

Daily Insight

Hryvnia stable

Key messages of the today's comments

FRIDAY, 22 DECEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 21 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 21 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+50bp
Overnight rate (interbank)	13.60	+0bp	+300bp
Banks reserves (UAHm)	50,415	-4.59	+1.37
Deposit certificates* (UAHm)	30,634	-1.53	-50.78
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.8950	+0.13	+2.93
Total trade volume (US\$m)	264.13	+12.95	+55.72
UAH index CPI-based	107.422	-0.28	-0.55
UAH index PPI-based	162.849	-0.28	-3.30

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,684.57	+0.20	+19.91
MSCI EM	1,134.38	+0.14	+31.56
US dollar index (DXY)	93.278	-0.04	-8.74
EUR / USD	1.1874	+0.03	+12.90
Crude oil WTI (US\$/bbl)	58.36	+0.46	+8.64
Crude oil BRENT (US\$/bbl)	64.90	+0.53	+14.22
CRB, commodities index	187.74	+0.35	-2.48
Gold (US\$/ounce)	1,266.51	+0.07	+9.91

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

2

NBU continues to support liquidity

This Wednesday the NBU once more increased its inflows to liquidity as it provided UAH1.51bn of loans, including a UAH1.50 14-day loan to one bank. This injection softened the decline in liquidity to decrease just UAH2.90bn to UAH81.05bn following the negative impact from non-monetary operations of UAH4.41bn. Banks' correspondent accounts with the NBU fell UAH2.43bn to UAH50.41bn and total CDs outstanding declined UAH0.48bn to UAH30.63bn.

2

Foreign exchange markets

3

Hryvnia stable

The hryvnia remained stable against the US dollar in trading on Thursday. Although excess supply of foreign currency was offset by liquidity decreasing UAH2.9bn, this situation did not have an impact on the hryvnia. The currency's value largely depends on whether the Treasury will gradually refund VAT. Thus, the national currency has unchanged from the previous day and finished the trades at the level of 27.8559 UAH/USD. It sold for 27.69 UAH/USD versus 27.85 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.28% to 107.42; in year-on-year terms, it is down 3.6% from 111.43 last year.

3

Appendix #1: Domestic liquidity

4

Domestic liquidity

NBU continues to support liquidity

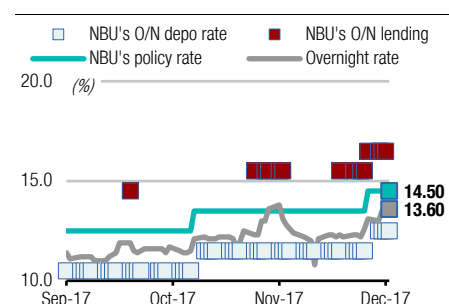
This Wednesday the NBU once more increased its inflows to liquidity as it provided UAH1.51bn of loans, including a UAH1.50 14-day loan to one bank. This injection softened the decline in liquidity to decrease just UAH2.90bn to UAH81.05bn following the negative impact from non-monetary operations of UAH4.41bn. Banks' correspondent accounts with the NBU fell UAH2.43bn to UAH50.41bn and total CDs outstanding declined UAH0.48bn to UAH30.63bn.

Outflows were caused mostly by Treasury operations which had negative impact at UAH4.05bn. The Treasury collected the usual amount of UAH4.6bn in taxes. An additional outflow was via reserves exchanged into cash of UAH0.44bn. There was also UAH0.08bn via other non-monetary operations.

ICU view: While banks appear to have repaid local budget deposits of about UAH4-5bn which account for liquidity outflows, the Treasury paid UAH3.18bn in VAT refunds which should stabilize banking sector liquidity.

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Interest rates in the banks' reserves market (three months through 21 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 21 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.50	+0bp	+100bp	+100bp	+50bp
ON rate	13.60	+0bp	+100bp	+50bp	+300bp
ON \$ swap	13.16	-6bp	+54bp	+25bp	+169bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	50,415	-4.59	-21.42	+3.44	+1.37
DepCerts ³	30,634	-1.53	+55.26	+45.78	-50.78
Total	81,049	-3.46	-3.39	+16.19	-27.62
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	326,222	+3.30	+0.95	+7.72	+95.53
Residents	21,581	+0.92	+1.27	+0.75	-7.65
Individuals	1,223	+0.07	+2.60	+35.19	+1,075.5
Non-res ⁴	5,216	+0.00	+1.56	-1.76	-17.88
Total	714,815	+1.56	+0.52	+3.53	+31.88
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.10	-69bp	+272bp	-819bp	-10ppt
3 months	11.47	-1bp	+34bp	-417bp	-11ppt
6 months	11.68	+0bp	+16bp	-133bp	-636bp
1 year	11.74	-2bp	+6bp	-15bp	-425bp
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 stable

The hryvnia remained stable against the US dollar in trading on Thursday. Although excess supply of foreign currency was offset by liquidity decreasing UAH2.9bn, this situation did not have an impact on the hryvnia. The currency's value largely depends on whether the Treasury will gradually refund VAT. Thus, the national currency has unchanged from the previous day and finished the trades at the level of 27.8559 UAH/USD. It sold for 27.69 UAH/USD versus 27.85 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.28% to 107.42; in year-on-year terms, it is down 3.6% from 111.43 last year.

The US dollar traded higher than the previous day on Thursday, but was constrained by downwardly revised GDP growth of 3.2% from 3.3% previously while inflation remained at 1.5% versus an expected 1.6%. Additionally, initial jobless claims increased to 245,000 (from 231,000 expected). On a positive note, the manufacturing index of the Federal Bank of Philadelphia increased to 26.2 from 22.7. Thus, the DXY index traded at 93.235-93.5, closing down 0.04% to 93.278.

The euro remained unchanged from the previous day at 1.1849-1.189 USD/EUR, up 0.03% to 1.1874. The Chinese yuan was under pressure after significant growth the previous day at 6.5532-6.5885 CNY/USD, down 0.1% to 6.5848.

The Russian currency continued to strengthen against the US dollar due to increased demand for local debt. Oil prices were also a positive as they exceeded USD64.5 per barrel. The ruble traded within 58.4234-58.853 RUB/USD, up 0.5% to 58.4401.

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

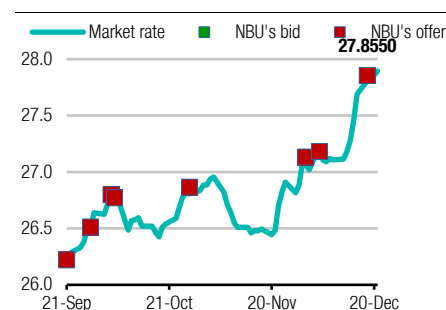
Key indicators (as of 21 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.8950	+0.13	+1.58	+5.33	+2.93
USD ¹	93.278	-0.04	-0.23	-0.72	-8.74
EUR	1.1874	+0.03	+0.82	+1.16	+12.90
JPY	113.3300	-0.06	+0.84	+0.78	-3.10
GBP ²	1.3386	+0.07	-0.34	+1.11	+8.48
CNY	6.5848	+0.10	-0.37	-0.67	-5.19
RUB	58.4401	-0.50	-0.72	-1.21	-5.03

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

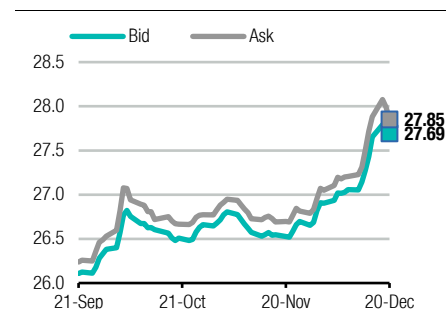
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 21 December 2017)



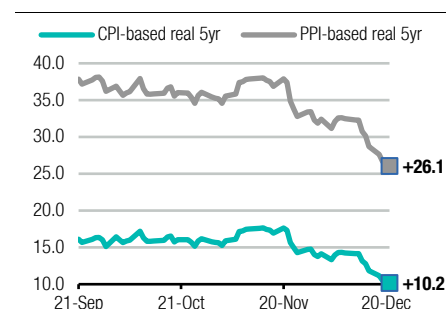
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 21 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 21 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)

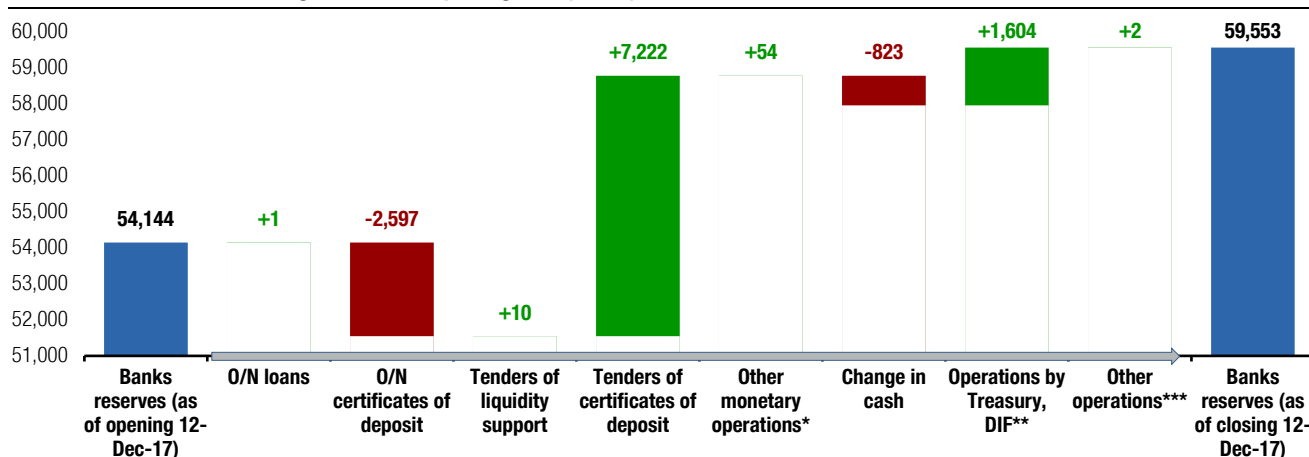
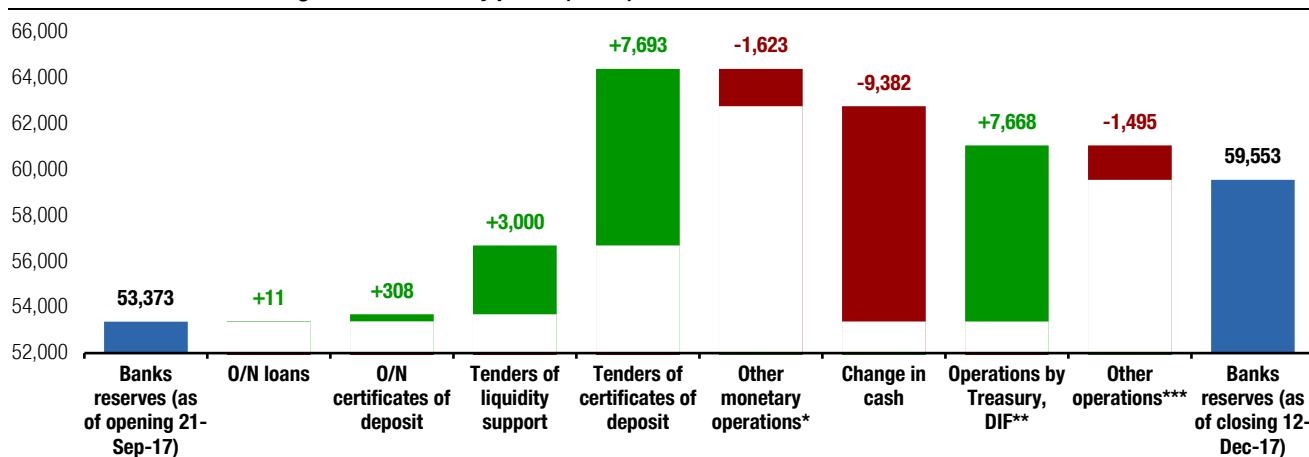
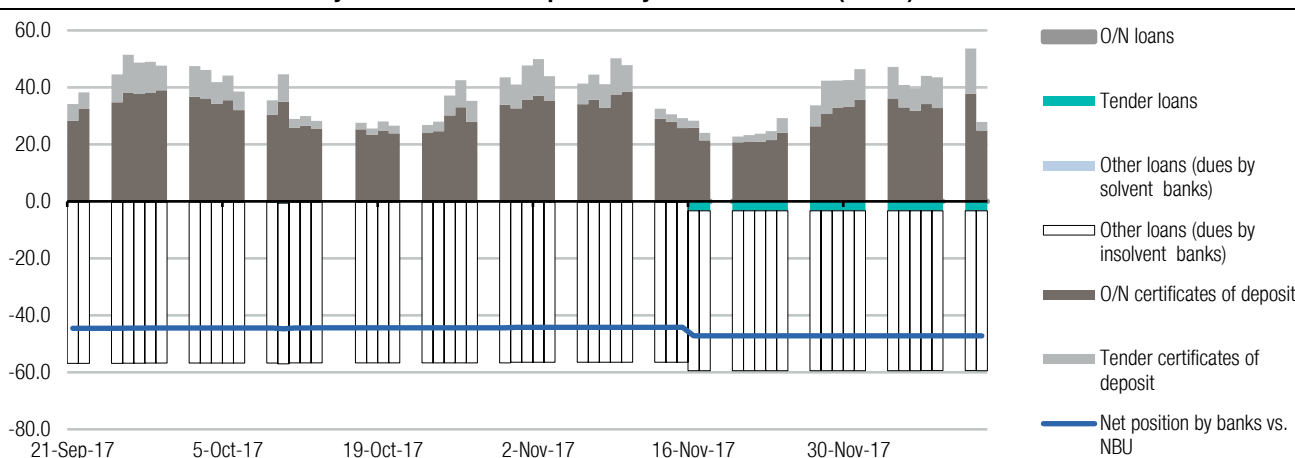


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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