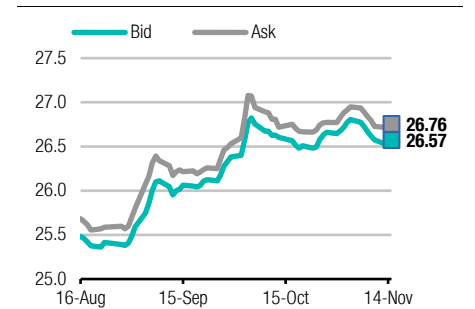
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 16 November 2017)



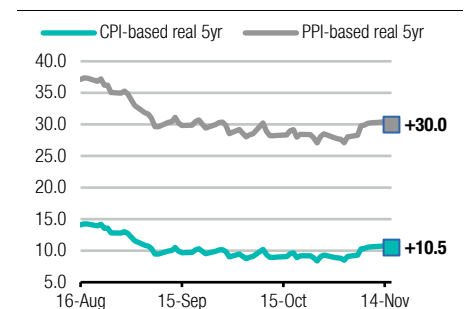
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 16 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 16 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)

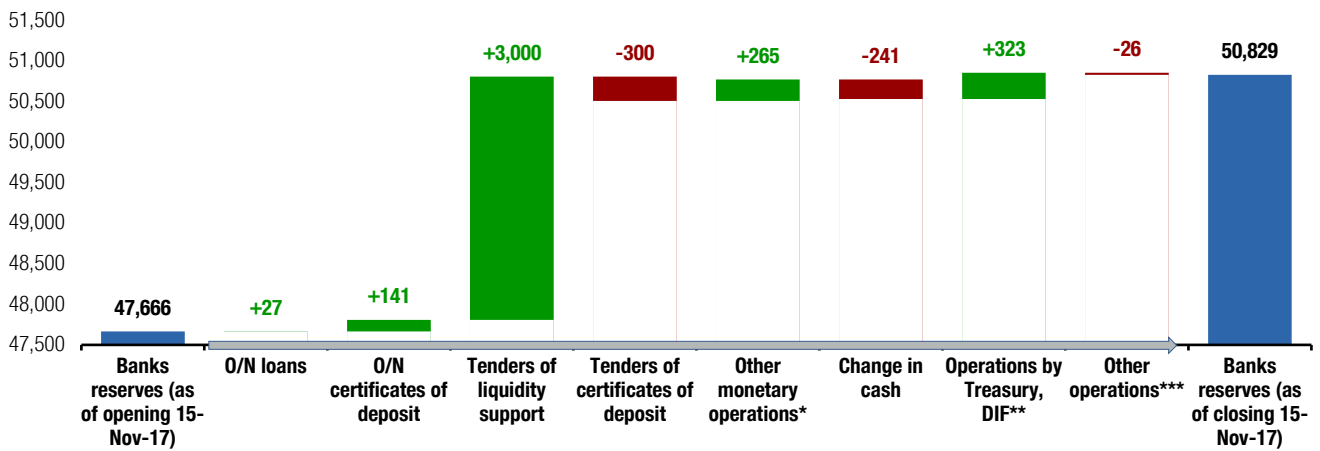
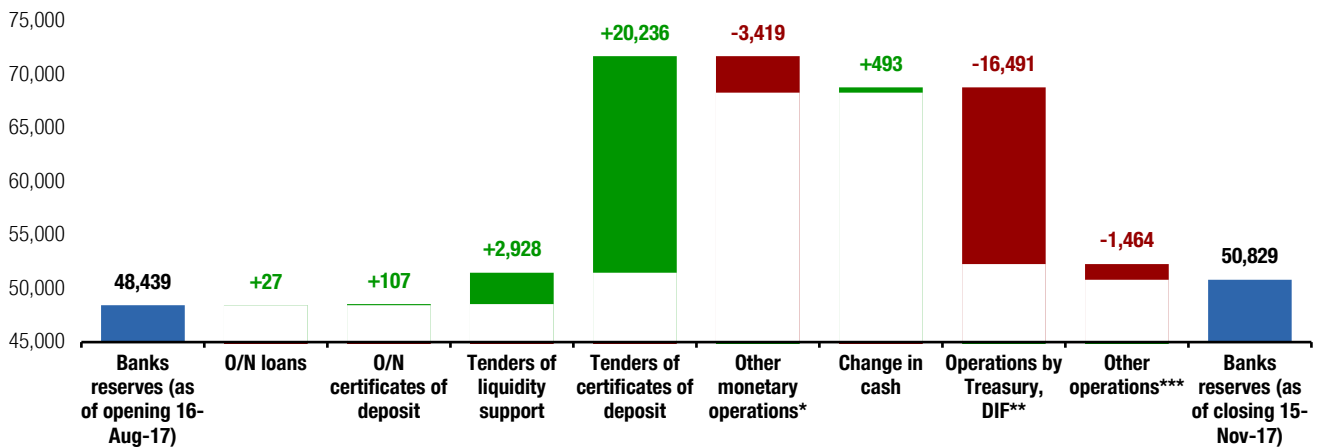
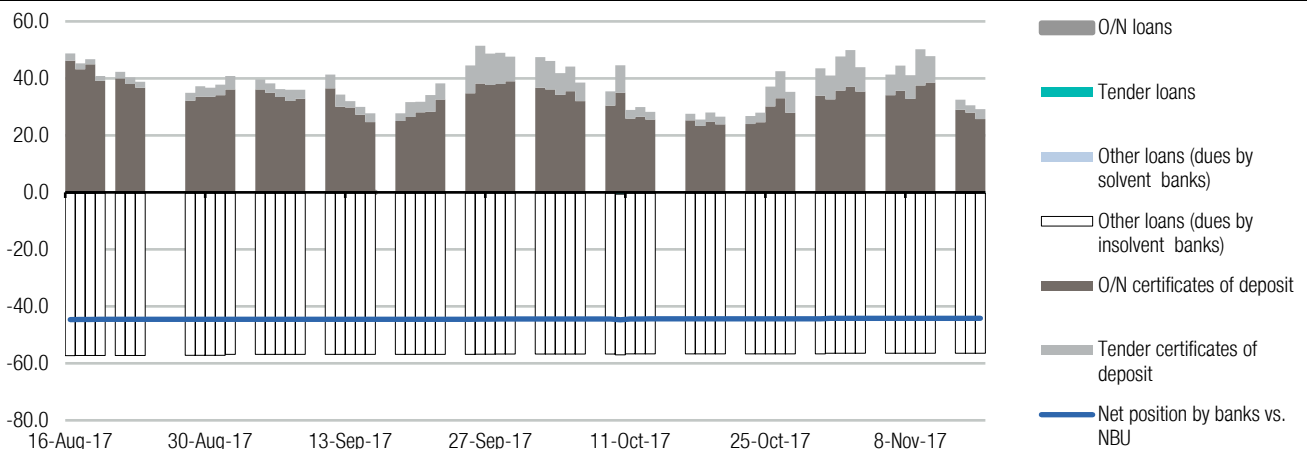


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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