

Daily Insight

UAH extends losses

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Liquidity remains volatile 2

Last Thursday, the Treasury supported liquidity by UAH1.56bn, the largest amount this year, following three previous days of providing support. However, due to absorption via the FX market, liquidity rose only UAH1.18bn to UAH99.06bn. 2

Secondary bond market dynamics 2

Last Thursday, total secondary market deals fell more than twofold to UAH816m, mainly in local currency bonds with 26 deals for UAH647m. The largest amount was UAH499m in 6-month bonds at a weighted-average YTM of 16.68% which the MoF sold last Tuesday. 2

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UAH extends losses 3

At the end of the week, the hryvnia weakened another 0.2% to 28.8448 UAH/USD, while over the entire week it fell 1.1%, remaining close to the 3-year low. In our view, the UAH's depreciation arose from excess demand for foreign currency at the local market as exporters refrained from selling FX while importers were actively buying FX to hedge themselves. On Friday, the hryvnia sold for 28.56 UAH/USD versus 28.75 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.06% to 102.79; in year-on-year terms, it is down 3.08% from 105.95 last year. 3

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MONDAY, 22 JANUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 19 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 19 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)	54,793	+12.48	+14.13
Deposit certificates* (UAHm)	48,904	-9.10	-15.83
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.8650	+0.23	+2.83
Total trade volume (US\$m)	224.27	+2.56	-9.72
UAH index CPI-based	102.787	-0.06	-4.03
UAH index PPI-based	162.949	-0.06	-4.03

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,810.30	+0.44	+5.11
MSCI EM	1,232.60	+0.41	+6.40
US dollar index (DXY)	90.572	+0.08	-1.68
EUR / USD	1.2222	-0.13	+1.81
Crude oil WTI (US\$/bbl)	63.37	-0.91	+4.88
Crude oil BRENT (US\$/bbl)	68.61	-1.01	+2.60
CRB, commodities index	195.50	-0.43	+0.85
Gold (US\$/ounce)	1,331.85	+0.36	+2.21

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity remains volatile

Last Thursday, the Treasury supported liquidity by UAH1.56bn, the largest amount this year, following three previous days of providing support. However, due to absorption via the FX market, liquidity rose only UAH1.18bn to UAH99.06bn.

Banks once more decreased purchases of 2-week CDs by UAH5.21bn as they increased ON CDs by UAH0.32bn; total CDs outstanding continued to fall UAH4.90bn to UAH44.27bn while banks' correspondent accounts with the NBU rose UAH6.08bn to UAH54.79bn.

ICU view: *Although budget expenditures rose last Thursday, month-end tax payments should have an impact. As a result, we do not anticipate an increase in liquidity, Wah should remain below UAH100bn and decline slightly through the end of the month unless there is a VAT refund.*

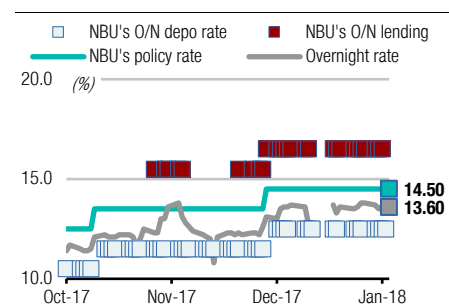
Secondary bond market dynamics

Last Thursday, total secondary market deals fell more than twofold to UAH816m, mainly in local currency bonds with 26 deals for UAH647m. The largest amount was UAH499m in 6-month bonds at a weighted-average YTM of 16.68% which the MoF sold last Tuesday.

As a result last Thursday's deals, bondholders' structure remained steady with insufficient changes. The fastest increase was in other residents' and individuals' portfolios, at 1.11% and 0.74% respectively, mostly due to the purchase of local currency bonds.

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Interest rates in the banks' reserves market (three months through 19 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 19 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	-20bp	+10bp	+80bp
ON \$ swap	13.26	+9bp	+0bp	+18bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	54,793	+12.48	+4.35	+5.35	+14.13
DepCerts ³	48,904	-9.10	-5.56	+62.33	-15.83
Total	103,697	+1.15	-0.57	+26.25	-2.27
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	358,573	+0.00	-0.55	-0.55	-0.55
Banks	363,650	+0.07	+0.66	+8.11	+0.79
Residents	22,761	+1.11	+3.47	+5.40	+2.50
Individuals	1,517	+0.74	+2.53	+16.65	+3.36
Non-res ⁴	5,257	+0.01	+0.05	+2.30	+0.73
Total	751,758	+0.07	+0.16	+3.70	+0.20
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.45	-37bp	-76bp	-49bp	-436bp
3 months	8.22	-188bp	-340bp	-327bp	-271bp
6 months	9.21	-1bp	-249bp	-250bp	-320bp
1 year	11.76	+6bp	-4bp	+1bp	-37bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	340	+0bp	+0bp	-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 extends losses

At the end of the week, the hryvnia weakened another 0.2% to 28.8448 UAH/USD, while over the entire week it fell 1.1%, remaining close to the 3-year low. In our view, the UAH's depreciation arose from excess demand for foreign currency at the local market as exporters refrained from selling FX while importers were actively buying FX to hedge themselves. On Friday, the hryvnia sold for 28.56 UAH/USD versus 28.75 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.06% to 102.79; in year-on-year terms, it is down 3.08% from 105.95 last year.

For the most part of Friday, the USD traded lower under pressure from the decreased US consumer confidence index which fell to 94.4 in January, the six-month low. However, on news that Trump invited the US Senate majority leader to work out a deal to avoid a government shutdown, the USD managed to pare losses. Ultimately, the DXY index closed up 0.1% to 90.57.

The euro was supported by the solid macroeconomic data as the Eurozone current account widened to EUR32bn in December. However, the greenback's recovery pushed the euro down 0.1% to 1.2222 USD/EUR.

Due to lower oil prices, the Russian ruble weakened 0.35% to 56.7175 RUB/USD. At the same time, the CNY closed up 0.25% to 6.404 CNY/USD.

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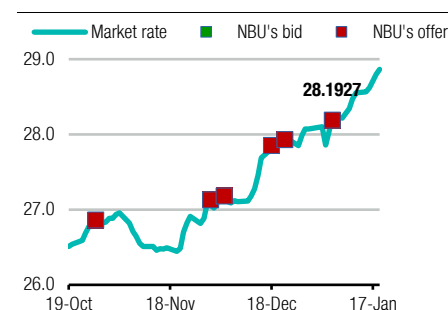
Key indicators (as of 19 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.8650	+0.23	+1.09	+3.44	+2.83
USD ¹	90.572	+0.08	-0.44	-3.07	-1.68
EUR	1.2222	-0.13	+0.16	+3.23	+1.81
JPY	110.7700	-0.31	-0.26	-1.88	-1.70
GBP ²	1.3858	-0.26	+0.95	+3.53	+2.55
CNY	6.4040	-0.25	-1.00	-3.04	-1.58
RUB	56.7175	+0.35	+0.21	-3.50	-1.68

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

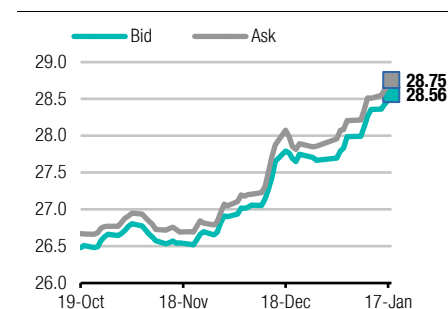
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 19 January 2018)



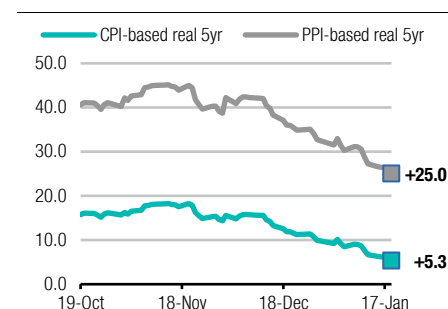
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 19 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 19 January 2018)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

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

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

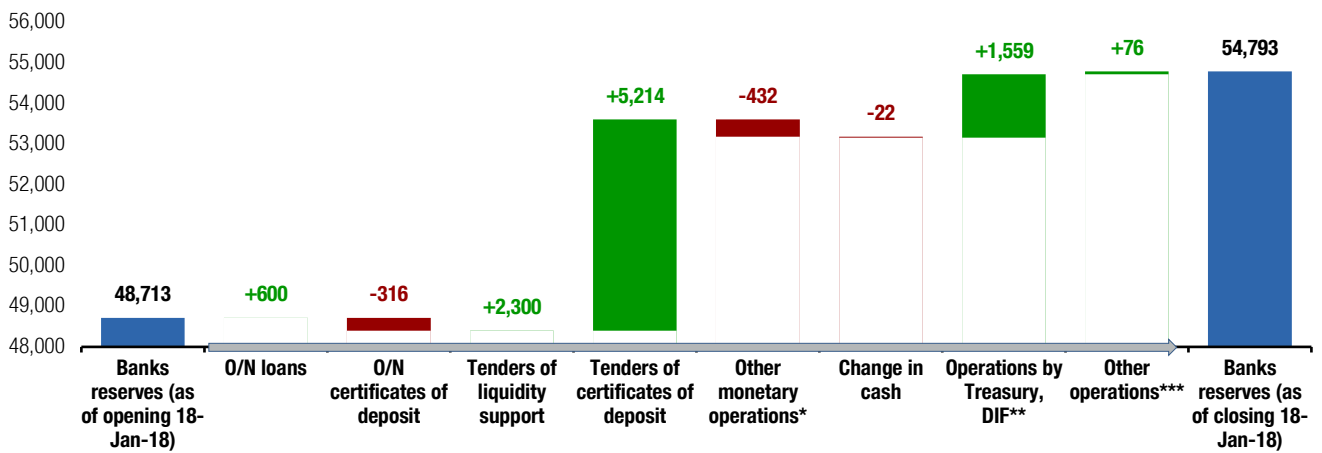
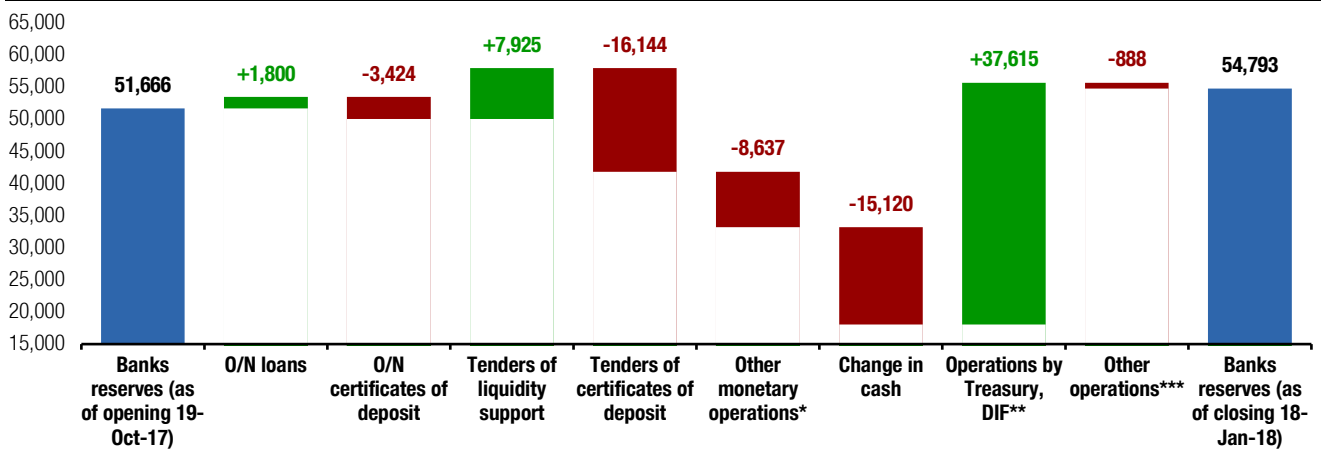
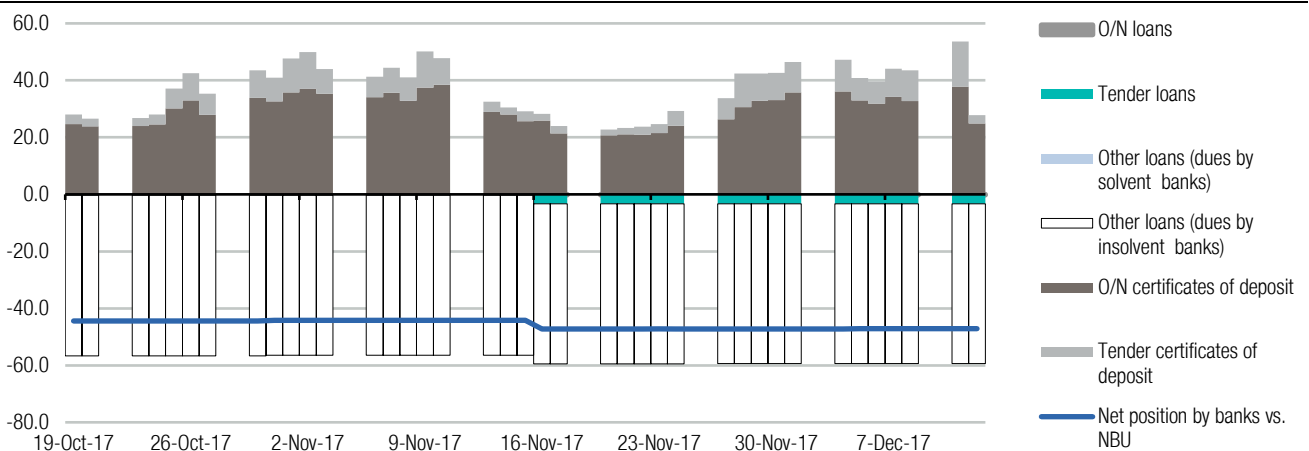


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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