

# Daily Insight

## Hryvnia declines after rising

### Key messages of the today's comments

#### Domestic liquidity

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##### Liquidity down

Despite all too mild support from the NBU and the Treasury, liquidity declined UAH0.34bn to UAH77.42bn on Wednesday. The NBU provided UAH0.27bn of funds via other monetary operations, purchasing only US\$10m at the lowest rate. The negative impact from non-monetary operations of UAH0.60bn (from an increase in reserves exchanged into cash of UAH0.90bn) caused liquidity to decline. Treasury accounts rose to UAH4.02bn from fund collections, and the net impact of Treasury operations declined to UAH0.32bn.

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#### Foreign exchange markets

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##### Hryvnia declines after rising

The hryvnia fell against the US dollar after having increased 0.4% the previous two days. Demand for foreign currency in the local market exceeded the supply and the USD strengthened, causing the decrease. Liquidity remained relatively stable, down only UAH0.34bn with no significant impact on the hryvnia, causing it to decline 0.04% to 27.1194 USD/UAH. It sold for 27.02 USD/UAH versus 27.18 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.03% to 111.48; in year-on-year terms, it is down 0.54% from 112.08 last year.

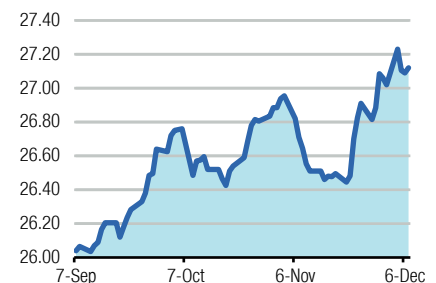
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#### Appendix #1: Domestic liquidity

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FRIDAY, 8 DECEMBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 7 December 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 7 December 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.30	+10bp	+170bp
Banks reserves (UAHm)	43,252	-5.87	-13.03
Deposit certificates* (UAHm)	34,167	+7.42	-45.10
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	27.1200	+0.11	+0.07
Total trade volume (US\$m)	228.25	-9.46	+34.57
UAH index CPI-based	111.475	+0.03	+3.20
UAH index PPI-based	168.994	+0.03	+0.35
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	434bp	+0bp	-219bp

<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,636.98	+0.29	+17.78
MSCI EM	1,100.54	-0.06	+27.63
US dollar index (DXY)	93.795	+0.20	-8.23
EUR / USD	1.1773	-0.19	+11.94
Crude oil WTI (US\$/bbl)	56.69	+1.30	+5.53
Crude oil BRENT (US\$/bbl)	62.20	+1.60	+9.47
CRB, commodities index	184.47	-0.14	-4.18
Gold (US\$/ounce)	1,247.28	-1.27	+8.25

Notes: \* NBU's short-term bonds.

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity down

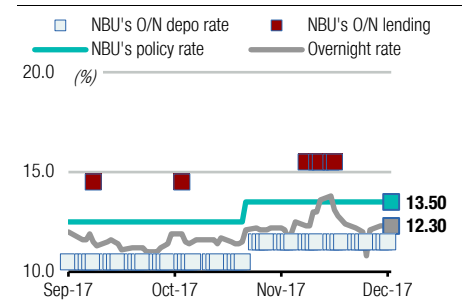
Despite all too mild support from the NBU and the Treasury, liquidity declined UAH0.34bn to UAH77.42bn on Wednesday. The NBU provided UAH0.27bn of funds via other monetary operations, purchasing only US\$10m at the lowest rate. The negative impact from non-monetary operations of UAH0.60bn (from an increase in reserves exchanged into cash of UAH0.90bn) caused liquidity to decline. Treasury accounts rose to UAH4.02bn from fund collections, and the net impact of Treasury operations declined to UAH0.32bn.

Banks' correspondent accounts with the NBU declined UAH2.70bn to UAH43.25bn while total CDs outstanding was up UAH2.36bn to UAH34.17bn. Banks increased ON CDs by UAH2.06bn to UAH9.89bn and an additional UAH0.30bn was invested in 3-month CDs maturing in March 2018. 3-month CDs were sold at 14.89%, down 11bp from last week.

**ICU view: Liquidity remained volatile under similar fund movements. Usually inflows from the budget and outflows to cash are seen at the beginning at the month. We expect liquidity to be around UAH77bn. As budget expenditures are likely to increase, liquidity could rise.**

**Taras Kotovych, Kyiv, (044) 377-7040 ext.724**

## Interest rates in the banks' reserves market (three months through 7 December 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 7 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	13.50	+0bp	+0bp	+0bp	-50bp
ON rate	12.30	+10bp	+150bp	+20bp	+170bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	43,252	-5.87	-7.00	+3.95	-13.03
DepCerts <sup>3</sup>	34,167	+7.42	+3.12	-4.14	-45.10
<b>Total</b>	<b>77,419</b>	<b>-0.44</b>	<b>-2.79</b>	<b>+0.22</b>	<b>-30.86</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	326,293	+1.11	+6.24	+4.78	+91.44
Residents	21,303	-0.04	+0.15	-3.37	-9.71
Individuals	1,176	+0.89	+2.20	+30.09	+1,030.2
Non-res <sup>4</sup>	4,787	-0.12	-0.12	+0.03	-24.72
<b>Total</b>	<b>714,132</b>	<b>+0.51</b>	<b>+2.78</b>	<b>+2.07</b>	<b>+30.38</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	12.07	-412bp	-688bp	-394bp	-10ppt
3 months	12.96	-78bp	-319bp	-383bp	-911bp
6 months	11.53	-40bp	-195bp	-120bp	-652bp
1 year	11.22	-23bp	-45bp	-52bp	-477bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	434	+0bp	+0bp	-12bp	-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 declines after rising

The hryvnia fell against the US dollar after having increased 0.4% the previous two days. Demand for foreign currency in the local market exceeded the supply and the USD strengthened, causing the decrease. Liquidity remained relatively stable, down only UAH0.34bn with no significant impact on the hryvnia, causing it to decline 0.04% to 27.1194 USD/UAH. It sold for 27.02 USD/UAH versus 27.18 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.03% to 111.48; in year-on-year terms, it is down 0.54% from 112.08 last year.

After a decline at the start of trading on Thursday, the USD rose to two-week highs from anticipated approval of the tax reform which should occur before December 22. Additionally, initial jobless claims decreased by 2,000 to 236,000 (they were expected to increase to 240,000). The DXY index traded at 93.527-93.8, closing up 0.2% to 93.795.

In tepid, directionless trading on Thursday, the euro declined against the dollar as industrial production in Germany fell 1.4% in October MoM versus an expected 1.0% increase. Thus, the euro traded within 1.1772-1.1815 EUR/USD and dropped 0.2% to 1.11773.

The Russian ruble had choppy trading as the support of rising oil prices was countered by the Russian Ministry of Finance's announcement that it would buy US\$3.5bn this month. The ruble traded within 59.0799-59.3815 USD/RUB, and closed up only 0.04% to 59.1749. The Chinese yuan fell against the stronger US dollar and closed at 6.6193 USD/CNY, down 0.1%.

**Alexander Valchyshen, Kyiv, (044) 377-7040 ext.721**

**Artem Gladchenko, Kyiv, (044) 377-7040 ext.737**

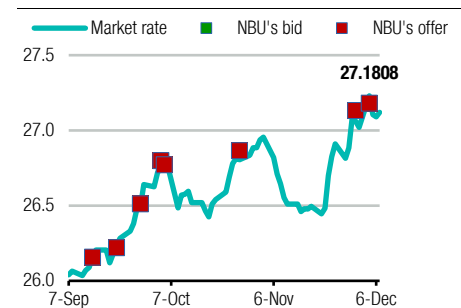
## Key indicators (as of 7 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
<b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.1200	+0.11	+0.22	+1.54	+0.07
USD <sup>1</sup>	93.795	+0.20	+0.80	-1.18	-8.23
EUR	1.1773	-0.19	-1.10	+1.61	+11.94
JPY	113.0900	+0.71	+0.49	-0.81	-3.31
GBP <sup>2</sup>	1.3474	+0.60	-0.38	+2.34	+9.19
CNY	6.6193	+0.07	+0.15	-0.32	-4.69
RUB	59.1749	-0.04	+1.27	-0.34	-3.84

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

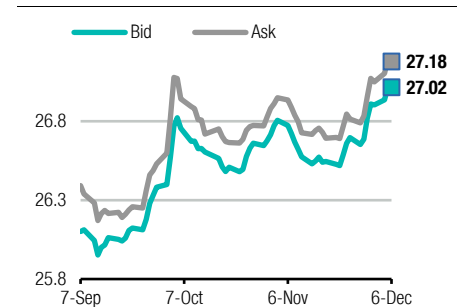
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 7 December 2017)



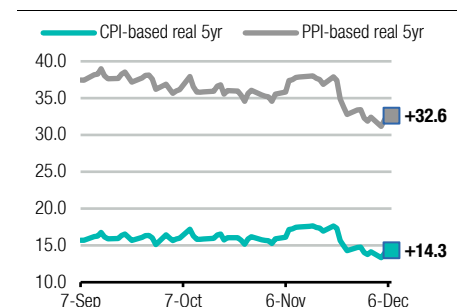
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 7 December 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 7 December 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](#).

# Appendix #1: Domestic liquidity

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

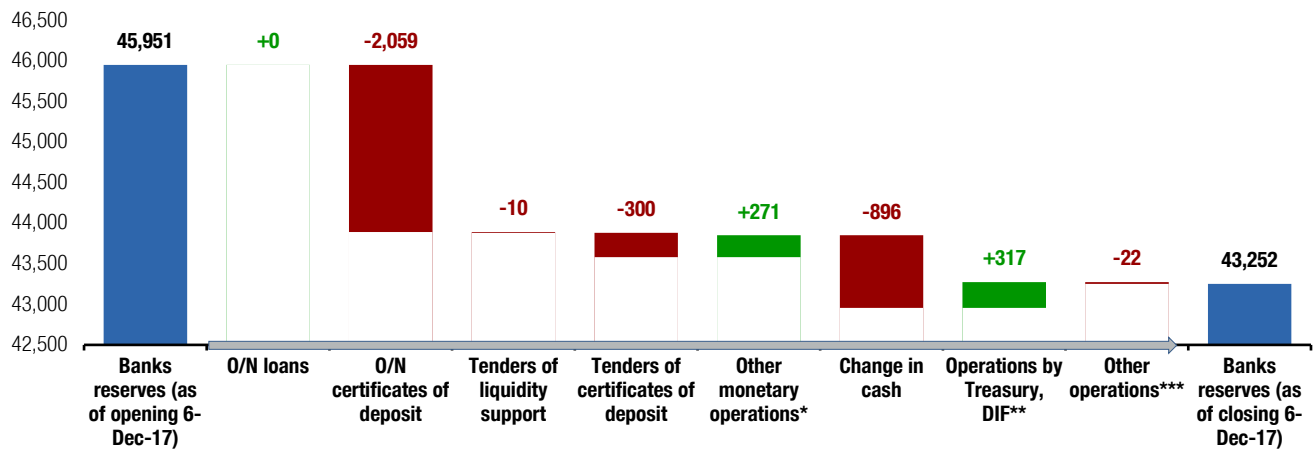
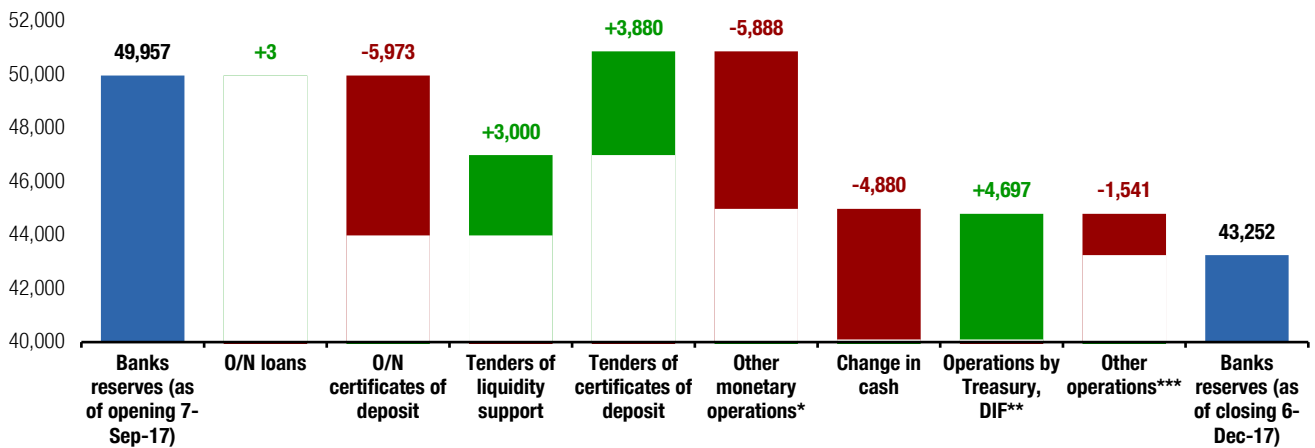


Chart 2. Banks reserves usages over last 90-day period (UAHm)

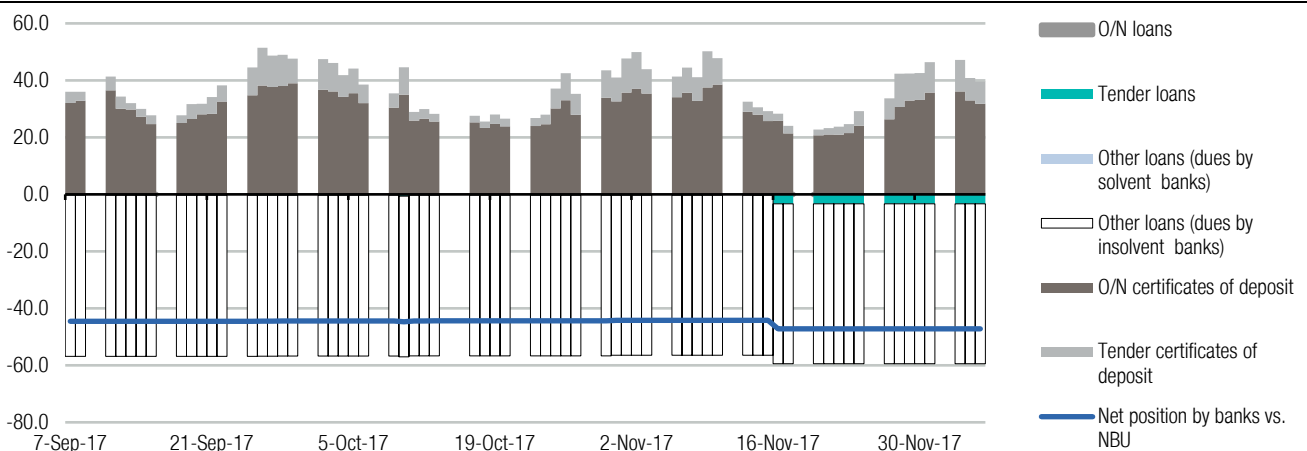


Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142) ;

\* 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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11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kiev, 01030 Ukraine  
Phone/Fax +38 044 2200120

**WEB** [www.icu.ua](http://www.icu.ua)



[@ICU\\_UA](https://www.facebook.com/ICU_UA)

## **CORPORATE FINANCE**

**Makar Paseniuk, CFA**, Managing Director  
[makar.paseniuk@icu.ua](mailto:makar.paseniuk@icu.ua)

**Ivan Shvydanenko**, Director  
[ivan.shvydanenko@icu.ua](mailto:ivan.shvydanenko@icu.ua)

**Roman Nikitov, ACCA** Director  
[roman.nikitov@icu.ua](mailto:roman.nikitov@icu.ua)

**Yuriy Kamarytskyi**, Vice President  
[yuriy.kamarytskyi@icu.ua](mailto:yuriy.kamarytskyi@icu.ua)

**Ruslan Kilmukhametov**, Director  
[ruslan.kilmukhametov@icu.ua](mailto:ruslan.kilmukhametov@icu.ua)

**Ruslan Patlavsky**, Director  
[ruslan.patlavsky@icu.ua](mailto:ruslan.patlavsky@icu.ua)

## **STRATEGY AND CORPORATE DEVELOPMENT**

**Vlad Sinani**, Director  
[vlad.sinani@icu.ua](mailto:vlad.sinani@icu.ua)

## **SALES AND TRADING**

**Konstantin Stetsenko**   
Managing Director  
[konstantin.stetsenko@icu.ua](mailto:konstantin.stetsenko@icu.ua)

**Liliya Kubytovyich**   
Asset Management Product Sales  
[liliya.kubytovyich@icu.ua](mailto:liliya.kubytovyich@icu.ua)

**Sergiy Byelyayev**  
Fixed-Income Trading  
[sergiy.byelyayev@icu.ua](mailto:sergiy.byelyayev@icu.ua)

**Yevgeniya Gryshchenko**  
Fixed-Income Sales  
[yevgeniya.gryshchenko@icu.ua](mailto:yevgeniya.gryshchenko@icu.ua)

**Vitaliy Sivach**   
Fixed-Income & FX Trading  
[vitaliy.sivach@icu.ua](mailto:vitaliy.sivach@icu.ua)

**Bogdan Vorotilin**   
Financial analyst (Food & Agribusiness)  
[bogdan.vorotilin@icu.ua](mailto:bogdan.vorotilin@icu.ua)

## **RESEARCH**

**Alexander Valchyshen**   
Head of Research  
[alexander.valchyshen@icu.ua](mailto:alexander.valchyshen@icu.ua)

**Alexander Martynenko**   
Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Taras Kotovych**   
Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Mykhaylo Demkiv**   
Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Lee Daniels, Rolfe Haas**  
Editors

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