

Daily Insight

Liquidity up on VAT refunds

Key messages of the today's comments

THURSDAY, 25 JANUARY 2018

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Liquidity up on VAT refunds2

This Tuesday, the Treasury paid UAH4.22bn in VAT refunds, significantly increasing the positive impact from non-monetary operations. This offset outflows via the FX auction and pushed liquidity up UAH2.31bn to 100.68bn, allocating additional funds to reserves. Banks' correspondent accounts with the NBU rose UAH2.26bn to UAH55.53bn while total CDs outstanding increased a mere UAH0.05bn to UAH45.16bn.

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Foreign exchange markets **3**

Hryvnia stable3

Although it declined at the open, the hryvnia gradually regained value after midday trading. Despite the UAH2.3bn increase in liquidity due to the VAT refund, the currency stabilized at 28.8654 UAH/USD. It sold for 28.69 UAH/USD versus 28.84 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.67% to 101.86; in year-on-year terms, it is down 4.46% from 106.62 last year.

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Appendix #1: Domestic liquidity **4**

Ukraine's hryvnia exchange rate per US dollar (three months through 24 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 24 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	14.00	+10bp	+120bp
Banks reserves (UAHm)	55,528	+4.24	+15.66
Deposit certificates* (UAHm)	45,155	+0.11	-22.28
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.8200	+0.05	+2.67
Total trade volume (US\$m)	229.78	-16.97	-7.51
UAH index CPI-based	101.865	-0.67	-4.90
UAH index PPI-based	161.487	-0.67	-4.90
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	340bp	+0bp	-92bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,837.54	-0.06	+6.13
MSCI EM	1,258.75	+0.51	+8.66
US dollar index (DXY)	89.206	-1.02	-3.17
EUR / USD	1.2408	+0.89	+3.36
Crude oil WTI (US\$/bbl)	65.61	+1.77	+8.59
Crude oil BRENT (US\$/bbl)	70.53	+0.81	+5.47
CRB, commodities index	199.51	+1.30	+2.91
Gold (US\$/ounce)	1,358.47	+1.29	+4.25

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity up on VAT refunds

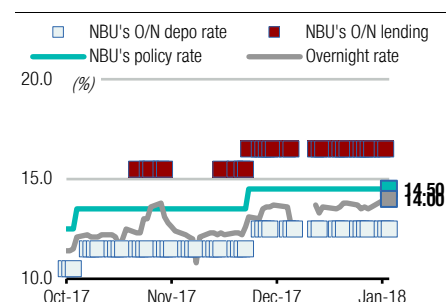
This Tuesday, the Treasury paid UAH4.22bn in VAT refunds, significantly increasing the positive impact from non-monetary operations. This offset outflows via the FX auction and pushed liquidity up UAH2.31bn to 100.68bn, allocating additional funds to reserves. Banks' correspondent accounts with the NBU rose UAH2.26bn to UAH55.53bn while total CDs outstanding increased a mere UAH0.05bn to UAH45.16bn.

The net positive impact from Treasury operations was UAH3.44bn of inflows into the banking system. Combined with inflows from cash exchanged into reserves, non-monetary operations amounted to UAH3.76bn. Outflows to the NBU via monetary operations, mainly the FX auction, was UAH1.46bn. One bank's ongoing ON loan continued to rollover this Tuesday. At the same time, the NBU did not offer 14-day CDs; all funds from CD redemptions were invested in ON CDs.

ICU view: Banks paid UAH2.31bn from Tuesdays auction, refinancing UAH0.9bn. With yesterday's VAT refund of UAH4.96bn, the Treasury positive impact on liquidity bolstered it above UAH100bn.

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Interest rates in the banks' reserves market (three months through 24 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 24 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	14.00	+10bp	+40bp	+30bp	+120bp
ON \$ swap	13.20	-3bp	+9bp	+13bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	55,528	+4.24	+11.82	+10.95	+15.66
DepCerts ³	45,155	+0.11	-16.17	+29.70	-22.28
Total	100,683	+2.35	-2.75	+18.64	-5.11
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	358,571	+0.00	-0.56	-0.56	-0.56
Banks	363,791	-0.01	+0.44	+7.96	+0.83
Residents	22,789	-0.02	+3.11	+4.64	+2.63
Individuals	1,521	-0.05	+1.04	+5.21	+3.65
Non-res ⁴	5,263	+0.09	+0.14	+0.90	+0.83
Total	751,935	-0.01	+0.04	+3.57	+0.22
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.41	+67bp	+114bp	+74bp	-340bp
3 months	10.28	+0bp	-100bp	-111bp	-66bp
6 months	9.96	-2bp	+90bp	-171bp	-245bp
1 year	11.67	-3bp	+4bp	-11bp	-46bp
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

Hryvnia stable

Although it declined at the open, the hryvnia gradually regained value after midday trading. Despite the UAH2.3bn increase in liquidity due to the VAT refund, the currency stabilized at 28.8654 UAH/USD. It sold for 28.69 UAH/USD versus 28.84 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.67% to 101.86; in year-on-year terms, it is down 4.46% from 106.62 last year.

The US dollar continued to decline against other major currencies on Wednesday, dropping below the 90 bp mark (DXY Index) and reaching another three-year low. The US Treasury Secretary spoke in support of the weak dollar as having a positive effect on the country's trade balance due to a decrease in imports. Accordingly, the DXY traded at 89.158-90.113 and dropped 1% to 89.206.

The euro traded on the weaker USD. Additionally, the investor confidence index for Germany exceeded its forecast, increasing 20.4 points (versus the expected 17.8) as the euro traded at 1.2293-1.2415 USD/EUR and rose 0.9% to 1.2408. The Chinese yuan increased in line with expectations against the weakening US dollar. The renminbi finished the day at 6.3575 CNY/USD and increased 0.7%.

The Russian ruble slightly increased along with other currencies, opposite the US dollar's weakness. It continues to hover at 57 RUB/USD as it traded at 56.1343-56.5387 and rose 0.4% to 56.153 RUB/USD.

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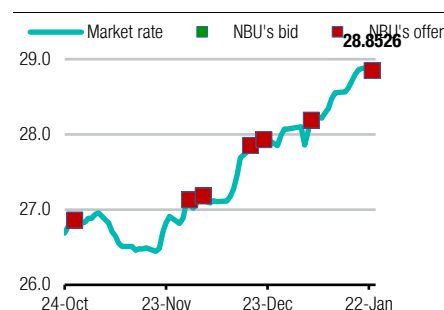
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 24 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.8200	+0.05	+0.37	+3.08	+2.67
USD ¹	89.206	-1.02	-1.47	-4.44	-3.17
EUR	1.2408	+0.89	+1.82	+4.60	+3.36
JPY	109.2200	-0.99	-1.86	-3.59	-3.08
GBP ²	1.4242	+1.73	+2.97	+6.58	+5.39
CNY	6.3575	-0.74	-1.19	-3.34	-2.29
RUB	56.1530	-0.41	-1.24	-3.69	-2.66

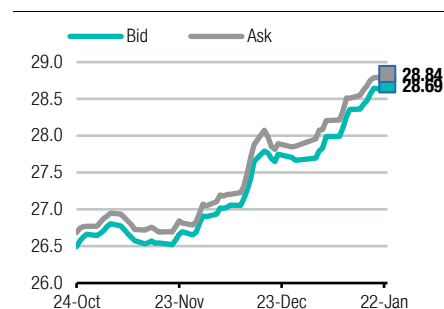
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 24 January 2018)



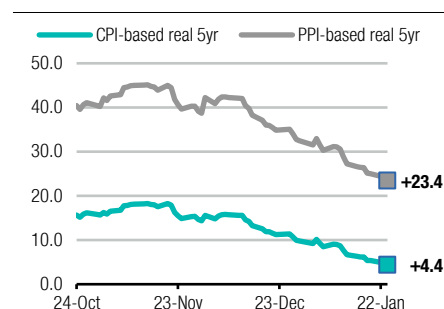
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 24 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 24 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)

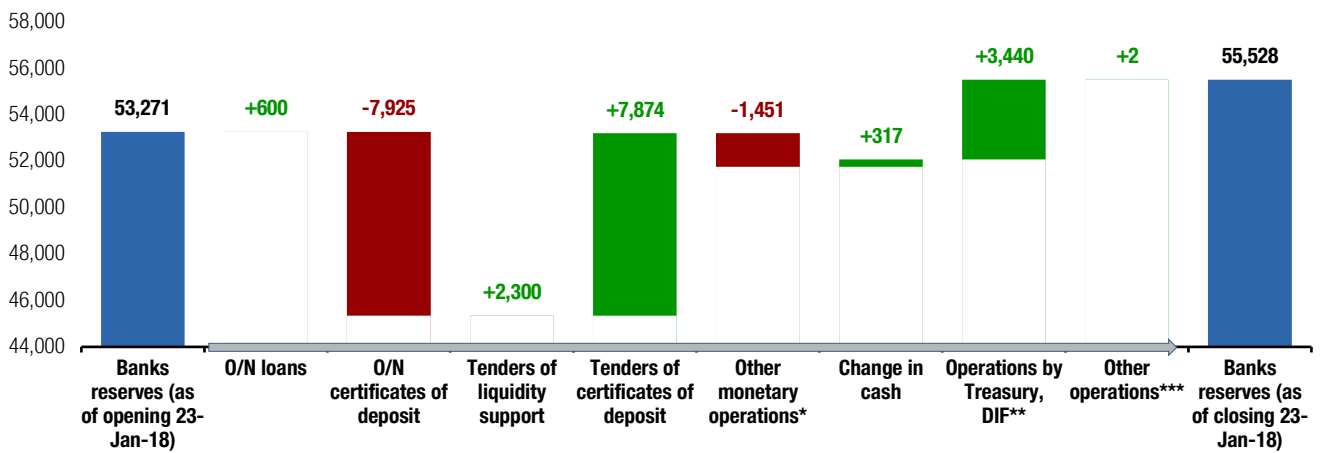
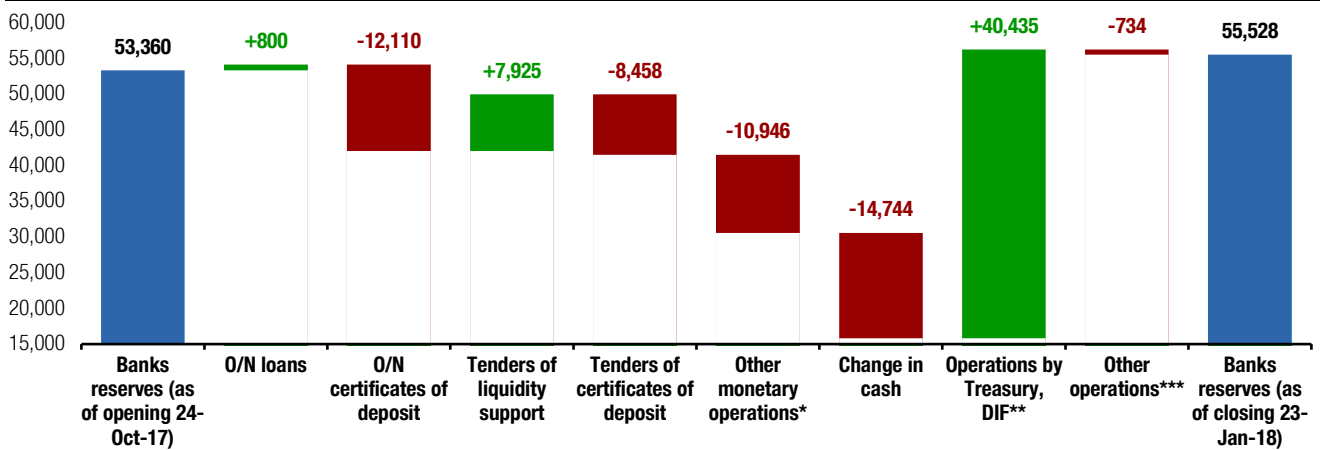
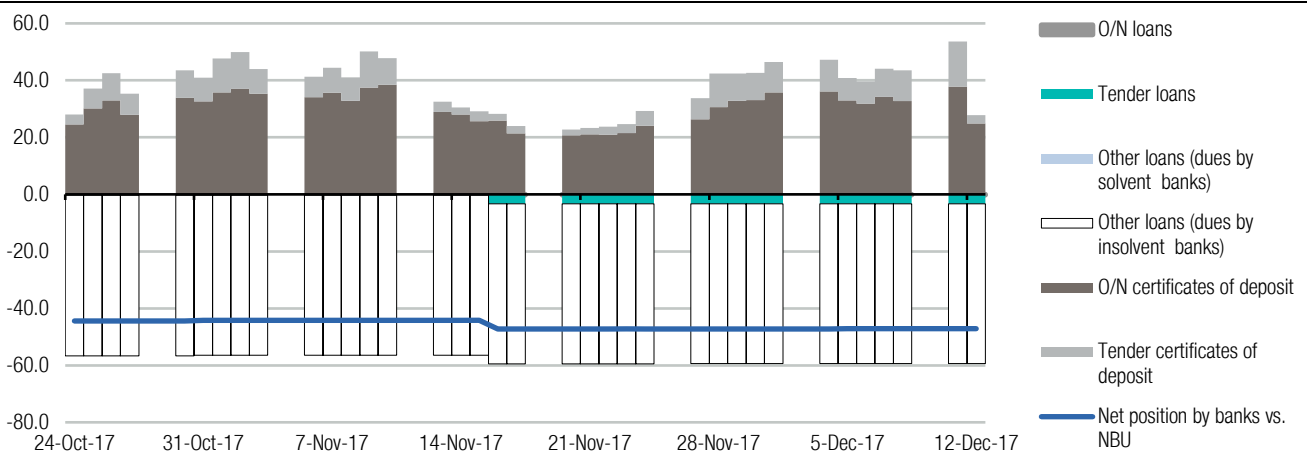


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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