

# Daily Insight

## UAH extends gains

### Key messages of the today's comments

MONDAY, 29 JANUARY 2018

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At the end of last Thursday, although a significant amount of funds was reallocated from CDs to reserves, liquidity rose only UAH0.53bn to UAH102.86bn, ahead of the NBU monetary committee's decision about the key policy rate. Having repaid UAH9.22bn in 2-week CDs redemption and UAH15.74bn in ON CDs, the NBU issued UAH10.68bn in ON CDs, purchased only by several banks that received repayments. 2

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At the end of the week, the hryvnia appreciated 0.7% to 28.5486 UAH/USD, after rising 0.4% on Thursday, following the NBU's decision to raise the key policy rate by 150bps to 16%, effective Friday. In the local market, the hryvnia sold for 28.71 UAH/USD versus 28.58 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.56% to 102.80; in year-on-year terms, it is down 4.36% from 107.28 last year. 3

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#### Ukraine's hryvnia exchange rate per US dollar (three months through 26 January 2018)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 26 January 2018)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	16.00	+150bp	+150bp
Overnight rate (interbank)	14.60	+60bp	+180bp
Banks reserves (UAHm)	71,458	+26.14	+48.84
Deposit certificates* (UAHm)	20,719	-54.64	-64.34
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	28.5150	-0.61	+1.59
Total trade volume (US\$m)	232.96	+19.14	-6.23
UAH index CPI-based	102.797	+0.56	-4.03
UAH index PPI-based	162.965	+0.56	-4.03
<b>UKRAINE SOVEREIGN EUROBOOND MARKET</b>			
CDS 5yr	340bp	+0bp	-92bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,872.87	+1.18	+7.45
MSCI EM	1,273.07	+0.76	+9.89
US dollar index (DXY)	89.067	-0.36	-3.32
EUR / USD	1.2427	+0.25	+3.52
Crude oil WTI (US\$/bbl)	66.14	+0.96	+9.47
Crude oil BRENT (US\$/bbl)	70.52	+0.14	+5.46
CRB, commodities index	200.52	+0.59	+3.43
Gold (US\$/ounce)	1,349.70	+0.13	+3.58

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Short-lived reallocation

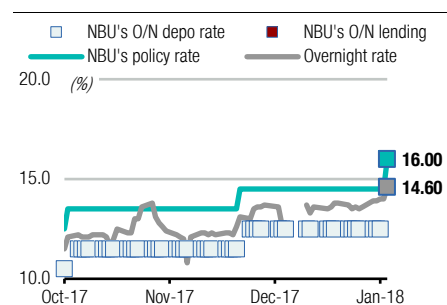
At the end of last Thursday, although a significant amount of funds was reallocated from CDs to reserves, liquidity rose only UAH0.53bn to UAH102.86bn, ahead of the NBU monetary committee's decision about the key policy rate. Having repaid UAH9.22bn in 2-week CDs redemption and UAH15.74bn in ON CDs, the NBU issued UAH10.68bn in ON CDs, purchased only by several banks that received repayments.

The impact from non-monetary operations was negative UAH0.96bn, as expected, including an outflow to the Treasury of UAH1.47bn and inflows from cash exchanged into reserves of UAH0.49bn with other operations of UAH0.02bn. The increase in liquidity was caused by inflows from the NBU, including UAH0.29bn via other monetary operations and UAH1.20bn via additional ON loans.

**ICU view:** While banks' correspondent accounts with the NBU rose UAH14.81bn to UAH74.46bn, total CDs outstanding fell UAH14.28bn to UAH31.40bn. A large portion could have been reallocated back yesterday, as the NBU sold 14-day CDs at 16.00%. Quite possibly, next week we could see additional reallocations back to CDs.

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

## Interest rates in the banks' reserves market (three months through 26 January 2018)



Source: Bloomberg, ICU.

## Key indicators (as of 26 January 2018)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	16.00	+150bp	+150bp	+150bp	+150bp
ON rate	14.60	+60bp	+100bp	+100bp	+180bp
ON \$ swap	14.47	+91bp	+121bp	+153bp	+0bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	71,458	+26.14	+30.41	+27.99	+48.84
DepCerts <sup>3</sup>	20,719	-54.64	-57.63	-45.79	-64.34
<b>Total</b>	<b>92,177</b>	<b>-9.92</b>	<b>-11.11</b>	<b>-1.99</b>	<b>-13.13</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	358,571	+0.00	+0.00	-0.56	-0.56
Banks	364,596	-0.13	+0.26	+8.08	+1.05
Residents	23,283	+0.07	+2.29	+6.77	+4.85
Individuals	1,542	-0.35	+1.62	+6.10	+5.03
Non-res <sup>4</sup>	5,859	-0.15	+11.45	+12.32	+12.26
<b>Total</b>	<b>753,850</b>	<b>-0.06</b>	<b>+0.28</b>	<b>+3.78</b>	<b>+0.48</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	8.89	-489bp	-256bp	-317bp	-692bp
3 months	9.86	-99bp	+164bp	-165bp	-108bp
6 months	9.94	-134bp	+73bp	-179bp	-247bp
1 year	11.70	-13bp	-6bp	-7bp	-43bp
<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 extends gains

At the end of the week, the hryvnia appreciated 0.7% to 28.5486 UAH/USD, after rising 0.4% on Thursday, following the NBU's decision to raise the key policy rate by 150bps to 16%, effective Friday. In the local market, the hryvnia sold for 28.71 UAH/USD versus 28.58 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.56% to 102.80; in year-on-year terms, it is down 4.36% from 107.28 last year.

Following the disappointing downward revision of US GDP growth of 2.6% in 4Q17 in annualized terms from 3%, the DXY index declined 0.4% to 89.01 on Friday.

The euro strengthened 0.3% to 1.2427 USD/EUR, thanks to a weaker USD and the ECB's improved inflationary expectations in the Eurozone for 2018-2019.

The Russian ruble declined 0.6% to 56.24 RUB/USD as market participants await possible new sanctions against Russia this week. At the same time, the CNY remained stable, closing at 6.3283 CNY/USD.

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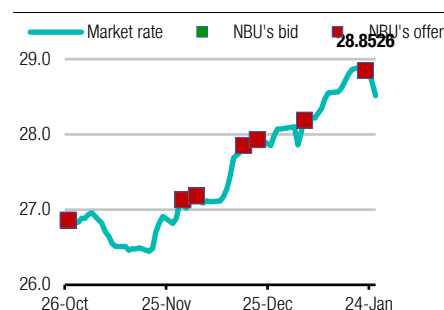
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## Key indicators (as of 26 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	28.5150	-0.61	-1.21	+2.39	+1.59
USD <sup>1</sup>	89.067	-0.36	-1.66	-4.49	-3.32
EUR	1.2427	+0.25	+1.68	+4.80	+3.52
JPY	108.5800	-0.76	-1.98	-4.11	-3.65
GBP <sup>2</sup>	1.4160	+0.13	+2.18	+5.88	+4.79
CNY	6.3283	+0.03	-1.18	-3.31	-2.74
RUB	56.2400	+0.59	-0.84	-2.46	-2.51

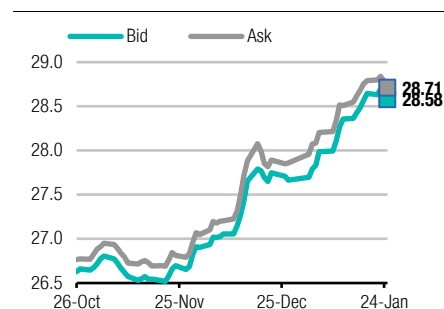
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 26 January 2018)



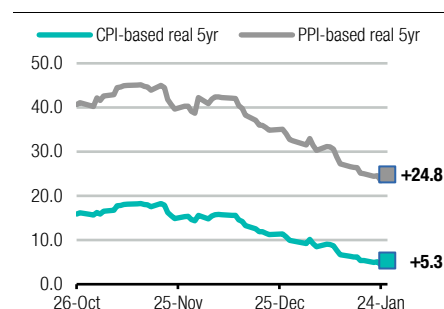
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 26 January 2018)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 26 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)

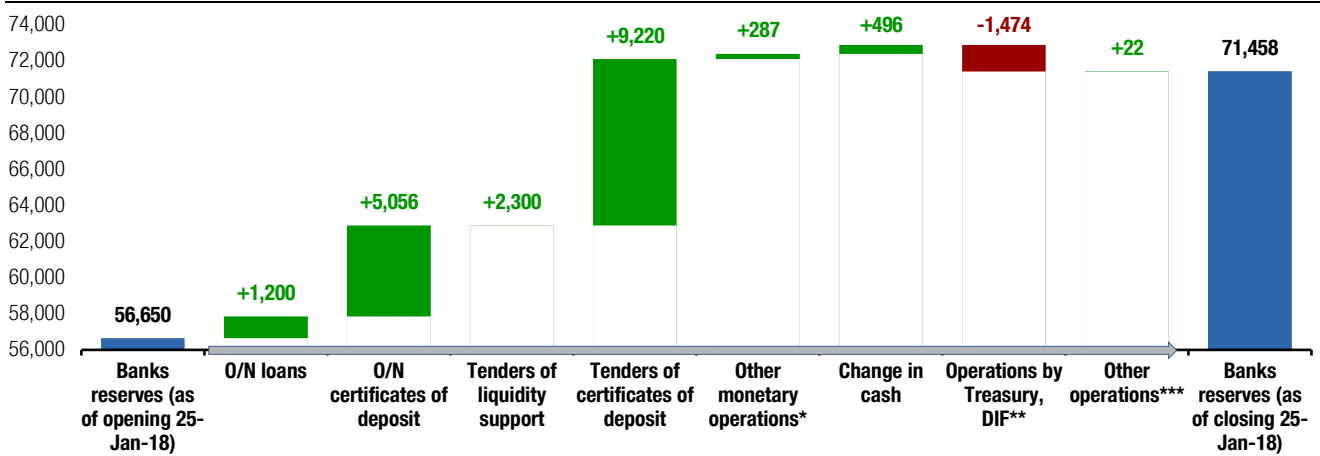
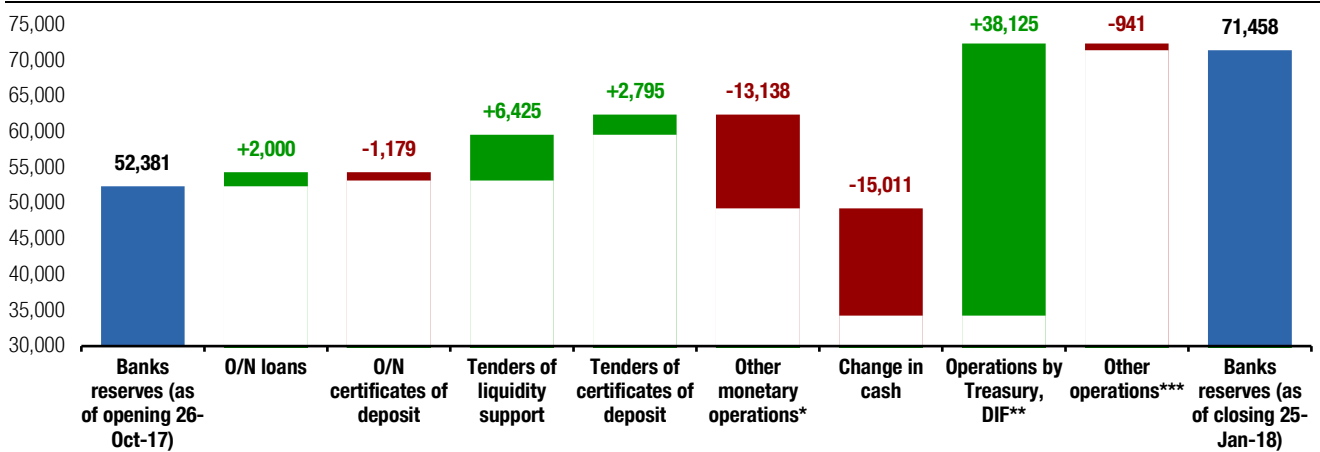
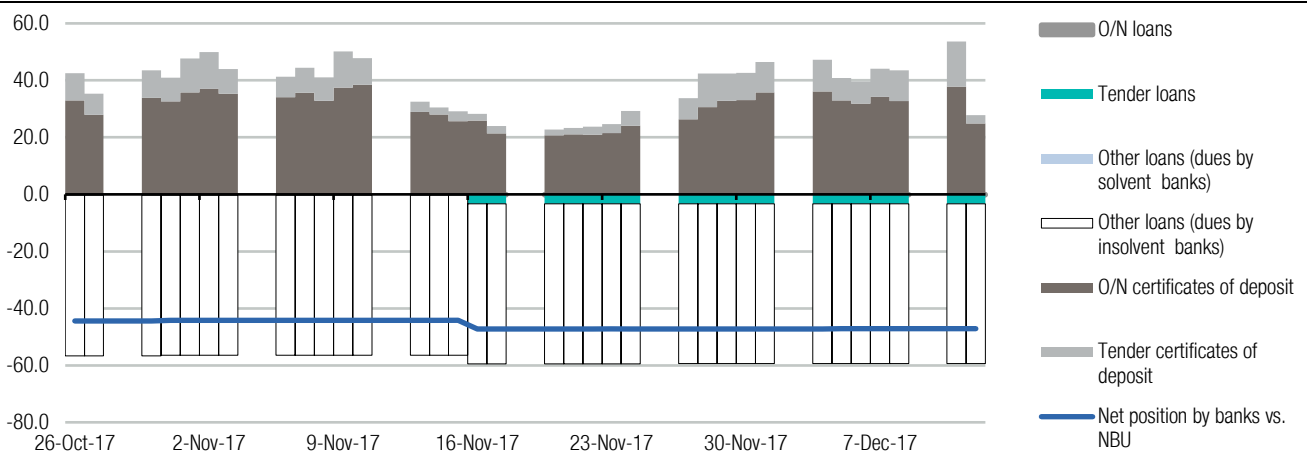


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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