

# Daily Insight

## NBU absorbs liquidity

### Key messages of the today's comments

TUESDAY, 23 JANUARY 2018

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#### NBU absorbs liquidity 2

Last Friday, for the fourth consecutive day the NBU sold FX, sold last week US\$125m and purchased only US\$17m in FX. Through last Friday's operations at the FX market, it absorbed UAH1.24bn as banks repaid an ON loan to decrease outstanding ON loans to UAH0.8bn. Only a small portion of outflows were offset by non-monetary operations.2

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At the beginning of the week, the hryvnia closed down another 0.1% to 28.8758 UAH/USD, having weakened for the ninth consecutive trading session. Last week, the NBU sold US\$125m through the FX market intervention in the form of a request for a best quote while it purchased only US\$17m. As increased demand for foreign currency still prevails at the local FX market, the hryvnia sold for 28.64 UAH/USD versus 28.79 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.35% to 102.43; in year-on-year terms, it is down 3.76% from 106.28 last year. 3

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### Ukraine's hryvnia exchange rate per US dollar (three months through 22 January 2018)



Source: Bloomberg.

### Selected indicators of the financial markets (three months through 22 January 2018)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	13.90	+30bp	+110bp
Banks reserves (UAHm)	54,173	-1.13	+12.84
Deposit certificates* (UAHm)	43,328	-11.40	-25.43
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	28.9000	+0.12	+2.96
Total trade volume (US\$m)	147.35	-34.30	-40.69
UAH index CPI-based	102.431	-0.35	-4.37
UAH index PPI-based	162.384	-0.35	-4.37
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	340bp	+0bp	-92bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,832.97	+0.81	+5.96
MSCI EM	1,238.50	+0.48	+6.91
US dollar index (DXY)	90.401	-0.19	-1.87
EUR / USD	1.2262	+0.33	+2.14
Crude oil WTI (US\$/bbl)	63.57	+0.32	+5.21
Crude oil BRENT (US\$/bbl)	69.03	+0.61	+3.23
CRB, commodities index	196.22	+0.37	+1.21
Gold (US\$/ounce)	1,333.62	+0.13	+2.35

Notes: \* NBU's short-term bonds.

Source: Bloomberg, ICU.

# Domestic liquidity

## NBU absorbs liquidity

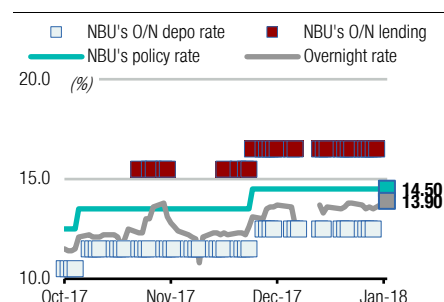
Last Friday, for the fourth consecutive day the NBU sold FX, sold last week US\$125m and purchased only US\$17m in FX. Through last Friday's operations at the FX market, it absorbed UAH1.24bn as banks repaid an ON loan to decrease outstanding ON loans to UAH0.8bn. Only a small portion of outflows were offset by non-monetary operations.

These cashflows caused liquidity to decline by UAH1.56bn to a new low of 97.50bn. Total CDs outstanding fell UAH0.94bn while banks' correspondent accounts balance with the NBU slid UAH0.62bn.

**ICU view:** As expected, the NBU absorbed some funds via the FX market and loans. The increase in budget expenditures is slow but last Friday they offset outflows through collected revenues and reserves exchange in cash. As month-end tax payments begin this week, liquidity should move down further.

**Taras Kotovych, Kyiv, (044) 377-7040 ext.724**

## Interest rates in the banks' reserves market (three months through 22 January 2018)



Source: Bloomberg, ICU.

## Key indicators (as of 22 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	14.50	+0bp	+0bp	+0bp	+0bp
ON rate	13.90	+30bp	+20bp	+20bp	+110bp
ON \$ swap	13.23	-10bp	-16bp	+16bp	+0bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	54,173	-1.13	+5.53	+8.25	+12.84
DepCerts <sup>3</sup>	43,328	-11.40	-15.85	+24.45	-25.43
<b>Total</b>	<b>97,501</b>	<b>-5.97</b>	<b>-5.18</b>	<b>+14.89</b>	<b>-8.11</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	358,573	+0.00	-0.55	-0.55	-0.55
Banks	363,884	+0.06	+0.62	+7.98	+0.85
Residents	22,834	+0.32	+3.38	+4.85	+2.83
Individuals	1,521	+0.24	+2.21	+5.17	+3.61
Non-res <sup>4</sup>	5,257	+0.00	+0.04	+0.79	+0.73
<b>Total</b>	<b>752,069</b>	<b>+0.04</b>	<b>+0.13</b>	<b>+3.59</b>	<b>+0.24</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	11.85	+40bp	-40bp	+18bp	-396bp
3 months	10.40	+218bp	-131bp	-98bp	-53bp
6 months	10.02	+80bp	-173bp	-165bp	-239bp
1 year	11.70	-7bp	-4bp	-8bp	-44bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
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 slightly down

At the beginning of the week, the hryvnia closed down another 0.1% to 28.8758 UAH/USD, having weakened for the ninth consecutive trading session. Last week, the NBU sold US\$125m through the FX market intervention in the form of a request for a best quote while it purchased only US\$17m. As increased demand for foreign currency still prevails at the local FX market, the hryvnia sold for 28.64 UAH/USD versus 28.79 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.35% to 102.43; in year-on-year terms, it is down 3.76% from 106.28 last year.

The USD struggled to find direction, influenced by the US government shutdown. While investors awaited developments in bill voting, the DXY traded within 90.35-90.70, closing down 0.2% to 90.40.

The euro found support following news that the Social Democratic Party of Germany voted to begin formal coalition talks with the Conservative party led by Chancellor Angela Merkel, which eased political tensions within the Eurozone's largest economy. The euro strengthened 0.3% to 1.2262 USD/EUR.

The CNY remained almost unchanged, closing at 6.405 CNY/USD, and the Russian ruble strengthened 0.4% to 56.4843 RUB/USD on the back of rising oil prices and a still globally weak USD.

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

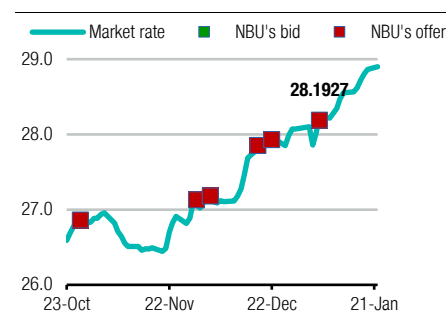
## Key indicators (as of 22 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	28.9000	+0.12	+1.17	+3.36	+2.96
USD <sup>1</sup>	90.401	-0.19	-0.63	-3.16	-1.87
EUR	1.2262	+0.33	-0.02	+3.37	+2.14
JPY	110.9200	+0.14	+0.34	-2.09	-1.57
GBP <sup>2</sup>	1.3987	+0.93	+1.41	+4.67	+3.51
CNY	6.4050	+0.02	-0.50	-2.62	-1.56
RUB	56.4843	-0.41	+0.20	-3.13	-2.09

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

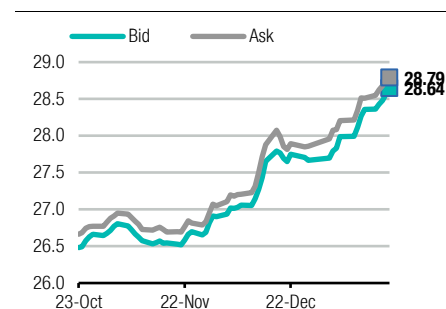
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 22 January 2018)



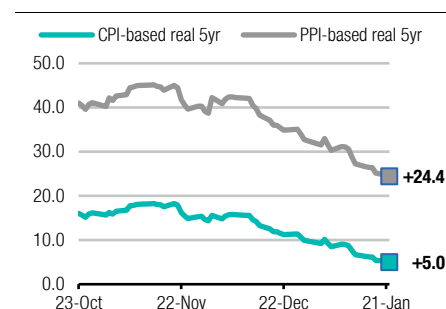
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 22 January 2018)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 22 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)

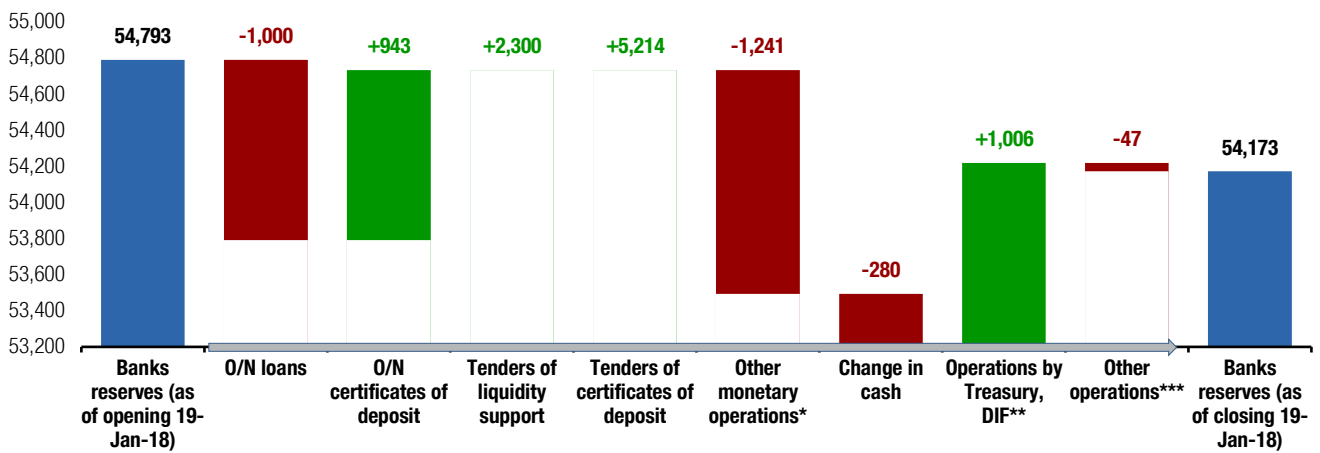
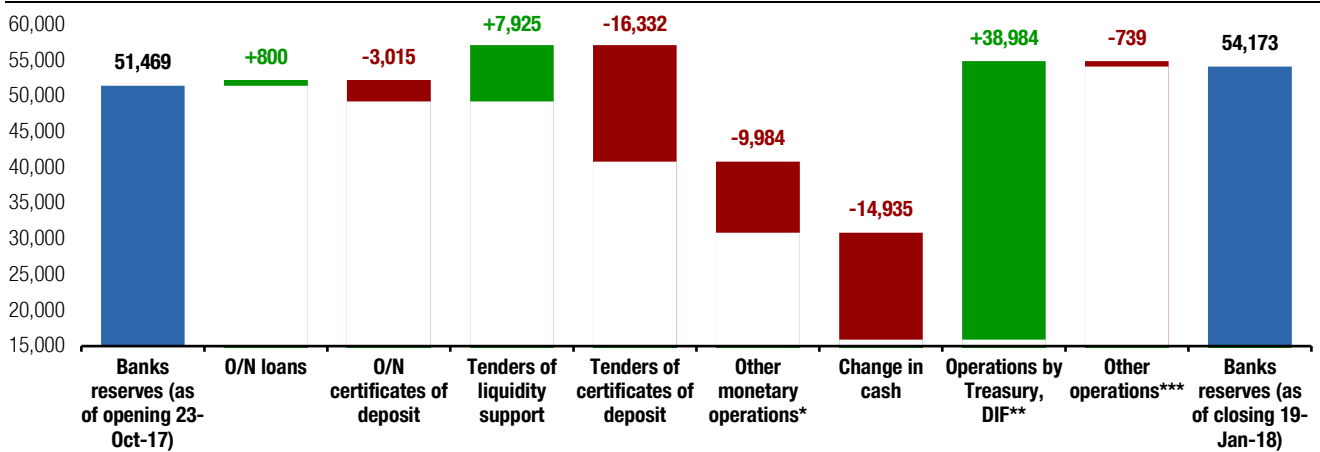
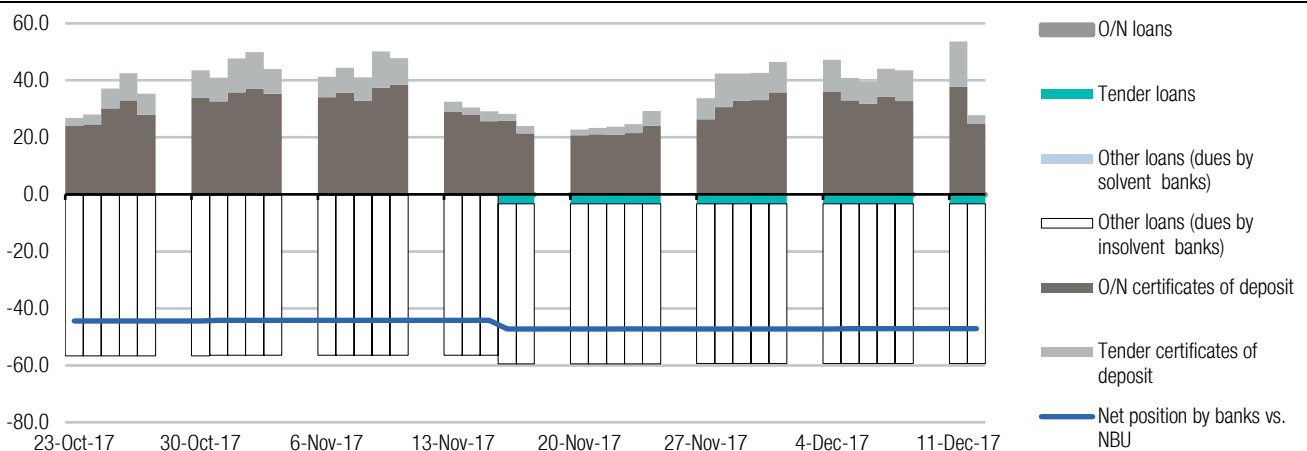


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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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