



Focus
Ukraine

Markets
Money & bond markets,
FX market, macroeconomics

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Daily Insight

Liquidity down slightly

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This Wednesday, liquidity declined just UAH0.50bn to UAH79.64bn from the negative impact from non-monetary operations. Usually, outflows are the result of Treasury operations and other non-monetary cash-flows. The Treasury absorbed UAH0.82bn of funds and outflows via other non-monetary operations amounted to UAH0.18bn. The exchange of cash into reserves was UAH0.50bn which covered only half of the net outflows.

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The hryvnia weakened another 0.5% to 27.1554 USD/UAH, the weakest rate since early April as demand for USD still exceeded supply in the local FX market. In response to higher demand for USD, the NBU auctioned US\$37.7m, which should push the UAH higher by the end of the week. In the local market, the hryvnia sold for 26.82 USD/UAH versus 26.95 to buy at the Ukrainian cash market.

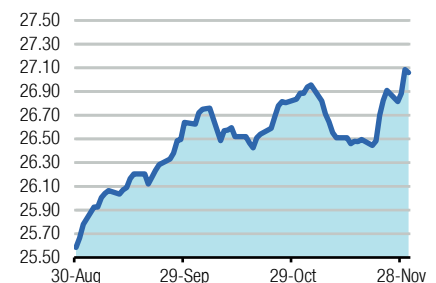
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FRIDAY, 1 DECEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 30 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 30 November 2017)

| | Last | Daily chg (%) | YTD chg (%) |
|--------------------------------|---------|------------------|----------------|
| DOMESTIC LIQUIDITY | | | |
| NBU key policy rate (%) | 13.50 | +0bp | -50bp |
| Overnight rate (interbank) | 10.80 | -120bp | +20bp |
| Banks reserves (UAHm) | 46,509 | -1.55 | -6.48 |
| Deposit certificates* (UAHm) | 33,134 | +0.71 | -46.76 |
| FOREIGN EXCHANGE MARKET | | | |
| UAH per US dollar | 27.0600 | -0.09 | -0.15 |
| Total trade volume (US\$m) | 303.31 | +39.36 | +78.82 |
| UAH index CPI-based | N/A | | |
| UAH index PPI-based | N/A | | |

UKRAINE SOVEREIGN EUROBOND MARKET

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

GLOBAL FINANCIAL MARKET INDICATORS

| | | | |
|----------------------------|----------|-------|--------|
| S&P 500 | 2,626.07 | +0.00 | +17.30 |
| MSCI EM | 1,141.38 | +0.00 | +32.37 |
| US dollar index (DXY) | N/A | | |
| EUR / USD | 1.1904 | +0.48 | +13.19 |
| Crude oil WTI (US\$/bbl) | 57.40 | +0.17 | +6.85 |
| Crude oil BRENT (US\$/bbl) | 62.63 | -0.76 | +10.23 |
| CRB, commodities index | 190.90 | +0.00 | -0.83 |
| Gold (US\$/ounce) | N/A | | |

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity down slightly

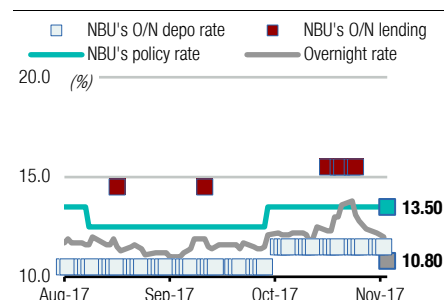
This Wednesday, liquidity declined just UAH0.50bn to UAH79.64bn from the negative impact from non-monetary operations. Usually, outflows are the result of Treasury operations and other non-monetary cash-flows. The Treasury absorbed UAH0.82bn of funds and outflows via other non-monetary operations amounted to UAH0.18bn. The exchange of cash into reserves was UAH0.50bn which covered only half of the net outflows.

Banks' correspondent accounts with the NBU fell UAH0.73bn to UAH46.51bn while total CDs outstanding rose UAH0.23bn. CDs outstanding increased, caused by the issuance of UAH0.30bn in 3-month CDs while ON CDs outstanding declined UAH0.07bn. Banks purchased 3-month CDs at 15.00%, 10bp lower than a week ago and 25bp from the tender two weeks ago.

ICU view: As liquidity stabilizes with low volatility, the Treasury collects large amounts of revenues. The negative impact on liquidity has declined. The NBU held a FX-auction yesterday, absorbing UAH0.79bn as it sold US\$29.10m of FX. In response to yesterday's Treasury operations and FX auction, liquidity could fall UAH1-2bn.

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Interest rates in the banks' reserves market (three months through 30 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 30 November 2017)

| | Last | Daily | Weekly | Monthly | YTD |
|---|----------------|--------------|--------------|--------------|---------------|
| | chg (%) | chg (%) | chg (%) | chg (%) | chg (%) |
| BANKS' RESERVES MARKET (%) | | | | | |
| NBU rate ¹ | 13.50 | +0bp | +0bp | +0bp | -50bp |
| ON rate | 10.80 | -120bp | -180bp | -140bp | +20bp |
| ON \$ swap | 12.47 | -12ppt | +17bp | +53bp | +100bp |
| DOMESTIC LIQUIDITY (UAH MILLION) | | | | | |
| Reserves ² | 46,509 | -1.55 | -19.48 | +6.81 | -6.48 |
| DepCerts ³ | 33,134 | +0.71 | +53.95 | -2.32 | -46.76 |
| Total | 79,643 | -0.62 | +0.46 | +2.81 | -28.87 |
| BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION) | | | | | |
| NBU | 360,573 | +0.00 | +0.00 | +0.00 | +1.24 |
| Banks | 310,538 | +5.16 | +6.35 | +3.89 | +89.49 |
| Residents | 21,261 | +0.23 | -0.01 | -3.92 | -9.64 |
| Non-res ⁴ | 4,787 | +0.02 | +0.18 | +4.14 | -24.62 |
| Total | 698,309 | +2.30 | +2.84 | +1.68 | +29.77 |
| IMPLIED YIELDS OF THE UAH NDF MARKET (%) | | | | | |
| 1 month | 18.95 | +543bp | +210bp | +320bp | -336bp |
| 3 months | 16.15 | +184bp | +116bp | +128bp | -592bp |
| 6 months | 13.48 | +107bp | +79bp | +82bp | -457bp |
| 1 year | 11.66 | +9bp | -6bp | +2bp | -433bp |
| UKRAINE SOVEREIGN EUROBOND MARKET | | | | | |
| CDS 5yr | 434 | +0bp | +0bp | -1bp | -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 close to 8-month low

The hryvnia weakened another 0.5% to 27.1554 USD/UAH, the weakest rate since early April as demand for USD still exceeded supply in the local FX market. In response to higher demand for USD, the NBU auctioned US\$37.7m, which should push the UAH higher by the end of the week. In the local market, the hryvnia sold for 26.82 USD/UAH versus 26.95 to buy at the Ukrainian cash market.

The USD traded lower against the basket of other major currencies on the back of mixed data and political turmoil. The PCE index excluding food and energy rose 0.2% MoM in October after the same growth in September. At the same time, initial jobless claims fell for a second straight month, indicating some strengthening in the labor market. On the other hand, rumors that Trump will replace Rex Tillerson pushed the USD lower. Thus, the DXY index fell 0.1% to 93.047.

The depreciating USD supported currencies of both developed and developing markets. The euro strengthened 0.5% to 1.1904 EUR/USD, also boosted by solid domestic data. The unemployment rate in the Eurozone fell to 8.8% in October, the lowest rate since early 2009. At the same time, headline inflation accelerated to 1.5% YoY in November, underscoring expectations of 1.5% YoY growth.

The CNY responded to the USD weakness by rising 0.1% to 6.6091 CNY/USD. The Russian ruble was under influence of the outcome of OPEC-meeting in Vienna, having strengthened 0.35% to 58.4322 USD/RUB as OPEC prolonged its agreement through the end of 2018.

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

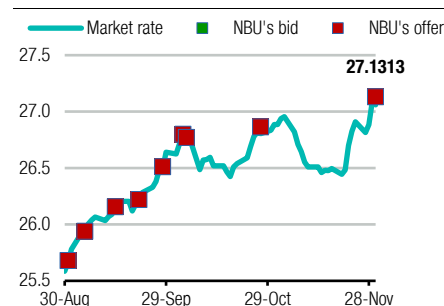
Key indicators (as of 30 November 2017)

| | Last | Daily | Weekly | Monthly | YTD |
|---|---------|---------|---------|---------|---------|
| | chg (%) | chg (%) | chg (%) | chg (%) | chg (%) |
| EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND) | | | | | |
| UAH | 27.0600 | -0.09 | +0.88 | +0.84 | -0.15 |
| USD ¹ | N/A | N/A | N/A | N/A | N/A |
| EUR | 1.1904 | +0.48 | +0.45 | +2.17 | +13.19 |
| JPY | N/A | N/A | N/A | N/A | N/A |
| GBP ² | 1.3525 | +0.87 | +1.62 | +2.40 | +9.60 |
| CNY | 6.6091 | -0.11 | +0.39 | -0.56 | -4.84 |
| RUB | 58.4322 | -0.35 | -0.04 | +0.79 | -5.05 |

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

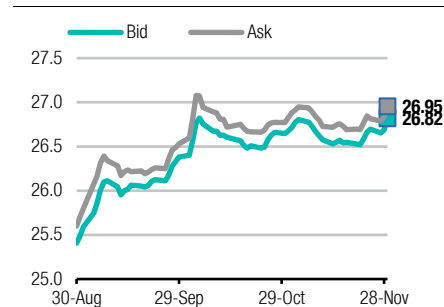
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 30 November 2017)



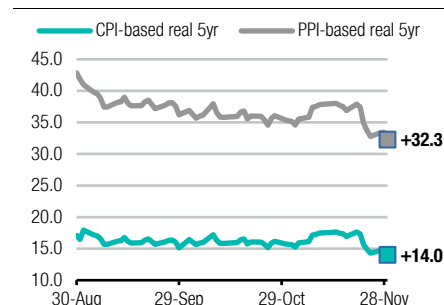
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 30 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 30 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)

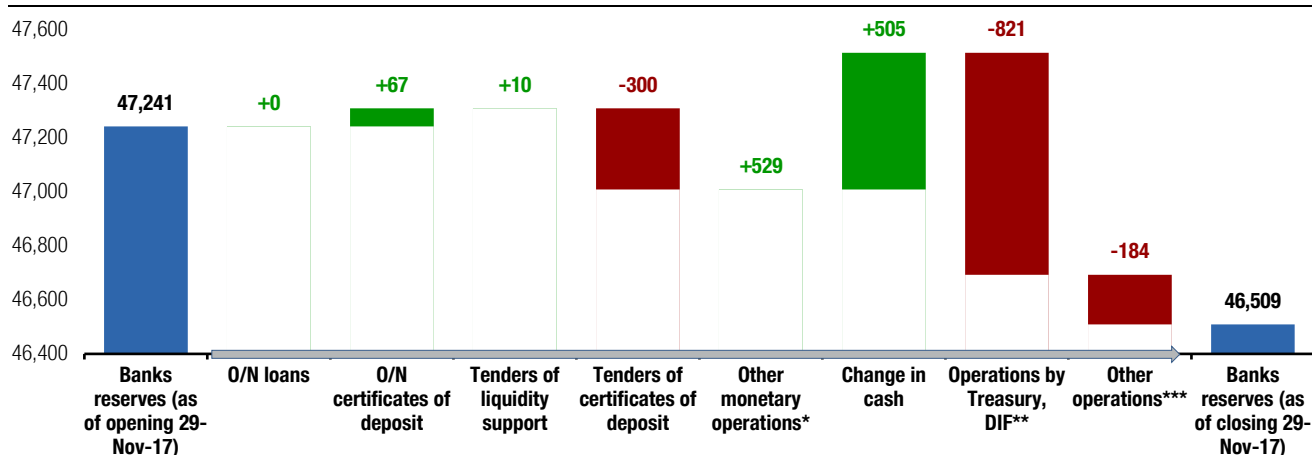
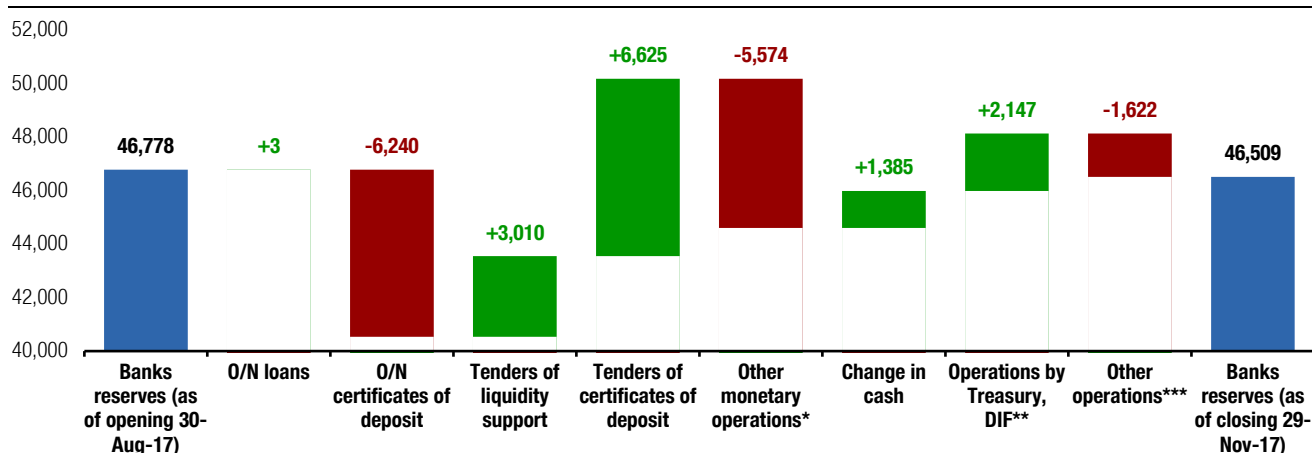


Chart 2. Banks reserves usages over last 90-day period (UAHm)

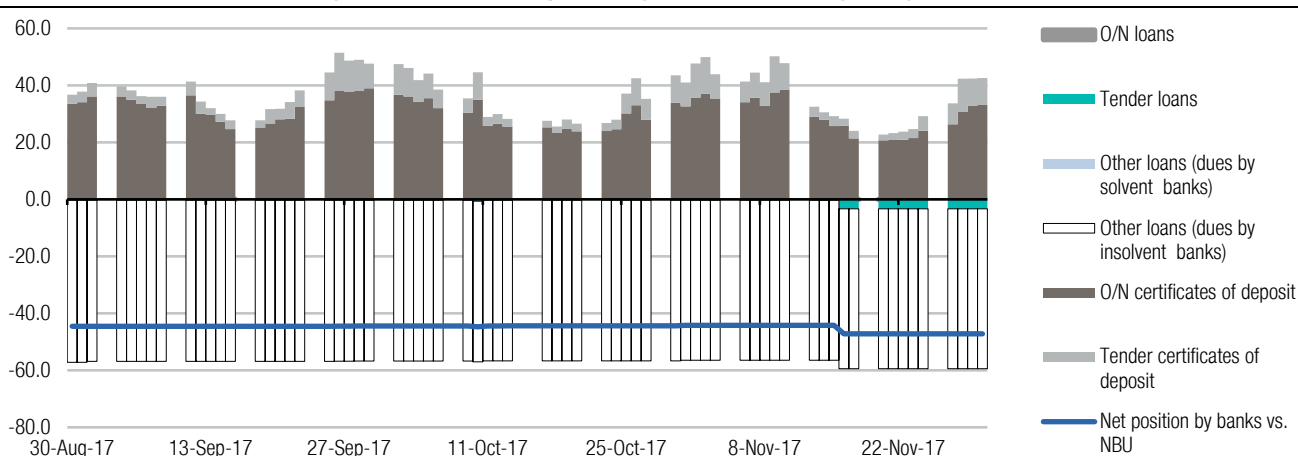


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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