

Daily Insight

Liquidity at UAH82bn

Key messages of the today's comments

Domestic liquidity **2**

Liquidity at UAH82bn2

This Monday liquidity remained steady with a slight decline of UAH0.13bn following a significant reallocation of funds. The liquidity structure remained steady with minor changes: banks' correspondent accounts with the NBU declined UAH1.80bn to UAH52.01bn while total CDs outstanding rose UAH1.68bn to UAH20.13bn. Fund reallocations were due to monetary and non-monetary operations. 2

Primary auction: borrowings mostly in FX2

Yesterday the MoF sold local currency bonds with 3-month and 5-month maturities and FX-denominated bonds with 6-month to 2-year maturities. Demand was mostly concentrated on FX-denominated bonds. 2

Foreign exchange markets **3**

UAH stabilizes3

Although Monday's NBU FX currency auction and recent key policy rate hike halted the hryvnia's depreciation seen last week and on Monday, it did not help the Ukrainian currency to strengthen. On Tuesday, the UAH slightly weakened to 27.8843 UAH/USD as importers remain cautious about the hryvnia's depreciation, this boosting demand for foreign currency. The hryvnia sold for 27.79 UAH/USD versus 28.08 to buy at the Ukrainian cash market, while its CPI-based real trade-weighted index fell 0.58% to 107.75. In year-on-year terms, it is down 4.16% from 112.43 last year, which means that the hryvnia's purchasing power is 4.16% lower compared with the same period last year. 3

Appendix #1: Domestic liquidity **4**

WEDNESDAY, 20 DECEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 19 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 19 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+50bp
Overnight rate (interbank)	13.50	+50bp	+290bp
Banks reserves (UAHm)	52,011	-3.35	+4.58
Deposit certificates* (UAHm)	30,127	+5.89	-51.59
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.9050	+0.34	+2.97
Total trade volume (US\$m)	220.98	-20.44	+30.28
UAH index CPI-based	107.751	-0.58	-0.24
UAH index PPI-based	163.348	-0.58	-3.01
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	434bp	+0bp	-219bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,681.47	-0.32	+19.77
MSCI EM	1,132.20	+0.16	+31.30
US dollar index (DXY)	93.441	-0.27	-8.58
EUR / USD	1.1840	+0.49	+12.58
Crude oil WTI (US\$/bbl)	57.56	+0.70	+7.15
Crude oil BRENT (US\$/bbl)	63.80	+0.62	+12.28
CRB, commodities index	186.02	+0.32	-3.37
Gold (US\$/ounce)	1,261.75	-0.05	+9.50

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity at UAH82bn

This Monday liquidity remained steady with a slight decline of UAH0.13bn following a significant reallocation of funds. The liquidity structure remained steady with minor changes: banks' correspondent accounts with the NBU declined UAH1.80bn to UAH52.01bn while total CDs outstanding rose UAH1.68bn to UAH20.13bn. Fund reallocations were due to monetary and non-monetary operations.

Non-monetary operations provided positive impact for the third consecutive day, but from the Treasury, marking the first day of this month that the balance of banks' operations with cash was positive. At the same time, monetary operations caused fund outflows as the NBU sold FX, absorbing UAH2.10bn, while additional ON loans provided only UAH0.50bn.

ICU view: Currently liquidity appears to have hit the bottom at the second half of December. Over the following weeks we will see it increase with slight volatility. The Treasury paid UAH1.22bn in VAT refunds yesterday and could support liquidity, decreasing risks of falling significantly.

Primary auction: borrowings mostly in FX

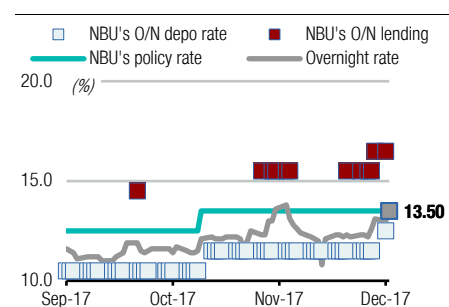
Yesterday the MoF sold local currency bonds with 3-month and 5-month maturities and FX-denominated bonds with 6-month to 2-year maturities. Demand was mostly concentrated on FX-denominated bonds.

Local currency bond cut-off rates were set at 16.00%, not in line with the NBU decision to increase the key policy rate. To set this level, the MoF rejected more than half of the bids for these bonds. Meanwhile, it fully satisfied demand for FX-denominated bonds, 94% of which was for the 6-month bond.

ICU view: Auction proceeds should exceed UAH11bn, notably with less than UAH0.50bn from local currency bonds, most likely to refinance FX repayments and decrease the impact on FX reserves, enabling the MoF to increase budget financing from debt operations.

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Interest rates in the banks' reserves market (three months through 19 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 19 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	13.50	+50bp	+120bp	-10bp	+290bp
ON \$ swap	13.08	+22bp	+68bp	+45bp	+161bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	52,011	-3.35	-3.94	-1.37	+4.58
DepCerts ³	30,127	+5.89	+21.02	+40.87	-51.59
Total	82,138	-0.15	+3.92	+10.81	-26.64
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	336,357	+0.28	+1.94	+7.52	+95.17
Residents	21,595	+0.28	+1.25	-0.13	-8.43
Individuals	1,300	+0.67	+9.69	+44.50	+1,150.1
Non-res ⁴	5,139	+0.07	+7.38	-3.01	-19.09
Total	724,965	+0.14	+1.00	+3.39	+31.69
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.94	-63bp	-124bp	-428bp	-10ppt
3 months	11.49	-32bp	-160bp	-367bp	-11ppt
6 months	11.71	-9bp	+13bp	-82bp	-634bp
1 year	11.75	-8bp	+54bp	-36bp	-424bp
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 stabilizes

Although Monday's NBU FX currency auction and recent key policy rate hike halted the hryvnia's depreciation seen last week and on Monday, it did not help the Ukrainian currency to strengthen. On Tuesday, the UAH slightly weakened to 27.8843 UAH/USD as importers remain cautious about the hryvnia's depreciation, this boosting demand for foreign currency. The hryvnia sold for 27.79 UAH/USD versus 28.08 to buy at the Ukrainian cash market, while its CPI-based real trade-weighted index fell 0.58% to 107.75. In year-on-year terms, it is down 4.16% from 112.43 last year, which means that the hryvnia's purchasing power is 4.16% lower compared with the same period last year.

The USD traded lower despite solid housing market data. While US housing starts unexpectedly increased last month and building permits fell less-than-expected, investors remain cautious about the US Senate's upcoming tax bill vote. The DXY index traded at 93.43-93.76, closing down 0.3% to 93.44.

The euro strengthened 0.5% to 1.1840 USD/EUR on the back of the weaker USD. At the same time, the Chinese renminbi appreciated 0.2% against the USD to 6.6047 CNY/USD, underpinned by the new forecast of the World Bank which increased China's real GDP outlook by 0.1ppt to 6.8% growth in 2017.

The Russian ruble remained stable, supported by a higher investor appetite for risky assets and upcoming tax payments. On Tuesday, it weakened slightly, closing down 0.1% to 58.7749 RUB/USD.

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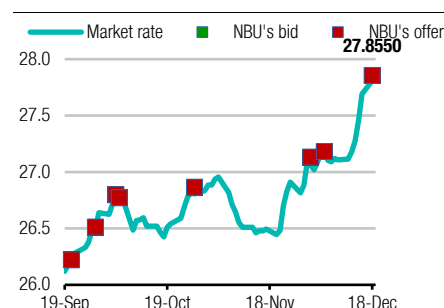
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 19 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.9050	+0.34	+2.67	+5.32	+2.97
USD ¹	93.441	-0.27	-0.70	-0.24	-8.58
EUR	1.1840	+0.49	+0.83	+0.42	+12.58
JPY	112.8900	+0.30	-0.58	+0.70	-3.48
GBP ²	1.3385	+0.01	+0.50	+1.29	+8.47
CNY	6.6047	-0.18	-0.25	-0.33	-4.90
RUB	58.7749	+0.14	-0.75	-0.43	-4.49

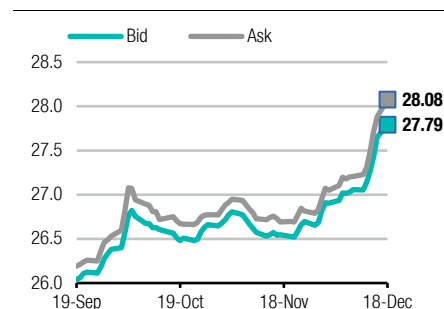
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 19 December 2017)



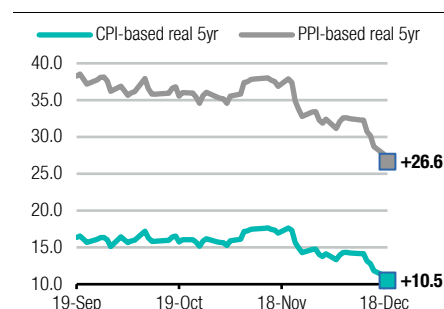
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 19 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 19 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)

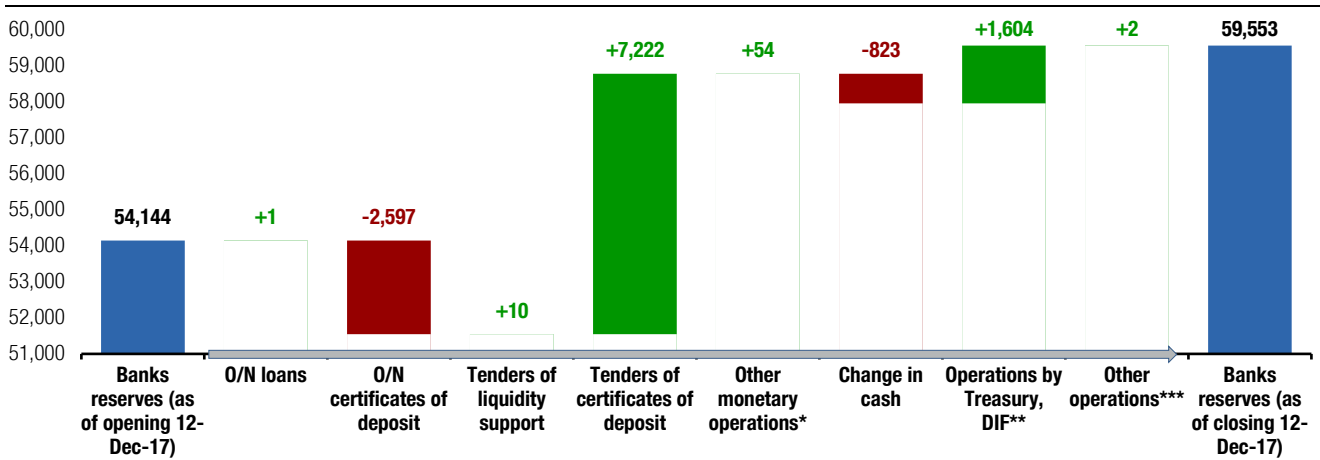
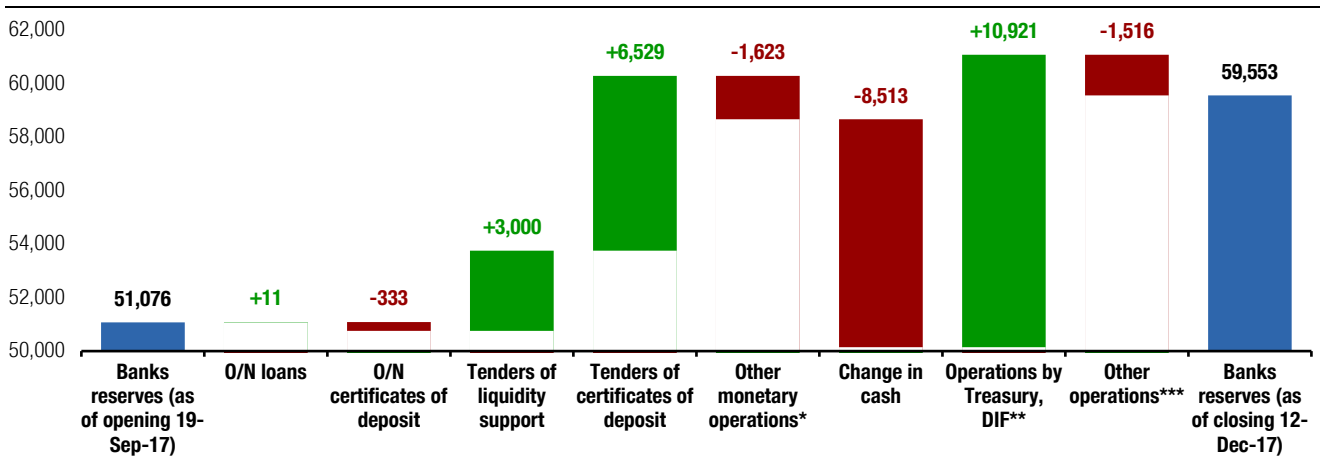
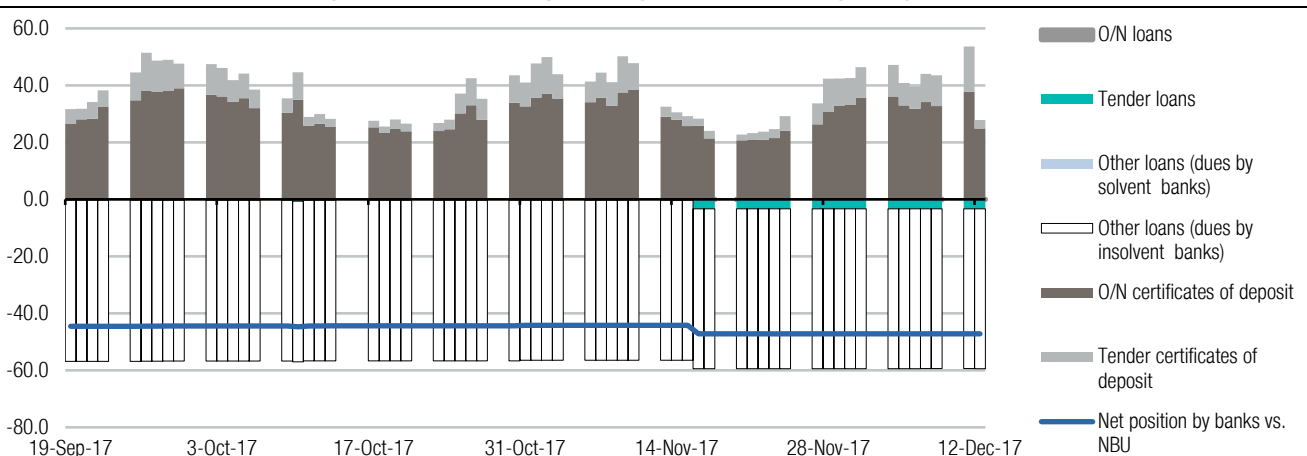


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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