

Daily Insight

Hryvnia down significantly

Key messages of the today's comments

Domestic liquidity **2**

Liquidity up on VAT refund2

The VAT refund caused significant support for banking sector liquidity, pushing it to this month's high. Banks accumulated funds in reserves, slightly decreasing total CDs outstanding. Total banking sector liquidity rose UAH9.87bn to UAH79.63bn on Tuesday. Banks' correspondent accounts with the NBU rose UAH9.96bn as UAH0.09bn of funds were reallocated from CDs. Banks also changed the structure of CDs outstanding, reallocating UAH0.59bn of funds from 2-week into ON CDs, but also reinvesting UAH4.65bn into 2-week CDs with redemption next month.

Foreign exchange markets **3**

Hryvnia down significantly3

At the opening of trading on Wednesday, the national currency depreciated significantly against the US dollar, which continued until the end of the day, resulted in a significant increase in liquidity of UAH9.87bn, as expected, putting significant pressure on the hryvnia as higher demand for foreign currency came from from importers. The hryvnia fell 0.6% to 26.6476 USD/UAH. It sold for 26.52 USD/UAH versus 26.69 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 1.44% to 105.32; in year-on-year terms, it is down 5.86% from 111.88 last year.

Appendix #1: Domestic liquidity **4**

THURSDAY, 23 NOVEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 22 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 22 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.80	-30bp	+220bp
Banks reserves (UAHm)	58,699	+20.43	+18.03
Deposit certificates* (UAHm)	20,928	-0.41	-66.37
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.7000	+0.82	-1.48
Total trade volume (US\$m)	346.00	+43.83	+103.99
UAH index CPI-based	105.352	-1.44	-2.45
UAH index PPI-based	162.373	-1.44	-3.56

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	434bp	+0bp	-219bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,597.08	-0.08	+16.00
MSCI EM	1,156.67	+0.49	+34.14
US dollar index (DXY)	93.220	-0.78	-8.80
EUR / USD	1.1822	+0.72	+12.41
Crude oil WTI (US\$/bbl)	58.02	+2.09	+8.00
Crude oil BRENT (US\$/bbl)	63.32	+1.20	+11.44
CRB, commodities index	191.60	+0.94	-0.47
Gold (US\$/ounce)	1,292.00	+0.90	+12.13

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity up on VAT refund

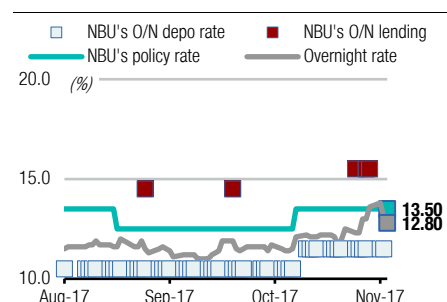
The VAT refund caused significant support for banking sector liquidity, pushing it to this month's high. Banks accumulated funds in reserves, slightly decreasing total CDs outstanding. Total banking sector liquidity rose UAH9.87bn to UAH79.63bn on Tuesday. Banks' correspondent accounts with the NBU rose UAH9.96bn as UAH0.09bn of funds were reallocated from CDs. Banks also changed the structure of CDs outstanding, reallocating UAH0.59bn of funds from 2-week into ON CDs, but also reinvesting UAH4.65bn into 2-week CDs with redemption next month.

The inflow was mostly via non-monetary operations, mainly via Treasury operations, which had a positive balance of UAH8.64bn. An additional UAH0.70bn of cash was exchanged into reserves. Also, the NBU provided some funds via monetary operations, amounting to UAH0.53bn, most likely via FX purchases.

ICU view: The Treasury performed an opportunistic VAT refund to significantly support liquidity prior to month-end tax payments. Following this, liquidity should be rather steady with low volatility, but at the end of this week and at the beginning of next week we could see a new wave of outflows to budgets accounts.

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Interest rates in the banks' reserves market (three months through 22 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 22 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	12.80	-30bp	-20bp	+110bp	+220bp
ON \$ swap	11.95	-24bp	-64bp	+35bp	+48bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	58,699	+20.43	+23.15	+14.40	+18.03
DepCerts ³	20,928	-0.41	-18.59	-12.35	-66.37
Total	79,627	+14.15	+8.52	+5.90	-28.89
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	312,858	+0.01	-0.16	+1.46	+81.54
Residents	21,609	-0.03	-0.62	-4.55	-8.37
Non-res ⁴	5,310	+0.01	+0.21	+64.60	-16.40
Total	701,259	+0.00	-0.09	+0.82	+27.38
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	13.49	-679bp	-231bp	+164bp	-882bp
3 months	14.96	-69bp	-15bp	+257bp	-710bp
6 months	12.68	-33bp	-6bp	+52bp	-536bp
1 year	11.76	-12bp	+0bp	+7bp	-423bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	434	+0bp	-3bp	-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 down significantly

At the opening of trading on Wednesday, the national currency depreciated significantly against the US dollar, which continued until the end of the day, resulted in a significant increase in liquidity of UAH9.87bn, as expected, putting significant pressure on the hryvnia as higher demand for foreign currency came from from importers. The hryvnia fell 0.6% to 26.6476 USD/UAH. It sold for 26.52 USD/UAH versus 26.69 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 1.44% to 105.32; in year-on-year terms, it is down 5.86% from 111.88 last year.

The US dollar continued its decline on Wednesday. As orders for durable goods fell 1.2% last month, initial claims for unemployment benefits decreased beyond the forecast to 239,000 and the IS consumer sentiment index fell to 98.5 points in November (higher than estimated previously) from a 101.1 in the previous month. The DXY index traded at 93.212-93.962, closing down 0.8% to 93.22.

At the beginning of the day, the euro traded unchanged from the previous day as uncertainty about the political situation in Germany persisted, but then began to appreciate rapidly in the latter half of trading due to the depreciation of the US dollar caused by weak statistical data. The EUR/USD pair traded within 1.1733-1.1827 EUR/USD, up 0.7% to 1.1822 EUR/USD.

The ruble continued the trend of the previous day, backed by rising oil prices (from declining US inventory) and a weakening US dollar. The ruble strengthened above 59 USD/RUB as it traded within 58.3848-59.322 USD/RUB, up 1.3% to 58.4138.

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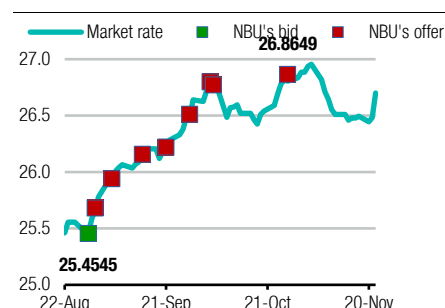
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 22 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.7000	+0.82	+0.83	+0.60	-1.48
USD ¹	93.220	-0.78	-0.63	-0.51	-8.80
EUR	1.1822	+0.72	+0.26	+0.32	+12.41
JPY	111.2200	-1.09	-1.47	-2.03	-4.91
GBP ²	1.3325	+0.65	+1.17	+1.02	+7.98
CNY	6.6103	-0.28	-0.21	-0.15	-4.82
RUB	58.4138	-1.25	-2.99	+1.60	-5.08

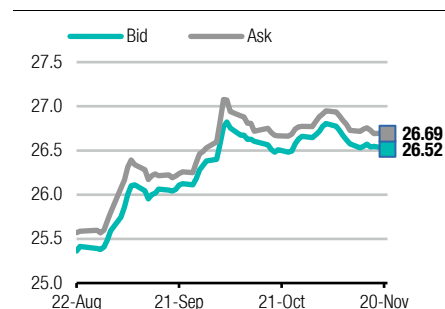
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 22 November 2017)



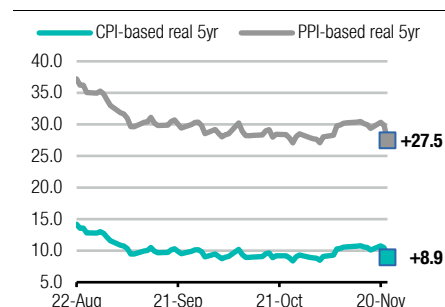
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 22 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 22 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)

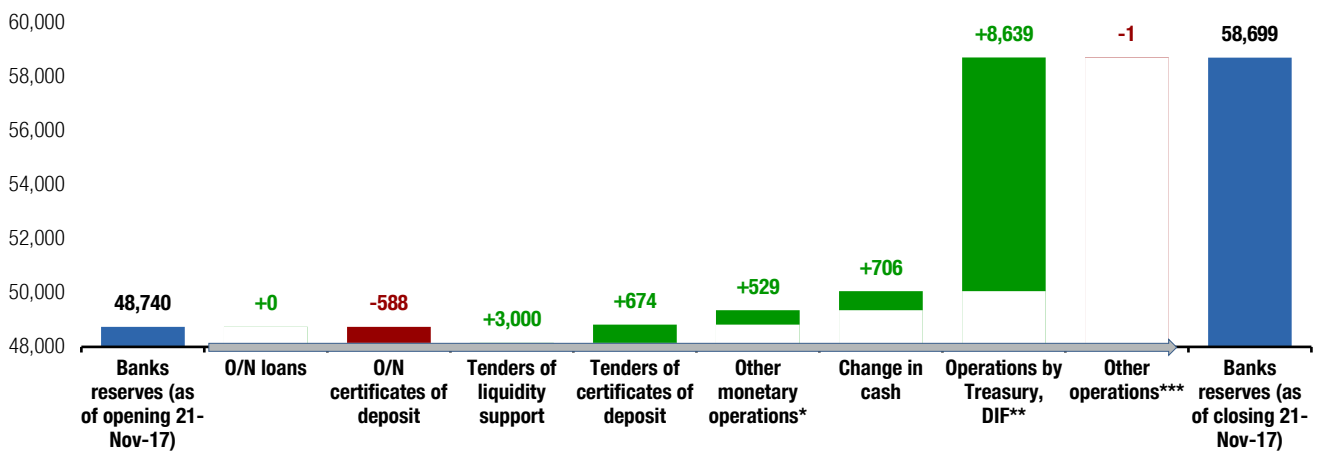
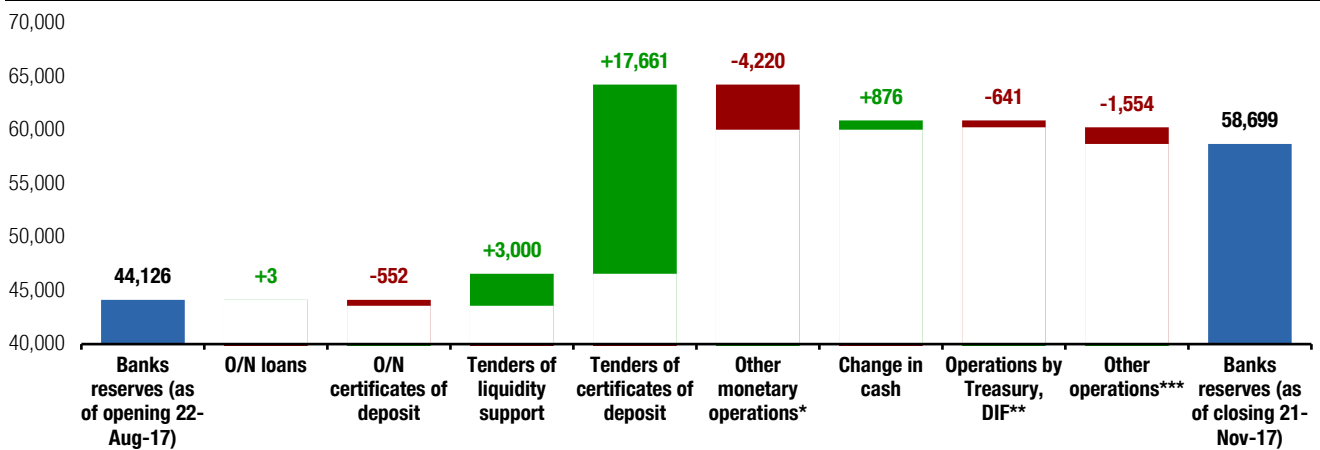
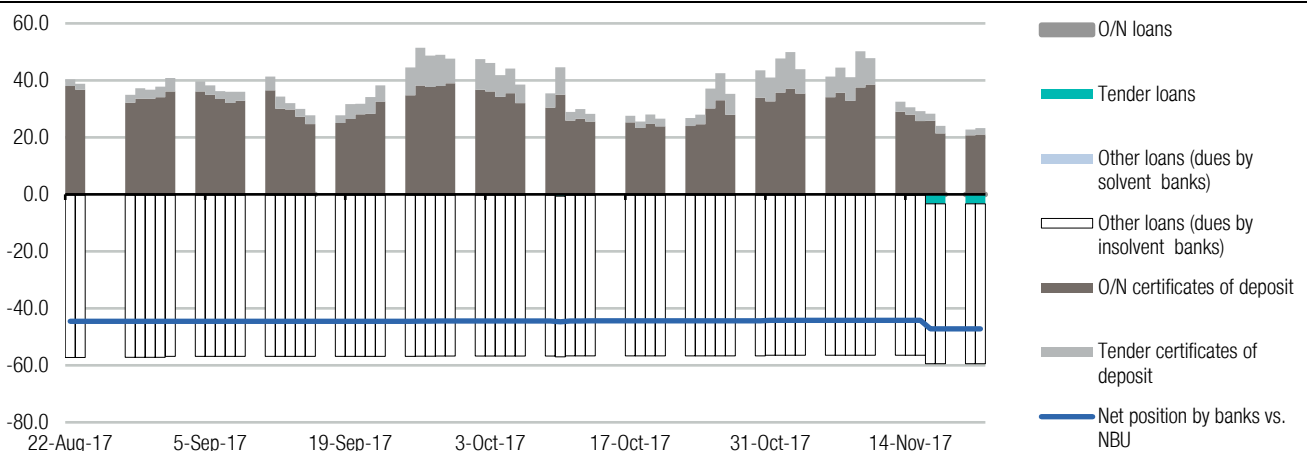


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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