



Focus  
Ukraine

Markets  
Money & bond markets,  
FX market, macroeconomics

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# Daily Insight

## Liquidity at 2-year low

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##### Liquidity at 2-year low 2

Liquidity at the end of last week fell to UAH67.88bn, the record low since July 2015. The main outflow was to the Treasury's accounts, a net UAH5.72bn against revenues of UAH11.39bn last Friday. In addition, UAH0.60bn of reserves were exchanged into cash, resulting in total outflows via non-monetary operations of UAH6.24bn. 2

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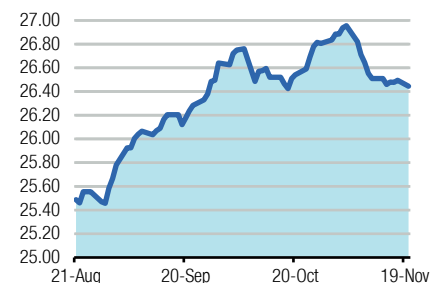
##### Hryvnia holds above 26.5/USD 3

At the beginning of the week, the hryvnia strengthened against the US dollar. At the local market, demand for foreign currency declined, as liquidity declined US\$6.2bn to a 2-year low (see the comment on liquidity). Accordingly, on Monday the hryvnia increased 0.1% to 26.4771 USD/UAH. It sold for 26.55 USD/UAH versus 26.69 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.63% to 107.16; in year-on-year terms, it is down 3.57% from 111.13 last year. 3

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TUESDAY, 21 NOVEMBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 20 November 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 20 November 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	13.80	+20bp	+320bp
Banks reserves (UAHm)	47,126	-10.64	-5.24
Deposit certificates* (UAHm)	20,755	-2.95	-66.65
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.4450	-0.19	-2.42
Total trade volume (US\$m)	227.52	+6.14	+34.14
UAH index CPI-based	107.162	+0.63	-0.78
UAH index PPI-based	165.162	+0.63	-1.91
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	434bp	+0bp	-219bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,582.14	+0.13	+15.33
MSCI EM	1,136.10	-0.03	+31.76
US dollar index (DXY)	94.080	+0.45	-7.95
EUR / USD	1.1733	-0.48	+11.56
Crude oil WTI (US\$/bbl)	56.42	-0.23	+5.03
Crude oil BRENT (US\$/bbl)	62.22	-0.80	+9.50
CRB, commodities index	189.21	-0.62	-1.71
Gold (US\$/ounce)	1,276.86	-1.34	+10.81

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity at 2-year low

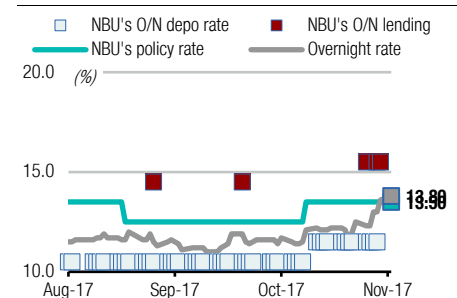
Liquidity at the end of last week fell to UAH67.88bn, the record low since July 2015. The main outflow was to the Treasury's accounts, a net UAH5.72bn against revenues of UAH11.39bn last Friday. In addition, UAH0.60bn of reserves were exchanged into cash, resulting in total outflows via non-monetary operations of UAH6.24bn.

Banking sector liquidity fell UAH6.24bn last Friday, with a UAH5.61bn decline in banks' correspondent accounts with the NBU to UAH47.13bn and total CDs outstanding decreased UAH0.63bn to UAH20.76bn, the record low since April 2015. Banks decreased outstanding ON CDs last Friday as the NBU redeemed and issued only ON CDs.

**ICU view:** *The decline in liquidity was expected, but there were significant fund outflows, as expected, caused by a lack of inflows from the NBU and also by tax payments. VAT refunds most likely will be paid in the third decade of November. Since the beginning of the month, only UAH2.15bn was paid in VAT refunds, including UAH0.45bn yesterday. Without an increase in budget expenditures and without NBU support, liquidity could decline once more to a new low.*

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## Interest rates in the banks' reserves market (three months through 20 November 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 20 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	13.80	+20bp	+150bp	+210bp	+320bp
ON \$ swap	12.97	+47bp	+54bp	+137bp	+150bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	47,126	-10.64	+0.98	-8.16	-5.24
DepCerts <sup>3</sup>	20,755	-2.95	-28.34	-13.08	-66.65
<b>Total</b>	<b>67,881</b>	<b>-8.42</b>	<b>-10.25</b>	<b>-9.72</b>	<b>-39.38</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	312,894	+0.02	-0.15	+1.48	+81.56
Residents	21,628	+0.02	-0.79	-4.46	-8.29
Non-res <sup>4</sup>	5,314	+0.28	+0.26	+64.72	-16.34
<b>Total</b>	<b>701,314</b>	<b>+0.01</b>	<b>-0.09</b>	<b>+0.83</b>	<b>+27.39</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	15.32	-90bp	+44bp	+347bp	-699bp
3 months	14.95	-22bp	+17bp	+256bp	-712bp
6 months	12.71	+18bp	+10bp	+55bp	-534bp
1 year	11.71	-40bp	+6bp	+1bp	-428bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	434	+0bp	-6bp	-44bp	-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 holds above 26.5/USD

At the beginning of the week, the hryvnia strengthened against the US dollar. At the local market, demand for foreign currency declined, as liquidity declined US\$6.2bn to a 2-year low (see the comment on liquidity). Accordingly, on Monday the hryvnia increased 0.1% to 26.4771 USD/UAH. It sold for 26.55 USD/UAH versus 26.69 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.63% to 107.16; in year-on-year terms, it is down 3.57% from 111.13 last year.

To begin the week, the US dollar traded more strongly against other major currencies, although the US Senate is not certain to pass the new version of tax reform. The weaker European currency also bolsters the USD which remains rather volatile and vulnerable in the absence of macroeconomic news. The DXY index traded at 93.575-94.104, closing up 0.45% to 94.08.

The euro fell significantly on Monday amidst political uncertainty in Germany as talks on the formation of a government coalition failed, which could foment early parliamentary elections next year. The EUR/USD pair traded within 1.1722-1.1812 EUR/USD, down 0.5% to 1.1733 EUR/USD on Monday.

After rising significantly at the end of the previous week, the ruble declined on Monday in reaction to falling oil prices and a strengthening US dollar. However, tax payments scheduled this week could support the ruble. The Russia currency traded within 59.0339-59.5823 USD/RUB, down 0.6% to 59.38.

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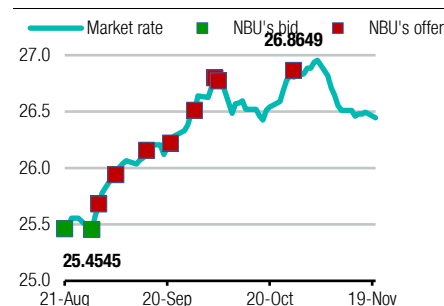
## Key indicators (as of 20 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.4450	-0.19	-0.25	-0.36	-2.42
USD <sup>1</sup>	94.080	+0.45	-0.43	+0.40	-7.95
EUR	1.1733	-0.48	+0.57	-0.43	+11.56
JPY	112.6200	+0.46	-0.88	-0.79	-3.71
GBP <sup>2</sup>	1.3235	+0.15	+0.91	+0.34	+7.25
CNY	6.6372	+0.16	-0.05	+0.25	-4.43
RUB	59.3800	+0.60	-0.03	+3.28	-3.51

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

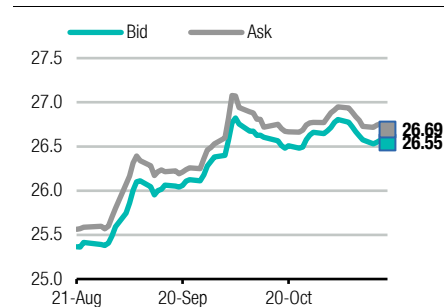
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 20 November 2017)



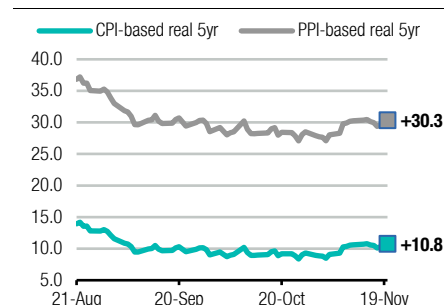
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 20 November 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 20 November 2017)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

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

# Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

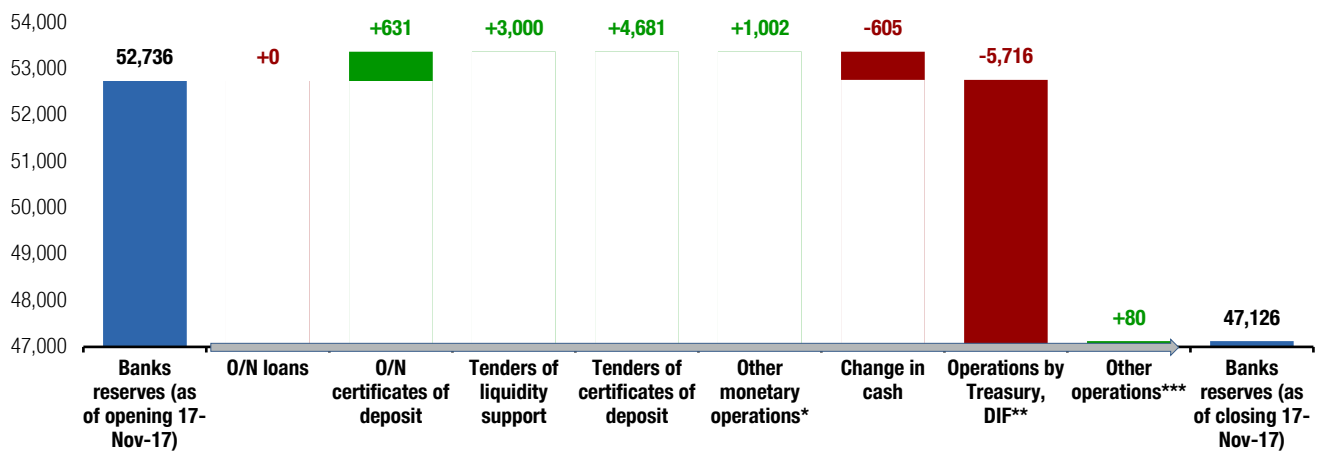
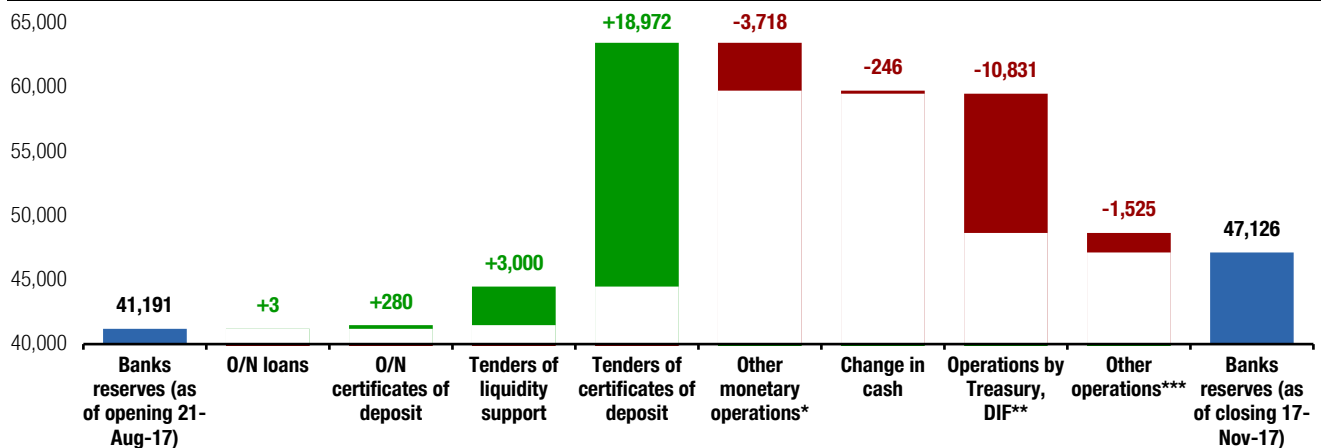


Chart 2. Banks reserves usages over last 90-day period (UAHm)

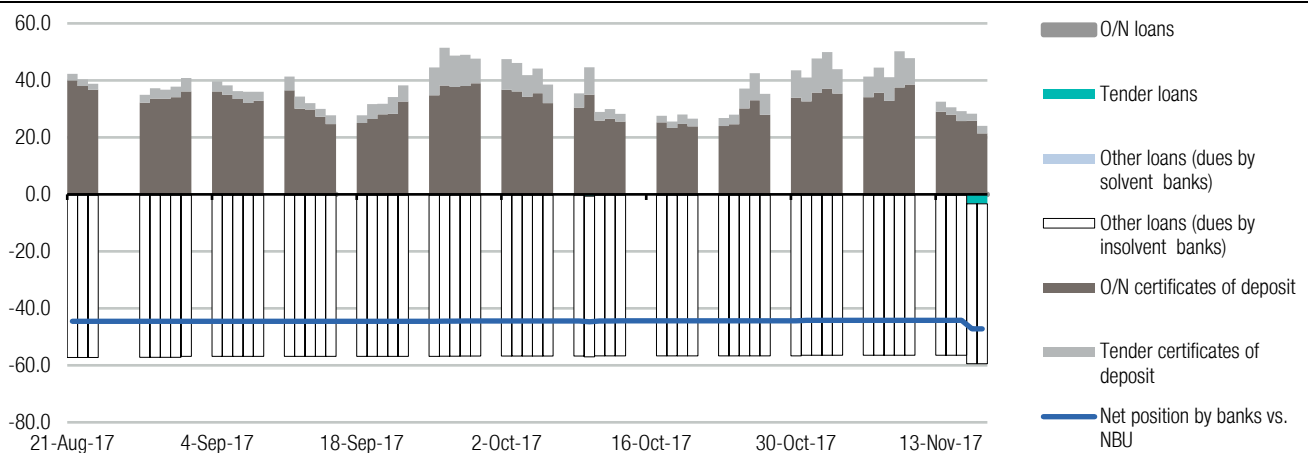


Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142) ;

\* 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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