

Daily Insight

UAH weakens further

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Liquidity steady with NBU support.....2

Liquidity rose UAH0.13bn to UAH98.33bn as the result of a UAH2.50bn increase in ON loans received from NBU. Banks again decreased ON CDs by UAH0.91bn, pushing total CDs outstanding down to UAH45.95bn. Banks' correspondent accounts with the NBU rose UAH1.05bn to UAH52.38bn.

Primary auction: interest rates unchanged2

Yesterday, while the MoF offered bonds with maturities from three months to three years, only short-term bonds with maturities from three to nine months were sold. Demand for 3-month and 6-month bonds was fully accepted, while the MoF accepted only three of the six bids for 9-month bonds at 15.75% interest rate. Demand for 3-year bonds was rejected.

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UAH weakens further3

The hryvnia declined another 0.3% to 28.6526 UAH/USD, most likely as a result of the federal holiday in the USA on Monday. While deferred demand for the USD at the local market pushed the hryvnia down, the UAH should stabilize this week as exporters are expected to increase FX supply to some extent as they return from the extended holiday break. In the local market, the hryvnia sold for 28.36 UAH/USD versus 28.55 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.09% to 103.61; in year-on-year terms, it is down 2.5% from 106.20 last year.

Appendix #1: Domestic liquidity 4

WEDNESDAY, 17 JANUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 16 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 16 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	13.50	-20bp	+70bp
Banks reserves (UAHm)	52,382	+2.04	+9.11
Deposit certificates* (UAHm)	45,946	-1.95	-20.92
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.6200	+0.19	+1.96
Total trade volume (US\$m)	235.94	+106.16	-5.03
UAH index CPI-based	103.608	-0.09	-3.27
UAH index PPI-based	164.251	-0.09	-3.27

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,776.42	-0.35	+3.85
MSCI EM	1,217.87	+0.60	+5.13
US dollar index (DXY)	90.393	-0.64	-1.88
EUR / USD	1.2260	-0.03	+2.12
Crude oil WTI (US\$/bbl)	63.73	+0.00	+5.48
Crude oil BRENT (US\$/bbl)	69.15	-1.58	+3.41
CRB, commodities index	195.11	-0.48	+0.64
Gold (US\$/ounce)	1,338.43	-0.12	+2.72

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity steady with NBU support

Liquidity rose UAH0.13bn to UAH98.33bn as the result of a UAH2.50bn increase in ON loans received from NBU. Banks again decreased ON CDs by UAH0.91bn, pushing total CDs outstanding down to UAH45.95bn. Banks' correspondent accounts with the NBU rose UAH1.05bn to UAH52.38bn.

The negative impact of non-monetary operations was just UAH0.47bn due to a significant increase cash exchanged into reserves of UAH0.94bn, which offset most of the outflows. While the negative balance of Treasury operations was UAH1.43bn, this increase in liquidity resulted from a UAH0.60bn additional loan from the NBU.

ICU view: *The Treasury continued to accumulate funds, having a negative impact on liquidity. This dynamic could continue through the end of the month as banks purchase new bonds at the primary auction. Next weeks, month-end tax payments begin.*

Primary auction: interest rates unchanged

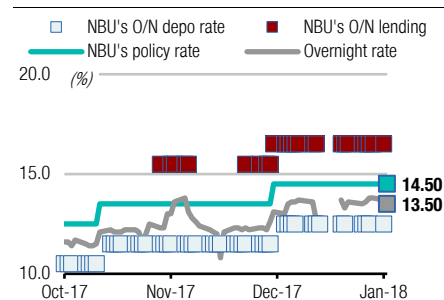
Yesterday, while the MoF offered bonds with maturities from three months to three years, only short-term bonds with maturities from three to nine months were sold. Demand for 3-month and 6-month bonds was fully accepted, while the MoF accepted only three of the six bids for 9-month bonds at 15.75% interest rate. Demand for 3-year bonds was rejected.

Interest rates for 3-month and 6-month bonds remained unchanged as all competitive bids were submitted at 16.00%. Rejected bids for 9-month bonds also were at 16.00%. At the same time, for 3-year bonds, the MoF decided to reject all bids at 15.70% and 16.00%.

ICU view: *The MoF continued to borrow money at interest rate levels set last month and last week. Although budget expenditures are very low, this could confirm that the budget could require significant sources for future expenditures, debt repayments and VAT refunds later this month.*

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Interest rates in the banks' reserves market (three months through 16 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 16 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.50	+0bp	+0bp	+0bp	+0bp
ON rate	13.50	-20bp	+0bp	+40bp	+70bp
ON \$ swap	13.17	-13bp	+30bp	-6bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	52,382	+2.04	+55.50	-25.08	+9.11
DepCerts ³	45,946	-1.95	-30.81	+215.1	-20.92
Total	98,328	+0.14	-1.76	+16.37	-7.33
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+0.00
Banks	361,893	+0.07	+0.21	+8.19	+0.30
Residents	22,095	+0.03	-0.41	+2.77	-0.50
Individuals	1,491	+0.18	+1.41	+16.23	+1.56
Non-res ⁴	5,255	+0.00	+0.69	+2.34	+0.69
Total	751,306	+0.03	+0.09	+3.91	+0.14
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.19	-6bp	+241bp	+277bp	-363bp
3 months	11.57	-14bp	+70bp	+33bp	+64bp
6 months	11.68	-7bp	+36bp	+10bp	-73bp
1 year	11.72	-1bp	+16bp	-5bp	-41bp
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

UAH weakens further

The hryvnia declined another 0.3% to 28.6526 UAH/USD, most likely as a result of the federal holiday in the USA on Monday. While deferred demand for the USD at the local market pushed the hryvnia down, the UAH should stabilize this week as exporters are expected to increase FX supply to some extent as they return from the extended holiday break. In the local market, the hryvnia sold for 28.36 UAH/USD versus 28.55 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.09% to 103.61; in year-on-year terms, it is down 2.5% from 106.20 last year.

Yesterday, an ECB representative said that the stronger euro may dampen inflation in the Eurozone, while the recent acceleration of inflation occurred not in the least due to rising energy prices. On the back of this, the euro retreated from the 3-year high, but pared some losses by the end of the trading session and closed at 1.2260 USD/EUR. At the same time, the USD continued to decline -- the DXY index rose closed at 90.39.

The Chinese yuan weakened 0.1% to 6.444 CNY/USD as the PBOC boosted cash injections on the back of tight liquidity that arose from corporate tax payments.

On Monday, Russia's Ministry of Finance purchasing of FX currency at the local market had a negative impact on the ruble. At the same time, under pressure from oil price corrections and possible new US sanctions being imposed, the ruble weakened 0.3% to 56.5408 RUB/USD.

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

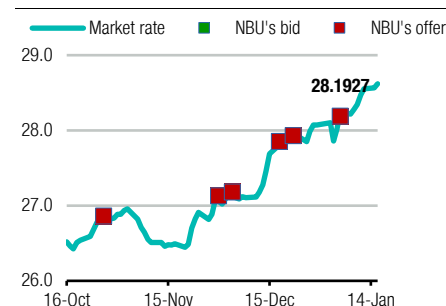
Key indicators (as of 16 January 2018)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.6200	+0.19	+1.20	+3.36	+1.96
USD ¹	90.393	-0.64	-2.31	-3.77	-1.88
EUR	1.2260	-0.03	+2.71	+4.35	+2.12
JPY	110.4500	-0.08	-1.95	-1.91	-1.99
GBP ²	1.3792	+0.00	+1.86	+3.54	+2.06
CNY	6.4440	+0.11	-1.31	-2.50	-0.97
RUB	56.5408	+0.31	-0.58	-3.78	-1.99

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

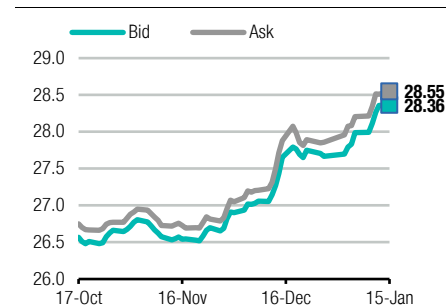
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 16 January 2018)



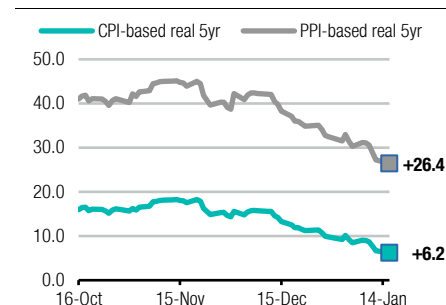
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 16 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 16 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)

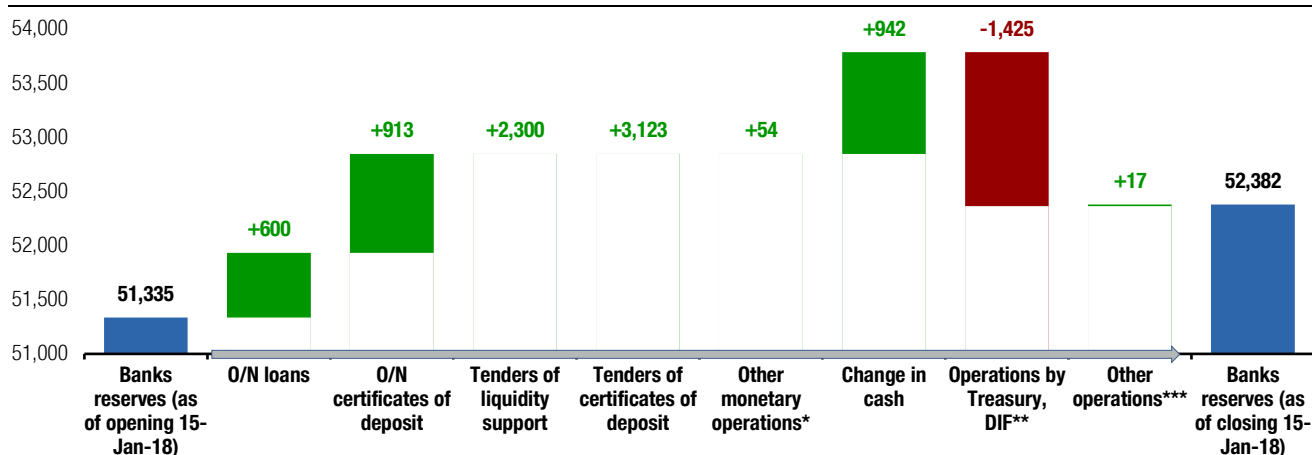
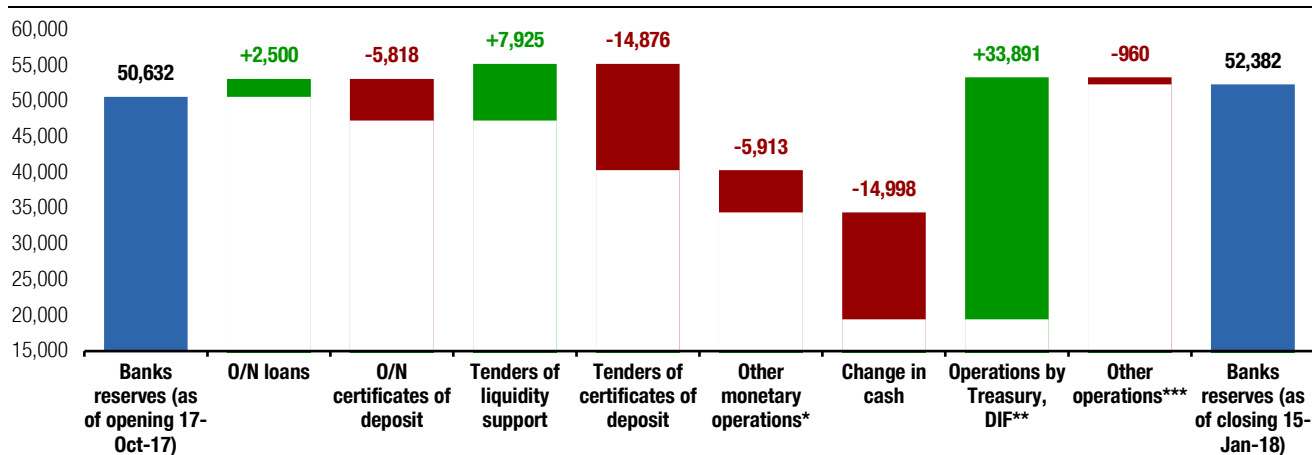


Chart 2. Banks reserves usages over last 90-day period (UAHm)

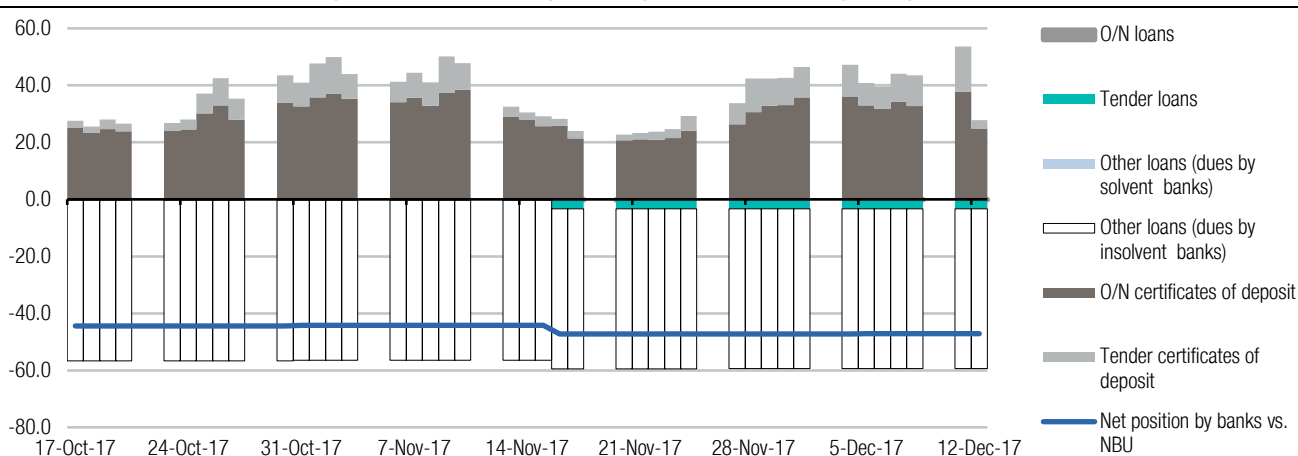


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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