

Daily Insight

NBU supports hryvnia

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Liquidity continues to decline.....2

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Foreign exchange markets

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NBU supports hryvnia.....3

On the last day of the week, the hryvnia recovered losses from the previous day. The NBU sold UAH29.1m in FX to level demand, pushing the currency up 0.4% to 27.0546 USD/UAH on Friday. However, for the week as a whole, the hryvnia dropped 0.5% and exceeded 27/USD. It sold for 26.91 USD/UAH versus 27.07 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.34% to 111.23; in year-on-year terms, it is down 2.39% from 113.95 last year.

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Appendix #1: Domestic liquidity

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MONDAY, 4 DECEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 1 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 1 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.10	+130bp	+150bp
Banks reserves (UAHm)	43,219	-7.07	-13.10
Deposit certificates* (UAHm)	35,750	+7.90	-42.56
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.0200	-0.15	-0.30
Total trade volume (US\$m)	239.46	-21.05	+41.18
UAH index CPI-based	111.227	+0.34	+2.97
UAH index PPI-based	168.617	+0.34	+0.12

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,642.22	+0.61	+18.02
MSCI EM	1,115.94	-2.23	+29.42
US dollar index (DXY)	92.885	-0.17	-9.12
EUR / USD	1.1896	-0.07	+13.11
Crude oil WTI (US\$/bbl)	58.36	+1.67	+8.64
Crude oil BRENT (US\$/bbl)	63.73	+1.76	+12.16
CRB, commodities index	190.69	-0.11	-0.95
Gold (US\$/ounce)	1,280.50	+0.44	+11.13

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to decline

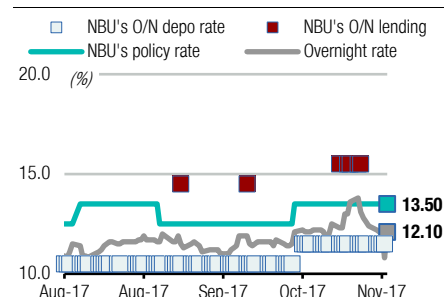
Banking sector liquidity declined on the last day of November, down UAH0.67bn to UAH78.97bn, following a FX-auction held by the NBU. The NBU absorbed UAH0.81bn via other monetary operations that normally involve FX; meanwhile, non-monetary operations had a positive impact on liquidity of UAH0.13bn as a net inflow, consisting of cash exchanged into reserves of UAH0.43bn offset by the Treasury absorbing only UAH0.19bn of funds.

Despite the decline in liquidity, banks continued to increase investments in CDs. Last Thursday, they purchased an additional UAH2.62bn of CDs: UAH1.21bn of ON CDs and UAH1.41bn of 2-weeks CDs. Total CDs outstanding rose to UAH35.75bn while banks' correspondent accounts with the NBU declined UAH3.29bn to UAH43.22bn.

ICU view: *The last week of November was quiet with low volatility in liquidity, mostly thanks to highly balanced Treasury operations. Despite the high level of revenue collections, the negative impact of budget operations was very low. If no FX auction were held last Thursday, liquidity could have increased despite that day being the last day of month-end tax payments.*

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Interest rates in the banks' reserves market (three months through 1 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 1 December 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	12.10	+130bp	-30bp	+110bp	+150bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	43,219	-7.07	-22.01	+1.99	-13.10
DepCerts ³	35,750	+7.90	+48.45	-8.34	-42.56
Total	78,969	-0.85	-0.67	-2.96	-29.47
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	326,558	-0.12	+5.23	+5.80	+89.27
Residents	21,309	-0.12	-0.26	-6.30	-9.76
Individuals	1,160	+0.84	+4.33	+51.53	+1.0k
Non-res ⁴	4,788	+0.00	+0.04	+71.08	-24.62
Total	714,388	-0.06	+2.32	+2.46	+29.69
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	14.10	-485bp	-222bp	+299bp	-821bp
3 months	15.95	-20bp	+69bp	+424bp	-612bp
6 months	13.38	-10bp	+71bp	+142bp	-467bp
1 year	12.09	+43bp	+33bp	+59bp	-390bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	434	+0bp	+0bp	-28bp	-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

NBU supports hryvnia

On the last day of the week, the hryvnia recovered losses from the previous day. The NBU sold UAH29.1m in FX to level demand, pushing the currency up 0.4% to 27.0546 USD/UAH on Friday. However, for the week as a whole, the hryvnia dropped 0.5% and exceeded 27/USD. It sold for 26.91 USD/UAH versus 27.07 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.34% to 111.23; in year-on-year terms, it is down 2.39% from 113.95 last year.

The US dollar rose on Friday but remained volatile after the Senate vote on tax reform was postponed. The PMI in the manufacturing sector decreased to 58.2 points from 58.7 the previous month, but by less than expected. However, the dollar began to decline closer to the end of the trading session on the news that former US National Security Advisor, Michael Flynn, is ready to testify in court against Donald Trump. The DXY index traded at 92.604-93.248, closing down 0.2% to 92.885.

The euro followed the US dollar in quite volatile trading on Friday. Although the Eurozone manufacturing sector's PMI rose to a new high of 60.1 points, the EUR/USD pair traded within 1.1851-1.194 EUR/USD, closer down 0.1% to 1.1896 EUR/USD. The Chinese yuan traded steadily against the dollar, but closer to the end of the trading session began to decline and finished at 6.6163 USD/CNY, down 0.1%.

The increase in oil prices due to an agreement to extend the cut in oil production at the OPEC+ meeting did not support the Russian ruble on Friday. Instead, the ruble was under the influence of increased demand for foreign currency in the local market in connection with the approaching period of payments on corporate debt. It traded within 58.4238-59.1559 USD/RUB, and closed down 0.8% to 58.8951.

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

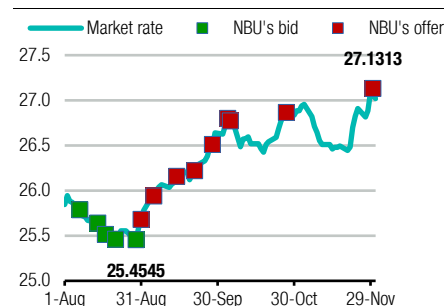
Key indicators (as of 1 December 2017)

	Last	Daily	Weekly	Monthly	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.0200	-0.15	+0.41	+1.43	-0.30
USD ¹	92.885	-0.17	+0.11	-0.21	-9.12
EUR	1.1896	-0.07	-0.31	+0.69	+13.11
JPY	112.1700	-0.33	+0.57	-0.30	-4.10
GBP ²	1.3477	-0.35	+1.05	+0.59	+9.21
CNY	6.6163	+0.11	+0.22	-0.55	-4.73
RUB	58.8951	+0.79	+0.76	+2.33	-4.29

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

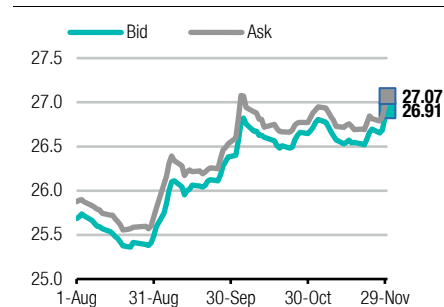
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 1 December 2017)



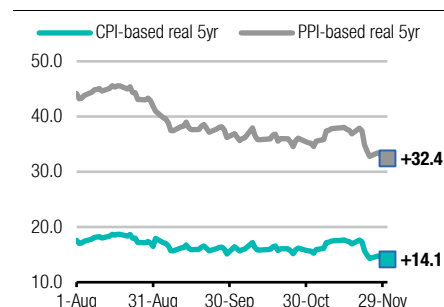
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 1 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 1 December 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)

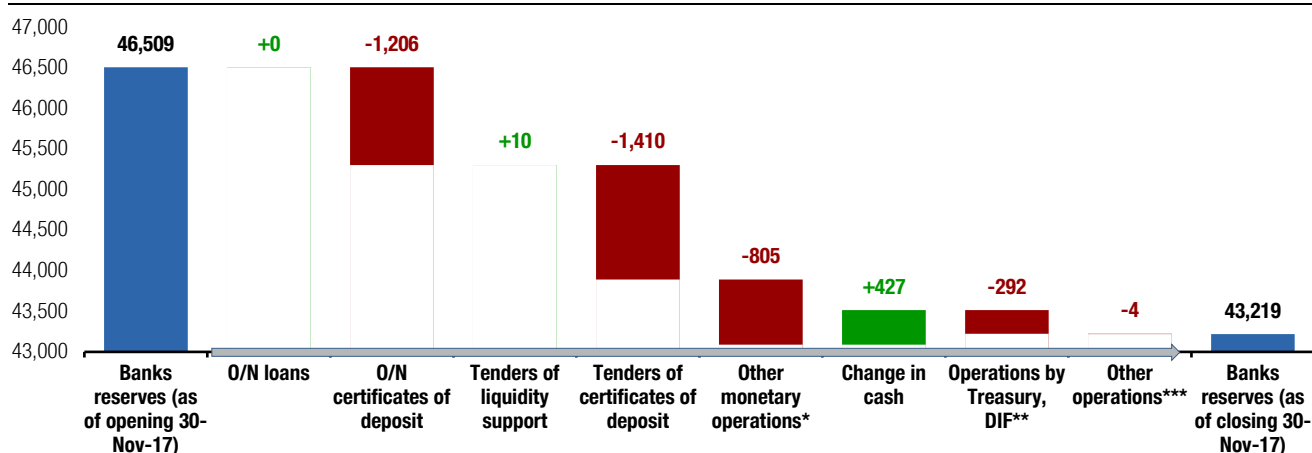
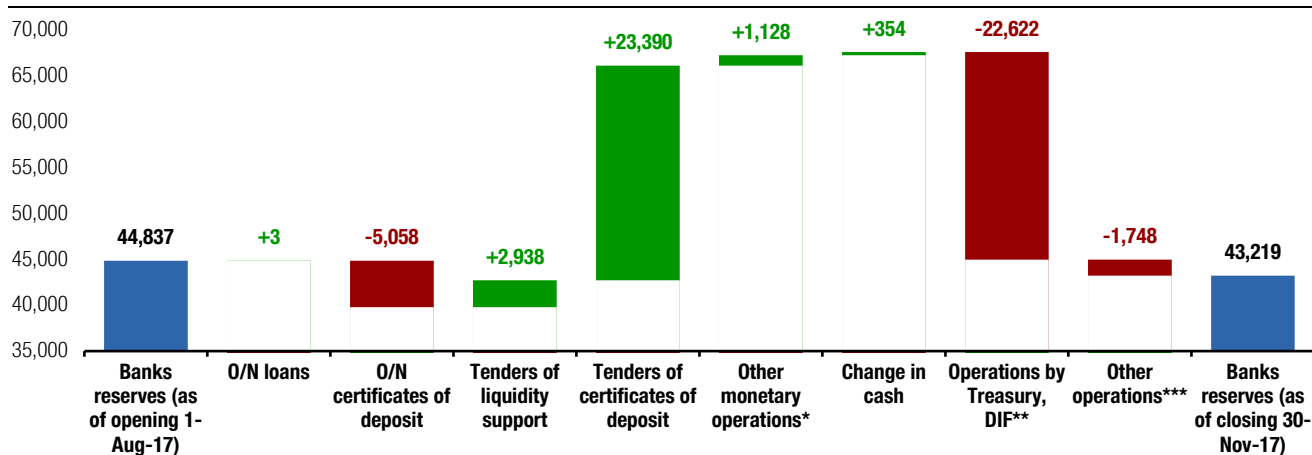


Chart 2. Banks reserves usages over last 90-day period (UAHm)

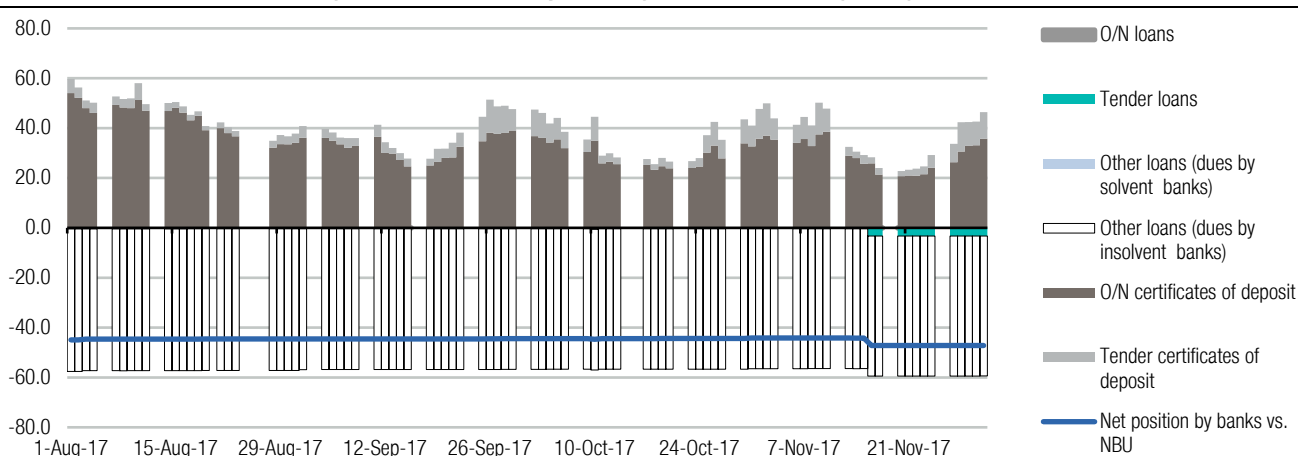


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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