

# Daily Insight

## Liquidity recovers

### Key messages of the today's comments

#### Domestic liquidity 2

##### Liquidity recovers.....2

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##### Insufficient demand and proceeds .....2

Yesterday, for the first time this month, the MoF borrowed some funds for the state budget, but only a minimal amount of proceeds from FX-denominated bonds. Two bonds were offered at the auction, namely 11-month bonds in local currency and 2-year bonds denominated in US dollars, of which the MoF sold only USD-denominated bonds. Demand for local-currency bonds was a paltry UAH0.4m in one non-competitive bid, which was rejected due to lack of competitive demand. The bidder was most likely willing to buy bonds at any interest rate approved by the MoF. 2

#### Foreign exchange markets 3

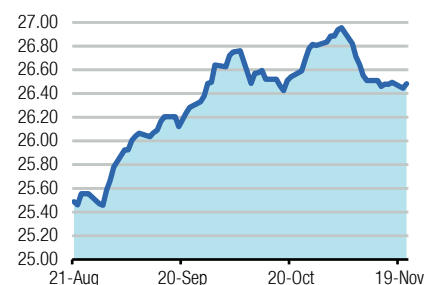
##### Hryvnia declines .....3

On Tuesday, the Ukrainian hryvnia fell against the US dollar despite the decline in demand for foreign currency in the local market. The hryvnia reacted to the State Treasury's reimbursement of more than UAH9bn in VAT refunds which will respectively affect the level of liquidity in the banking system, which as of Tuesday morning already increased by 1.8 billion. This should put pressure on the hryvnia's rate which dropped by 0.1% to 26.4922 USD/UAH on Tuesday. It sold for 26.53USD/UAH versus 26.7 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.25% to 106.89; in year-on-year terms, it is down 4.25% from 111.64 last year. 3

#### Appendix #1: Domestic liquidity 4

WEDNESDAY, 22 NOVEMBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 21 November 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 21 November 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	13.10	-70bp	+250bp
Banks reserves (UAHm)	48,740	+3.43	-2.00
Deposit certificates* (UAHm)	21,014	+1.25	-66.24
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.4825	+0.14	-2.28
Total trade volume (US\$m)	240.56	+5.73	+41.83
UAH index CPI-based	106.893	-0.25	-1.03
UAH index PPI-based	164.748	-0.25	-2.15
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	434bp	+0bp	-219bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,599.03	+0.65	+16.09
MSCI EM	1,150.98	+1.31	+33.48
US dollar index (DXY)	93.952	-0.14	-8.08
EUR / USD	1.1738	+0.04	+11.61
Crude oil WTI (US\$/bbl)	56.83	+0.73	+5.79
Crude oil BRENT (US\$/bbl)	62.57	+0.56	+10.12
CRB, commodities index	189.83	+0.33	-1.39
Gold (US\$/ounce)	1,280.53	+0.29	+11.13

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity recovers

This Monday, the impact from non-monetary operations changed direction from negative to positive and added UAH1.61bn to liquidity. Banks exchanged UAH0.76bn of cash in reserves while Treasury operations amounted to UAH0.87bn. Additionally, the NBU provided UAH0.27bn via other monetary operations, most likely via FX purchases.

Banks' correspondent accounts with the NBU rose UAH1.61bn to UAH48.74bn while total CDs outstanding rose a mere UAH0.26bn to UAH21.01bn. As a result, liquidity increased UAH1.87bn to UAH69.75bn.

**ICU view: Positive Treasury operations was caused by a significant decline in fund outflows via tax payments of UAH4.10bn on Monday versus UAH11.39bn last Friday in addition to routine month-end cash exchanges into reserves. Yesterday's liquidity indicators (to be published today) should show better dynamics, as yesterday the Treasury paid UAH9.03bn in VAT refunds.**

## Insufficient demand and proceeds

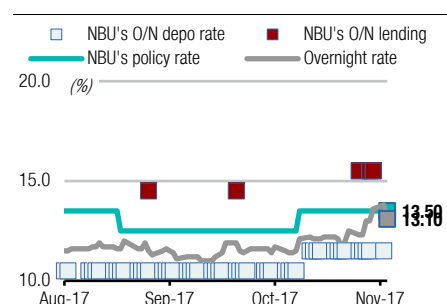
Yesterday, for the first time this month, the MoF borrowed some funds for the state budget, but only a minimal amount of proceeds from FX-denominated bonds. Two bonds were offered at the auction, namely 11-month bonds in local currency and 2-year bonds denominated in US dollars, of which the MoF sold only USD-denominated bonds. Demand for local-currency bonds was a paltry UAH0.4m in one non-competitive bid, which was rejected due to lack of competitive demand. The bidder was most likely willing to buy bonds at any interest rate approved by the MoF.

The MoF received 15 bids for the USD- denominated bonds for a total of UAH87.59m (par value), less than a third of the FX-denominated debt repayments scheduled for today. Bids were very flat at 5.39-5.40%, and the MoF decided to accept all bids and set weighted-average rate at 5.40% as demand at the lowest rate was insufficient.

**ICU view: Ultimately, the MoF refinanced only a small portion of debt repayments scheduled for today. This was quite unexpected as FX-denominated bonds were in high demand at recent auctions. Probably, part of the debt repayments from FX-denominated bond redemptions could be reinvested in local-currency debt which was more attractive this year because of the less volatile UAH/USD exchange rate. Quite possibly, demand for local-currency debt could increase using more funds from FX.**

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## Interest rates in the banks' reserves market (three months through 21 November 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 21 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	13.10	-70bp	+80bp	+140bp	+250bp
ON \$ swap	12.91	-26bp	+19bp	+131bp	+144bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	48,740	+3.43	+2.49	-5.01	-2.00
DepCerts <sup>3</sup>	21,014	+1.25	-24.90	-11.99	-66.24
<b>Total</b>	<b>69,754</b>	<b>+2.76</b>	<b>-7.66</b>	<b>-7.23</b>	<b>-37.70</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	312,822	-0.02	-0.15	+1.45	+81.52
Residents	21,617	-0.05	-0.72	-4.52	-8.34
Non-res <sup>4</sup>	5,310	-0.07	+0.21	+64.59	-16.41
<b>Total</b>	<b>701,226</b>	<b>-0.01</b>	<b>-0.08</b>	<b>+0.82</b>	<b>+27.38</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	20.28	+496bp	+238bp	+843bp	-203bp
3 months	15.65	+70bp	-16bp	+326bp	-642bp
6 months	13.02	+31bp	-7bp	+86bp	-503bp
1 year	11.89	+18bp	-5bp	+20bp	-410bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	434	+0bp	-1bp	-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 declines

On Tuesday, the Ukrainian hryvnia fell against the US dollar despite the decline in demand for foreign currency in the local market. The hryvnia reacted to the State Treasury's reimbursement of more than UAH9bn in VAT refunds which will respectively affect the level of liquidity in the banking system, which as of Tuesday morning already increased by 1.8 billion. This should put pressure on the hryvnia's rate which dropped by 0.1% to 26.4922 USD/UAH on Tuesday. It sold for 26.53USD/UAH versus 26.7 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.25% to 106.89; in year-on-year terms, it is down 4.25% from 111.64 last year.

The US dollar changed little during the first half of trading on Tuesday and declined somewhat by the end of the day. Investors are rather restrained ahead of the Thanksgiving holiday in the United States as market activity has decreased. Today's scheduled release of the Fed meeting minutes could positively affect the dollar. The DXY index traded at 93.878-94.165, closing down 0.1% to 93.952.

The euro remains under pressure of political uncertainty in Germany. Angela Merkel said she would prefer to hold new elections instead of heading a minority government. At the same time, the country's president noted that political parties should try to form a government in the best interest of the voters. The EUR/USD pair traded within 1.1713-1.1758 EUR/USD, up 0.04% to 1.1738 EUR/USD.

The Russian currency was supported by upcoming taxes and higher oil prices, which are above US\$62 per barrel. Accordingly, the ruble holds above the significant level of 60 USD/RUB as the declining USD in world markets also bolstered the Russian currency on Tuesday. It traded within 59.0938-59.5415 USD/RUB, up 0.4% to 59.1531.

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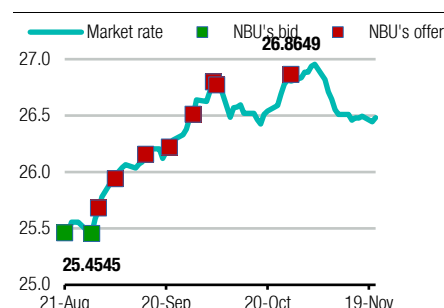
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 21 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.4825	+0.14	+0.09	-0.22	-2.28
USD <sup>1</sup>	93.952	-0.14	+0.13	+0.27	-8.08
EUR	1.1738	+0.04	-0.51	-0.39	+11.61
JPY	112.4500	-0.15	-0.89	-0.94	-3.86
GBP <sup>2</sup>	1.3239	+0.03	+0.56	+0.37	+7.29
CNY	6.6290	-0.12	-0.11	+0.13	-4.55
RUB	59.1531	-0.38	-2.17	+2.89	-3.87

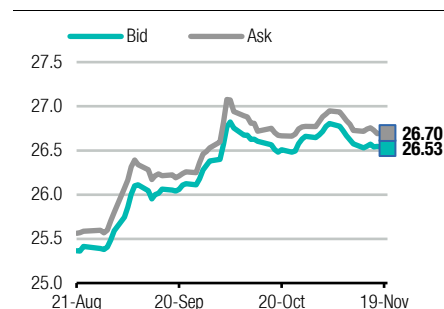
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 21 November 2017)



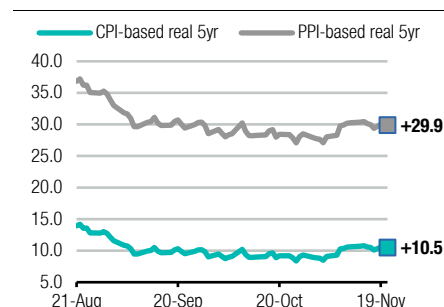
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 21 November 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 21 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)

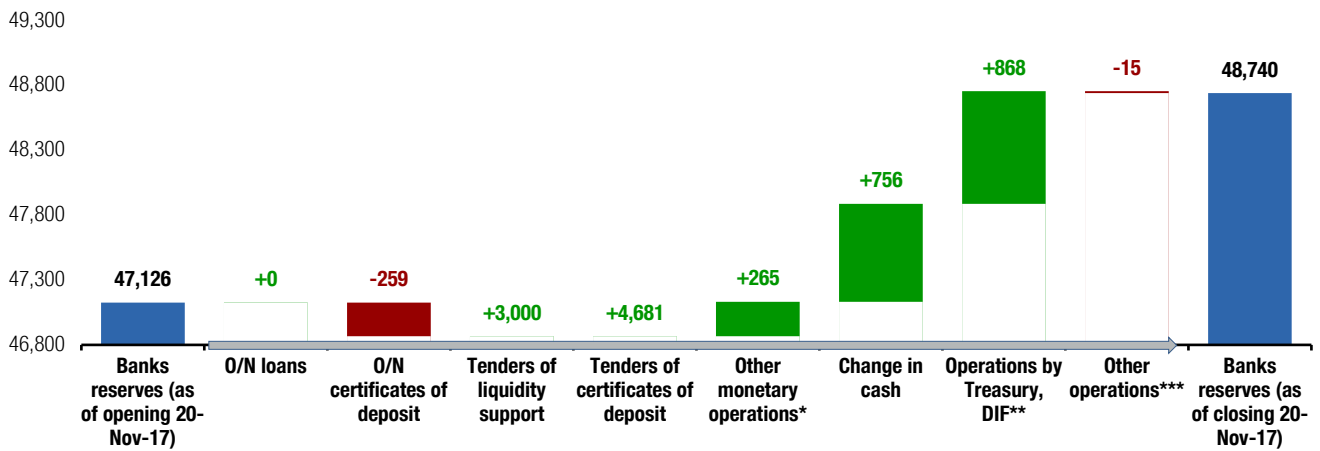
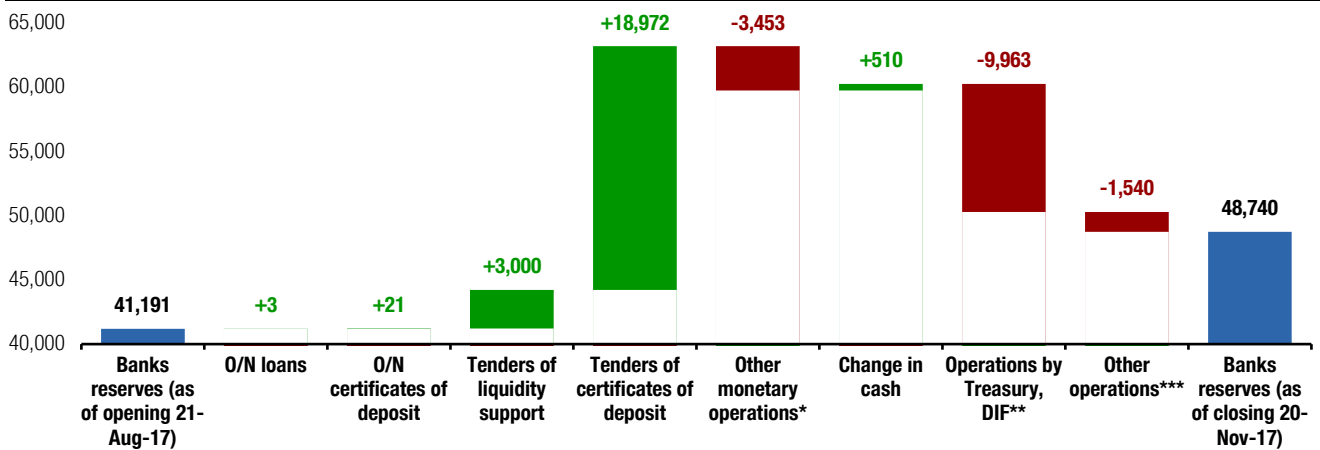
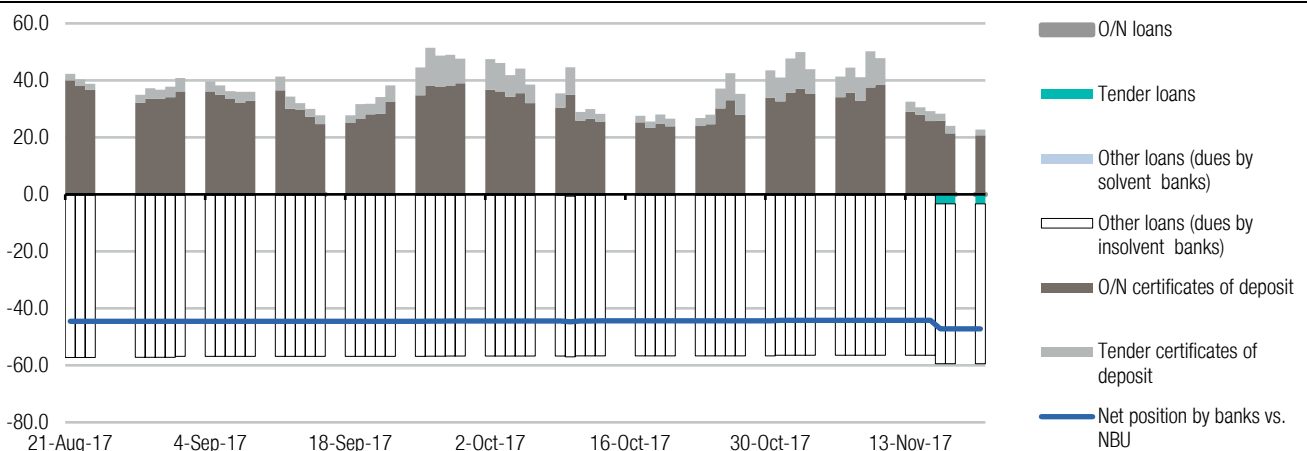


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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