

# Daily Insight

## Liquidity down despite NBU support

### Key messages of the today's comments

MONDAY, 20 NOVEMBER 2017

### Domestic liquidity

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#### Liquidity down despite NBU support

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### Foreign exchange markets

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#### Hryvnia relatively stable

After stabilizing and strengthening slightly over the previous two days, the hryvnia weakened against the US dollar on Friday but remained above 26.5/USD. Declining liquidity and a weakened US currency did not bolster the hryvnia which fell 0.1% to 26.4991 USD/UAH on Friday, but for the week it did appreciate 0.1%. It sold for 26.54 USD/UAH versus 26.73 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.36% to 106.49; in year-on-year terms, it is down 3.63% from 110.5 last year.

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### Appendix #1: Domestic liquidity

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### Ukraine's hryvnia exchange rate per US dollar (three months through 17 November 2017)



Source: Bloomberg.

### Selected indicators of the financial markets (three months through 17 November 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	13.60	+60bp	+300bp
Banks reserves (UAHm)	52,736	+3.75	+6.04
Deposit certificates* (UAHm)	21,386	-17.32	-65.64
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.4950	+0.07	-2.23
Total trade volume (US\$m)	214.36	+10.34	+26.38
UAH index CPI-based	106.490	-0.36	-1.40
UAH index PPI-based	164.127	-0.36	-2.52
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	434bp	+0bp	-219bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,578.85	-0.26	+15.19
MSCI EM	1,136.45	+0.99	+31.80
US dollar index (DXY)	93.662	-0.29	-8.36
EUR / USD	1.1790	+0.17	+12.10
Crude oil WTI (US\$/bbl)	56.55	+2.56	+5.27
Crude oil BRENT (US\$/bbl)	62.72	+2.22	+10.38
CRB, commodities index	190.39	+1.14	-1.10
Gold (US\$/ounce)	1,294.20	+1.21	+12.32

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity down despite NBU support

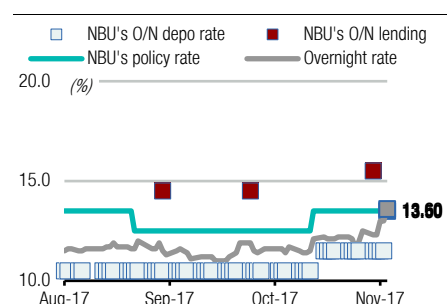
Last Thursday, the NBU continued to support liquidity, but rather than issuing 3-month loans, it implemented UAH1.0bn in FX operations. Net outflows through non-monetary autonomous operations amounted to UAH3.58bn, including UAH3.21bn of outflows via Treasury operations, while UAH0.28bn was exchanged in cash and a small outflow via other operations.

Liquidity fell UAH2.57bn to UAH74.12bn. Banks continued to accumulate funds to reserves in anticipation of upcoming tax payments. Banks' correspondent accounts rose UAH1.91bn to UAH52.74bn, this month's record high, while total CDs outstanding fell UAH4.48bn to UAH21.39bn, hitting a 2-year low.

**ICU view:** *As outflows to the budget continue, after hitting UAH8.8bn last Thursday, the decline in expenditures caused liquidity to fall dramatically. Last Friday's VAT refund once more was insufficient, providing no support. As a result, liquidity could fall to the year's low.*

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## Interest rates in the banks' reserves market (three months through 17 November 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 17 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	13.60	+60bp	+110bp	+200bp	+300bp
ON \$ swap	12.63	+14bp	+23bp	+95bp	+116bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	52,736	+3.75	+43.40	+4.15	+6.04
DepCerts <sup>3</sup>	21,386	-17.32	-44.50	-15.31	-65.64
<b>Total</b>	<b>74,122</b>	<b>-3.35</b>	<b>-1.57</b>	<b>-2.32</b>	<b>-33.80</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	312,825	-0.01	-0.22	+1.53	+81.52
Residents	21,623	-0.07	-0.71	-4.80	-8.31
Non-res <sup>4</sup>	5,299	-0.01	-0.18	+74.18	-16.58
<b>Total</b>	<b>701,219</b>	<b>-0.01</b>	<b>-0.12</b>	<b>+0.86</b>	<b>+27.38</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	16.22	-9bp	+36bp	+488bp	-609bp
3 months	15.16	+21bp	-8bp	+319bp	-690bp
6 months	12.53	-12bp	-10bp	+45bp	-552bp
1 year	12.11	+42bp	+33bp	+51bp	-388bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	434	+0bp	-12bp	-41bp	-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 relatively stable

After stabilizing and strengthening slightly over the previous two days, the hryvnia weakened against the US dollar on Friday but remained above 26.5/USD. Declining liquidity and a weakened US currency did not bolster the hryvnia which fell 0.1% to 26.4991 USD/UAH on Friday, but for the week it did appreciate 0.1%. It sold for 26.54 USD/UAH versus 26.73 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.36% to 106.49; in year-on-year terms, it is down 3.63% from 110.5 last year.

The US dollar during the trading session on Friday was weaker compared to other major currencies, pressed by the ongoing investigation around Donald Trump's presidential campaign. Even positive statistics, such as building permits and building starts increasing in October after falling the previous month, did not help. In addition, the House of Representatives has agreed on the tax reform, but the question of its future goes to the Senate. The DXY index traded at 93.508-93.93, closing down 0.3% to 93.662.

The euro reversed to the US dollar and above the numbers of the previous day in volatile trading on Friday. The ECB chairman said the bank needs to be cautious when adjusting monetary policy. He also stressed that the bailout program could be continued beyond September 2018 until inflation is sustainable. The EUR/USD pair traded within 1.1765-1.1822 EUR/USD, up 0.2% to 1.1790 EUR/USD on Friday.

The Russian ruble, as a result of a weaker US dollar and oil prices rising more than 2% to above US\$62 per barrel, traded within 58.9437-60.0164 USD/RUB, rose 1.1% to 59.9437 on Friday.

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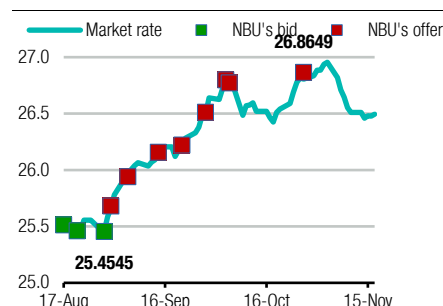
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 17 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.4950	+0.07	-0.06	+0.11	-2.23
USD <sup>1</sup>	93.662	-0.29	-0.77	+0.19	-8.36
EUR	1.1790	+0.17	+1.07	+0.20	+12.10
JPY	112.1000	-0.85	-1.26	-0.09	-4.16
GBP <sup>2</sup>	1.3215	+0.15	+0.14	+0.19	+7.09
CNY	6.6268	-0.05	-0.21	+0.05	-4.58
RUB	59.0265	-1.11	-0.22	+2.92	-4.08

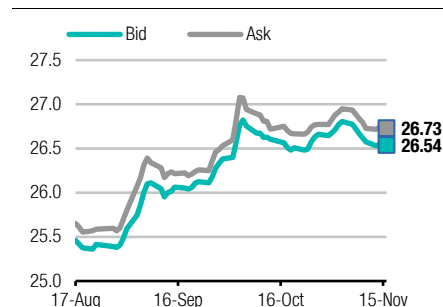
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 17 November 2017)



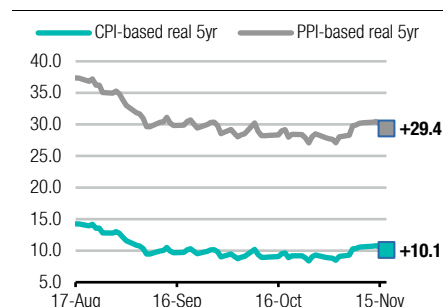
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 17 November 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 17 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)

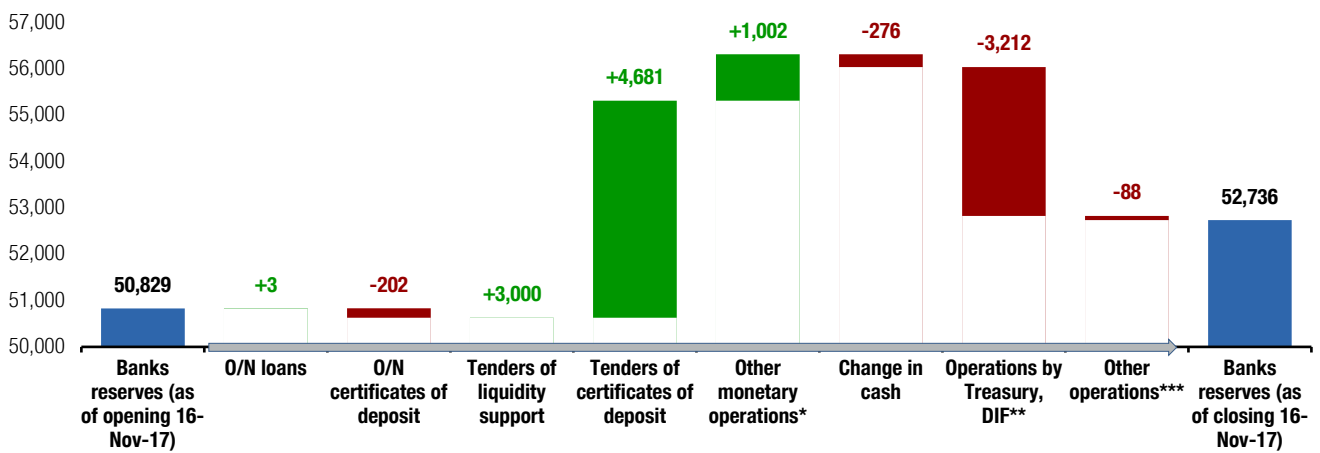
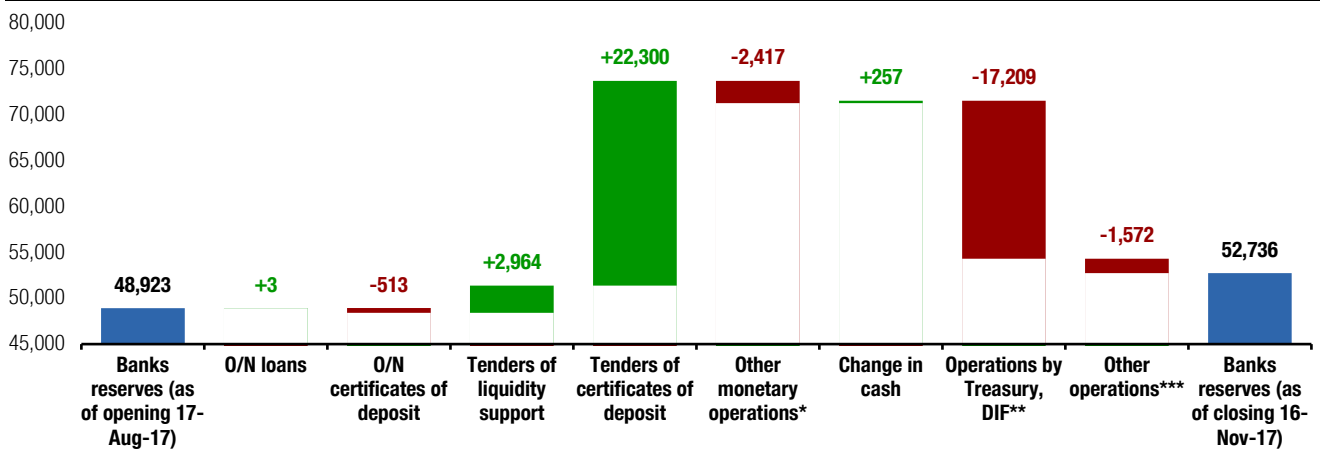
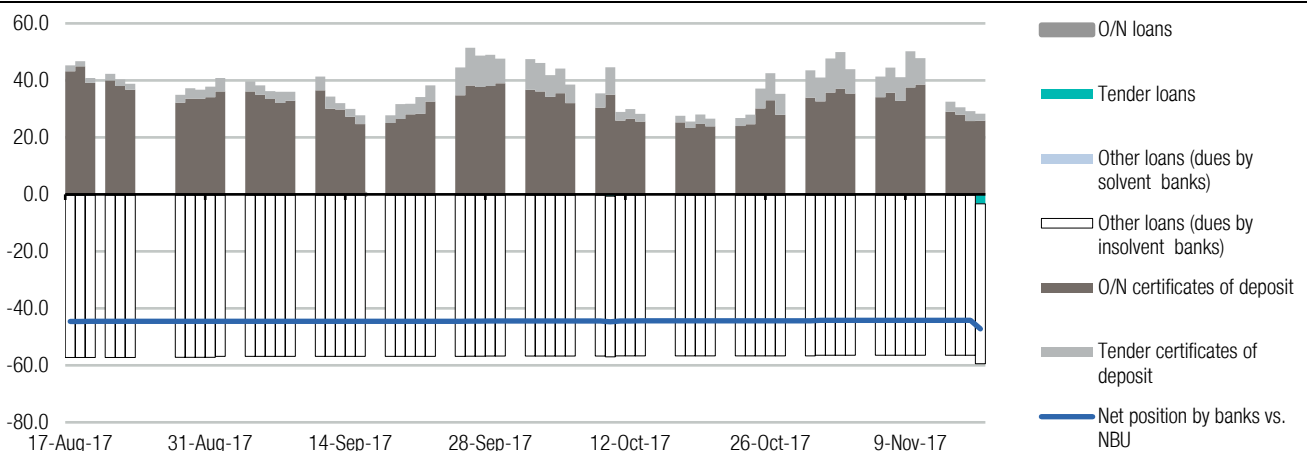


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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