

Daily Insight

Hryvnia below 28.7/USD

Key messages of the today's comments

Domestic liquidity **2**

Liquidity declines2

After two days of slight increases, liquidity declined on Wednesday, down UAH1.01bn to a new low of this year of UAH97.88bn. This was the result of new bond purchases and the partial repayment of an NBU refinancing loan. Banks' correspondent accounts with the NBU declined UAH0.95bn to UAH48.71bn and total CDs outstanding slid a mere UAH0.06bn to UAH49.17bn. **2**

Market activity up after primary auction2

As this Wednesday was the settlement day after Tuesday's auction, total secondary market deals rose significantly to UAH1.86bn, mostly in new bonds which primary dealers sold to their clients. The three issues yielded 25 transactions for a total of UAH1.18bn: FX-denominated bonds had 19 deals for a total of UAH0.51bn. **2**

Foreign exchange markets **3**

President nominates Smoliy for NBU Governor3

President Poroshenko has officially nominated the current acting Governor of the National Bank of Ukraine to replace Valeria Gontareva who announced her resignation back in April 2017. If Parliament votes in favor of Smoliy, we expect this to be the sign of both continuity of the current policy and the possible renewal of the pending IMF program in the future. **3**

The hryvnia continued to decline against the US dollar on Thursday after a brief stabilization on Wednesday. While demand for foreign currency again prevailed in the local market, liquidity decreased by UAH1bn. Future external debt repayments and a negative trade balance are hitting the hryvnia in the absence of support from the IMF. **3**

Appendix #1: Domestic liquidity **4**

FRIDAY, 19 JANUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 18 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 18 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)	48,713	-1.91	+1.46
Deposit certificates* (UAHm)	53,802	-0.12	-7.40
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.8000	+0.30	+2.60
Total trade volume (US\$m)	218.68	-5.99	-11.97
UAH index CPI-based	102.853	-0.74	-3.97
UAH index PPI-based	163.053	-0.74	-3.97

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr N/A

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,798.03	-0.16	+4.65
MSCI EM	1,227.52	+0.40	+5.96
US dollar index (DXY)	90.498	-0.05	-1.77
EUR / USD	1.2238	+0.43	+1.94
Crude oil WTI (US\$/bbl)	63.95	-0.03	+5.84
Crude oil BRENT (US\$/bbl)	69.31	-0.10	+3.65
CRB, commodities index	196.34	-0.03	+1.28
Gold (US\$/ounce)	1,327.12	+0.00	+1.85

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity declines

After two days of slight increases, liquidity declined on Wednesday, down UAH1.01bn to a new low of this year of UAH97.88bn. This was the result of new bond purchases and the partial repayment of an NBU refinancing loan. Banks' correspondent accounts with the NBU declined UAH0.95bn to UAH48.71bn and total CDs outstanding slid a mere UAH0.06bn to UAH49.17bn.

The impact from non-monetary operations was positive, albeit mild, causing net inflows at UAH0.29bn. With the Treasury injection of UAH0.12bn and cash exchanges in reserves, the banking system received UAH0.24bn. At the same time, the NBU absorbed UAH0.70bn via a loan repayment and UAH0.60 via FX market.

ICU view: Liquidity declined as expected, setting a new low this year. Depending on NBU operations at the FX market and bank loans, any additional impact from the Treasury could be negative. Liquidity should rise next week due month-end tax payments.

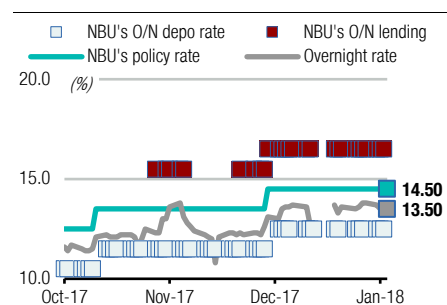
Market activity up after primary auction

As this Wednesday was the settlement day after Tuesday's auction, total secondary market deals rose significantly to UAH1.86bn, mostly in new bonds which primary dealers sold to their clients. The three issues yielded 25 transactions for a total of UAH1.18bn: FX-denominated bonds had 19 deals for a total of UAH0.51bn.

Bondholders' structure also saw slight changes after settlement because of deals at the secondary market and redemptions. As the result of new bond purchases and the hryvnia's exchange rate, the banks' portfolio rose UAH1.19bn while the non-banks' portfolio increased only UAH0.41bn. The portfolio of non-residents and individual investors remained steady with insignificant changes. This Wednesday, the MoF also redeemed UAH2.0bn of a 2011 issue in the NBU portfolio. As a result, the NBU's share of total bonds outstanding slid to 47.73% while the banks' share rose to 48.37%.

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Interest rates in the banks' reserves market (three months through 18 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 18 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	-10bp	-30bp	+50bp	+70bp
ON \$ swap	13.16	-11bp	-11bp	-10bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	48,713	-1.91	-8.93	-9.48	+1.46
DepCerts ³	53,802	-0.12	-0.51	+89.11	-7.40
Total	102,515	-0.98	-4.69	+24.62	-3.39
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	358,573	-0.55	-0.55	-0.55	-0.55
Banks	363,399	+0.33	+0.68	+8.34	+0.72
Residents	22,510	+1.85	+3.01	+4.52	+1.37
Individuals	1,506	+0.02	+2.84	+16.58	+2.61
Non-res ⁴	5,257	+0.03	+0.70	+2.36	+0.72
Total	751,244	-0.05	+0.16	+3.77	+0.13
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.83	+56bp	-71bp	-75bp	-399bp
3 months	10.10	-118bp	-151bp	-171bp	-83bp
6 months	9.23	+17bp	-248bp	-258bp	-318bp
1 year	11.71	+7bp	-6bp	-13bp	-43bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	N/A	N/A	N/A	N/A	N/A

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

President nominates Smoliy for NBU Governor

President Poroshenko has officially nominated the current acting Governor of the National Bank of Ukraine to replace Valeria Gontareva who announced her resignation back in April 2017. If Parliament votes in favor of Smoliy, we expect this to be the sign of both continuity of the current policy and the possible renewal of the pending IMF program in the future.

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Hryvnia below 28.7/USD

The hryvnia continued to decline against the US dollar on Thursday after a brief stabilization on Wednesday. While demand for foreign currency again prevailed in the local market, liquidity decreased by UAH1bn. Future external debt repayments and a negative trade balance are hitting the hryvnia in the absence of support from the IMF.

Accordingly, the hryvnia decreased by 0.4% to 28.7775 UAH/USD. It sold for 28.48 UAH/USD versus 28.68 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index declined 0.74% to 102.85; in year-on-year terms, it is down 2.71% from 105.71 last year.

The US dollar fell on Thursday on the back of divergent macroeconomic statistics. While unemployment benefit applications decreased by 41,000 to 220,000, the least since 1973, new building starts in December decreased by 8.2% from the previous month (versus an expected decrease of 1.5%). Accordingly, the dollar index (DXY) was in the range 90.408-90.983 and dropped by 0,1% to 90.498.

Despite the dollar's weakness supporting the euro, it remained below the three-year high after ECB officials commented on its strength. Hence, the EUR was in the range of 1.2165-1.2265 USD/EUR and increased by 0.4% to 1.2238. The Chinese yuan increased for the second consecutive day, trading in the range of 6.4187-6.4417 CNY/USD, and strengthened 0.2% to 6.42.

The Russian ruble strengthened on Thursday in the absence of other news than the weaker USD. Thus, the ruble continues to hover above 57 RUB/USD and strengthened by 0.6% to close at 56.5191.

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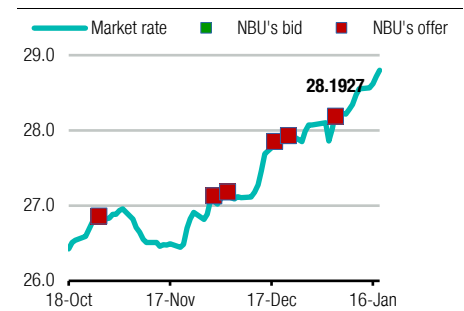
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 18 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.8000	+0.30	+1.16	+3.56	+2.60
USD ¹	90.498	-0.05	-1.47	-3.41	-1.77
EUR	1.2238	+0.43	+1.71	+3.87	+1.94
JPY	111.1100	-0.16	-0.13	-1.28	-1.40
GBP ²	1.3894	+0.46	+2.63	+3.82	+2.82
CNY	6.4200	-0.22	-1.33	-2.97	-1.33
RUB	56.5191	-0.60	+0.09	-3.71	-2.03

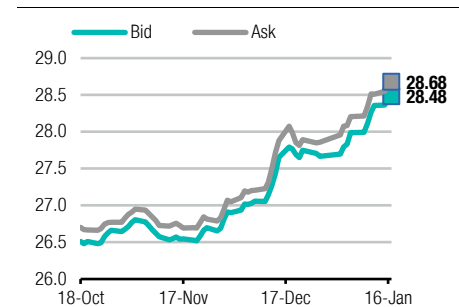
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 18 January 2018)



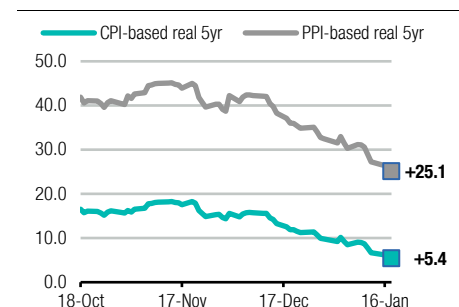
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 18 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 18 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)

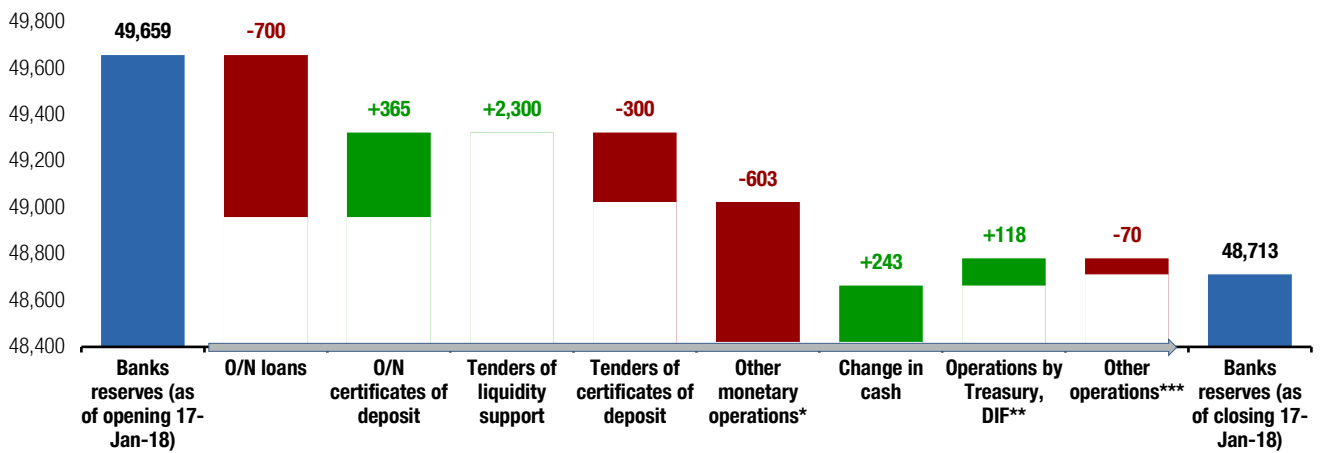
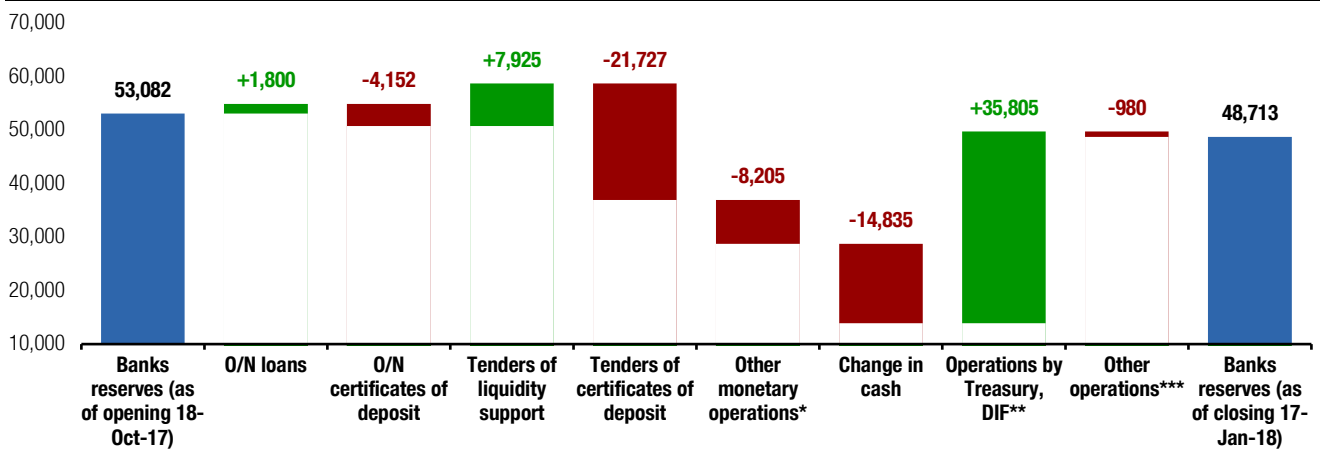
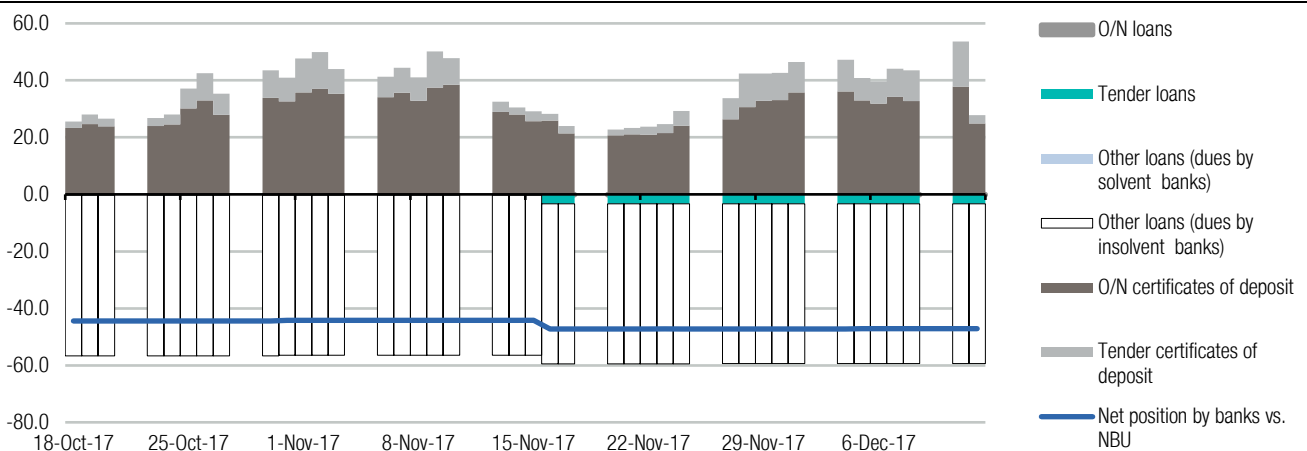


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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