

Daily Insight

Hryvnia continues to decline

Key messages of the today's comments

MONDAY, 15 JANUARY 2018

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After Wednesday's recovery due to inflows from the Treasury via expenditures and from the NBU via loans, liquidity once more declined on Thursday, down UAH3.27bn to UAH99.66bn. The decline was caused by the same cash flows, but in the opposite direction. The negative balance of Treasury operations was UAH1.62bn and banks repaid UAH0.70bn of loans to the NBU. Also, the NBU absorbed UAH1.08bn via other monetary operations as it most likely sold FX to several banks. 2

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On the last day of the week, the UAH continued to decline for the third consecutive trading session as the NBU provided no support as bank officials explained the decrease as being caused by usual seasonal fluctuations. It fell 0.3% to 28.537 UAH/USD, and down 1.2% week over week. Liquidity in the banking system fell, with no effect on the exchange rate, as hryvna sold for 28.27 UAH/USD versus 28.52 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.96% to 104.06; in year-on-year terms, it is down 2.66% from 106.9 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 12 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 12 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	13.80	+0bp	+100bp
Banks reserves (UAHm)	52,509	-1.83	+9.37
Deposit certificates* (UAHm)	47,148	-4.64	-18.85
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.5535	+0.29	+1.72
Total trade volume (US\$m)	232.16	+9.85	-6.55
UAH index CPI-based	104.060	-0.96	-2.85
UAH index PPI-based	164.966	-0.96	-2.85

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	340bp	+0bp	-92bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,786.24	+0.67	+4.21
MSCI EM	1,208.17	+0.93	+4.29
US dollar index (DXY)	90.974	-0.96	-1.25
EUR / USD	1.2202	+1.41	+1.64
Crude oil WTI (US\$/bbl)	64.30	+0.78	+6.42
Crude oil BRENT (US\$/bbl)	69.87	+0.88	+4.49
CRB, commodities index	196.06	+0.46	+1.13
Gold (US\$/ounce)	1,337.95	+1.18	+2.68

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity volatile at UAH100bn

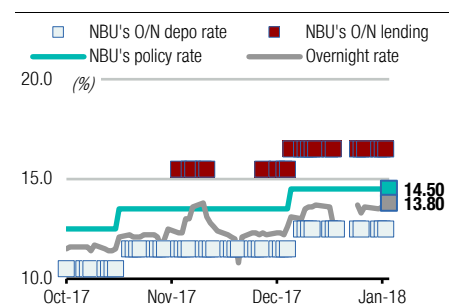
After Wednesday's recovery due to inflows from the Treasury via expenditures and from the NBU via loans, liquidity once more declined on Thursday, down UAH3.27bn to UAH99.66bn. The decline was caused by the same cash flows, but in the opposite direction. The negative balance of Treasury operations was UAH1.62bn and banks repaid UAH0.70bn of loans to the NBU. Also, the NBU absorbed UAH1.08bn via other monetary operations as it most likely sold FX to several banks.

Banks' correspondent accounts with the NBU fell UAH0.98bn to UAH52.51bn and total CDs outstanding fell UAH2.30bn to UAH47.15bn. Banks decreased 2-week CDs by UAH3.12bn, reallocating a small portion of funds into ON CDs.

ICU view: *Despite the positive balance of operations with cash since the year's beginning, this inflow could not support liquidity as little to no budget expenditures caused outflows from banks to Treasury accounts. This also forced some banks to borrow liquidity from the NBU. This week, liquidity should continue to decline due to ongoing low budget expenditures, and next week it be under pressure from month-end tax payments, possibly pushing it down to around UAH90bn.*

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Interest rates in the banks' reserves market (three months through 12 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 12 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	13.80	+0bp	+20bp	+150bp	+100bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	52,509	-1.83	+41.88	-3.02	+9.37
DepCerts ³	47,148	-4.64	-32.64	+89.40	-18.85
Total	99,657	-3.18	-6.86	+26.09	-6.08
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	N/A	N/A	N/A	N/A	N/A
Banks	N/A	N/A	N/A	N/A	N/A
Residents	N/A	N/A	N/A	N/A	N/A
Individuals	N/A	N/A	N/A	N/A	N/A
Non-res ⁴	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.22	-32bp	+159bp	-97bp	-360bp
3 months	11.62	+2bp	+56bp	-147bp	+69bp
6 months	11.71	+0bp	+24bp	+13bp	-70bp
1 year	11.80	+4bp	+4bp	+59bp	-33bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	340	+0bp	-87bp	-95bp	-92bp

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 continues to decline

On the last day of the week, the UAH continued to decline for the third consecutive trading session as the NBU provided no support as bank officials explained the decrease as being caused by usual seasonal fluctuations. It fell 0.3% to 28.537 UAH/USD, and down 1.2% week over week. Liquidity in the banking system fell, with no effect on the exchange rate, as hryvna sold for 28.27 UAH/USD versus 28.52 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.96% to 104.06; in year-on-year terms, it is down 2.66% from 106.9 last year.

The US dollar continued to decline on Friday as macroeconomic statistics had little impact: retail sales in December increased by 0.4%, meeting expectations, annual inflation stood at 2.1%, and price growth in December was 0.1% versus the expected 0.2%. With the USD at over a four-month low, the DXY index traded at 90.902-91.879, closing down 1% to 90.974.

The euro continued to grow on investor' positive reception of the ECB minutes which included the tapering of the quantitative easing program and the expected increase of the key policy rate. Trading at 1.2031-1.2218 USD/EUR, it climbed 1.4% to 1.2202. The Chinese yuan significantly strengthened on Fridays on the weak USD. At 6.457-6.4922 CNY/USD, it appreciated 0.6% to 6.469.

Despite the falling USD, the Russian ruble, amidst volatile trading, declined in reaction to the announced plan for the local market redemption of a record RUB257.1bn in foreign currency from January 15 to February 6. The ruble traded within 56.4153-56.8118 RUB/USD, down 0.2% to 56.5975.

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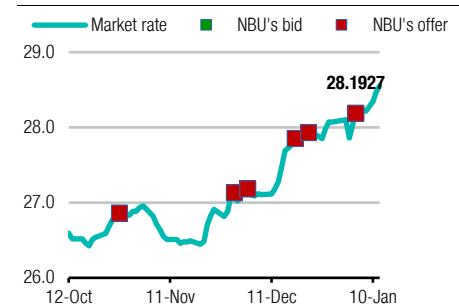
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 12 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.5535	+0.29	+1.07	+5.05	+1.72
USD ¹	90.974	-0.96	-1.06	-3.32	-1.25
EUR	1.2202	+1.41	+1.44	+3.92	+1.64
JPY	111.0600	-0.18	-1.76	-2.19	-1.45
GBP ²	1.3728	+1.40	+1.16	+3.08	+1.59
CNY	6.4690	-0.57	-0.30	-2.30	-0.58
RUB	56.5975	+0.22	-0.58	-4.43	-1.89

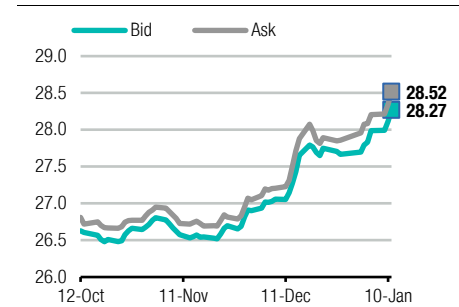
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 12 January 2018)



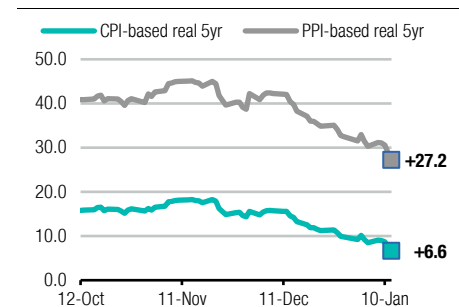
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 12 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 12 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)

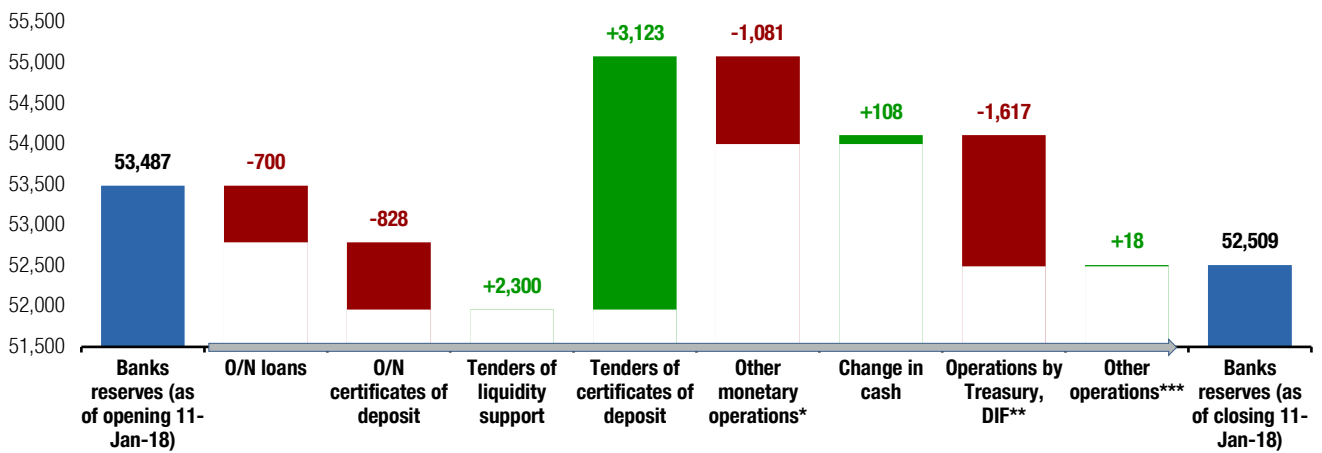
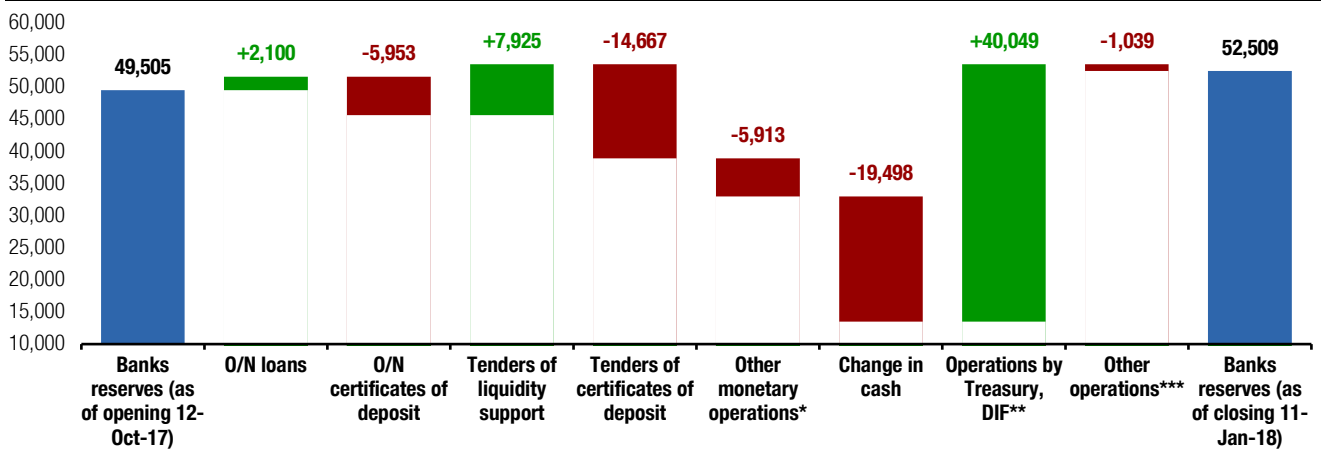
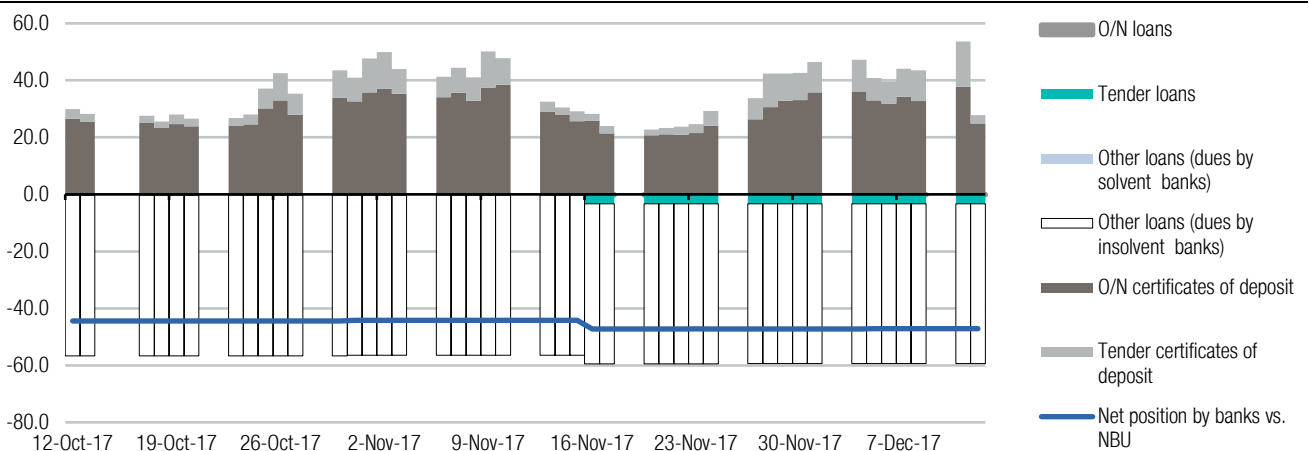


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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