

# Daily Insight

## NBU raises key rate by 150bps

### Key messages of the today's comments

#### Domestic liquidity **2**

##### Liquidity up as expected.....2

After two days of VAT refunds, liquidity rose UAH1.64bn to UAH102.33bn on Wednesday. While part of these funds were allocated into CDs, most were placed into reserves. Banks' correspondent accounts with the NBU rose UAH1.12bn to UAH56.65bn while total CDs outstanding increased UAH0.52bn to UAH45.68bn, including the purchase of UAH0.30bn of 70-day CDs. **2**

##### Secondary market reallocates new bonds.....2

According to the NBU, Wednesday's government bond secondary market trading amounted to UAH2.29bn, of which UAH0.20bn were FX-denominated bonds and UAH1.82bn from Tuesday's primary auction. Notably, this was 87% from local currency bonds or nearly 80% from overall trading this day. **2**

#### Foreign exchange markets **3**

##### NBU raises key rate by 150bps .....3

The NBU increased key rate for the third consecutive time, raising it from 12.5% in early October 2017 to the current 16%. Inflation turned out to be higher than previously projected. The supply of main food products has shrunk during the year due to unfavorable weather conditions (vegetables) and increased exports (poultry). **3**

##### The UAH pared losses .....3

Despite the VAT refunds on Tuesday and Wednesday, the hryvnia appreciated on the open this yesterday thanks not just to the globally weaker USD but mainly to the NBU unexpectedly increasing the key policy rate by 150bps to 16%. On the back of these factors, the hryvnia strengthened 0.4% to 28.7452 UAH/USD. **3**

#### Appendix #1: Domestic liquidity **4**

FRIDAY, 26 JANUARY 2018

#### Ukraine's hryvnia exchange rate per US dollar (three months through 25 January 2018)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 25 January 2018)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	14.00	+0bp	+120bp
Banks reserves (UAHm)	56,650	+2.02	+18.00
Deposit certificates* (UAHm)	45,677	+1.16	-21.38
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	28.6900	-0.45	+2.21
Total trade volume (US\$m)	195.54	-14.90	-21.29
UAH index CPI-based	102.222	+0.35	-4.56
UAH index PPI-based	162.053	+0.35	-4.56
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	340bp	+0bp	-92bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,839.25	+0.06	+6.20
MSCI EM	1,263.45	+0.37	+9.06
US dollar index (DXY)	89.391	+0.21	-2.97
EUR / USD	1.2396	-0.10	+3.26
Crude oil WTI (US\$/bbl)	65.51	-0.15	+8.42
Crude oil BRENT (US\$/bbl)	70.42	-0.16	+5.31
CRB, commodities index	199.34	-0.08	+2.83
Gold (US\$/ounce)	1,348.01	-0.77	+3.45

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity up as expected

After two days of VAT refunds, liquidity rose UAH1.64bn to UAH102.33bn on Wednesday. While part of these funds were allocated into CDs, most were placed into reserves. Banks' correspondent accounts with the NBU rose UAH1.12bn to UAH56.65bn while total CDs outstanding increased UAH0.52bn to UAH45.68bn, including the purchase of UAH0.30bn of 70-day CDs.

Non-monetary operations were significant at UAH3.14bn, including UAH2.88bn of inflows from the Treasury and UAH0.53bn of cash exchanged into reserves. Outflows via non-monetary operations amounted to UAH0.26bn due to other operations. One bank appears to have prepaid UAH1.5bn loan received from NBU during November-January period, thus decreasing the impact from non-monetary operations.

**ICU view: The loan prepayment was done properly at a very good moment, when liquidity was above UAH100bn during low tax payments to the budget. We could see an increase in month-end tax payments. Without VAT refunds, liquidity should be below UAH100bn due to outflows via Treasury operations.**

## Secondary market reallocates new bonds

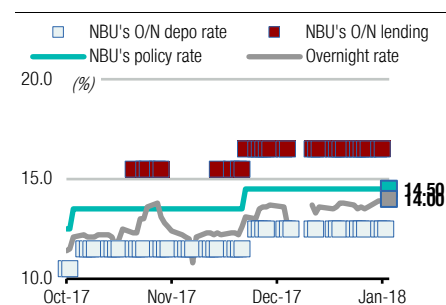
According to the NBU, Wednesday's government bond secondary market trading amounted to UAH2.29bn, of which UAH0.20bn were FX-denominated bonds and UAH1.82bn from Tuesday's primary auction. Notably, this was 87% from local currency bonds or nearly 80% from overall trading this day.

Prices reflected those at the primary auction, as were yields: the MoF set weighted-average rates at 15.89% and 16.00% for 3-month and 6-month bonds, respectively. However, the secondary market price for 3-month bonds was UAH0.15 above that at the primary auction, yielding 15.82% or 7bp lower, signaling that primary dealers' clients set the low rates. Other bonds were traded in a wide range of yields, including in NBU data REPO deals.

According to NBU data on bondholders' portfolios, mainly bonds were purchased by banks, non-banks and non-residents as their portfolios rose by UAH1.29bn, UAH0.48bn and UAH0.61bn, respectively.

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

## Interest rates in the banks' reserves market (three months through 25 January 2018)



Source: Bloomberg, ICU.

## Key indicators (as of 25 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	14.00	+0bp	+50bp	+30bp	+120bp
ON \$ swap	13.39	+35bp	+23bp	+32bp	+0bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	56,650	+2.02	+16.29	+13.19	+18.00
DepCerts <sup>3</sup>	45,677	+1.16	-15.10	+31.20	-21.38
<b>Total</b>	<b>102,327</b>	<b>+1.63</b>	<b>-0.18</b>	<b>+20.58</b>	<b>-3.57</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	358,571	+0.00	+0.00	-0.56	-0.56
Banks	365,082	+0.35	+0.46	+8.34	+1.19
Residents	23,266	+2.09	+3.36	+6.83	+4.77
Individuals	1,547	+1.69	+2.73	+6.98	+5.40
Non-res <sup>4</sup>	5,868	+11.50	+11.62	+12.50	+12.43
<b>Total</b>	<b>754,333</b>	<b>+0.32</b>	<b>+0.41</b>	<b>+3.90</b>	<b>+0.54</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	13.78	+137bp	+196bp	+212bp	-203bp
3 months	10.85	+57bp	+75bp	-53bp	-8bp
6 months	11.28	+132bp	+205bp	-39bp	-113bp
1 year	11.83	+16bp	+12bp	+6bp	-30bp
<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

## NBU raises key rate by 150bps

The NBU increased key rate for the third consecutive time, raising it from 12.5% in early October 2017 to the current 16%. Inflation turned out to be higher than previously projected. The supply of main food products has shrunk during the year due to unfavorable weather conditions (vegetables) and increased exports (poultry).

The NBU's decision aims to reduce the demand spurred by the expected increase of social security payments that are likely to expand in the pre-election season.

We believe that a steep rate rise will increase the attractiveness of short-term investments in UAH.

**Mykhaylo Demkiv, Kyiv, (044) 377-7040 ext.732**

## The UAH pared losses

Despite the VAT refunds on Tuesday and Wednesday, the hryvnia appreciated on the open this yesterday thanks not just to the globally weaker USD but mainly to the NBU unexpectedly increasing the key policy rate by 150bps to 16%. On the back of these factors, the hryvnia strengthened 0.4% to 28.7452 UAH/USD.

In the local market, the hryvnia sold for 28.79 UAH/USD versus 28.66 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.35% to 102.22; in year-on-year terms, it is down 4.12% from 106.43 last year.

The USD traded lower against the basket of other major currencies, but recovered following comments from US President Trump that his administration ultimately wants to see a stronger US dollar. The DXY index closed up 0.2% to 89.39.

The euro hit a 3-year high, strengthening to 1.2537 USD/EUR, after the ECB reported that the economic expansion accelerated more than expected in 2H17 and raised its confidence of meeting the target of 2% growth. However, due to the greenback's recovery at the end of the trading session, yesterday the single European currency closed down 0.1% to 1.2396 USD/EUR.

Thanks to higher oil prices the Russian ruble closed up 0.4% to 55.74 RUB/USD, the 2.5-year high. At the same time, after Wednesday's gain of 0.7%, the CNY strengthened another 0.5% to 6.3263 CNY/USD, the strongest rate since October 2015.

**Alexander Valchyshen, Kyiv, (044) 377-7040 ext.721**

**Dmytro Dyachenko, Kyiv, (044) 377-7040 ext.738**

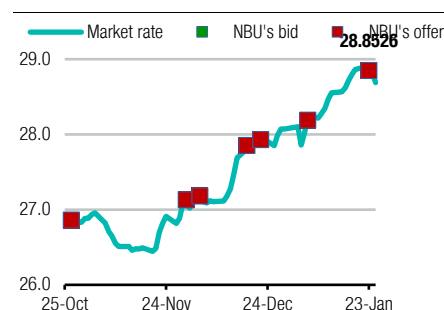
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 25 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.6900	-0.45	-0.38	+2.61	+2.21
USD <sup>1</sup>	89.391	+0.21	-1.22	-4.16	-2.97
EUR	1.2396	-0.10	+1.29	+4.43	+3.26
JPY	109.4100	+0.17	-1.53	-3.40	-2.91
GBP <sup>2</sup>	1.4142	-0.70	+1.78	+5.77	+4.65
CNY	6.3263	-0.49	-1.46	-3.26	-2.77
RUB	55.9075	-0.44	-1.08	-3.61	-3.09

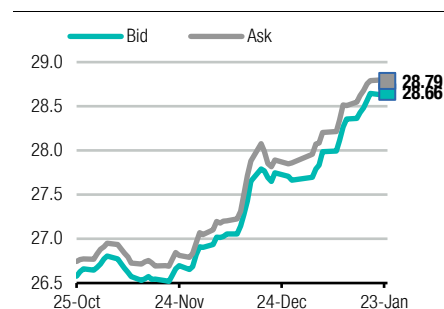
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 25 January 2018)



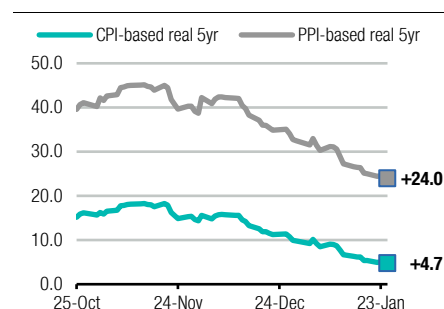
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 25 January 2018)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 25 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)

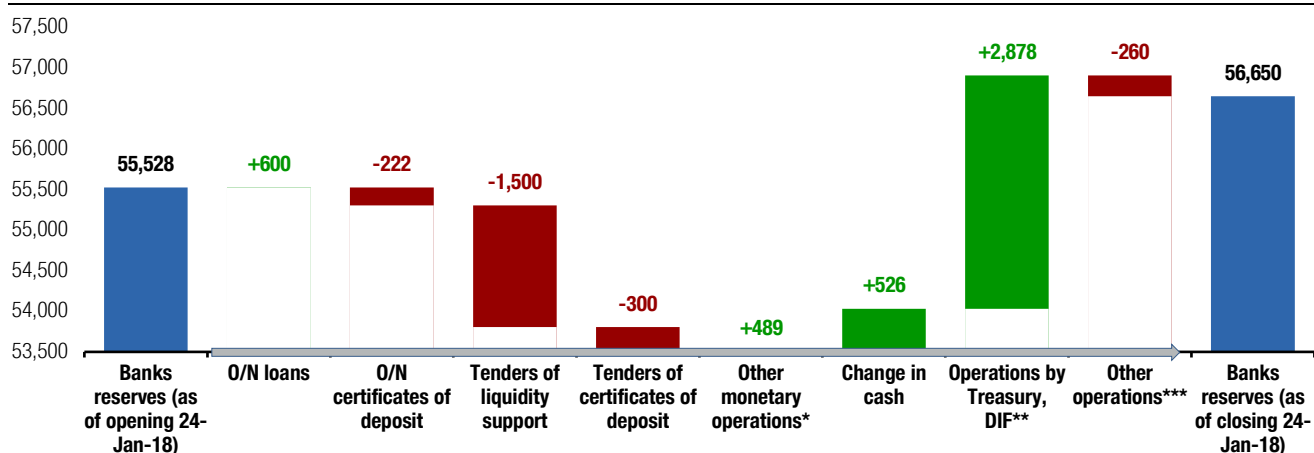
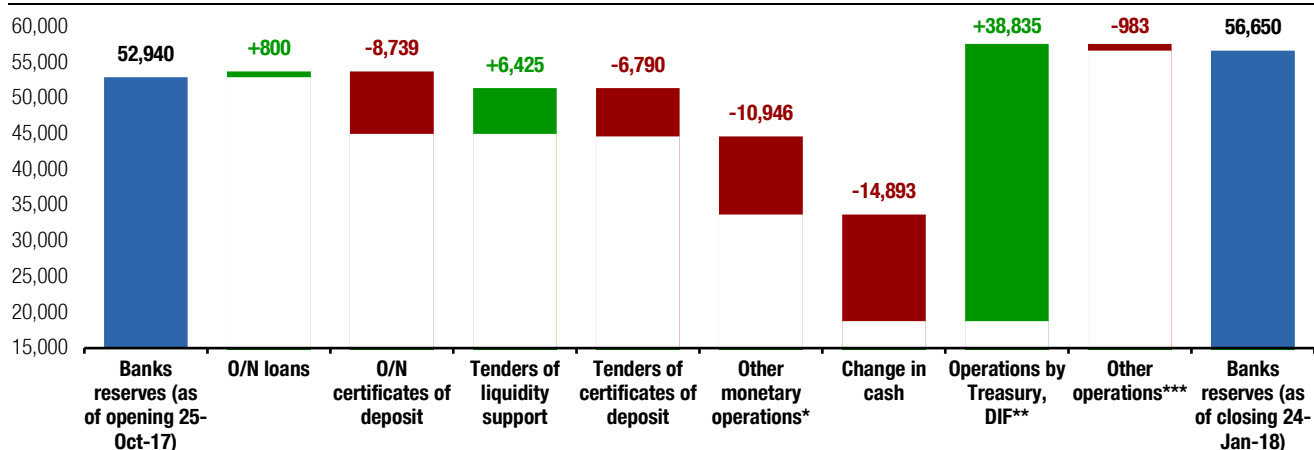
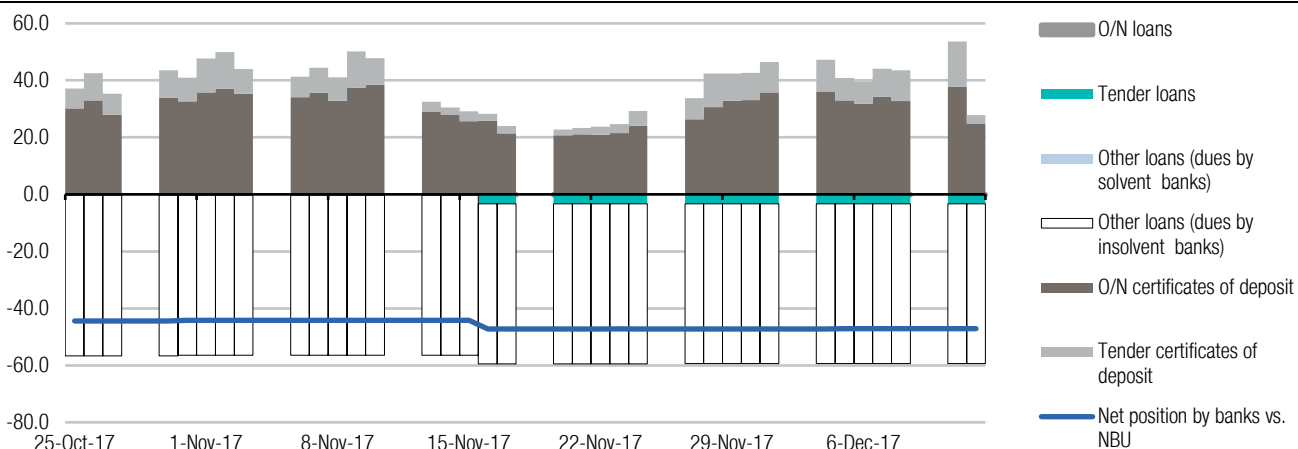


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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.

This page is intentionally left blank



11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kiev, 01030 Ukraine  
Phone/Fax +38 044 2200120

**WEB** [www.icu.ua](http://www.icu.ua)



@ICU\_UA

## CORPORATE FINANCE

**Makar Paseniuk, CFA**, Managing Director  
[makar.paseniuk@icu.ua](mailto:makar.paseniuk@icu.ua)

**Ivan Shvydanenko**, Director  
[ivan.shvydanenko@icu.ua](mailto:ivan.shvydanenko@icu.ua)

**Roman Nikitov, ACCA** Director  
[roman.nikitov@icu.ua](mailto:roman.nikitov@icu.ua)

**Yuriy Kamarytskyi**, Vice President  
[yuriy.kamarytskyi@icu.ua](mailto:yuriy.kamarytskyi@icu.ua)

**Ruslan Kilmukhametov**, Director  
[ruslan.kilmukhametov@icu.ua](mailto:ruslan.kilmukhametov@icu.ua)

**Ruslan Patlavsky**, Director  
[ruslan.patlavsky@icu.ua](mailto:ruslan.patlavsky@icu.ua)

## STRATEGY AND CORPORATE DEVELOPMENT

**Vlad Sinani**, Director  
[vlad.sinani@icu.ua](mailto:vlad.sinani@icu.ua)

## SALES AND TRADING

**Konstantin Stetsenko**   
Managing Director  
[konstantin.stetsenko@icu.ua](mailto:konstantin.stetsenko@icu.ua)

**Liliya Kubytovych**   
Asset Management Product Sales  
[liliya.kubytovych@icu.ua](mailto:liliya.kubytovych@icu.ua)

**Sergiy Byelyayev**  
Fixed-Income Trading  
[sergiy.byelyayev@icu.ua](mailto:sergiy.byelyayev@icu.ua)

**Yevgeniya Gryshchenko**  
Fixed-Income Sales  
[yevgeniya.gryshchenko@icu.ua](mailto:yevgeniya.gryshchenko@icu.ua)

**Vitaliy Sivach**   
Fixed-Income & FX Trading  
[vitaliy.sivach@icu.ua](mailto:vitaliy.sivach@icu.ua)

**Bogdan Vorotilin**   
Financial analyst (Food & Agribusiness)  
[bogdan.vorotilin@icu.ua](mailto:bogdan.vorotilin@icu.ua)

## RESEARCH

**Alexander Valchyshen**   
Head of Research  
[alexander.valchyshen@icu.ua](mailto:alexander.valchyshen@icu.ua)

**Alexander Martynenko**   
Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Taras Kotovych**   
Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Mykhaylo Demkiv**   
Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Lee Daniels, Rolfe Haas**  
Editors

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

## DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

**Additional information is available upon request.**

