

Daily Insight

MoF borrowed UAH2.31bn

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Liquidity slightly increases 2

As liquidity rose UAH0.87bn on Monday to UAH98.37bn, yesterday it had a chance to rise to UAH100bn or above. Supported by an increase in reserves due to the exchange of cash on Monday and with the positive impact of monetary operations, liquidity rose. It was supported by a low outflow to the budget via Treasury operations. 2

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Yesterday, the MoF borrowed UAH2.31bn after selling mostly bonds with 3-month and 6-month maturities. It also accepted most of the demand for 3-year bonds at yields of 15.70-16.00%. 2

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NBU supported hryvna 3

On Tuesday, the hryvnia slightly increased after declining for nine consecutive days, after the NBU offered US\$100m for sale (attracting US\$48.9m in demand), to stave off further devaluation. It sold US\$47.3m at an average weighted rate of 28.8526 UAH/USD. It closed at 28.8648 UAH/USD after selling for 28.63 UAH/USD versus 28.8 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.12% to 102.55; in year-on-year terms, it is down 3.83% from 106.63 last year. 3

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WEDNESDAY, 24 JANUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 23 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 23 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	13.90	+0bp	+110bp
Banks reserves (UAHm)	53,271	-1.67	+10.96
Deposit certificates* (UAHm)	45,104	+4.10	-22.37
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.8050	-0.33	+2.62
Total trade volume (US\$m)	276.75	+87.82	+11.40
UAH index CPI-based	102.553	+0.12	-4.25
UAH index PPI-based	162.578	+0.12	-4.25

UKRAINE SOVEREIGN EUROBOND MARKET

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

S&P 500	2,839.13	+0.22	+6.19
MSCI EM	1,252.39	+1.12	+8.11
US dollar index (DXY)	90.124	-0.31	-2.17
EUR / USD	1.2299	+0.30	+2.45
Crude oil WTI (US\$/bbl)	64.47	+1.42	+6.70
Crude oil BRENT (US\$/bbl)	69.96	+1.35	+4.62
CRB, commodities index	196.94	+0.37	+1.59
Gold (US\$/ounce)	1,341.18	+0.57	+2.93

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity slightly increases

As liquidity rose UAH0.87bn on Monday to UAH98.37bn, yesterday it had a chance to rise to UAH100bn or above. Supported by an increase in reserves due to the exchange of cash on Monday and with the positive impact of monetary operations, liquidity rose. It was supported by a low outflow to the budget via Treasury operations.

Banks' correspondent accounts with the NBU declined UAH0.90bn to UAH53.27bn while investments in CDs rose. As the NBU on Monday sold only ON CDs, banks purchased UAH1.78bn more than they sold last Friday, increasing total CDs outstanding to UAH45.10bn.

ICU view: *Although the NBU absorbed about UAH1.36bn via an FX auction, liquidity should rise more. Yesterday's VAT refund of UAH4.22bn should also help. With low outflows to the budget via month-end tax payments, VAT refund should offset outflows via the FX auction and increase liquidity to UAH100bn or higher.*

MoF borrowed UAH2.31bn

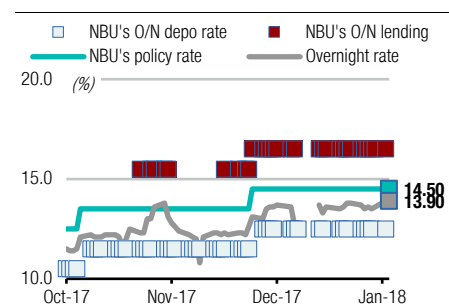
Yesterday, the MoF borrowed UAH2.31bn after selling mostly bonds with 3-month and 6-month maturities. It also accepted most of the demand for 3-year bonds at yields of 15.70-16.00%.

All bids for 6-month bonds was accepted at 16.00%, while the 3-month bond weighted-average rate declined to 15.89% with the cut-off rate steady at 16.00%. The weighted-average rate for the 3-month bond moved to rates last seen in the first half of December 2017 after seeing bids as low as 15.60%. At the same time, interest rates for 3-year bonds were 15.70-16.00%, of which the MoF accepted all non-competitive bids at the lowest rates.

ICU view: *Although the MoF continued to finance the budget at high interest rates, the wide range of submitted bids for 3-month bonds could signal that the yield curve's short-end could decline if the NBU keep its key policy rate unchanged this Thursday.*

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Interest rates in the banks' reserves market (three months through 23 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 23 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	13.90	+0bp	+40bp	+20bp	+110bp
ON \$ swap	13.24	+20bp	+7bp	+17bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	53,271	-1.67	+1.70	+6.44	+10.96
DepCerts ³	45,104	+4.10	-10.82	+29.55	-22.37
Total	98,375	+0.90	-4.45	+15.92	-7.29
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	N/A	N/A	N/A	N/A	N/A
Banks	N/A	N/A	N/A	N/A	N/A
Residents	N/A	N/A	N/A	N/A	N/A
Individuals	N/A	N/A	N/A	N/A	N/A
Non-res ⁴	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.74	-11bp	-45bp	+7bp	-408bp
3 months	10.28	-12bp	-130bp	-111bp	-66bp
6 months	9.97	-4bp	-170bp	-169bp	-244bp
1 year	11.70	+0bp	-2bp	-8bp	-43bp
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

NBU supported hryvna

On Tuesday, the hryvnia slightly increased after declining for nine consecutive days, after the NBU offered US\$100m for sale (attracting US\$48.9m in demand), to stave off further devaluation. It sold US\$47.3m at an average weighted rate of 28.8526 UAH/USD. It closed at 28.8648 UAH/USD after selling for 28.63 UAH/USD versus 28.8 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.12% to 102.55; in year-on-year terms, it is down 3.83% from 106.63 last year.

The US dollar rose at the start of the trading on Tuesday after news that Donald Trump signed a law that continues to fund the federal government through February 8. However, in the second half of trading, the dollar fell - possibly due to the Japanese yen's appreciation - hitting a new 3-year low. Accordingly, the DXY traded at 90.063-90.588 and dropped 0.3% to 90.124.

The euro moves opposite to the US dollar and rose in the second half of the day after a slight decline earlier. It traded at 1.2223-1.2306 USD/EUR and rose 0.3% to 1.2299. The Chinese yuan closed unchanged from the previous day at 6.4047 CNY/USD after a slightly volatile trading.

The ruble was supported both by a decline of the dollar and the simultaneous rise in oil prices to above US\$69 per barrel. The beginning of the tax period also has a positive effect, reducing market liquidity, as it traded at 56.3278-56.7385 and closed at 56.383 RUB/USD, up 0.2%.

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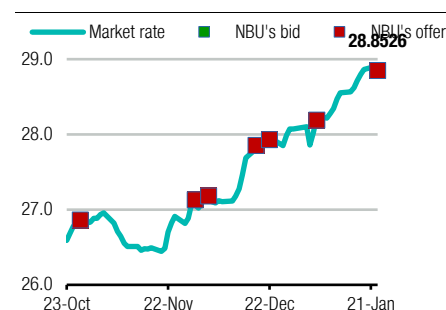
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 23 January 2018)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.8050	-0.33	+0.65	+3.02	+2.62
USD ¹	90.124	-0.31	-0.30	-3.45	-2.17
EUR	1.2299	+0.30	+0.32	+3.68	+2.45
JPY	110.3100	-0.55	-0.13	-2.63	-2.11
GBP ²	1.4000	+0.09	+1.51	+4.77	+3.60
CNY	6.4047	+0.00	-0.61	-2.62	-1.57
RUB	56.3830	-0.18	-0.28	-3.30	-2.26

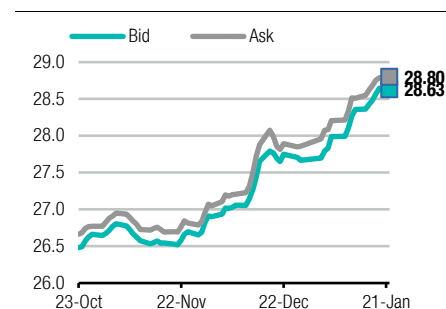
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 23 January 2018)



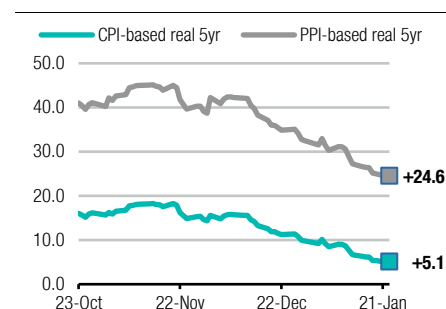
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 23 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 23 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)

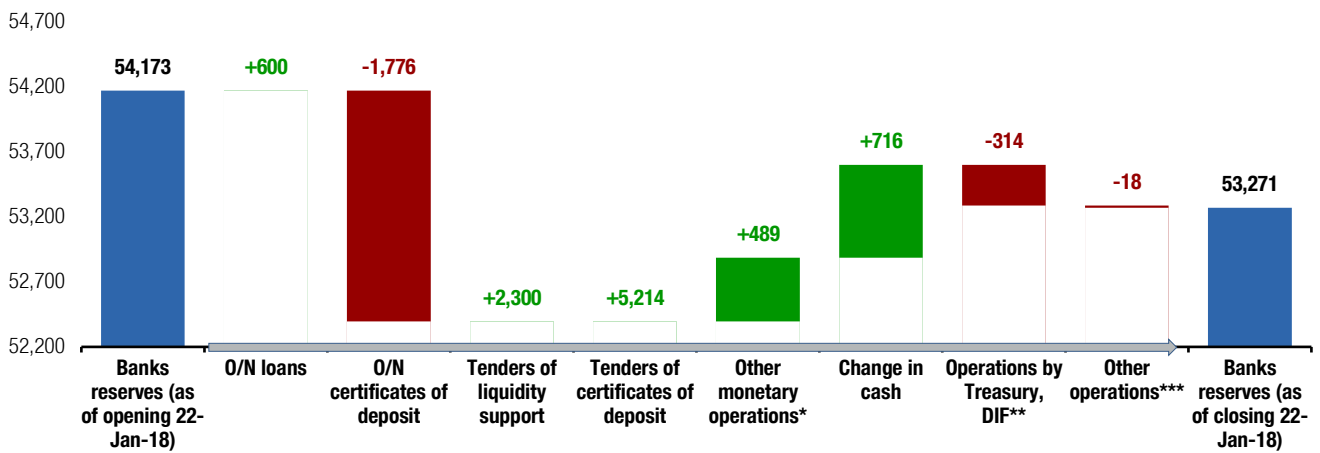
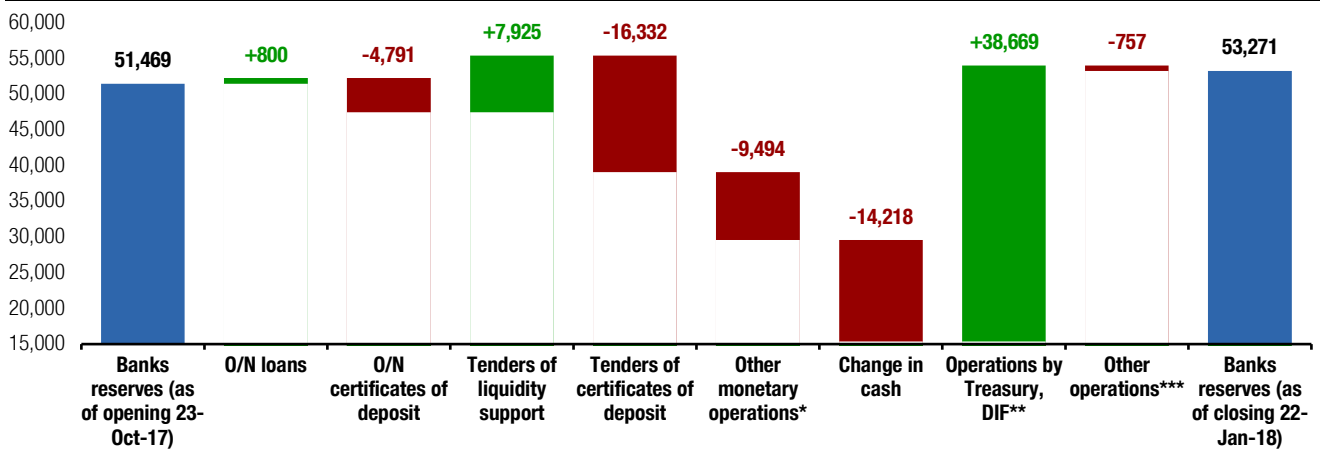
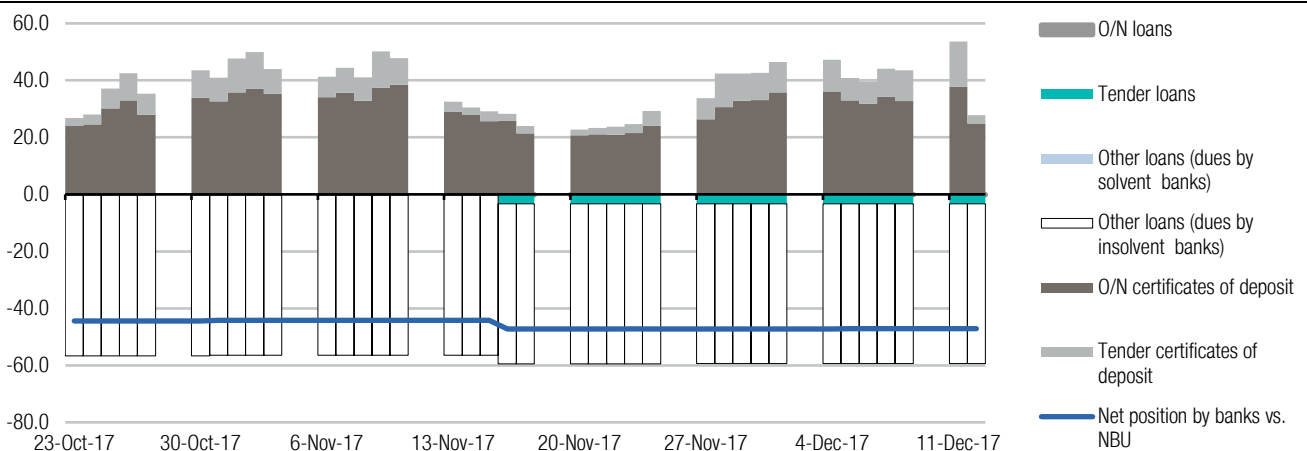


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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