

Daily Insight

UAH still close to 3-year low

Key messages of the today's comments

WEDNESDAY, 10 JANUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 9 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 9 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	13.50	-10bp	+70bp
Banks reserves (UAHm)	33,685	-8.98	-29.84
Deposit certificates* (UAHm)	66,408	-5.12	+14.30
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.2800	+0.23	+0.75
Total trade volume (US\$m)	162.49	-36.58	-34.59
UAH index CPI-based	105.020	-0.02	-0.66
UAH index PPI-based	159.208	-0.02	-0.66

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	427bp	+0bp	-5bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,751.29	+0.13	+2.91
MSCI EM	1,205.14	-0.14	+4.03
US dollar index (DXY)	92.528	+0.18	+0.44
EUR / USD	1.1937	-0.25	-0.57
Crude oil WTI (US\$/bbl)	62.96	+1.99	+4.20
Crude oil BRENT (US\$/bbl)	68.82	+1.53	+2.92
CRB, commodities index	194.16	+0.64	+0.15
Gold (US\$/ounce)	1,312.78	-0.58	+0.75

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity 2

High volatility between holidays2

Between the holidays, Ukraine had three business days during which liquidity hit this year's new record high of UAH107.60bn. However, last Friday liquidity fell UAH6.91bn to UAH100.09bn on nearly equal outflows from reserves and CDs. Banks' correspondent accounts balance with the NBU fell UAH3.33bn to UAH33.69bn, the lowest level for 2017, as UAH3.58bn was withdrawn from CDs, decreasing total CDs outstanding to UAH66.41bn. 2

Foreign exchange markets 3

UAH still close to 3-year low3

At the end of the last week, the UAH fell 0.7% to 28.2032 UAH/USD on the back of continued high liquidity and excess demand for foreign currency. To satisfy excess demand for foreign currency, the NBU held a currency auction on Friday that attracted US\$66.7m in bids, of which US\$50.5m at a weighted average rate of 28.1927 UAH/USD was satisfied. Thanks to the auction, the hryvnia opened Tuesday's trading session appreciating to 28.1567 UAH/USD. However, due to excess demand, it returned to Friday's level. In the local market, the hryvnia sold for 27.99 UAH/USD versus 28.20 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.02% to 105.02; in year-on-year terms, it is down 3.2% from 108.49 last year. 3

Appendix #1: Domestic liquidity 4

Domestic liquidity

High volatility between holidays

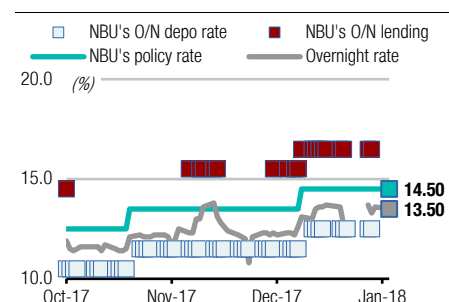
Between the holidays, Ukraine had three business days during which liquidity hit this year's new record high of UAH107.60bn. However, last Friday liquidity fell UAH6.91bn to UAH100.09bn on nearly equal outflows from reserves and CDs. Banks' correspondent accounts balance with the NBU fell UAH3.33bn to UAH33.69bn, the lowest level for 2017, as UAH3.58bn was withdrawn from CDs, decreasing total CDs outstanding to UAH66.41bn.

Outflows were mostly caused by the Treasury, as there was lack of budget expenditures considering the amount of revenues. Net outflows via the Treasury and DGF operations amounted to UAH6.47bn. Also, the NBU absorbed UAH1.42bn via an FX auction held last Friday to decrease pressure on the exchange rate. Only UAH0.81bn of these outflows was offset by cash exchanged into reserves while the NBU's UAH2.50bn increase in ON loans provided UAH0.20bn of additional loans.

ICU view: *The first business days of the year appear to have been abnormal, and there is a low probability that liquidity will set a new record high later this year. Quite soon local budgets should return a portion of funds into the banking system to deposit accounts, supporting liquidity. However, these injections could only offset outflows via tax payments or via FX auctions.*

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Interest rates in the banks' reserves market (three months through 9 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 9 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.50	+0bp	+0bp	+100bp	+0bp
ON rate	13.50	-10bp	+0bp	+130bp	+70bp
ON \$ swap	12.87	-18bp	+0bp	+93bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	33,685	-8.98	-10.14	-21.06	-29.84
DepCerts ³	66,408	-5.12	-0.91	+102.8	+14.30
Total	100,093	-6.46	-4.22	+32.73	-5.67
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+0.00
Banks	361,145	+0.23	+0.09	+9.46	+0.09
Residents	22,186	-0.13	-0.09	+4.19	-0.09
Individuals	1,470	+0.35	+0.15	+25.24	+0.15
Non-res ⁴	5,219	+0.01	+0.00	+9.16	+0.00
Total	750,594	+0.11	+0.04	+4.58	+0.04
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	9.78	-240bp	-476bp	-386bp	-603bp
3 months	10.88	-91bp	-150bp	-238bp	-6bp
6 months	11.31	-44bp	-81bp	-29bp	-110bp
1 year	11.57	-23bp	-52bp	+26bp	-57bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	427	+0bp	+0bp	-8bp	-5bp

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

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At the end of the last week, the UAH fell 0.7% to 28.2032 UAH/USD on the back of continued high liquidity and excess demand for foreign currency. To satisfy excess demand for foreign currency, the NBU held a currency auction on Friday that attracted US\$66.7m in bids, of which US\$50.5m at a weighted average rate of 28.1927 UAH/USD was satisfied. Thanks to the auction, the hryvnia opened Tuesday's trading session appreciating to 28.1567 UAH/USD. However, due to excess demand, it returned to Friday's level. In the local market, the hryvnia sold for 27.99 UAH/USD versus 28.20 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.02% to 105.02; in year-on-year terms, it is down 3.2% from 108.49 last year.

The USD traded broadly higher against the basket of other major currencies on Tuesday, being backed by investors' optimism that the Fed will raise interest rates at least twice in 2018. However, weak labor market data has constrained further appreciation of the USD as monthly job openings unexpected fell in November. Thus, the DXY index rose 0.2% to 92.53 on Tuesday.

The unemployment rate in the Eurozone fell to the 8.7% in November, near a 9-year low, while industrial production in Germany, the largest economy in the Eurozone, rose 5.6% YoY and 3.4% MoM. However, the greenback's strength outweighed solid economic statistics within the Eurozone and put pressure on the euro which declined 0.25% to 1.1937 USD/EUR.

The Chinese yuan dropped 0.5% to 6.5297 CNY/USD as the PBOC has introduced a new mechanism of setting the yuan's daily fixing rate. In fact, the regulator has removed a counter-cyclical factor, showing that it is confident that the currency will remain stable.

The Russian ruble strengthened 0.45% to 56.8719 RUB/USD on rising oil prices, which hit the highest level since May 2015 on Tuesday, as well as today's domestic bond auction which increased demand for the ruble in the local FX market.

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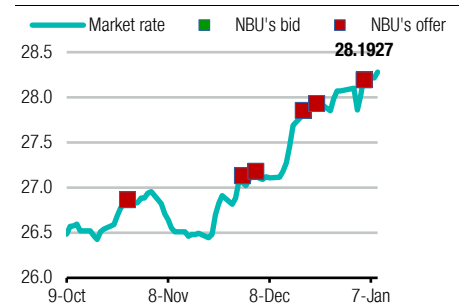
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 9 January 2018)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.2800	+0.23	+0.64	+4.33	+0.75
USD ¹	92.528	+0.18	+0.71	-1.46	+0.44
EUR	1.1937	-0.25	-1.01	+1.39	-0.57
JPY	112.6500	-0.39	+0.32	-0.73	-0.04
GBP ²	1.3540	-0.21	-0.37	+1.12	+0.20
CNY	6.5297	+0.46	+0.57	-1.38	+0.35
RUB	56.8719	-0.45	-1.09	-3.81	-1.42

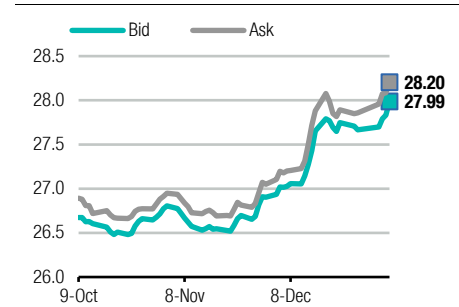
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 9 January 2018)



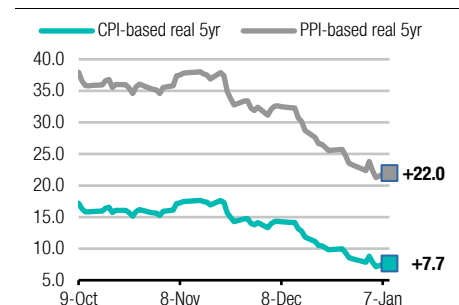
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 9 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 9 January 2018)



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)

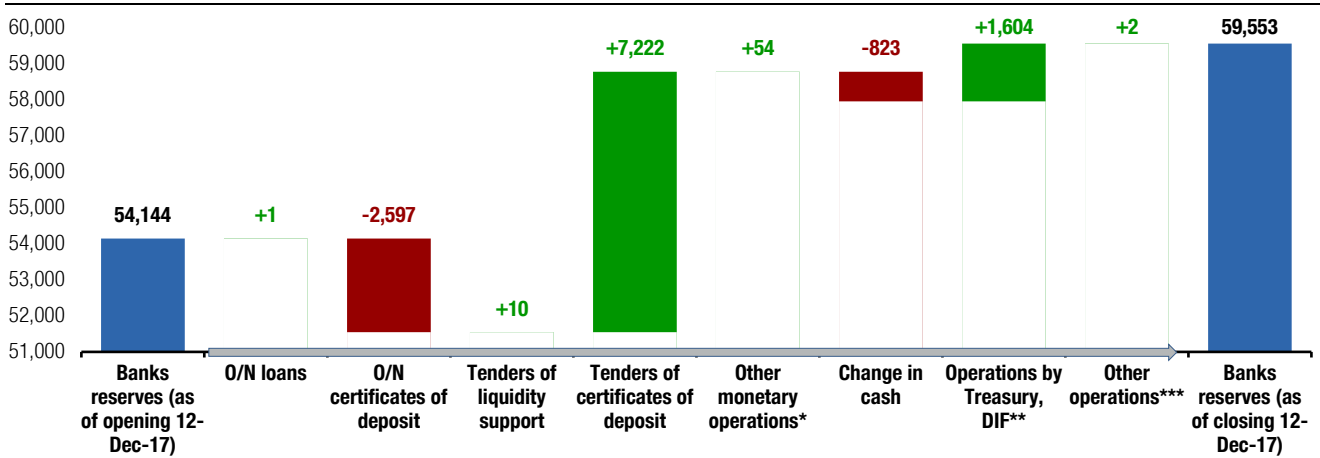
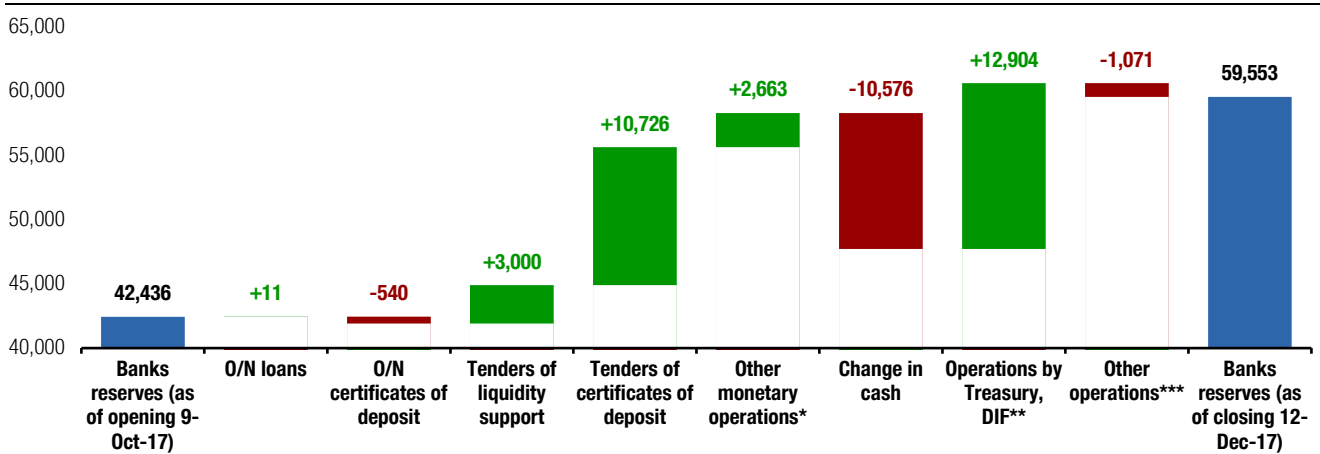
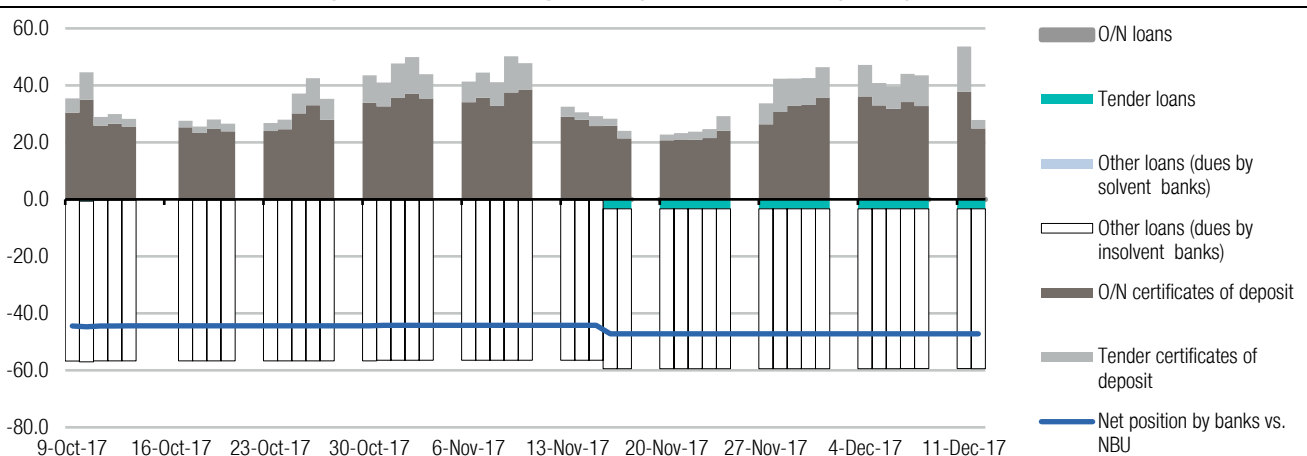


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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