

Daily Insight

Hryvnia below 28/USD

Key messages of the today's comments

FRIDAY, 29 DECEMBER 2017

Domestic liquidity **2**

Budget expenditures increase further2

This Wednesday, budget expenditures continued to exceed the amount of collected revenues as the fourth consecutive day of a positive balance of Treasury operations pushed liquidity higher. On Wednesday, inflows from the Treasury amounted to UAH8.11bn while revenues collected were UAH25bn. The net positive impact from non-monetary operations was UAH4.98bn due to large outflows via reserves exchanged into cash and other operations of UAH2.86bn and UAH0.27bn, respectively. Also, banks repaid ahead of schedule UAH2.00bn in NBU loans, namely that of Ukrigasbank which repaid a 3-month loan received on 13 December.

Foreign exchange markets **3**

Hryvnia below 28/USD.....3

On Thursday, the hryvnia continued to decline versus the US dollar as it crossed the threshold of 28 UAH/USD. Another increase in liquidity in the banking system, this time by UAH2.6bn, put pressure on the national currency and simultaneously increased demand for foreign currency. At the same time, the NBU avoided the market. As a result, the hryvnia weakened by 0.4% to 28.0672 UAH/USD, the lowest level in nearly three years. It sold for 27.67 UAH/USD versus 27.86 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.72% to 105.88; in year-on-year terms, it is down 2.37% from 108.45 last year.

Appendix #1: Domestic liquidity **4**

Ukraine's hryvnia exchange rate per US dollar (three months through 28 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 28 December 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+50bp
Overnight rate (interbank)	12.80	+10bp	+220bp
Banks reserves (UAHm)	50,715	-5.57	+1.98
Deposit certificates* (UAHm)	51,883	+12.00	-16.64
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.0700	+0.30	+3.58
Total trade volume (US\$m)	248.43	-14.12	+46.46
UAH index CPI-based	105.879	-0.72	-1.98
UAH index PPI-based	160.509	-0.72	-4.69

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,687.54	+0.18	+20.04
MSCI EM	1,153.58	+0.80	+33.78
US dollar index (DXY)	92.602	-0.45	-9.40
EUR / USD	1.1943	+0.46	+13.56
Crude oil WTI (US\$/bbl)	59.84	+0.34	+11.39
Crude oil BRENT (US\$/bbl)	66.16	-0.42	+16.44
CRB, commodities index	193.04	+0.82	+0.28
Gold (US\$/ounce)	1,294.94	+0.59	+12.38

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Budget expenditures increase further

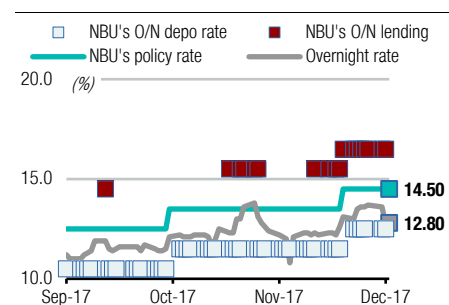
This Wednesday, budget expenditures continued to exceed the amount of collected revenues as the fourth consecutive day of a positive balance of Treasury operations pushed liquidity higher. On Wednesday, inflows from the Treasury amounted to UAH8.11bn while revenues collected were UAH25bn. The net positive impact from non-monetary operations was UAH4.98bn due to large outflows via reserves exchanged into cash and other operations of UAH2.86bn and UAH0.27bn, respectively. Also, banks repaid ahead of schedule UAH2.00bn in NBU loans, namely that of Ukrigasbank which repaid a 3-month loan received on 13 December.

As a result, liquidity rose only UAH2.57bn to UAH102.60bn with an expected reallocation to CDs. Total CDs outstanding rose UAH5.56bn to UAH51.88bn, including the usual UAH0.30bn in 3-month CDs (actually 70-day certificates) and other funds were invested into ON CDs. After this purchase, banks' correspondent accounts with the NBU declined UAH2.99bn to UAH50.72bn.

ICU view: Pension payments in advance and budget expenditures postponed for the last week of the year caused extra inflows into liquidity. With these inflows, liquidity rose above UAH100bn, last seen in July 2017. However, they will not exceed record levels if banks repay part or all of the UAH7.13bn of loans tendered in November and December.

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Interest rates in the banks' reserves market (three months through 28 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 28 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	12.80	+10bp	-80bp	+70bp	+220bp
ON \$ swap	0.00	+2bp	-13ppt	-12ppt	-11ppt
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	50,715	-5.57	+0.60	+2.17	+1.98
DepCerts ³	51,883	+12.00	+69.36	+69.25	-16.64
Total	102,598	+2.57	+26.59	+27.78	-8.37
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	353,297	-0.09	+8.30	+14.00	+105.0
Residents	22,100	+1.27	+2.40	+3.63	-6.29
Individuals	1,449	-0.29	+18.47	+26.74	+1,292.5
Non-res ⁴	5,219	+0.01	+0.05	+9.18	-17.84
Total	742,637	-0.01	+3.89	+6.44	+34.90
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	16.14	+374bp	+404bp	+5bp	-617bp
3 months	12.88	+139bp	+140bp	-230bp	-919bp
6 months	12.45	+76bp	+77bp	-39bp	-559bp
1 year	12.13	+39bp	+39bp	+37bp	-386bp
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 below 28/USD

On Thursday, the hryvnia continued to decline versus the US dollar as it crossed the threshold of 28 UAH/USD. Another increase in liquidity in the banking system, this time by UAH2.6bn, put pressure on the national currency and simultaneously increased demand for foreign currency. At the same time, the NBU avoided the market. As a result, the hryvnia weakened by 0.4% to 28.0672 UAH/USD, the lowest level in nearly three years. It sold for 27.67 UAH/USD versus 27.86 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.72% to 105.88; in year-on-year terms, it is down 2.37% from 108.45 last year.

The US dollar continued to decline in Thursday on low volume holiday trading prior to the new year. Initial jobless claims remained at 245,000, unchanged from the previous week, but was expected to decrease to 240,000. The DXY index traded at 92.573-93.002, closing down 0.45% to 92.602. The euro continued to grow against the US dollar to a near two-month high in range of 1.1888-1.1959 USD/EUR, closing up 0.5% to 1.1943.

The depreciation of the US dollar, along with high oil prices, supported the ruble at Thursday's trading. The head of the Ministry of Finance noted that low inflation is in favor of the Russian currency's carry trade operations. The ruble traded within 57.3932-57.9271 RUB/USD, and closed up 0.4% to 57.5313. The Chinese currency also reacted to the weakness of the dollar and traded in the range of 6.5281-6.5594 CNY/USD, strengthening 0.35% to 6.5335.

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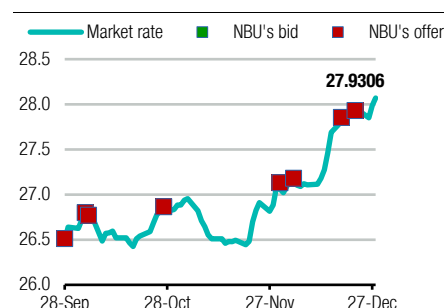
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 28 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.0700	+0.30	+0.63	+4.41	+3.58
USD ¹	92.602	-0.45	-0.72	-0.72	-9.40
EUR	1.1943	+0.46	+0.58	+0.87	+13.56
JPY	112.8700	-0.42	-0.41	+1.25	-3.50
GBP ²	1.3443	+0.32	+0.43	+0.78	+8.94
CNY	6.5335	-0.35	-0.78	-1.12	-5.93
RUB	57.5313	-0.39	-1.56	-1.52	-6.51

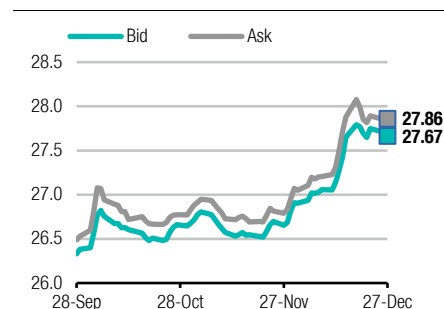
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 28 December 2017)



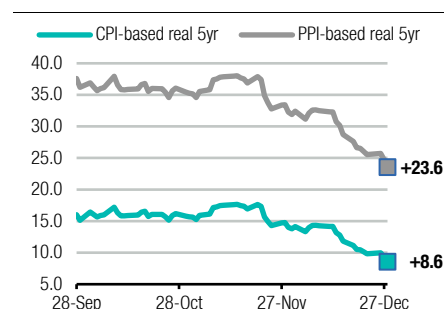
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 28 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 28 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)

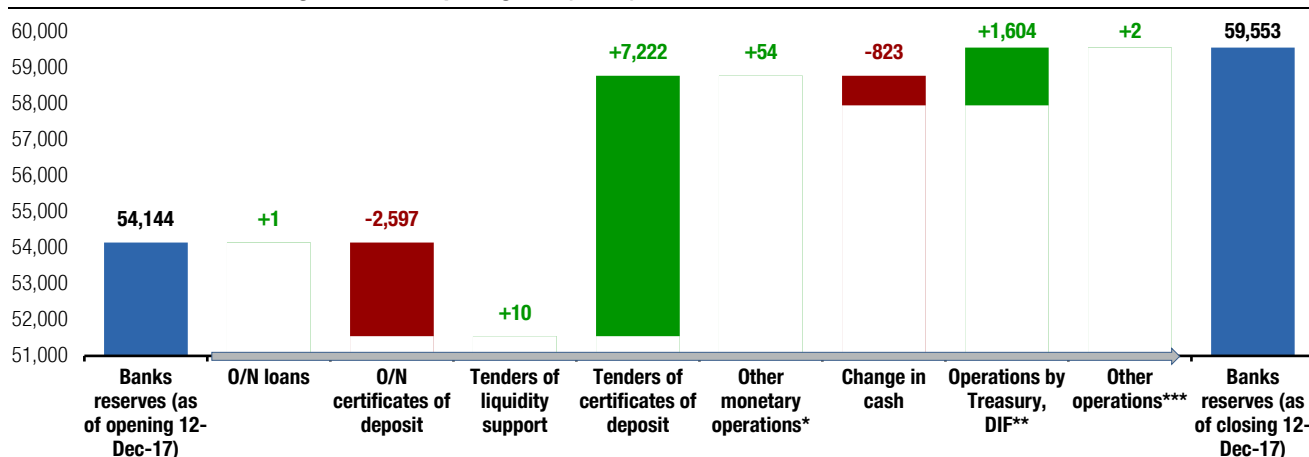
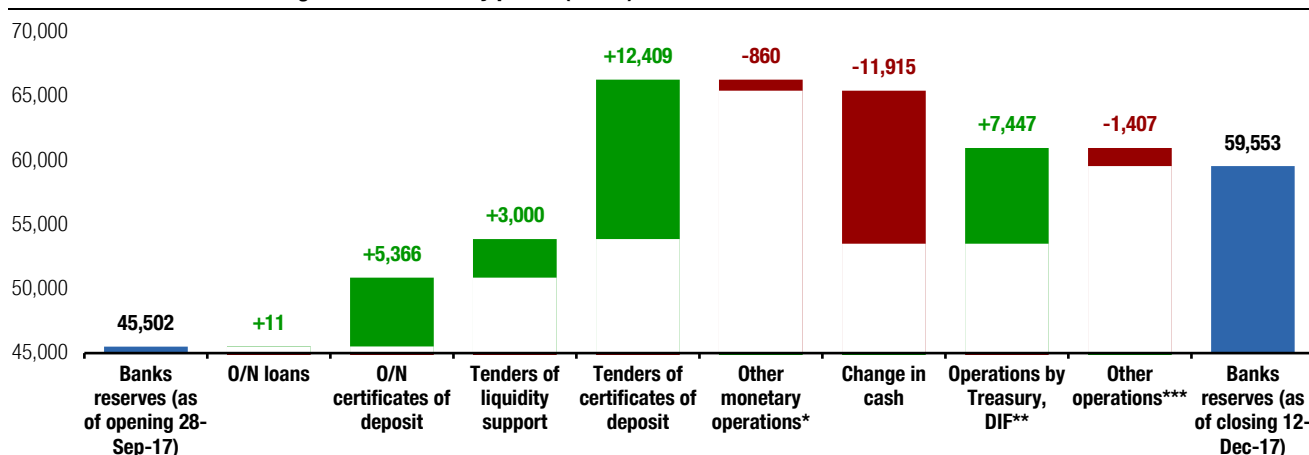
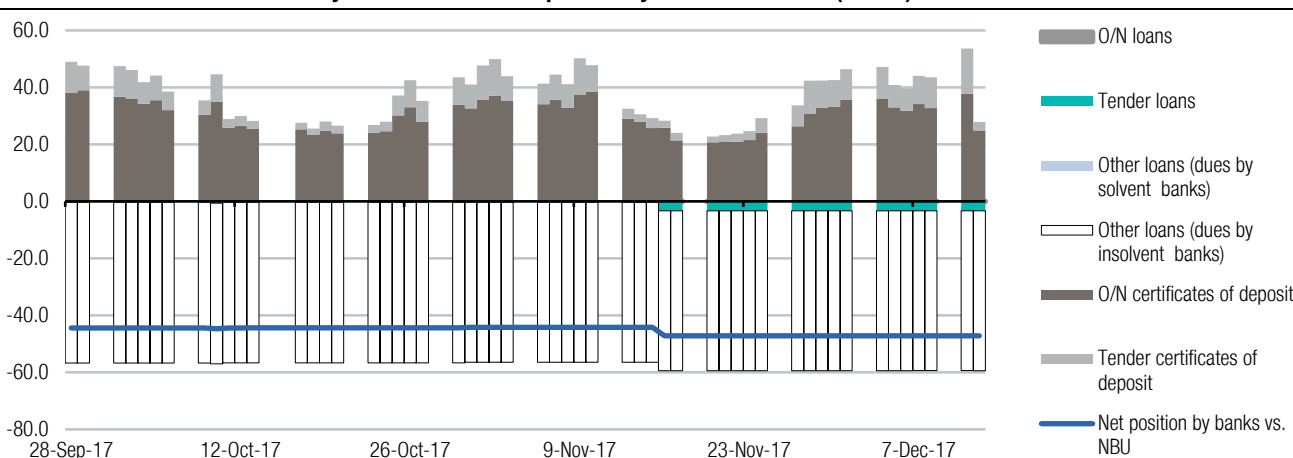


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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