

Daily Insight

Last auction this year

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Liquidity remains highly volatile.....2

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At the end of the week, the hryvnia weakened another 0.3% to 27.9509 UAH/USD, the lowest level since February 2015, but is still stronger compared with the all-time low of 30.01 UAH/USD, also seen in February 2015. The hryvnia reacted to the State Treasury's reimbursement of more than UAH3.2bn in VAT refunds, which enabled exporters not to sell USD in the local FX market and shrunk the supply of US currency. At the Ukrainian cash market, the hryvnia sold for 27.65 UAH/USD versus 27.82 to buy, while its CPI-based real trade-weighted index fell 0.31% to 107.09. In year-on-year terms, it is down 4.44% from 112.07 last year. 3

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TUESDAY, 26 DECEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 22 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 22 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+50bp
Overnight rate (interbank)	13.70	+10bp	+310bp
Banks reserves (UAHm)	50,046	-0.73	+0.63
Deposit certificates* (UAHm)	34,816	+13.65	-44.06
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.9600	+0.23	+3.17
Total trade volume (US\$m)	285.39	+8.05	+68.26
UAH index CPI-based	107.092	-0.31	-0.85
UAH index PPI-based	162.348	-0.31	-3.60

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,683.34	-0.05	+19.85
MSCI EM	1,141.09	+0.59	+32.34
US dollar index (DXY)	93.347	+0.07	-8.67
EUR / USD	1.1862	-0.10	+12.79
Crude oil WTI (US\$/bbl)	58.47	+0.19	+8.84
Crude oil BRENT (US\$/bbl)	65.25	+0.54	+14.84
CRB, commodities index	187.88	+0.08	-2.41
Gold (US\$/ounce)	1,275.25	+0.69	+10.67

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity remains highly volatile

Last week liquidity was highly volatile at UAH81-85bn under the impact from Treasury operations. The largest movement was seen last Thursday when liquidity was up UAH3.81bn by a Treasury injection of UAH5.67bn that was partially offset by a reserves exchange into cash.

Banks significantly increased investments in CDs by UAH4.19bn last Thursday after purchasing a large volume of 2-week CDs, confirming that there actually was liquidity crisis at the beginning of the month and liquidity should rise further.

ICU view: After last Wednesday's outflow to Treasury accounts, inflows last Thursday significantly increased, partially due to VAT refunds. Last Thursday, the Treasury paid UAH3.18bn in VAT refunds, and an additional UAH3.25bn on Friday. As a consequence, liquidity should continue to rise this week despite month-end tax payments.

Last auction this year

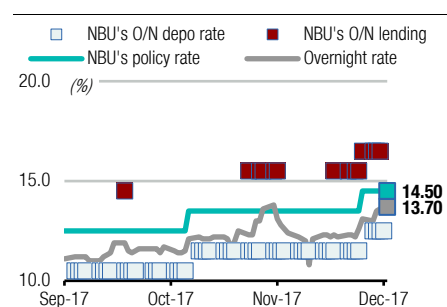
Today the MoF will hold the last auction this year, again offering six bonds: one FX bond denominated in euros with maturity in June 2019, and five in local currency with maturities from three months to three years.

In previous weeks, the MoF mostly sold local currency bonds with short maturities up to one year. Longer bonds (namely 5-year maturity) had low demand. At the same time, the short-end of the yield curve flattened at 16.00% while 5-year bonds were sold at 15.74%, just prior the NBU's key policy rate increase.

ICU view: Most likely the short-end of the yield curve will remain unchanged at 16.00% while yields for 2-year and 3-year bonds will rise to about 15.85%, slightly above the 5-year bond yield. At the same time, the MoF's decision could be similar to that at the auction held two weeks ago, and rates could increase significantly. This decision is probable as the MoF has to borrow additional funds to cover budget financing needs.

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Interest rates in the banks' reserves market (three months through 22 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 22 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.50	+0bp	+0bp	+100bp	+50bp
ON rate	13.70	+10bp	+60bp	+90bp	+310bp
ON \$ swap	13.07	+12bp	-15bp	+112bp	+160bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	50,046	-0.73	-28.42	-14.74	+0.63
DepCerts ³	34,816	+13.65	+138.8	+66.36	-44.06
Total	84,862	+4.71	+0.43	+6.57	-24.21
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	336,980	+3.30	+0.74	+7.71	+95.53
Residents	21,779	+0.92	+1.30	+0.78	-7.65
Individuals	1,446	+18.26	+12.75	+59.09	+1,290.1
Non-res ⁴	5,216	+0.00	+1.58	-1.77	-17.88
Total	725,994	+1.56	+0.41	+3.53	+31.88
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.67	-43bp	+225bp	-182bp	-11ppt
3 months	11.38	-9bp	+14bp	-358bp	-11ppt
6 months	11.67	-2bp	+9bp	-102bp	-638bp
1 year	11.78	+3bp	+0bp	+1bp	-421bp
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 down on VAT refund

At the end of the week, the hryvnia weakened another 0.3% to 27.9509 UAH/USD, the lowest level since February 2015, but is still stronger compared with the all-time low of 30.01 UAH/USD, also seen in February 2015. The hryvnia reacted to the State Treasury's reimbursement of more than UAH3.2bn in VAT refunds, which enabled exporters not to sell USD in the local FX market and shrunk the supply of US currency. At the Ukrainian cash market, the hryvnia sold for 27.65 UAH/USD versus 27.82 to buy, while its CPI-based real trade-weighted index fell 0.31% to 107.09. In year-on-year terms, it is down 4.44% from 112.07 last year.

The DXY traded higher on mixed macroeconomic statistics and the weaker euro. New home sales unexpectedly rose 15% MoM to a 10-year high in November, while analysts expected a decrease of 4.4%. At the same time, US consumer confidence fell more-than-expected in December. Thus, the DXY index traded at 93.31-93.52, closing up 0.1% to 93.35.

The euro, negatively affected by the outcome of Catalan elections in which pro-independence parties achieved the majority in parliament, weakened 0.1% to 1.1862 USD/EUR.

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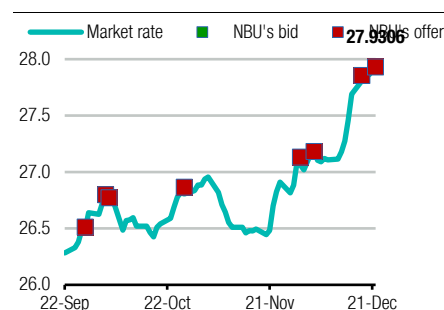
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 22 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.9600	+0.23	+0.98	+4.72	+3.17
USD ¹	93.347	+0.07	-0.62	+0.14	-8.67
EUR	1.1862	-0.10	+0.96	+0.34	+12.79
JPY	113.2900	-0.04	+0.61	+1.86	-3.14
GBP ²	1.3363	-0.17	+0.32	+0.29	+8.29
CNY	6.5773	-0.11	-0.48	-0.50	-5.29
RUB	58.3067	-0.23	-0.77	-0.18	-5.25

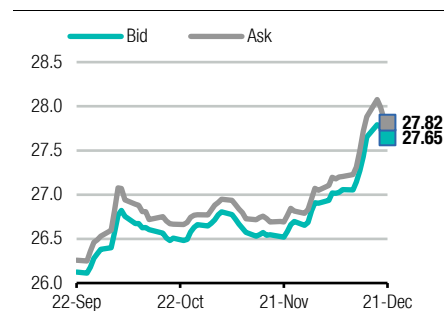
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 22 December 2017)



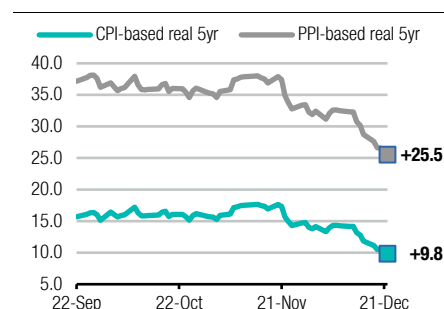
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 22 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 22 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)

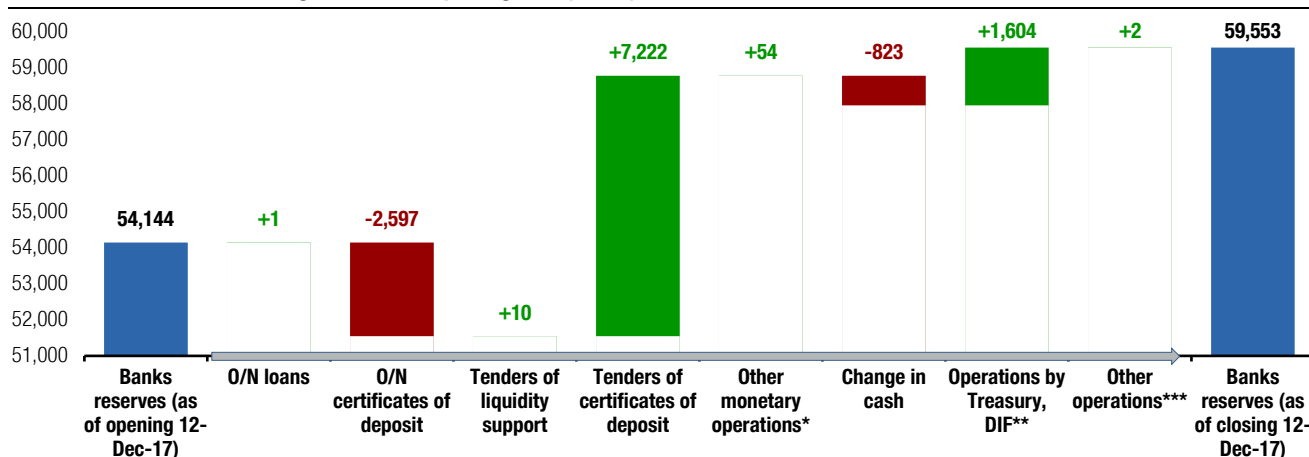
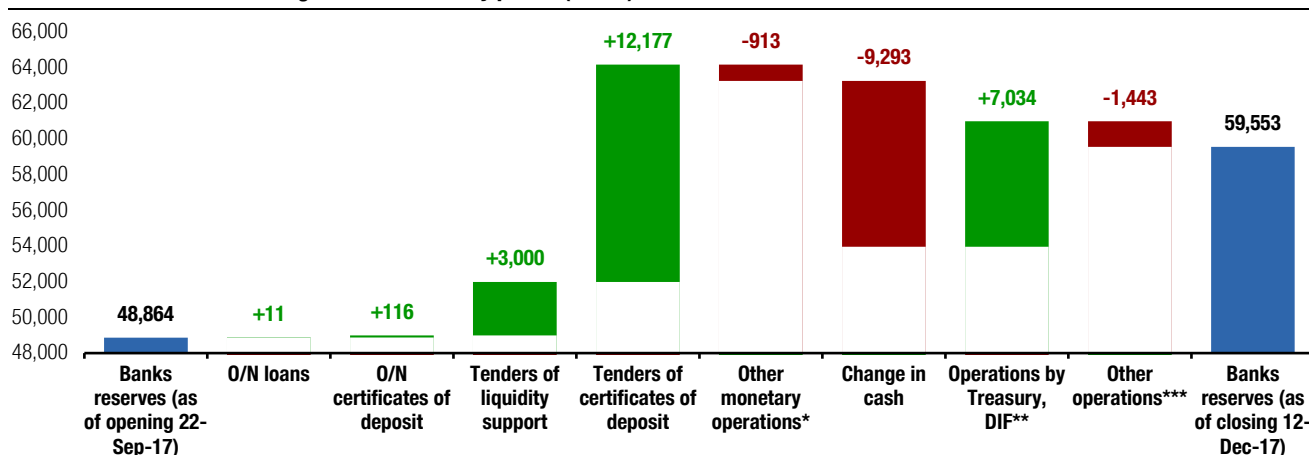
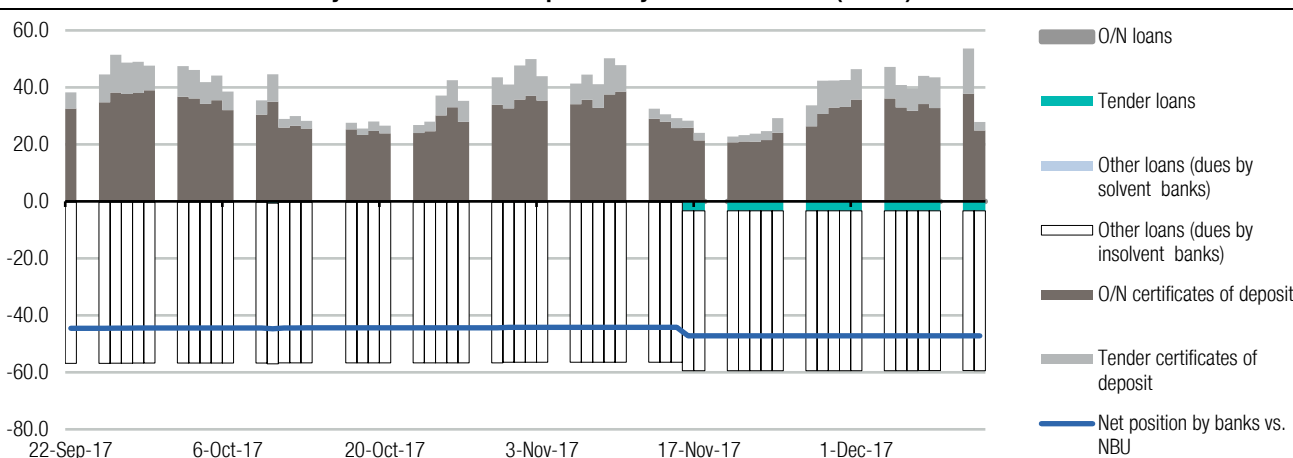


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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