

Daily Insight

Treasury increases expenditures

Key messages of the today's comments

THURSDAY, 18 JANUARY 2018

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Treasury increases expenditures 2

This Tuesday, the banking system received UAH1.11bn more funds than the Treasury collected in tax payments. There was second time that the Treasury injected money into the banking system. Together with cash exchanged in reserves, non-monetary operations had a positive impact on liquidity of UAH1.88bn, enough to cover the NBU's absorption of UAH1.32bn in FX sales. Ultimately, banking sector liquidity rose UAH0.57bn to UAH98.89bn. 2

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The NBU reported yesterday that Tuesday's total bond sales amounted to UAH267m, of which UAH246.5m were FX-denominated bonds, including at least UAH60m were REPOs, due to the yields of these deals. 2

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Hryvnia relatively stable 3

On Wednesday, the UAH remained relatively stable as the supply of foreign currency increased on the back of mandatory sales by exporters who received currency after the business holiday in the United States. The decrease in the balances on correspondent accounts somewhat supported the hryvnia, despite a general increase of liquidity in the banking system by UAH0.5bn. Accordingly, as of Wednesday the hryvnia slightly decreased to 28.6661 UAH/USD. It sold for 28.43 UAH/USD versus 28.62 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.02% to 103.624; in year-on-year terms, it is down 1.3% from 105.04 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 17 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 17 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	13.60	+10bp	+80bp
Banks reserves (UAHm)	49,660	-5.20	+3.44
Deposit certificates* (UAHm)	49,234	-2.66	-15.26
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.7150	+0.33	+2.30
Total trade volume (US\$m)	232.61	-1.41	-6.37
UAH index CPI-based	103.624	+0.02	-3.25
UAH index PPI-based	164.276	+0.02	-3.25
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	340bp	+0bp	-92bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,802.56	+0.94	+4.82
MSCI EM	1,222.62	+0.39	+5.54
US dollar index (DXY)	90.541	+0.16	-1.72
EUR / USD	1.2186	-0.60	+1.51
Crude oil WTI (US\$/bbl)	63.97	+0.38	+5.88
Crude oil BRENT (US\$/bbl)	69.38	+0.33	+3.75
CRB, commodities index	196.40	+0.67	+1.31
Gold (US\$/ounce)	1,327.15	-0.84	+1.85

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Treasury increases expenditures

This Tuesday, the banking system received UAH1.11bn more funds than the Treasury collected in tax payments. There was second time that the Treasury injected money into the banking system. Together with cash exchanged in reserves, non-monetary operations had a positive impact on liquidity of UAH1.88bn, enough to cover the NBU's absorption of UAH1.32bn in FX sales. Ultimately, banking sector liquidity rose UAH0.57bn to UAH98.89bn.

At the same time, banks started to return funds to CDs following last week's withdrawal. Total CDs outstanding rose 3.29bn to UAH49.23bn after banks purchased UAH4.63bn of 14-day CDs and decreased ON CDs outstanding by UAH1.35bn.

ICU view: *Despite liquidity seeming to stabilizing, there is a risk of significant NBU absorption via FX loan repayments. We anticipate that liquidity could remain volatile, especially due to recent bond purchases on Tuesday. Although VAT refunds rose yesterday, the Treasury has paid only UAH1bn since the year's beginning.*

Secondary bond market

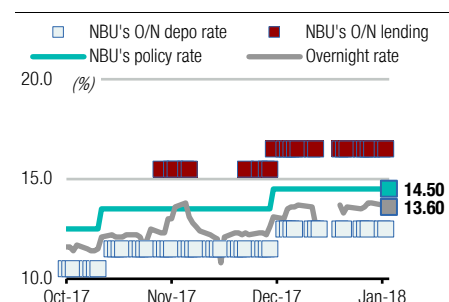
The NBU reported yesterday that Tuesday's total bond sales amounted to UAH267m, of which UAH246.5m were FX-denominated bonds, including at least UAH60m were REPOs, due to the yields of these deals.

YTM of USD-denominated bonds with half-year maturity were 2.9-3.7%, while 1-year bond YTM were 4.3-4.4%. In contrast, local currency bonds were mostly at maturities in 2019-2020 and the weighted-average YTM were 15.8-16.3%.

ICU view: *According to NBU data, the YTM of local currency bonds have been slightly volatile at 16% recently, while yields for USD-denominated are under pressure from the exchange rate, pushing yields down. Deals were mostly inside the bondholders' groups, but individuals purchased about US\$0.5m of USD-denominated bonds and UAH1m of local currency bonds this Tuesday.*

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Interest rates in the banks' reserves market (three months through 17 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 17 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	13.60	+10bp	+0bp	+50bp	+80bp
ON \$ swap	13.11	+6bp	-32bp	-11bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	49,660	-5.20	+43.39	-28.97	+3.44
DepCerts ³	49,234	-2.66	-28.38	+237.6	-15.26
Total	98,894	-3.95	-4.34	+17.04	-6.80
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+0.00
Banks	362,205	+0.09	+0.33	+8.28	+0.39
Residents	22,102	+0.03	-0.51	+2.80	-0.47
Individuals	1,506	+1.01	+2.43	+17.41	+2.59
Non-res ⁴	5,256	+0.01	+0.69	+2.35	+0.69
Total	751,641	+0.04	+0.15	+3.96	+0.18
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.27	-92bp	-206bp	+186bp	-454bp
3 months	11.28	-29bp	-46bp	+3bp	+35bp
6 months	9.06	-262bp	-273bp	-252bp	-335bp
1 year	11.63	-9bp	-18bp	-14bp	-50bp
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 relatively stable

On Wednesday, the UAH remained relatively stable as the supply of foreign currency increased on the back of mandatory sales by exporters who received currency after the business holiday in the United States. The decrease in the balances on correspondent accounts somewhat supported the hryvnia, despite a general increase of liquidity in the banking system by UAH0.5bn. Accordingly, as of Wednesday the hryvna slightly decreased to 28.6661 UAH/USD. It sold for 28.43 UAH/USD versus 28.62 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.02% to 103.624; in year-on-year terms, it is down 1.3% from 105.04 last year.

The US dollar increases against the euro's weakness and positive macroeconomic statistics: industrial production in December increased by 0.9% from the previous month, significantly exceeding the expected 0.4% growth. The DXY index traded at 90.113-91.004, closing up 0.2% to 90.541.

The euro was under pressure after ECB officials expressed concerns about the currency's high exchange rate. Trading at 1.2177-1.2323 USD/EUR, it fell 0.6% to 1.2186. The Chinese yuan strengthened against the dollar after falling the day before and was in the range of 6.4204-6.4418 CNY/USD, gaining 0.15%, to 6.4343.

The Russian ruble declined against the US dollar on Wednesday on the back of the strengthening USD. Positive macroeconomic statistics did not support the ruble, which according to the results on Wednesday was in the range of 56.3447-56.9585 RUB/USD and decreased by 0.6% to 56.8596.

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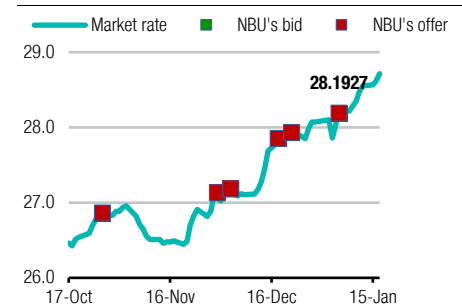
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 17 January 2018)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.7150	+0.33	+1.31	+3.70	+2.30
USD ¹	90.541	+0.16	-1.94	-3.61	-1.72
EUR	1.2186	-0.60	+1.99	+3.72	+1.51
JPY	111.2900	+0.76	-0.13	-1.16	-1.24
GBP ²	1.3831	+0.28	+2.40	+3.84	+2.35
CNY	6.4343	-0.15	-1.14	-2.65	-1.11
RUB	56.8596	+0.56	-0.34	-3.24	-1.44

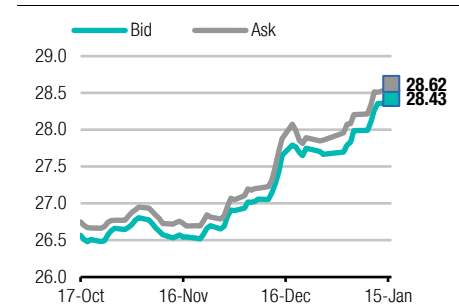
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 17 January 2018)



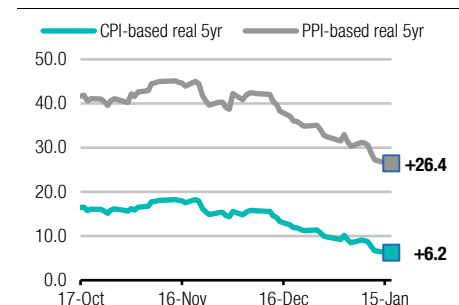
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 17 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 17 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)

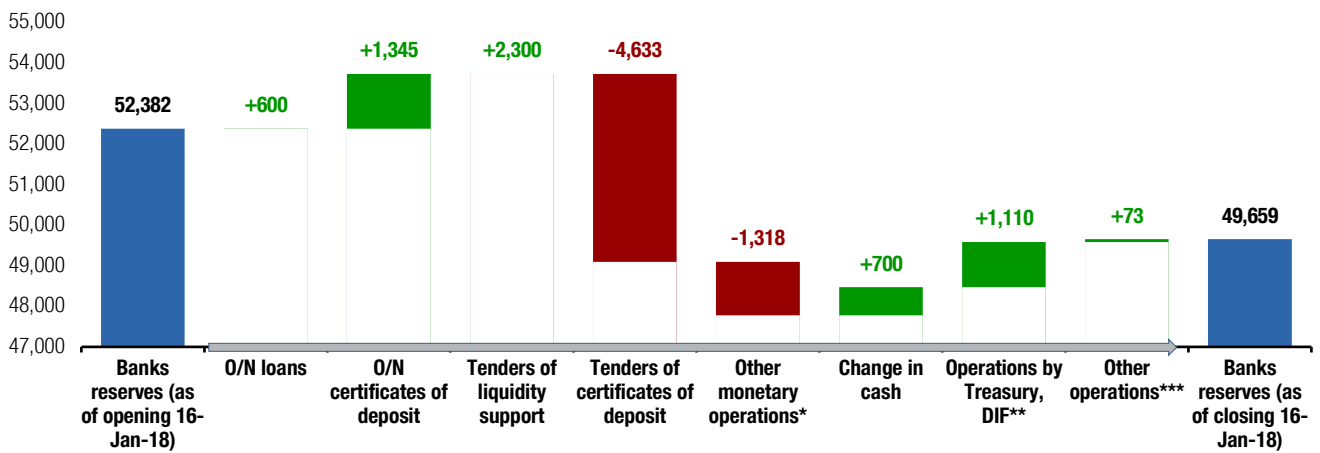
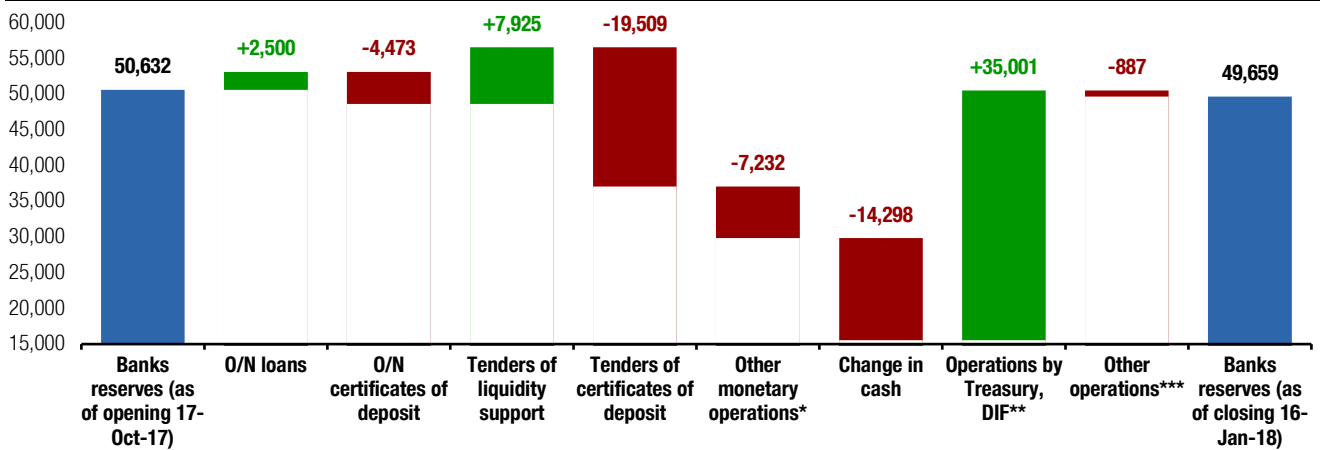
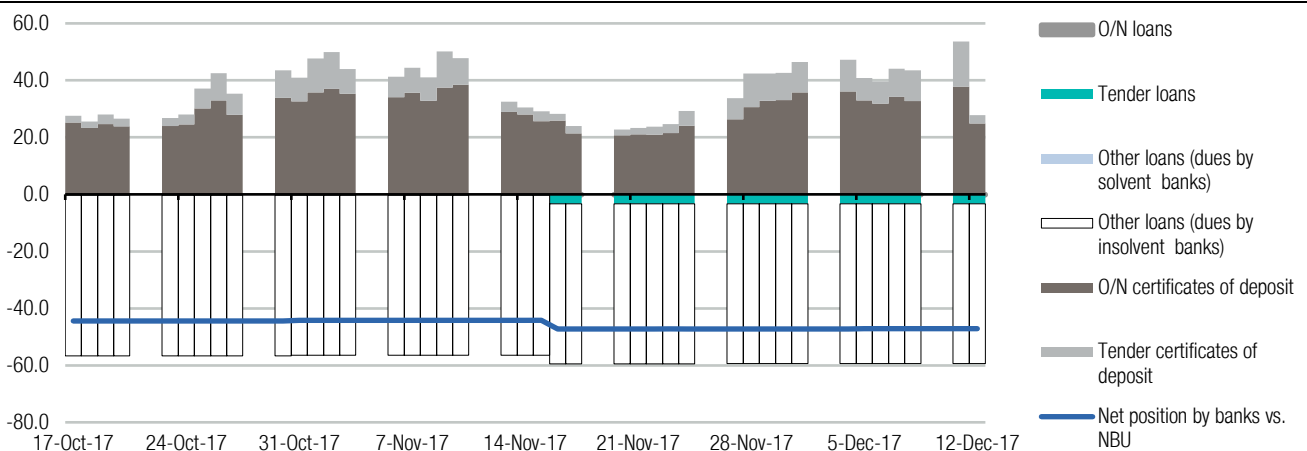


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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