

Daily Insight

UAH hits lowest rate since February 2015

Key messages of the today's comments

Domestic liquidity **2**

NBU absorbed liquidity2

At the end of last week, the NBU absorbed a large portion of funds injected in the middle of last week. Banks decreased ON loans by UAH1.80bn while UAH0.83bn was absorbed by the NBU via other monetary operations as it probably sold US\$30m of FX. Non-monetary operations offset only UAH0.40bn as we see ongoing reserves exchanged into cash and inflows from the Treasury. **2**

Primary auction: bet for FX2

Today the MoF will hold its regular primary auction and take a chance on FX-denominated bonds. Out of the five offered bonds, three will be denominated in US dollars and two bonds in local currency with maturities up to five months. **2**

Foreign exchange markets **3**

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The hryvnia extended its losses on Monday, having depreciated another 0.9% to 27.8737 UAH/USD on the back of increased demand for the foreign currency. At the same time, exporters refrained from selling US dollars on the domestic FX market, anticipating further weakening of the hryvnia, which will allow them to increase their earnings. To satisfy excess demand for foreign currency, the NBU held a currency auction on Monday that attracted US\$81.4m in bids, of which US\$75.2m at a weighted average rate of 27.8550 UAH/USD was satisfied. Thanks to the auction, the hryvnia stopped declining. Yesterday, the hryvnia sold for 27.65 USD/UAH versus 27.88 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.62% to 108.38; in year-on-year terms, it is down 3.44% from 112.24 last year. **3**

Appendix #1: Domestic liquidity **4**

TUESDAY, 19 DECEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 18 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 18 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+50bp
Overnight rate (interbank)	13.00	-10bp	+240bp
Banks reserves (UAHm)	53,815	-23.03	+8.21
Deposit certificates* (UAHm)	28,450	+95.10	-54.29
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.8100	+0.43	+2.62
Total trade volume (US\$m)	277.76	-0.03	+63.76
UAH index CPI-based	108.381	-0.62	+0.34
UAH index PPI-based	164.304	-0.62	-2.44

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,690.16	+0.54	+20.16
MSCI EM	1,130.39	+1.06	+31.09
US dollar index (DXY)	93.695	-0.25	-8.33
EUR / USD	1.1782	+0.28	+12.03
Crude oil WTI (US\$/bbl)	57.16	-0.24	+6.40
Crude oil BRENT (US\$/bbl)	63.41	+0.28	+11.60
CRB, commodities index	185.42	+0.48	-3.68
Gold (US\$/ounce)	1,262.40	+0.55	+9.56

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

NBU absorbed liquidity

At the end of last week, the NBU absorbed a large portion of funds injected in the middle of last week. Banks decreased ON loans by UAH1.80bn while UAH0.83bn was absorbed by the NBU via other monetary operations as it probably sold US\$30m of FX. Non-monetary operations offset only UAH0.40bn as we see ongoing reserves exchanged into cash and inflows from the Treasury.

Total liquidity declined UAH2.23bn to UAH82.26bn with a significant reallocation of funds into CDs. Total CDs outstanding was up UAH13.87bn as banks increased ON CDs and purchased UAH7.81bn of new 2-week CDs. As a result, banks' correspondent accounts with the NBU fell UAH16.10bn to UAH53.81bn.

ICU view: Postponing outflows via deposit withdrawals supported liquidity last week. Moreover, the key policy rate increase forced banks to return a large portion of funds to CDs at new higher interest rates.

Primary auction: bet for FX

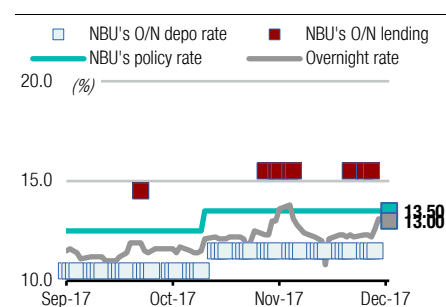
Today the MoF will hold its regular primary auction and take a chance on FX-denominated bonds. Out of the five offered bonds, three will be denominated in US dollars and two bonds in local currency with maturities up to five months.

The MoF will offer for the first time in the last two years zero-coupon FX-denominated bonds at a fixed 5% interest rate which is very close to the interest rate for 2-year bonds. Also, the MoF will offer 1.5-year bonds with a put-option at a fixed rate of 3.85% and 2-year bonds which were sold earlier this year at 5.40%.

ICU view: The MoF will make a new attempt to increase proceeds from the market and also offer zero-coupon short-term bonds, including zero-coupon local-currency bonds most likely to borrow expensive funds just for a few months. However, after the NBU increased the key policy rate to 14.50%, interest rates for local currency bonds could see bids up to 17%, but the MoF's decision will depend on the amount of demand.

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Interest rates in the banks' reserves market (three months through 18 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 18 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	13.00	-10bp	+70bp	-60bp	+240bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	53,815	-23.03	+34.13	+2.05	+8.21
DepCerts ³	28,450	+95.10	-24.71	+33.03	-54.29
Total	82,265	-2.64	+5.59	+10.99	-26.53
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	335,409	+0.27	+1.69	+7.22	+94.62
Residents	21,536	+0.17	+1.02	-0.40	-8.68
Individuals	1,292	+0.73	+9.93	+43.54	+1,141.8
Non-res ⁴	5,136	+0.01	+7.32	-3.07	-19.14
Total	723,946	+0.13	+0.87	+3.24	+31.50
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.57	+316bp	-56bp	-365bp	-974bp
3 months	11.81	+56bp	-132bp	-335bp	-10ppt
6 months	11.80	+23bp	+28bp	-73bp	-624bp
1 year	11.83	+6bp	+62bp	-28bp	-415bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	434	+0bp	+0bp	+0bp	-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 hits lowest rate since February 2015

The hryvnia extended its losses on Monday, having depreciated another 0.9% to 27.8737 UAH/USD on the back of increased demand for the foreign currency. At the same time, exporters refrained from selling US dollars on the domestic FX market, anticipating further weakening of the hryvnia, which will allow them to increase their earnings. To satisfy excess demand for foreign currency, the NBU held a currency auction on Monday that attracted US\$81.4m in bids, of which US\$75.2m at a weighted average rate of 27.8550 UAH/USD was satisfied. Thanks to the auction, the hryvnia stopped declining. Yesterday, the hryvnia sold for 27.65 USD/UAH versus 27.88 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.62% to 108.38; in year-on-year terms, it is down 3.44% from 112.24 last year.

The USD traded broadly lower on the back of thin trading volumes ahead of the Christmas holiday. At the same time, investors are looking to Thursday, when the US Senate is expected to vote on the tax bill. The DXY index traded at 93.38-94.03, closing down 0.25% to 93.70.

The euro strengthened 0.3% to 1.1782 USD/EUR after Germany's Social Democrats agreed to start negotiations regarding the coalition in German parliament last Friday. At the same time, Eurozone consumer prices rose 1.5% YoY in November, up from 1.4% YoY in the previous month, meeting forecasts of market participants.

Despite a globally weaker USD, the Chinese renminbi declined 0.1% to 6.6164 CNY/USD. It should be mentioned that the PBOC also raised interest rates following the Fed's decision last week in order to support the national currency and avoid excessive credit expansion.

The Russian ruble strengthened 0.1% against the greenback to 58.6942 RUB/USD, being underpinned by several factors such as higher oil prices, increased interest on carry trade operations, and upcoming tax payments next week.

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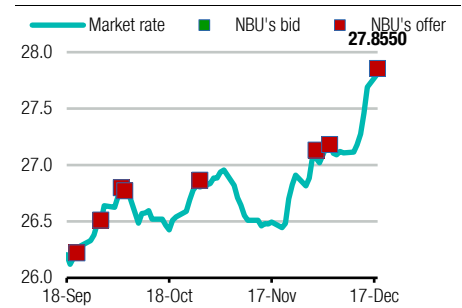
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 18 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.8100	+0.43	+2.56	+4.96	+2.62
USD ¹	93.695	-0.25	-0.18	+0.04	-8.33
EUR	1.1782	+0.28	+0.11	-0.07	+12.03
JPY	112.5500	-0.04	-0.89	+0.40	-3.77
GBP ²	1.3383	+0.47	+0.31	+1.27	+8.45
CNY	6.6164	+0.11	-0.03	-0.16	-4.73
RUB	58.6942	-0.12	-0.37	-0.56	-4.62

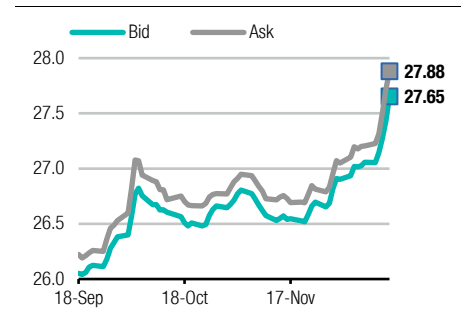
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 18 December 2017)



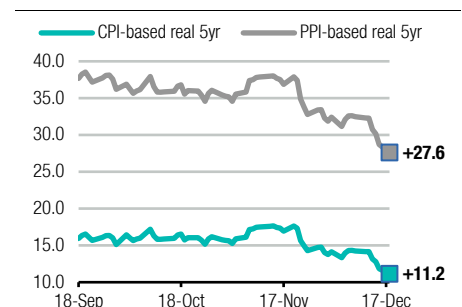
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 18 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 18 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)

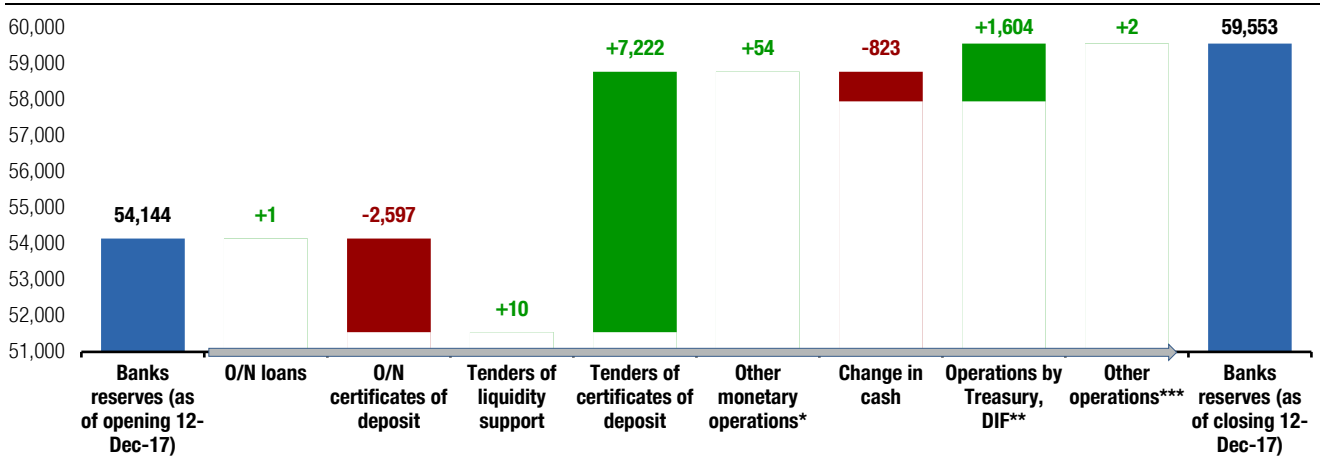
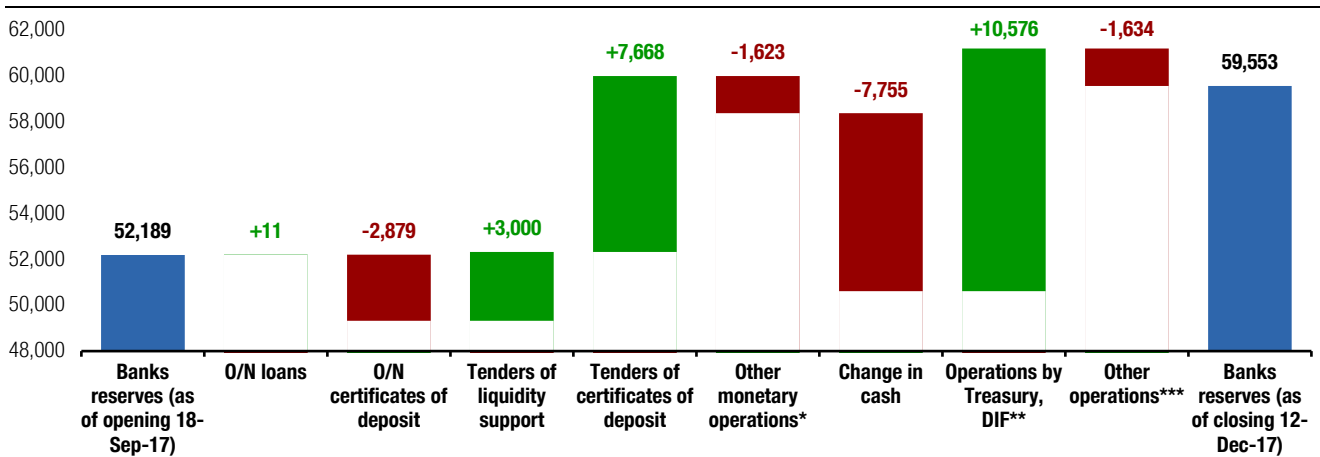
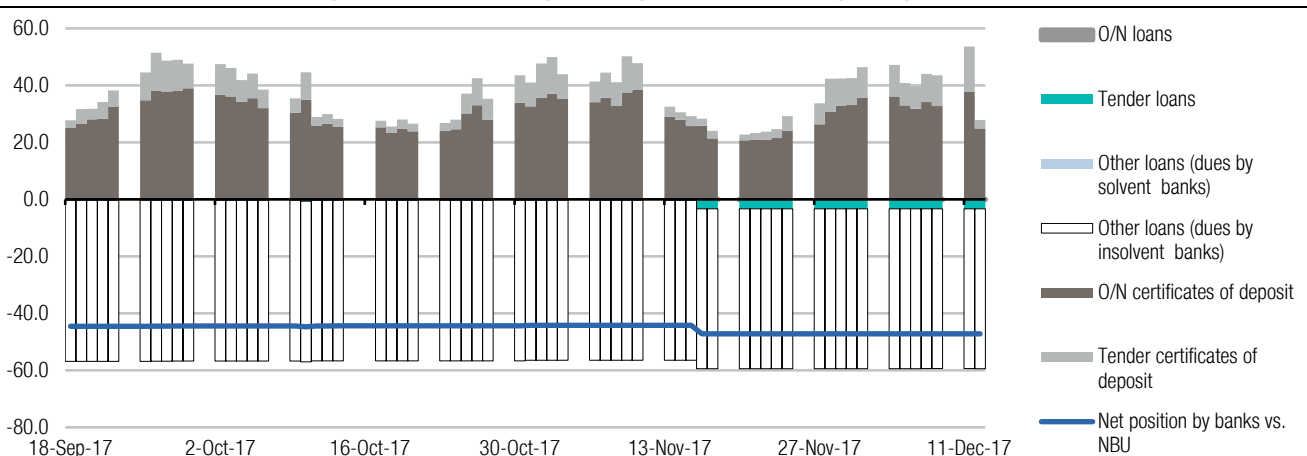


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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