

Daily Insight

Banks accumulated funds in reserves

Key messages of the today's comments

THURSDAY, 14 DECEMBER 2017

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This Tuesday banks continued to accumulate funds as banks' correspondent accounts with the NBU rose UAH5.41bn to UAH59.55bn, setting a new year's high. Banks decreased investments in CDs by UAH4.63bn, setting a new low for total CDs outstanding this year at UAH20.27bn, as banks received UAH7.22bn of 2-week CD redemptions but purchased just UAH2.56bn of additional ON CDs. 2

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On Wednesday, the hryvnia continued to decline versus the US dollar as significant demand for foreign currency hovered caused it to depreciation by 0.3% to 27.2675 UAH/USD. Payments to the budget caused most of the increase in liquidity in the banking system, which over the past three days rose UAH4.3bn, along with a significant increase in banks' correspondent accounts with the NBU. The hryvnia sold for 27.14 UAH/USD versus 27.31 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.89% to 110.36; in year-on-year terms, it is down 0.76% from 111.2 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 13 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 13 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.20	-10bp	+160bp
Banks reserves (UAHm)	59,553	+9.99	+19.75
Deposit certificates* (UAHm)	20,269	-18.58	-67.43
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.2750	+0.35	+0.65
Total trade volume (US\$m)	185.25	-7.32	+9.22
UAH index CPI-based	110.358	-0.89	+2.17
UAH index PPI-based	167.300	-0.89	-0.66

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,662.85	-0.05	+18.94
MSCI EM	1,118.81	+0.58	+29.75
US dollar index (DXY)	93.429	-0.71	-8.59
EUR / USD	1.1826	+0.72	+12.45
Crude oil WTI (US\$/bbl)	56.60	-0.95	+5.36
Crude oil BRENT (US\$/bbl)	62.44	-1.42	+9.89
CRB, commodities index	183.36	-0.03	-4.75
Gold (US\$/ounce)	1,255.60	+0.88	+8.97

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Banks accumulated funds in reserves

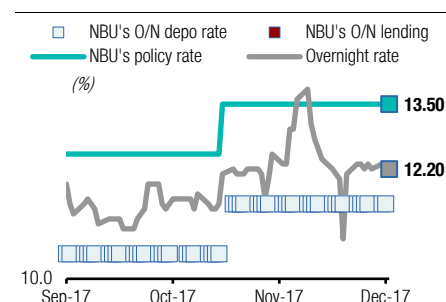
This Tuesday banks continued to accumulate funds as banks' correspondent accounts with the NBU rose UAH5.41bn to UAH59.55bn, setting a new year's high. Banks decreased investments in CDs by UAH4.63bn, setting a new low for total CDs outstanding this year at UAH20.27bn, as banks received UAH7.22bn of 2-week CD redemptions but purchased just UAH2.56bn of additional ON CDs.

Liquidity rose for the third consecutive day as the Treasury provided UAH1.60bn of inflows which covered outflows via reserves exchange into cash. The NBU provided no further funds which could have a significant impact on liquidity.

ICU view: Liquidity continued to increase slightly, rising to nearly UAH80bn, and could rise above this level. But yesterday's settlement of newly issued local currency bonds after Tuesday's auction could decrease liquidity. As the Treasury paid UAH0.83bn in VAT refunds yesterday, this payment could decrease the negative impact from new borrowings. Liquidity could recover once more, specifically via VAT refunds, but month-end tax payments begin next week. Also, cash flows in relation to local budget deposit withdrawals negative impact is difficult to predict.

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Interest rates in the banks' reserves market (three months through 13 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 13 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	12.20	-10bp	+0bp	-10bp	+160bp
ON \$ swap	12.57	-10bp	+29bp	+15bp	+110bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	59,553	+9.99	+29.60	+27.60	+19.75
DepCerts ³	20,269	-18.58	-36.28	-30.02	-67.43
Total	79,822	+0.99	+2.65	+5.54	-28.71
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	330,052	+1.14	+2.22	+6.52	+93.69
Residents	21,382	+0.58	+0.79	-1.35	-8.81
Individuals	1,188	+0.17	+1.92	+34.51	+1,041.7
Non-res ⁴	4,786	+7.31	+7.27	-3.09	-19.14
Total	717,980	+0.59	+1.09	+2.89	+31.19
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	10.49	-269bp	-570bp	-439bp	-12ppt
3 months	8.49	-460bp	-524bp	-629bp	-14ppt
6 months	8.70	-288bp	-323bp	-390bp	-934bp
1 year	8.79	-242bp	-265bp	-285bp	-720bp
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

Hryvnia below 27.25/USD

On Wednesday, the hryvnia continued to decline versus the US dollar as significant demand for foreign currency hovered caused it to depreciation by 0.3% to 27.2675 UAH/USD. Payments to the budget caused most of the increase in liquidity in the banking system, which over the past three days rose UAH4.3bn, along with a significant increase in banks' correspondent accounts with the NBU. The hryvnia sold for 27.14 UAH/USD versus 27.31 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.89% to 110.36; in year-on-year terms, it is down 0.76% from 111.2 last year.

The USD traded lower on Wednesday in muted trading ahead of the Fed's decision on the key policy rate. In addition, the Democratic candidate won the seat in the Senate, narrowing the Republican majority, which could negatively affect the final approval of the tax reform. Inflation was 0.4% in November, in line with expectations, and 2.2% annualized, but core inflation dropped to 1.7% from 1.8% in October. Thus, the DXY index traded at 93.395-94.107, closing down 0.7% to 93.429.

The euro has traditionally moved inversely to the USD in the absence of important news and in anticipation of today's ECB meeting, which will include details of the plan for the gradual tapering of the asset purchasing program. Thus, the euro traded within 1.173-1.1832 USD/EUR and rose 0.7% to 1.1826. The Chinese yuan was almost unchanged against the dollar, but slightly increased by 0.03% to 6.6195 CNY/USD.

The Russian ruble was supported by rising oil prices and a simultaneous decline of the USD. Confirmation of the country's GDP growth at 1.8% year-on-year in the third quarter did not affect the exchange rate, although economic growth slowed from 2.5% in the previous period. The ruble traded within 58.5409-59.4538 RUB/USD, and closed up 1.1% to 58.5876.

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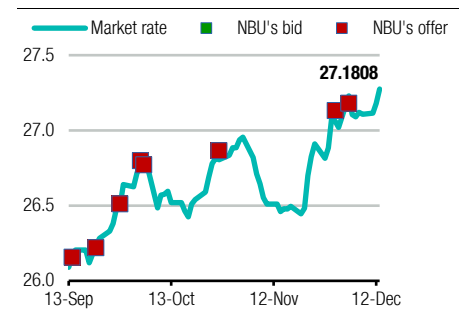
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 13 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.2750	+0.35	+0.68	+2.89	+0.65
USD ¹	93.429	-0.71	-0.19	-1.12	-8.59
EUR	1.1826	+0.72	+0.25	+1.36	+12.45
JPY	112.5400	-0.89	+0.22	-0.95	-3.78
GBP ²	1.3420	+0.77	+0.20	+2.32	+8.75
CNY	6.6195	-0.03	+0.07	-0.32	-4.69
RUB	58.5876	-1.07	-1.03	-1.36	-4.79

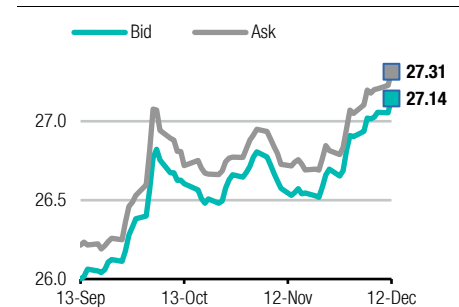
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 13 December 2017)



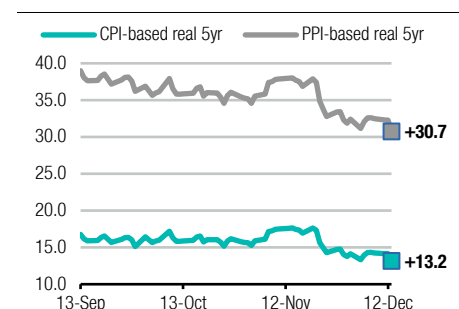
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 13 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 13 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)

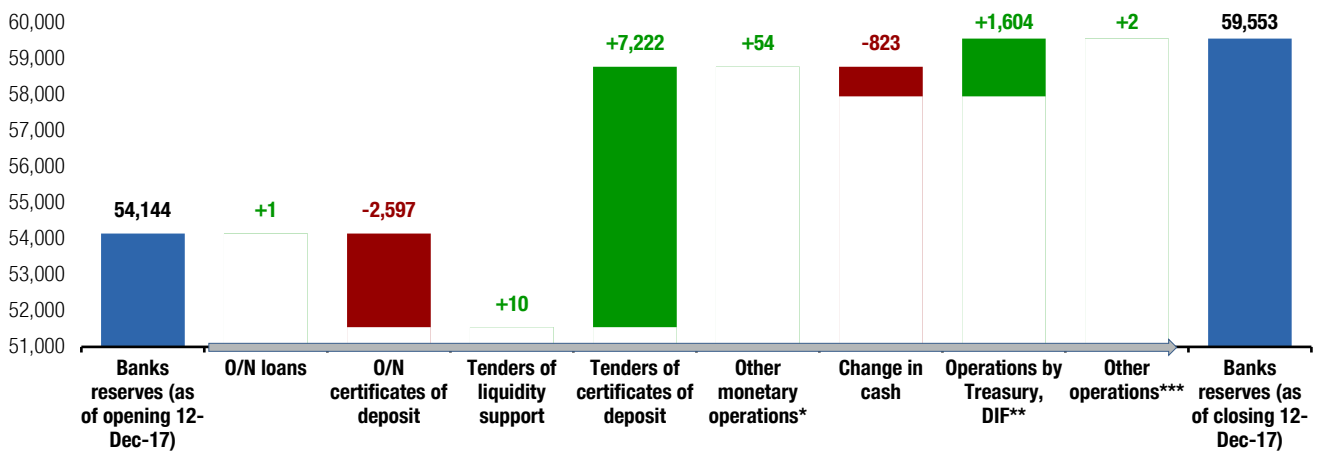
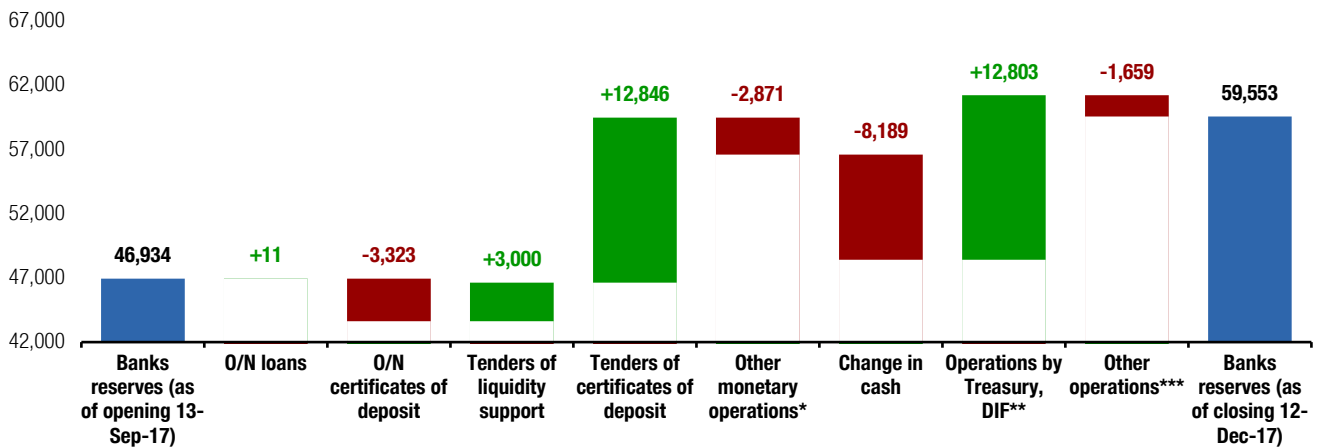
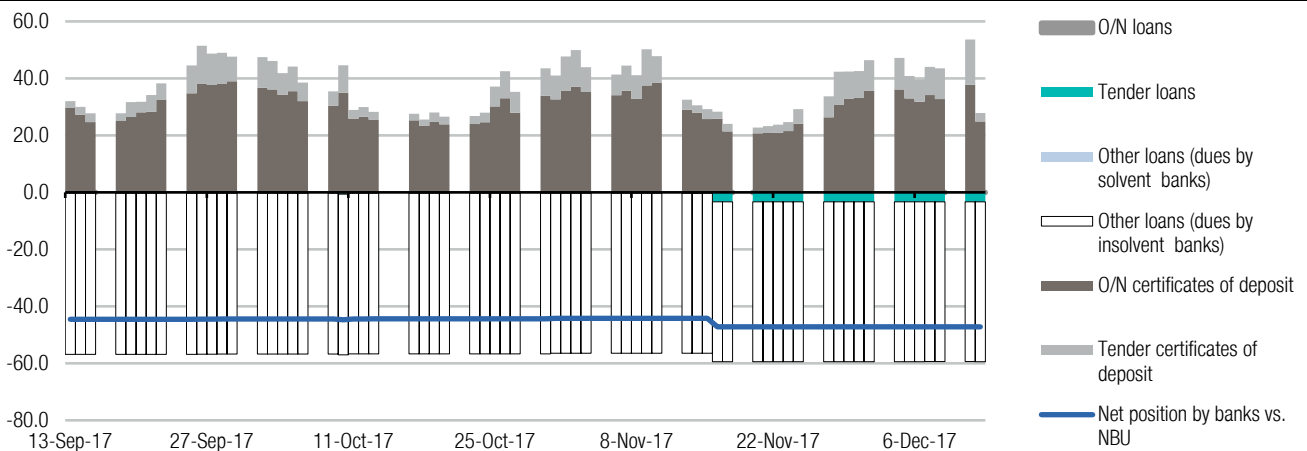


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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