

Daily Insight

Hryvnia below 27.2/USD

Key messages of the today's comments

TUESDAY, 5 DECEMBER 2017

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Liquidity continues to decline.....2

Last Friday, liquidity declined UAH1.34bn to UAH77.63bn, with a slight reallocation of funds to CDs. Banks' correspondent accounts with the NBU fell UAH1.72bn to UAH41.50bn while total CDs outstanding rose UAH0.38bn to UAH36.14bn. ON CDs increased to UAH11.06bn, a portion of which could be reallocated to 2-week CDs or government bonds today. 2

MoF becomes more active at the primary market.....2

The MoF published an updated auction schedule for 4Q 2017 offerings of local-currency and FX-denominated bonds. During December 2017, the MoF will offer 3-month bonds last offered in April 2017 and last sold in March. The MoF increases the number of auctions of FX-denominated bonds to four from one (as originally scheduled). The MoF will offer FX-denominated bonds with maturities from one- to two-years, including one 1.5-year bond with a put-option. 2

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At the beginning of the week, the hryvnia declined due to the high demand for foreign currency in the local market from the beginning of Monday trading. To support the national currency and satisfy excess demand, the NBU held a currency auction that attracted US\$43.6m in bids, of which US\$29.4m with a weighted average rate of 27.1808 UAH/USD were satisfied. The impact will be seen today. On Monday, the hryvnia dropped 0.6% to 27.2153 USD/UAH. It sold for 26.9 USD/UAH versus 27.05 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.71% to 110.44; in year-on-year terms, it is down 1.9% from 112.58 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 4 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 4 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.30	+20bp	+170bp
Banks reserves (UAHm)	41,497	-3.98	-16.56
Deposit certificates* (UAHm)	36,135	+1.08	-41.94
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.2300	+0.78	+0.48
Total trade volume (US\$m)	277.97	+16.08	+63.88
UAH index CPI-based	110.435	-0.71	+2.24
UAH index PPI-based	167.416	-0.71	-0.59
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	434bp	+0bp	-219bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,639.44	-0.11	+17.89
MSCI EM	1,121.95	+0.54	+30.12
US dollar index (DXY)	93.188	+0.33	-8.83
EUR / USD	1.1866	-0.25	+12.83
Crude oil WTI (US\$/bbl)	57.47	-1.53	+6.98
Crude oil BRENT (US\$/bbl)	62.45	-2.01	+9.91
CRB, commodities index	188.69	-1.05	-1.99
Gold (US\$/ounce)	1,276.11	-0.34	+10.75

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to decline

Last Friday, liquidity declined UAH1.34bn to UAH77.63bn, with a slight reallocation of funds to CDs. Banks' correspondent accounts with the NBU fell UAH1.72bn to UAH41.50bn while total CDs outstanding rose UAH0.38bn to UAH36.14bn. ON CDs increased to UAH11.06bn, a portion of which could be reallocated to 2-week CDs or government bonds today.

The Treasury absorbed UAH1.30bn last Friday, of which about half of the expenditures came from collected revenues. Usually at the beginning of the month, banks increase the withdrawal of funds from reserves and exchange them into cash, but last Friday such exchanges were not notable. Moreover, NBU operations had no impact on liquidity.

ICU view: Liquidity continued to decline due to the negative impact from budget operations. However, this week we could see liquidity rise due to the acceleration of budget expenditures.

MoF becomes more active at the primary market

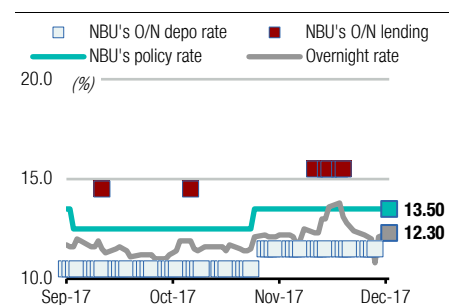
The MoF published an updated auction schedule for 4Q 2017 offerings of local-currency and FX-denominated bonds. During December 2017, the MoF will offer 3-month bonds last offered in April 2017 and last sold in March. The MoF increases the number of auctions of FX-denominated bonds to four from one (as originally scheduled). The MoF will offer FX-denominated bonds with maturities from one- to two-years, including one 1.5-year bond with a put-option.

Since the beginning of the year, the MoF received UAH143bn of budget financing from domestic and external bond issues. As the budget bill authorized UAH175bn, the MoF can raise UAH32bn more without covering amounts not received from other sources, including privatization.

ICU view: The schedule most likely was revised to accelerate government borrowing, including short-term borrowings. However, the increase in local-currency borrowings could be in the line with higher rates, especially for the 5-year bonds not sold after the key policy rate increase. But activity could be mostly for FX-denominated bonds purchased by banks which have FX liquidity. Interest rates for FX-denominated bonds should remain steady at 3.85-5.40%.

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Interest rates in the banks' reserves market (three months through 4 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 4 December 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	12.30	+20bp	+10bp	+10bp	+170bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	41,497	-3.98	-24.25	-1.53	-16.56
DepCerts ³	36,135	+1.08	+37.24	+2.15	-41.94
Total	77,632	-1.69	-4.29	+0.15	-30.67
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	326,179	-0.12	+5.17	+3.52	+89.27
Residents	21,282	-0.12	-0.31	-3.83	-9.76
Individuals	1,156	-0.32	+3.37	+28.02	+1,011.6
Non-res ⁴	4,788	+0.00	+0.05	+0.16	-24.62
Total	713,978	-0.06	+2.29	+1.49	+29.69
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	13.61	-49bp	-196bp	-220bp	-870bp
3 months	13.38	-256bp	-161bp	-181bp	-868bp
6 months	11.67	-171bp	-115bp	-92bp	-638bp
1 year	11.24	-85bp	-48bp	-46bp	-475bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	434	+0bp	+0bp	-6bp	-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

Hryvna below 27.2/USD

At the beginning of the week, the hryvnia declined due to the high demand for foreign currency in the local market from the beginning of Monday trading. To support the national currency and satisfy excess demand, the NBU held a currency auction that attracted US\$43.6m in bids, of which US\$29.4m with a weighted average rate of 27.1808 UAH/USD were satisfied. The impact will be seen today. On Monday, the hryvnia dropped 0.6% to 27.2153 USD/UAH. It sold for 26.9 USD/UAH versus 27.05 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.71% to 110.44; in year-on-year terms, it is down 1.9% from 112.58 last year.

The US dollar rose on Monday, possibly supporting a positive vote on the tax bill in the US Senate. The bill provides for a reduction in corporate income tax from 35% to 20%. By no means final, this proposed amendment needs to be combined with a similar one passed by the House of Representatives. The DXY index traded at 93.042-93.355, closing up 0.3% to 93.188.

The euro, in the absence of meaningful news, moved inversely to the US dollar during Monday, trading within 1.1829-1.1888 EUR/USD and closing down 0.25% to 1.1866. The Chinese yuan also declined against the dollar by 0.1%, closing at 6.6198 USD/CNY.

The higher US dollar had a negative impact on the currencies of developing countries, including the Russian ruble, which decreased at the beginning of the day, but gradually climbed up to the end of trading session. Although oil prices also declined during the day, this did not have a significant impact on the ruble, which traded within 58.4582-59.1323 USD/RUB and closed up 0.2% to 58.8013.

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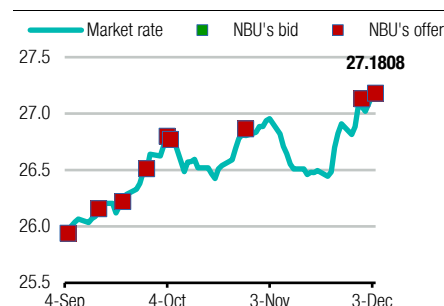
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 4 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.2300	+0.78	+1.55	+1.02	+0.48
USD ¹	93.188	+0.33	+0.31	-1.85	-8.83
EUR	1.1866	-0.25	-0.27	+2.22	+12.83
JPY	112.4100	+0.21	+1.19	-1.46	-3.89
GBP ²	1.3480	+0.02	+1.22	+3.08	+9.24
CNY	6.6198	+0.05	+0.31	-0.29	-4.68
RUB	58.8013	-0.16	+0.52	-0.43	-4.45

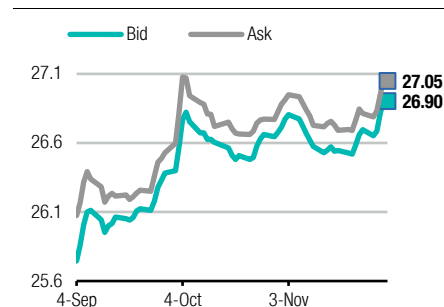
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 4 December 2017)



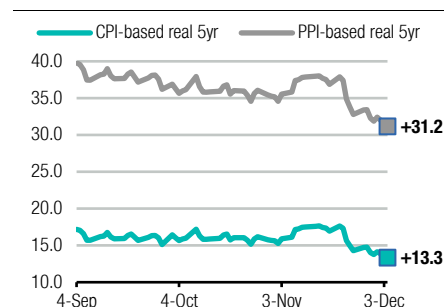
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 4 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 4 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)

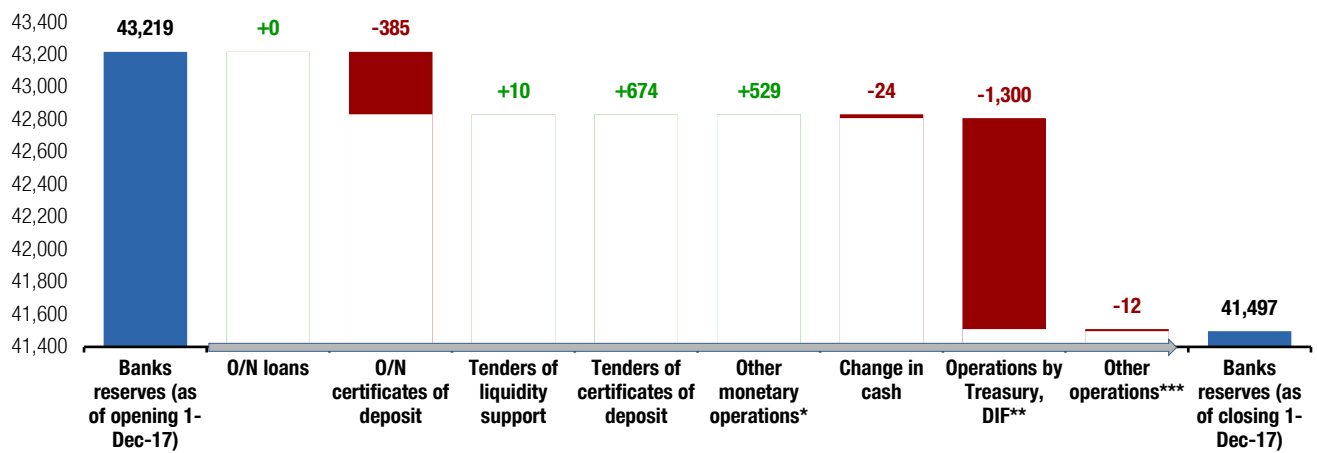
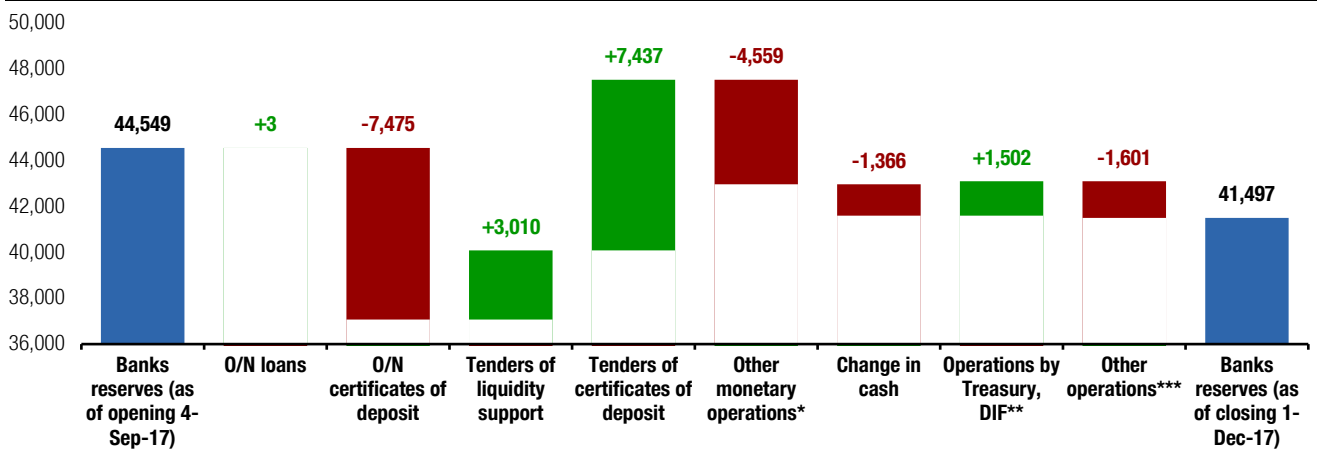
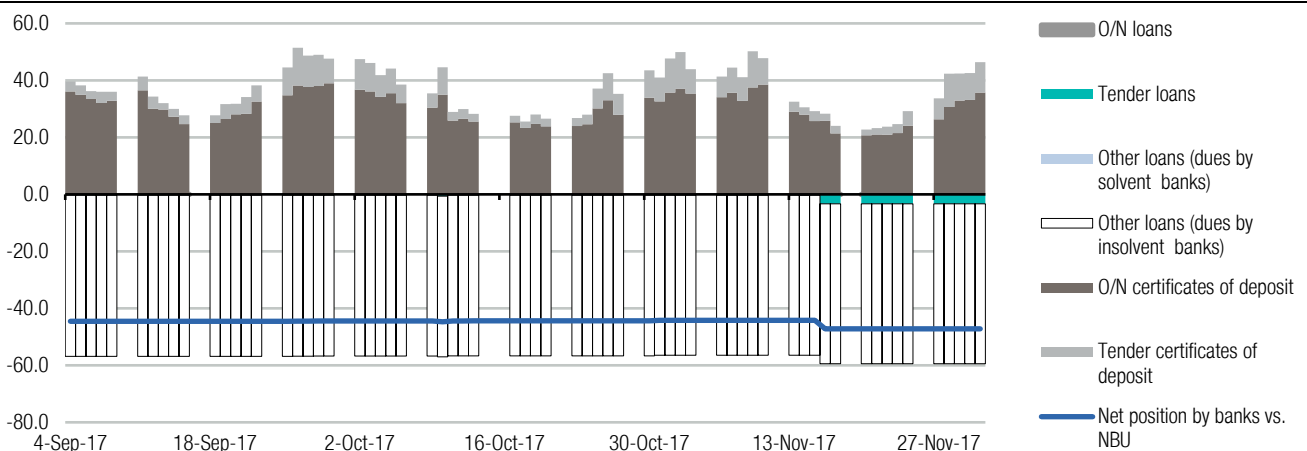


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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