

Daily Insight

Hryvnia under pressure

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MONDAY, 18 DECEMBER 2017

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Last Thursday liquidity continued to rise 0.60bn to UAH84.65bn, the record high of this month. This day liquidity was supported by positive balance of Treasury operations but was insufficient due to outflows to cash. At the same time banks continued to accumulate funds at correspondent accounts with the NBU as they decreased investments in CDs. 2

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The hryvnia continued to decline against the US dollar on Friday. The increase of liquidity in the banking system, which reached the monthly maximum, put significant pressure on the hryvnia, as the balances in correspondent accounts hit record highs since 2011. Accordingly, in the local market there is increased demand for foreign currency. Last week the national currency fell by 1.9%, in particular the decline for Friday amounted to 0.8% when the hryvnia ended trading at 27.6351 UAH/USD as it sold for 27.43 UAH/USD versus 27.72 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.86% to 109.05; in year-on-year terms, it is down 2.51% from 111.86 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 15 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 15 December 2017)

| | Last | Daily chg (%) | YTD chg (%) |
|--------------------------------|---------|---------------|-------------|
| DOMESTIC LIQUIDITY | | | |
| NBU key policy rate (%) | 14.50 | +100bp | +50bp |
| Overnight rate (interbank) | 13.10 | +50bp | +250bp |
| Banks reserves (UAHm) | 69,913 | +8.97 | +40.58 |
| Deposit certificates* (UAHm) | 14,582 | -26.10 | -76.57 |
| FOREIGN EXCHANGE MARKET | | | |
| UAH per US dollar | 27.6900 | +0.84 | +2.18 |
| Total trade volume (US\$m) | 277.84 | -14.28 | +63.81 |
| UAH index CPI-based | 109.053 | -0.86 | +0.96 |
| UAH index PPI-based | 165.321 | -0.86 | -1.83 |

UKRAINE SOVEREIGN EUROBOND MARKET

| | | | |
|---------|-------|------|--------|
| CDS 5yr | 434bp | +0bp | -219bp |
|---------|-------|------|--------|

GLOBAL FINANCIAL MARKET INDICATORS

| | | | |
|----------------------------|----------|-------|--------|
| S&P 500 | 2,675.81 | +0.90 | +19.52 |
| MSCI EM | 1,118.50 | -0.24 | +29.72 |
| US dollar index (DXY) | 93.932 | +0.47 | -8.10 |
| EUR / USD | 1.1749 | -0.25 | +11.71 |
| Crude oil WTI (US\$/bbl) | 57.30 | +0.46 | +6.66 |
| Crude oil BRENT (US\$/bbl) | 63.23 | -0.13 | +11.28 |
| CRB, commodities index | 184.52 | +0.17 | -4.15 |
| Gold (US\$/ounce) | 1,255.45 | +0.20 | +8.95 |

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to increase

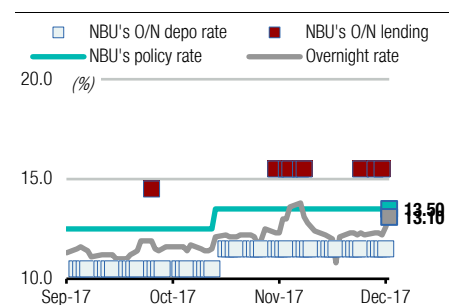
Last Thursday liquidity continued to rise 0.60bn to UAH84.65bn, the record high of this month. This day liquidity was supported by positive balance of Treasury operations but was insufficient due to outflows to cash. At the same time banks continued to accumulate funds at correspondent accounts with the NBU as they decreased investments in CDs.

Banks' correspondent accounts with the NBU rose to UAH69.91bn, the record high since 2011, while investments in CDs declined to UAH14.58bn: UAH5.29bn was invested in ON CDs and UAH3.10bn in 3-month CDs.

ICU view: The increase continued in line with the accumulation of funds into reserves, most likely in preparation for a large outflow of funds as local budget deposit repayments.

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Interest rates in the banks' reserves market (three months through 15 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 15 December 2017)

| | Last | Daily | Weekly | Monthly | YTD |
|---|----------------|--------------|---------------|---------------|---------------|
| | chg (%) | chg (%) | chg (%) | chg (%) | chg (%) |
| BANKS' RESERVES MARKET (%) | | | | | |
| NBU rate ¹ | 14.50 | +100bp | +100bp | +100bp | +50bp |
| ON rate | 13.10 | +50bp | +90bp | +10bp | +250bp |
| ON \$ swap | 13.22 | +87bp | +129bp | +63bp | +175bp |
| DOMESTIC LIQUIDITY (UAH MILLION) | | | | | |
| Reserves ² | 69,913 | +8.97 | +63.84 | +46.67 | +40.58 |
| DepCerts ³ | 14,582 | -26.10 | -55.46 | -43.27 | -76.57 |
| Total | 84,495 | +0.72 | +12.04 | +15.16 | -24.54 |
| BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION) | | | | | |
| NBU | 360,573 | +0.00 | +0.00 | +0.00 | +1.24 |
| Banks | 334,512 | +0.21 | +1.39 | +6.75 | +94.10 |
| Residents | 21,500 | -0.03 | +0.97 | -1.12 | -8.83 |
| Individuals | 1,282 | +7.61 | +9.27 | +43.66 | +1,132.8 |
| Non-res ⁴ | 5,135 | -0.01 | +7.40 | -3.09 | -19.15 |
| Total | 723,002 | +0.11 | +0.73 | +3.01 | +31.33 |
| IMPLIED YIELDS OF THE UAH NDF MARKET (%) | | | | | |
| 1 month | 9.41 | +4bp | -422bp | -639bp | -13ppt |
| 3 months | 11.25 | +11bp | -202bp | -387bp | -11ppt |
| 6 months | 11.57 | +5bp | -3bp | -117bp | -647bp |
| 1 year | 11.77 | +9bp | +46bp | +1bp | -422bp |
| UKRAINE SOVEREIGN EUROBOND MARKET | | | | | |
| CDS 5yr | 434 | +0bp | +0bp | -3bp | -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 under pressure

The hryvnia continued to decline against the US dollar on Friday. The increase of liquidity in the banking system, which reached the monthly maximum, put significant pressure on the hryvnia, as the balances in correspondent accounts hit record highs since 2011. Accordingly, in the local market there is increased demand for foreign currency. Last week the national currency fell by 1.9%, in particular the decline for Friday amounted to 0.8% when the hryvnia ended trading at 27.6351 UAH/USD as it sold for 27.43 UAH/USD versus 27.72 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.86% to 109.05; in year-on-year terms, it is down 2.51% from 111.86 last year.

The US dollar rose against other major currencies on Friday. Last week the Fed raised its key interest rate by 0.25%, which was positively reflected in the US currency. The dollar appreciated despite industrial production growing 0.2% in November (versus expected growth of 0.3%). The positive attitude towards the tax reform supported the greenback, as it is expected that the Republicans will have enough votes to pass the law. Thus, the DXY index traded at 93.41-93.997, closing up 0.5% to 93.932.

The euro again moved inversely to the US dollar and declined on Friday. The ECB kept the interest rate unchanged, and the rhetoric of the bank's chairman points to restraint on a tighter monetary policy. Thus, the euro traded within 1.1749-1.1812 USD/EUR and fell 0.25% to 1.1749. The Chinese yuan remained stable against the dollar, and finished trading at 6.6093 CNY/USD.

Despite the US dollar's appreciation, the Russian ruble strengthened on Friday. The Central Bank of Russia's 0.5% rate cut did not cause a sharp decline in the Russian currency, which was supported by demand in the domestic debt market and high oil prices. The ruble traded within 58.403-59.0445 RUB/USD, and closed up 0.2% to 58.7618.

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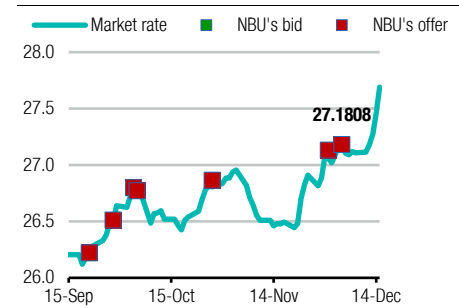
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 15 December 2017)

| | Last | Daily | Weekly | Monthly | YTD |
|---|----------|---------|---------|---------|---------|
| | | chg (%) | chg (%) | chg (%) | chg (%) |
| EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND) | | | | | |
| UAH | 27.6900 | +0.84 | +2.15 | +4.57 | +2.18 |
| USD ¹ | 93.932 | +0.47 | +0.03 | +0.13 | -8.10 |
| EUR | 1.1749 | -0.25 | -0.20 | -0.36 | +11.71 |
| JPY | 112.6000 | +0.19 | -0.78 | -0.25 | -3.73 |
| GBP ² | 1.3320 | -0.83 | -0.52 | +1.13 | +7.94 |
| CNY | 6.6093 | +0.00 | -0.18 | -0.22 | -4.83 |
| RUB | 58.7618 | -0.18 | -0.62 | -2.42 | -4.51 |

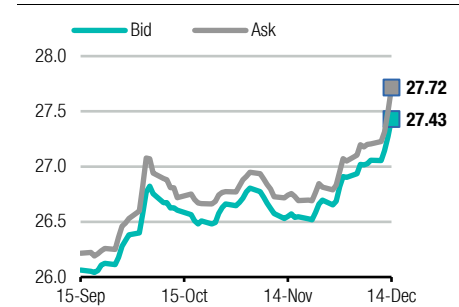
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 15 December 2017)



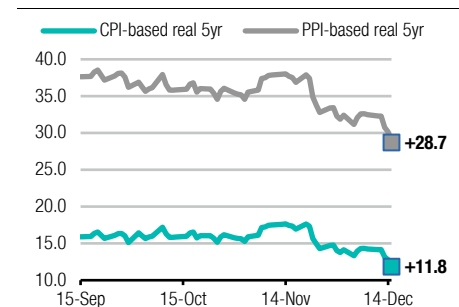
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 15 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 15 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)

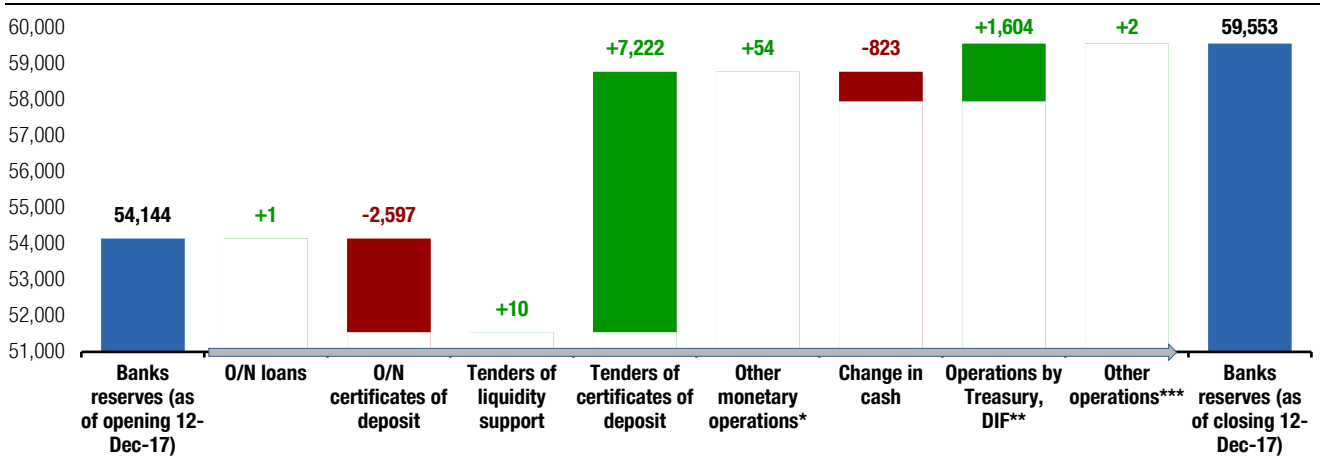
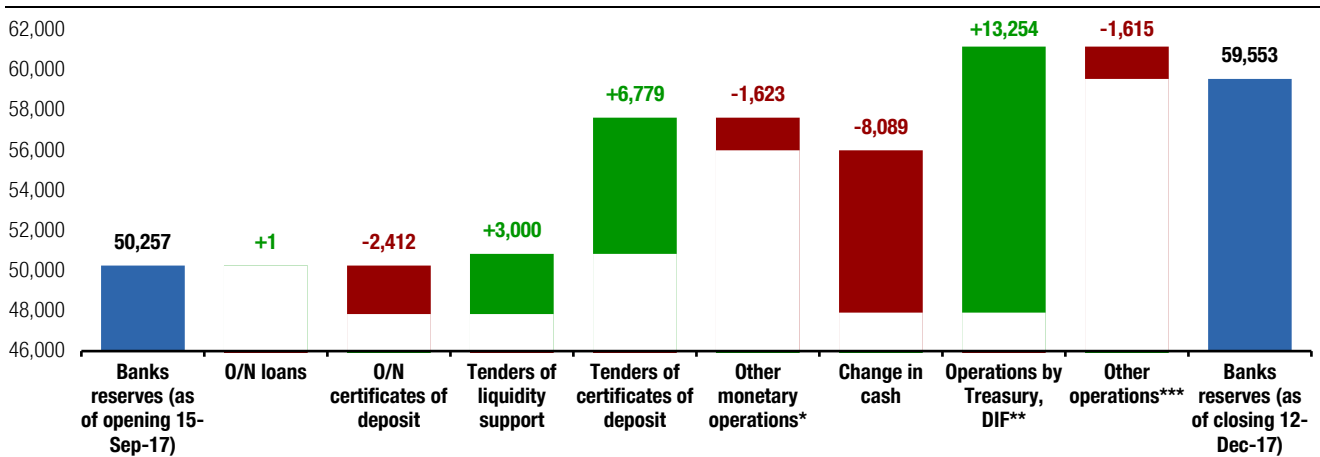
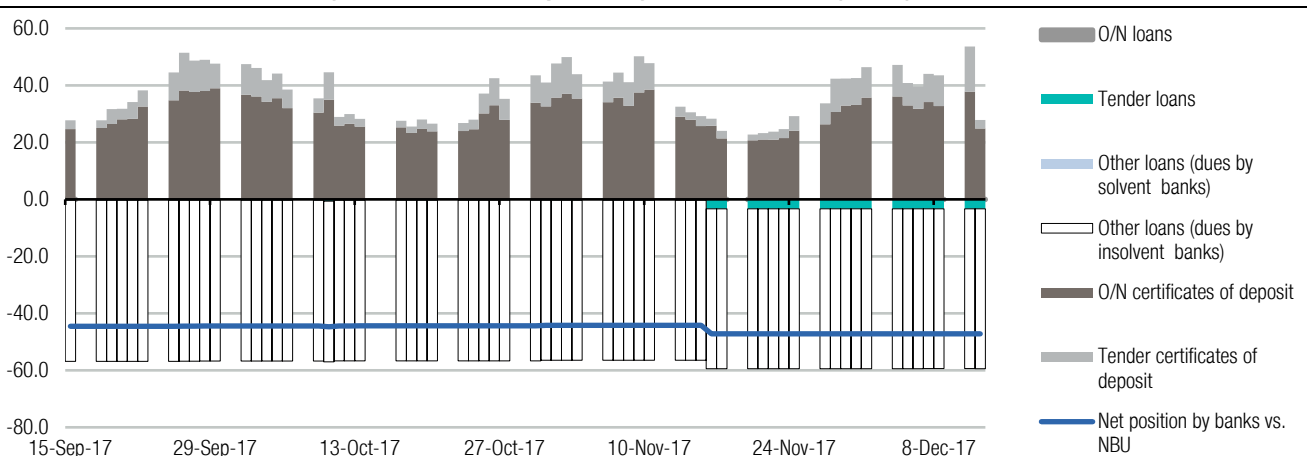


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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