

Daily Insight

NBU supports increase in liquidity

Key messages of the today's comments

THURSDAY, 21 DECEMBER 2017

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This Tuesday, the NBU provided a UAH1.30bn ON loan to one bank, supporting liquidity. Total ON loans rose to UAH2.80bn, pushing liquidity up UAH1.81bn to UAH83.95bn, near this month' high. The increase in liquidity was divided between reserves and CDs, as total CDs outstanding rose UAH0.98bn and banks' correspondent accounts balance with the NBU rose UAH0.83bn.

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The hryvnia remained relatively stable on Wednesday despite an increase in liquidity of UAH1.8bn. With the settlement of liabilities by the end of the year, forcing market players to sell currency, local market demand for hryvnia has increased. In due time, it seems appropriate to sell the currency as it has risen sharply. As of Wednesday, the hryvnia slightly increased by 0.1% to 27.8609 UAH/USD. It sold for 27.77 UAH/USD versus 27.99 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.03% to 107.72; in year-on-year terms, it is down 3.67% from 111.82 last year.

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Appendix #1: Domestic liquidity

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Ukraine's hryvnia exchange rate per US dollar (three months through 20 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 20 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	13.60	+10bp	+300bp
Banks reserves (UAHm)	52,841	+1.60	+6.25
Deposit certificates* (UAHm)	31,111	+3.27	-50.01
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.8600	-0.16	+2.80
Total trade volume (US\$m)	233.85	+5.82	+37.87
UAH index CPI-based	107.718	-0.03	-0.27
UAH index PPI-based	163.299	-0.03	-3.03

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,679.25	-0.08	+19.67
MSCI EM	1,132.85	+0.06	+31.38
US dollar index (DXY)	93.313	-0.14	-8.70
EUR / USD	1.1871	+0.26	+12.87
Crude oil WTI (US\$/bbl)	58.09	+0.92	+8.13
Crude oil BRENT (US\$/bbl)	64.56	+1.19	+13.62
CRB, commodities index	187.09	+0.58	-2.82
Gold (US\$/ounce)	1,265.57	+0.30	+9.83

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

NBU supports increase in liquidity

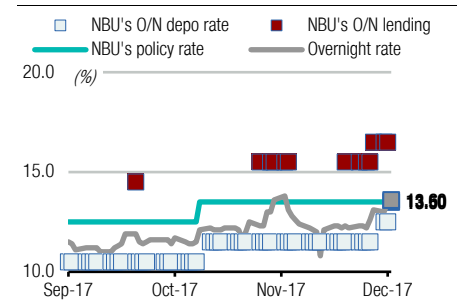
This Tuesday, the NBU provided a UAH1.30bn ON loan to one bank, supporting liquidity. Total ON loans rose to UAH2.80bn, pushing liquidity up UAH1.81bn to UAH83.95bn, near this month's high. The increase in liquidity was divided between reserves and CDs, as total CDs outstanding rose UAH0.98bn and banks' correspondent accounts balance with the NBU rose UAH0.83bn.

Banks reinvested nearly all 2-week CDs redemptions in new CDs maturing prior to New Year and increased total outstanding ON CDs. Non-monetary operations also provided funds for liquidity, as the Treasury inflow amounted to UAH0.76bn and covered cash outflows of UAH0.20bn and other non-monetary operation outflows of UAH0.05bn.

ICU view: Although liquidity close to this month's high, this increase is not similar to previous years when inflows from the Treasury were larger. Currently, banks appear to be at a crossroad with an expected outflow to budgets via local budget deposit withdrawals and without inflows from the budget via expenditures. Also, month-end tax payments that began yesterday should put additional negative pressure on liquidity.

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Interest rates in the banks' reserves market (three months through 20 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 20 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	13.60	+10bp	+140bp	-20bp	+300bp
ON \$ swap	13.13	-4bp	+56bp	+16bp	+166bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	52,841	+1.60	-11.27	+12.13	+6.25
DepCerts ³	31,111	+3.27	+53.49	+49.90	-50.01
Total	83,952	+2.21	+5.17	+23.68	-25.02
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	336,431	+0.02	+1.93	+7.52	+95.22
Residents	21,587	-0.04	+0.96	-0.19	-8.46
Individuals	1,222	-6.04	+2.88	+34.96	+1,074.6
Non-res ⁴	5,216	+1.50	+8.99	-1.83	-17.88
Total	725,029	+0.01	+0.98	+3.38	+31.70
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.79	+84bp	+229bp	-254bp	-952bp
3 months	11.48	-1bp	+299bp	-346bp	-11ppt
6 months	11.69	-2bp	+299bp	-102bp	-636bp
1 year	11.76	+1bp	+297bp	+6bp	-423bp
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

Hryvnia increases

The hryvnia remained relatively stable on Wednesday despite an increase in liquidity of UAH1.8bn. With the settlement of liabilities by the end of the year, forcing market players to sell currency, local market demand for hryvnia has increased. In due time, it seems appropriate to sell the currency as it has risen sharply. As of Wednesday, the hryvnia slightly increased by 0.1% to 27.8609 UAH/USD. It sold for 27.77 UAH/USD versus 27.99 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.03% to 107.72; in year-on-year terms, it is down 3.67% from 111.82 last year.

In Wednesday trading, the USD remained stable despite the positive tax reform approval by the House of Representatives. Existing home sales grew more than expected by 5.6%, which also had little impact. The DXY index traded at 93.163-93.535, closing down 0.1% to 93.313.

Cautious trades against the US dollar caged the euro in a narrow range as it rose 0.3% to 1.1871 USD/EUR. The Chinese yuan rose significantly after prospects for Chinese economic growth improved, up 0.4% to 6.5785 CNY/USD.

Rising oil prices, weaken USD trading, and upcoming tax payments bolstered the ruble, as they offset external debt repayments. The ruble traded within 58.4855-58.8704 RUB/USD and closed up 0.1% to 58.731.

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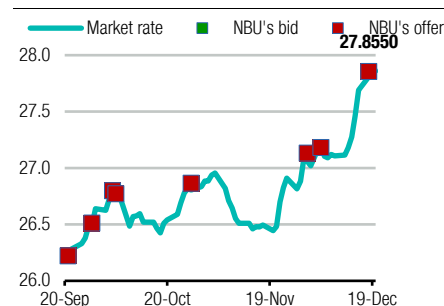
Key indicators (as of 20 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.8600	-0.16	+2.14	+5.35	+2.80
USD ¹	93.313	-0.14	-0.12	-0.82	-8.70
EUR	1.1871	+0.26	+0.38	+1.18	+12.87
JPY	113.4000	+0.45	+0.76	+0.69	-3.04
GBP ²	1.3376	-0.07	-0.33	+1.07	+8.40
CNY	6.5785	-0.40	-0.62	-0.88	-5.28
RUB	58.7310	-0.07	+0.24	-1.09	-4.56

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

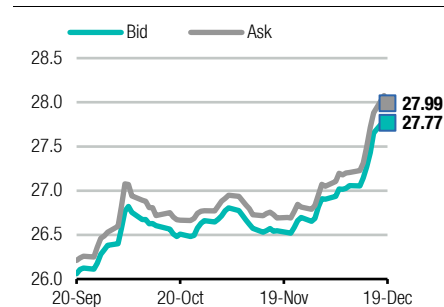
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 20 December 2017)



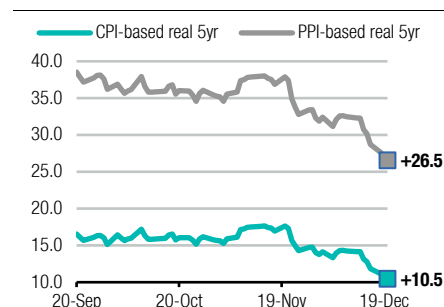
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 20 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 20 December 2017)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

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

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

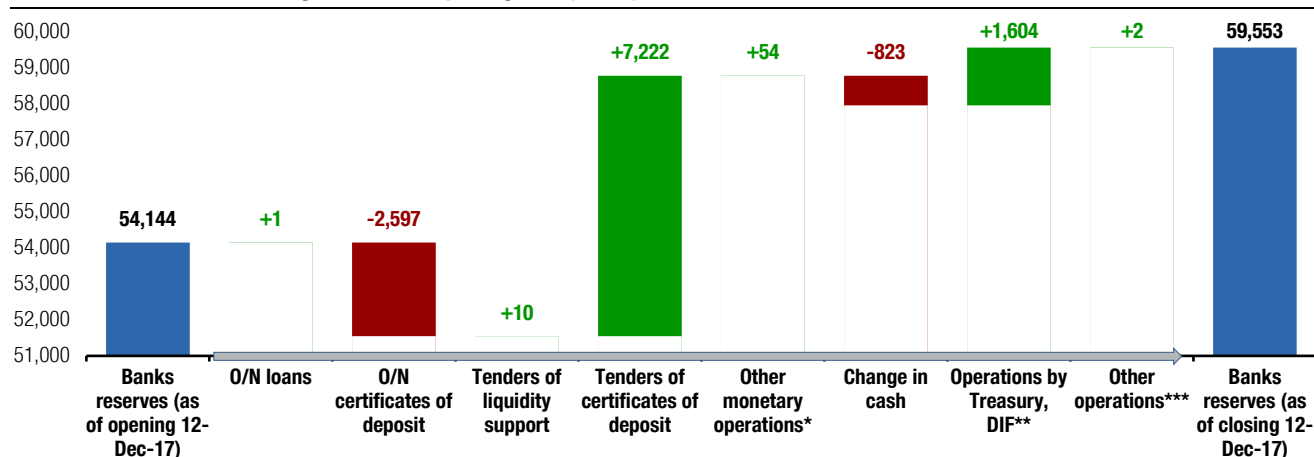
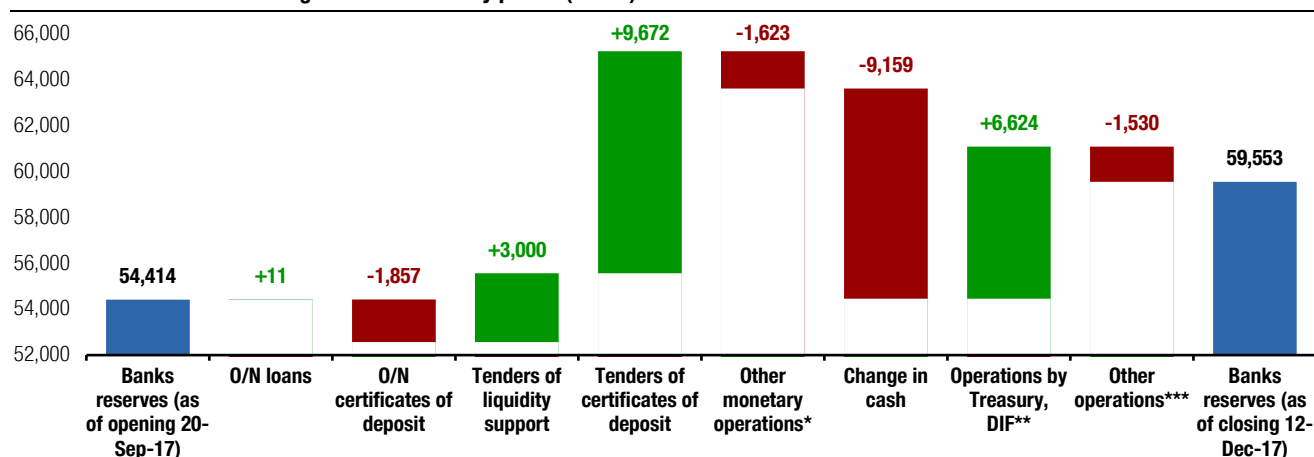


Chart 2. Banks reserves usages over last 90-day period (UAHm)

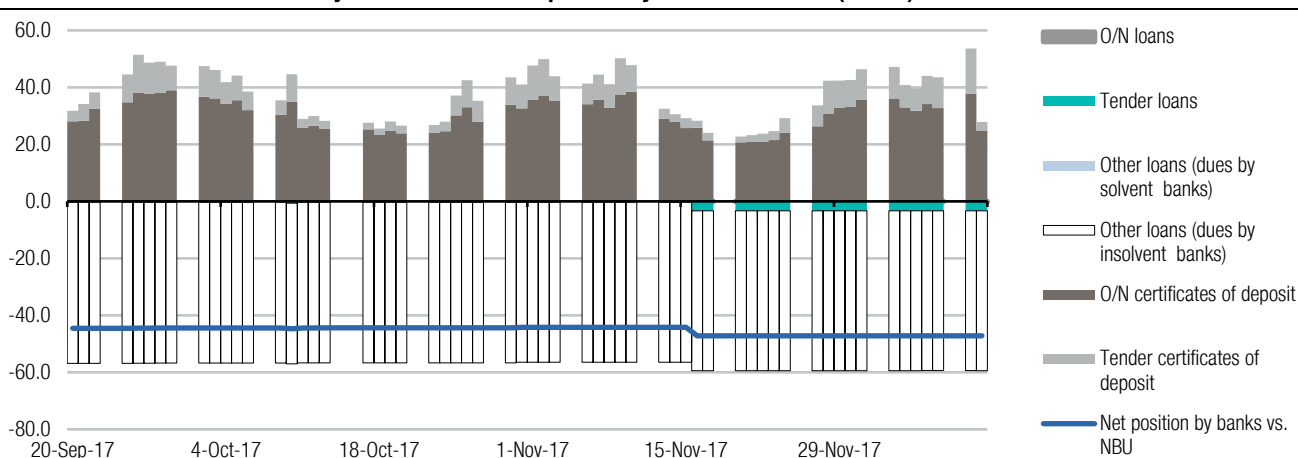


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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