

Daily Insight

UAH stable

Key messages of the today's comments

TUESDAY, 12 DECEMBER 2017

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Treasury sway liquidity2

Last week, erratic Treasury operations resulted in volatile banking sector liquidity that moved within UAH75-78bn. Last Friday, liquidity rose UAH2.49bn to UAH77.91bn including purchased additional ON CDs. Total ON CDs outstanding rose UAH5.04bn to UAH37.79bn, while banks' correspondent accounts with the NBU declined UAH2.55bn to UAH40.12bn. 2

Regular primary auction2

The MoF today will offer five different bonds: three local currency offerings with maturities of 77-days, 161-days, and five years, and two FX bonds - a re-opening of a eurobond issued last week and a new 1-year bond in US dollars. 2

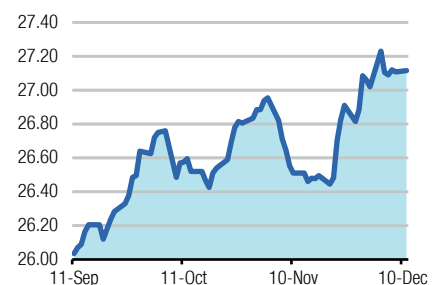
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The hryvnia, for the most part stable against the USD for the fifth consecutive trading session, declined 0.1% to 27.1357 USD/UAH yesterday. Higher liquidity (see the comment on liquidity) and ongoing solid demand for the USD in the domestic FX market fed into the UAH's weakness. It also declined despite news that headline inflation slowed to 13.6% YoY in November from 14.6% YoY in the previous month, which should have boosted the hryvnia. In the local market, the hryvnia sold for 27.06 USD/UAH versus 27.21 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.07% to 111.33; in year-on-year terms, it is down 0.87% from 112.31 last year. 3

Appendix #1: Domestic liquidity 4

Ukraine's hryvnia exchange rate per US dollar (three months through 11 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 11 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.30	+10bp	+170bp
Banks reserves (UAHm)	40,122	-5.97	-19.32
Deposit certificates* (UAHm)	37,786	+15.41	-39.29
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.1150	+0.03	+0.06
Total trade volume (US\$m)	161.16	-12.02	-4.98
UAH index CPI-based	111.332	-0.07	+3.07
UAH index PPI-based	168.777	-0.07	+0.22

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,659.99	+0.32	+18.81
MSCI EM	1,119.97	+0.83	+29.89
US dollar index (DXY)	93.866	-0.04	-8.16
EUR / USD	1.1769	-0.03	+11.90
Crude oil WTI (US\$/bbl)	57.99	+1.10	+7.95
Crude oil BRENT (US\$/bbl)	64.69	+2.03	+13.85
CRB, commodities index	185.49	+0.26	-3.65
Gold (US\$/ounce)	1,241.94	-0.53	+7.78

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Treasury sway liquidity

Last week, erratic Treasury operations resulted in volatile banking sector liquidity that moved within UAH75-78bn. Last Friday, liquidity rose UAH2.49bn to UAH77.91bn including purchased additional ON CDs. Total ON CDs outstanding rose UAH5.04bn to UAH37.79bn, while banks' correspondent accounts with the NBU declined UAH2.55bn to UAH40.12bn.

Last Friday, UAH4.34bn inflow from the Treasury covered all outflows, including UAH1.78bn via exchanges of reserves into cash. The NBU provided no additional funds via monetary operations.

ICU view: The large positive inflow from the Treasury was caused by a decrease in revenues and an increase in expenditures paid that day. Over the next few days, liquidity could remain highly volatile at about current level.

Regular primary auction

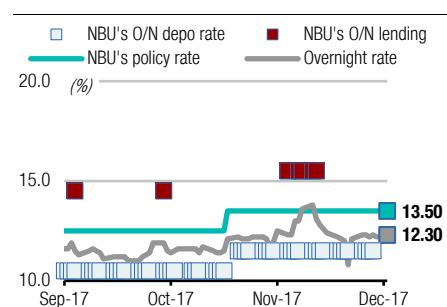
The MoF today will offer five different bonds: three local currency offerings with maturities of 77-days, 161-days, and five years, and two FX bonds - a re-opening of a eurobond issued last week and a new 1-year bond in US dollars.

Last week, the euro-denominated bonds were sold at 3.95% which should be unchanged today. For bonds in US dollars, the benchmark is a 2-year bond sold last month at 5.4%. Meanwhile, local currency bond interest rates rose significantly last week, while the NBU decreased its rate for 3-month CDs by 11bp last Wednesday.

ICU view: The euro-denominated bond interest rate should remain at 3.95% while the USD-denominated bonds could be set in the range of 4.8-5.0%. Local currency debt interest rates could be much lower than last week, probably in the range of 15.3-15.8%, with the lowest one for the 5-year bond, and zero-coupon bonds should have even higher rates.

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Interest rates in the banks' reserves market (three months through 11 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 11 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	+10bp	+0bp	-20bp	+170bp
ON \$ swap	12.23	-11bp	+15bp	-17bp	+76bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	40,122	-5.97	-3.31	+9.10	-19.32
DepCerts ³	37,786	+15.41	+4.57	-1.93	-39.29
Total	77,908	+3.31	+0.36	+3.45	-30.42
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	329,823	+0.04	+1.16	+5.24	+91.45
Residents	21,318	+0.05	+0.22	-2.06	-9.56
Individuals	1,175	+0.12	+1.62	+30.59	+1,029.6
Non-res ⁴	4,785	+0.01	-0.04	-9.84	-24.65
Total	717,674	+0.02	+0.54	+2.24	+30.39
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	13.14	-50bp	-48bp	-273bp	-917bp
3 months	13.13	-13bp	-25bp	-212bp	-893bp
6 months	11.52	-9bp	-15bp	-111bp	-653bp
1 year	11.21	-9bp	-3bp	-56bp	-477bp
UKRAINE SOVEREIGN EUROBOND MARKET					
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

UAH stable

The hryvnia, for the most part stable against the USD for the fifth consecutive trading session, declined 0.1% to 27.1357 USD/UAH yesterday. Higher liquidity (see the comment on liquidity) and ongoing solid demand for the USD in the domestic FX market fed into the UAH's weakness. It also declined despite news that headline inflation slowed to 13.6% YoY in November from 14.6% YoY in the previous month, which should have boosted the hryvnia. In the local market, the hryvnia sold for 27.06 USD/UAH versus 27.21 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.07% to 111.33; in year-on-year terms, it is down 0.87% from 112.31 last year.

The USD traded lower after a reported terrorist explosion in New York City. However, solid labor market data released on Friday bolstered the probability of a third interest rate hike this year at the FOMC meeting on Wednesday. The DXY index traded at 93.67-93.98, closing at 93.87.

The euro remained almost unchanged and closed at 1.1769 EUR/USD as investors are looking forward to the ECB meeting later this Thursday in anticipation of details of plans to taper asset purchases.

The Chinese renminbi strengthened 0.03% to 6.6186 USD/CNY on the news that the growth of consumer prices in China slowed to 1.7% YoY in November, down from 1.9% YoY in October. The data was welcomed by market participants as the PBOC does not intend to tighten the monetary policy soon.

The Russian ruble closed up 0.4% to 58.9429 USD/RUB thanks to higher oil prices. At the same time, the ruble remains under pressure from increased demand for foreign currency in the domestic FX market as Russia's Ministry of Finance is going to buy foreign currency at RUB12.7bn per day till December 28, while private firms buy foreign currency ahead of large external debt repayments (about US\$18.2bn in December according to the central bank of Russia).

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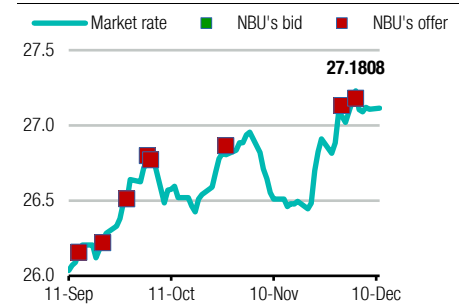
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 11 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.1150	+0.03	-0.42	+2.28	+0.06
USD ¹	93.866	-0.04	+0.73	-0.56	-8.16
EUR	1.1769	-0.03	-0.82	+0.89	+11.90
JPY	113.5600	+0.07	+1.02	+0.03	-2.91
GBP ²	1.3341	-0.37	-1.03	+1.10	+8.11
CNY	6.6186	-0.03	-0.02	-0.34	-4.70
RUB	58.9129	-0.36	+0.19	-0.42	-4.27

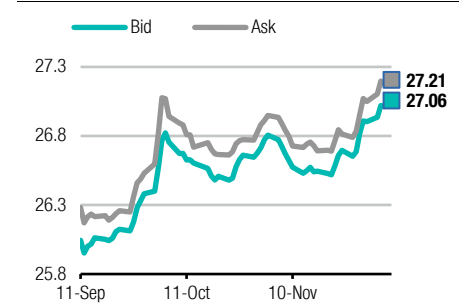
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 11 December 2017)



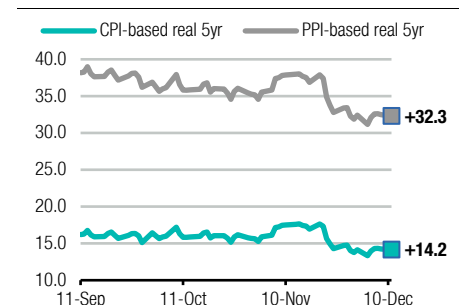
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 11 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 11 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)

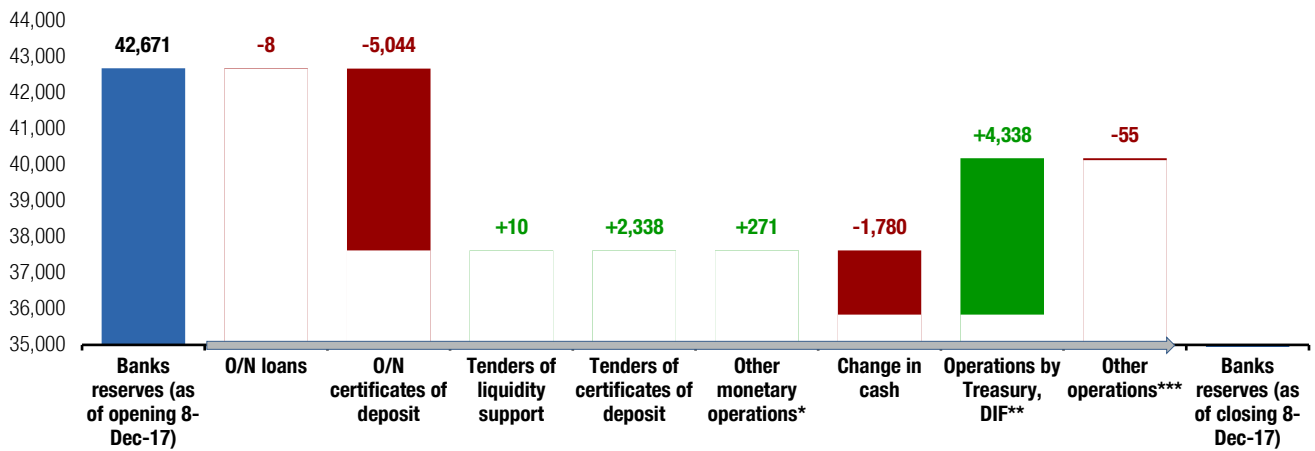
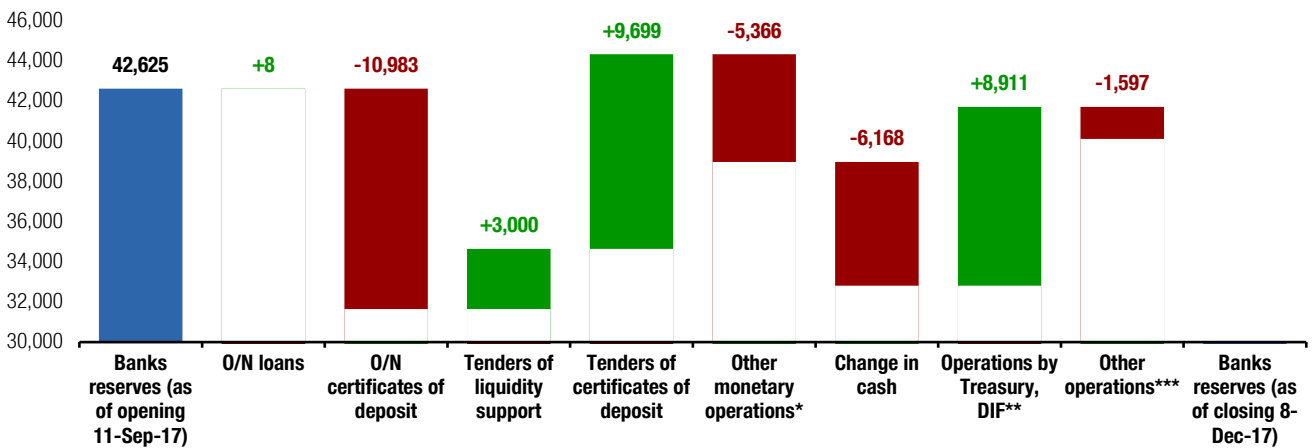
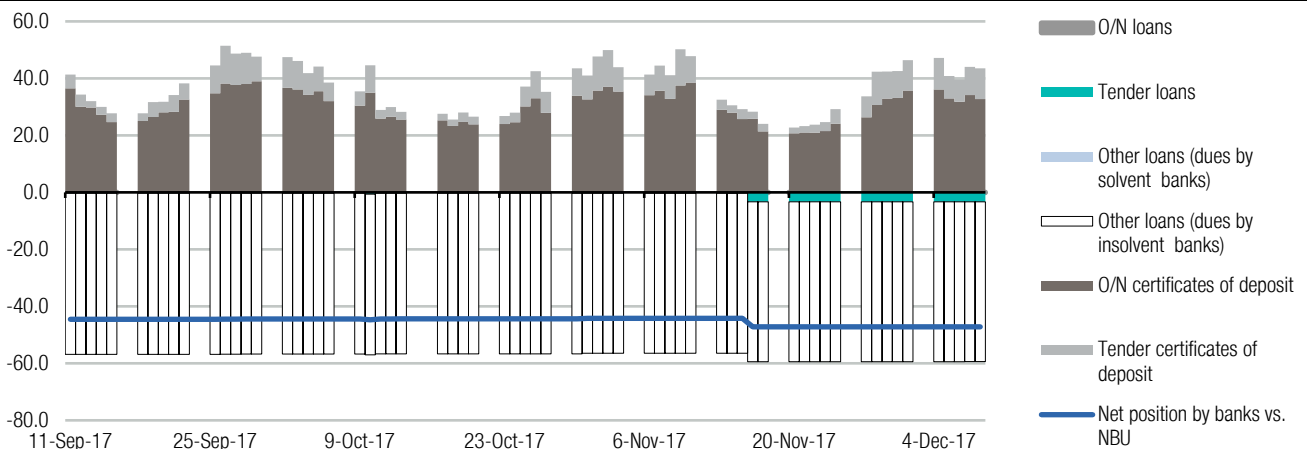


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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