

Daily Insight

UAH plunges 0.8% against the USD

Key messages of the today's comments

FRIDAY, 24 NOVEMBER 2017

Domestic liquidity

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Liquidity steady

Following Wednesday's cash flows, liquidity fell a slight UAH0.35bn to UAH79.28bn after a reallocation of funds. Banks purchased UAH0.30bn of new 3-month CDs and increased outstanding ON CDs by UAH0.30bn, increasing total CDs outstanding by UAH0.60bn to UAH21.52bn. Banks' correspondent accounts with the NBU declined UAH0.94bn to UAH57.76bn.

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Foreign exchange markets

3

UAH plunges 0.8% against the USD

The hryvnia extended losses on Thursday, having dropped 0.8% to 26.8614 USD/UAH following the US Thanksgiving holiday. The hryvnia was negatively affected by a significant increase in liquidity of UAH9.87bn on Tuesday, while on Wednesday liquidity rose insignificantly (see comment on liquidity). Demand for USD rose on the local market. On Thursday, in the local market the hryvnia sold for 26.58 USD/UAH versus 26.77 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.63% to 104.69; in year-on-year terms, it is down 7.2% from 112.81 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 23 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 23 November 2017)

| | Last | Daily chg (%) | YTD chg (%) |
|--------------------------------|---------|------------------|----------------|
| DOMESTIC LIQUIDITY | | | |
| NBU key policy rate (%) | 13.50 | +0bp | -50bp |
| Overnight rate (interbank) | 12.60 | -20bp | +200bp |
| Banks reserves (UAHm) | 57,757 | -1.60 | +16.14 |
| Deposit certificates* (UAHm) | 21,523 | +2.84 | -65.42 |
| FOREIGN EXCHANGE MARKET | | | |
| UAH per US dollar | 26.8250 | +0.47 | -1.01 |
| Total trade volume (US\$m) | 171.90 | -50.32 | +1.35 |
| UAH index CPI-based | 104.690 | -0.63 | -3.07 |
| UAH index PPI-based | 161.353 | -0.63 | -4.17 |

UKRAINE SOVEREIGN EUROBOND MARKET

| | | | |
|---------|-------|------|--------|
| CDS 5yr | 434bp | +0bp | -219bp |
|---------|-------|------|--------|

GLOBAL FINANCIAL MARKET INDICATORS

| | | | |
|----------------------------|----------|---------|---------|
| S&P 500 | 2,597.08 | -0.08 | +16.00 |
| MSCI EM | 1,152.40 | -0.37 | +33.65 |
| US dollar index (DXY) | 93.220 | +0.00 | -8.80 |
| EUR / USD | 1.1851 | +0.25 | +12.68 |
| Crude oil WTI (US\$/bbl) | N/A | -100.00 | -100.00 |
| Crude oil BRENT (US\$/bbl) | 63.55 | +0.36 | +11.84 |
| CRB, commodities index | N/A | | |
| Gold (US\$/ounce) | 1,291.34 | -0.05 | +12.07 |

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity steady

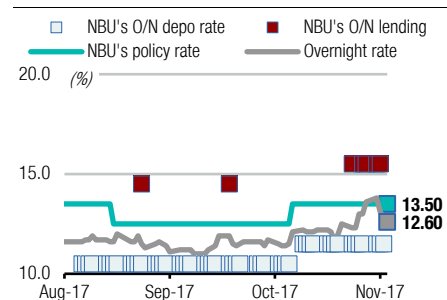
Following Wednesday's cash flows, liquidity fell a slight UAH0.35bn to UAH79.28bn after a reallocation of funds. Banks purchased UAH0.30bn of new 3-month CDs and increased outstanding ON CDs by UAH0.30bn, increasing total CDs outstanding by UAH0.60bn to UAH21.52bn. Banks' correspondent accounts with the NBU declined UAH0.94bn to UAH57.76bn.

The impact from non-monetary operations was just UAH0.18bn of inflows: the Treasury absorbed UAH0.30bn which was offset by a cash exchange of reserves of UAH0.39bn and other non-monetary operations of UAH0.10bn. The decline in liquidity was mostly caused by the NBU absorbing UAH0.54bn via other monetary operations, probably due to selling FX.

ICU view: *In the gap between quarterly and month-end tax payments, and after a significant inflow via VAT refunds, liquidity routinely is stable temporarily. There could be a new wave of outflows to the Treasury over the next few days and liquidity should decline.*

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Interest rates in the banks' reserves market (three months through 23 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 23 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 | 12.60 | -20bp | -40bp | +110bp | +200bp |
| ON \$ swap | 12.30 | -9bp | -17bp | +45bp | +83bp |
| DOMESTIC LIQUIDITY (UAH MILLION) | | | | | |
| Reserves ² | 57,757 | -1.60 | +13.63 | +12.22 | +16.14 |
| DepCerts ³ | 21,523 | +2.84 | -16.79 | -10.25 | -65.42 |
| Total | 79,280 | -0.44 | +3.37 | +5.08 | -29.20 |
| BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION) | | | | | |
| NBU | 360,573 | +0.00 | +0.00 | +0.00 | +1.24 |
| Banks | 307,063 | -1.85 | -1.85 | -0.45 | +78.17 |
| Residents | 21,311 | -1.38 | -1.51 | -5.79 | -9.63 |
| Non-res ⁴ | 4,779 | -9.99 | -9.81 | +48.13 | -24.75 |
| Total | 694,636 | -0.94 | -0.95 | -0.15 | +26.18 |
| IMPLIED YIELDS OF THE UAH NDF MARKET (%) | | | | | |
| 1 month | 16.85 | +336bp | +54bp | +105bp | -546bp |
| 3 months | 14.99 | +2bp | +3bp | +29bp | -708bp |
| 6 months | 12.69 | +1bp | +5bp | +12bp | -535bp |
| 1 year | 11.72 | -4bp | +3bp | +11bp | -427bp |
| UKRAINE SOVEREIGN EUROBOND MARKET | | | | | |
| CDS 5yr | 434 | +0bp | +0bp | -36bp | -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

UAH plunges 0.8% against the USD

The hryvnia extended losses on Thursday, having dropped 0.8% to 26.8614 USD/UAH following the US Thanksgiving holiday. The hryvnia was negatively affected by a significant increase in liquidity of UAH9.87bn on Tuesday, while on Wednesday liquidity rose insignificantly (see comment on liquidity). Demand for USD rose on the local market. On Thursday, in the local market the hryvnia sold for 26.58 USD/UAH versus 26.77 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.63% to 104.69; in year-on-year terms, it is down 7.2% from 112.81 last year.

The US dollar traded lower against the basket of other major currencies on Thursday as trading volumes were thin as the US market were closed because of the Thanksgiving holiday. Following the Fed's last meeting which showed that some policymakers remain concerned about sluggish US inflation, the DXY index traded at 93.07-93.29, closing at 93.22.

The euro was boosted by solid macroeconomic data as the Eurozone manufacturing purchasing managers' index hit a 6.5-year high, having increased to 60.0 this month from 58.5 in October. This implies solid real GDP growth in the Eurozone in 4Q17, which should be close to 0.8% QoQ according to the IHS estimate. On the back of the weaker USD, the euro strengthened 0.25% to 1.1851 EUR/USD.

The Chinese renminbi strengthened another 0.4% against the USD to 6.5835 USD/CNY, extending its gains over the latest trading sessions, driven by a weaker US dollar and the central bank of China increasing the reference rate by 0.41%, the most since October 11. At the same time, the Russian ruble remained almost flat against the USD, down 0.1% to 58.4561 USD/RUB.

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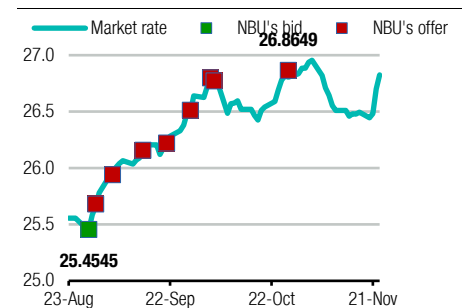
Key indicators (as of 23 November 2017)

| | Last | Daily chg (%) | Weekly chg (%) | Monthly chg (%) | YTD chg (%) |
|---|----------|---------------|----------------|-----------------|-------------|
| EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND) | | | | | |
| UAH | 26.8250 | +0.47 | +1.31 | +0.88 | -1.01 |
| USD ¹ | 93.220 | +0.00 | -0.76 | -0.76 | -8.80 |
| EUR | 1.1851 | +0.25 | +0.69 | +0.87 | +12.68 |
| JPY | 111.2200 | +0.00 | -1.63 | -1.95 | -4.91 |
| GBP ² | 1.3309 | -0.12 | +0.86 | +0.84 | +7.85 |
| CNY | 6.5835 | -0.41 | -0.71 | -0.85 | -5.21 |
| RUB | 58.4561 | +0.07 | -2.07 | +1.59 | -5.01 |

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

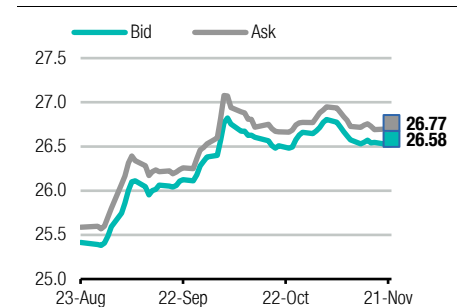
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 23 November 2017)



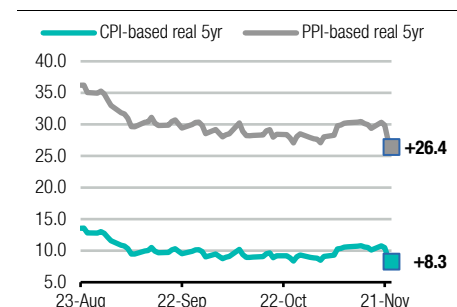
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 23 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 23 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](http://www.icu.ua).

Appendix #1: Domestic liquidity

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

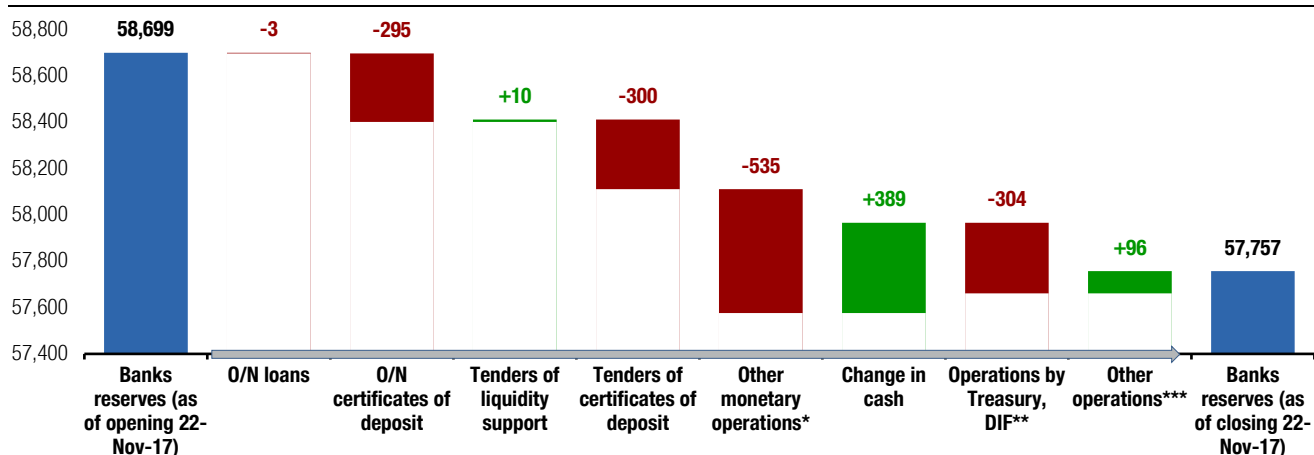
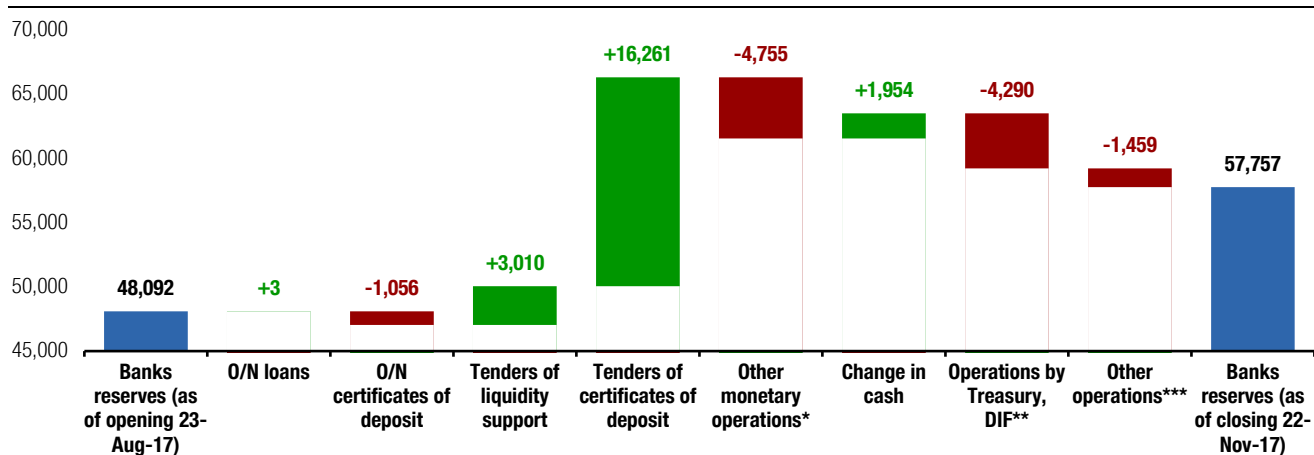


Chart 2. Banks reserves usages over last 90-day period (UAHm)

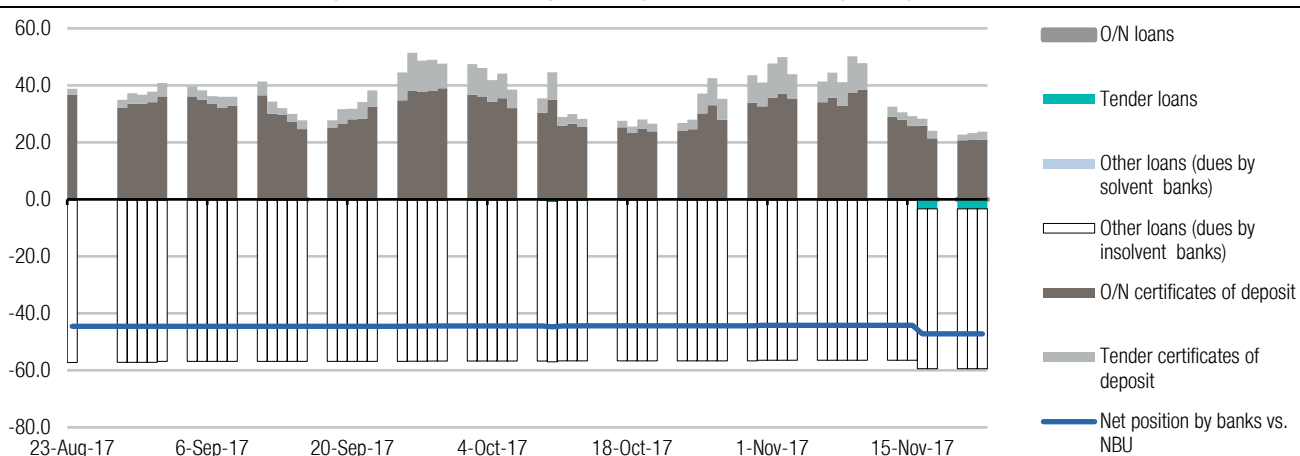


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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