

Daily Insight

Hryvnia appreciates

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Last Friday, liquidity fell UAH3.99bn to UAH98.87bn, with UAH3.5bn of loan repayments to the NBU on different loans issued to support liquidity. Banks had already repaid UAH2.0bn of ON loan and also UAH1.5bn of a longer term loan which had been scheduled for repayment in February or March. 2

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Hryvnia appreciates3

The hryvnia continued to strengthen on Monday for the third consecutive trading day. Correspondent accounts with the NBU falling significantly on Monday morning, along with the key policy rate cut, caused the hryvnia to strengthen by 1% last week and 1.1% more on Monday, reaching 28.2465 UAH/USD. It sold for 28.34 UAH/USD versus 28.41 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 1.34% to 104.17; in year-on-year terms, it is down 2.8% from 107.17 last year. 3

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TUESDAY, 30 JANUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 29 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 29 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	16.00	+0bp	+150bp
Overnight rate (interbank)	14.90	+30bp	+210bp
Banks reserves (UAHm)	N/A		
Deposit certificates* (UAHm)	N/A		
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.2250	-1.02	+0.55
Total trade volume (US\$m)	187.67	-19.44	-24.46
UAH index CPI-based	104.170	+1.34	-2.74
UAH index PPI-based	165.142	+1.34	-2.74
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	340bp	+0bp	-92bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,853.53	-0.67	+6.73
MSCI EM	1,267.98	-0.40	+9.45
US dollar index (DXY)	89.308	+0.27	-3.06
EUR / USD	1.2383	-0.35	+3.15
Crude oil WTI (US\$/bbl)	65.56	-0.88	+8.51
Crude oil BRENT (US\$/bbl)	69.46	-1.50	+3.87
CRB, commodities index	199.54	-0.49	+2.93
Gold (US\$/ounce)	1,340.31	-0.70	+2.86

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity down due to loan repayments

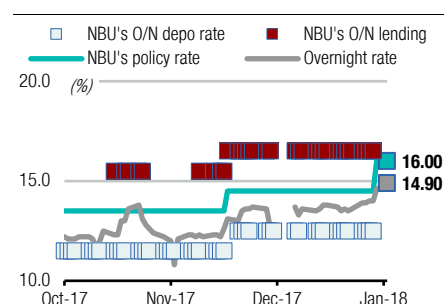
Last Friday, liquidity fell UAH3.99bn to UAH98.87bn, with UAH3.5bn of loan repayments to the NBU on different loans issued to support liquidity. Banks had already repaid UAH2.0bn of ON loan and also UAH1.5bn of a longer term loan which had been scheduled for repayment in February or March.

The negative impact from Treasury operations was UAH1.94bn while total revenues collected exceeded UAH18bn. The negative impact from non-monetary operations rose because of higher interest payments on NBU loans repaid last Friday. Per month-end routine, banks increased the exchange of cash into reserves, offsetting a significant part of outflows. The negative impact of non-monetary operations of UAH1.35bn was reduced by the NBU, which injected UAH0.86bn via FX market purchases of a portion of FX by best quote.

ICU view: Liquidity outflows caused by loan repayments had a negative impact on liquidity. Despite these outflows, banks do not anticipate liquidity to decline over the next few days. However, banks on Friday reallocated a significant UAH16.82bn into 2-week CDs, increasing total ON CDs by UAH4.10bn. As a result, banks' correspondent accounts with the NBU fell UAH24.91bn to UAH46.55bn while total CDs outstanding rose UAH20.92bn to UAH52.32bn.

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Interest rates in the banks' reserves market (three months through 29 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 29 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	16.00	+0bp	+150bp	+150bp	+150bp
ON rate	14.90	+30bp	+100bp	+210bp	+210bp
ON \$ swap	14.66	+15bp	+143bp	+0bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	N/A	N/A	N/A	N/A	N/A
DepCerts ³	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	358,571	+0.00	+0.00	-0.56	-0.56
Banks	363,411	-0.32	-0.13	+0.72	+0.72
Residents	23,635	+1.52	+3.51	+6.44	+6.44
Individuals	1,534	-0.48	+0.89	+4.53	+4.53
Non-res ⁴	5,858	-0.01	+11.43	+12.24	+12.24
Total	753,010	-0.11	+0.13	+0.37	+0.37
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	8.57	-32bp	-327bp	-724bp	-724bp
3 months	9.89	+3bp	-51bp	-104bp	-104bp
6 months	9.93	-1bp	-8bp	-248bp	-248bp
1 year	11.64	-6bp	-5bp	-49bp	-49bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	340	+0bp	+0bp	-92bp	-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 appreciates

The hryvnia continued to strengthen on Monday for the third consecutive trading day. Correspondent accounts with the NBU falling significantly on Monday morning, along with the key policy rate cut, caused the hryvnia to strengthen by 1% last week and 1.1% more on Monday, reaching 28.2465 UAH/USD. It sold for 28.34 UAH/USD versus 28.41 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 1.34% to 104.17; in year-on-year terms, it is down 2.8% from 107.17 last year.

The US dollar strengthened before the start of the Fed meeting, which is Janet Yellen's final meeting as chairwoman. Although the dollar is under pressure as authorities believe that a weak dollar is good for US trade, Donald Trump has said that the currency will appreciate. Accordingly, the DXY traded at 89.007-89.619, up 0.3% to 89.308.

The euro declined as the US dollar strengthened on Monday. Accordingly, the euro traded at 1.2337-1.2442 USD/EUR and decreased by 0.35% to 1.2383. The Chinese yuan also declined due to the rising dollar, closing down 0.2% to 6.3405 CNY/USD.

The Russian ruble, along with the currencies of other developing countries, declined because of the higher US dollar and lower oil prices. As investors await the introduction of new sanctions against Russia, the ruble declined 0.1% to 56.3151 RUB/USD.

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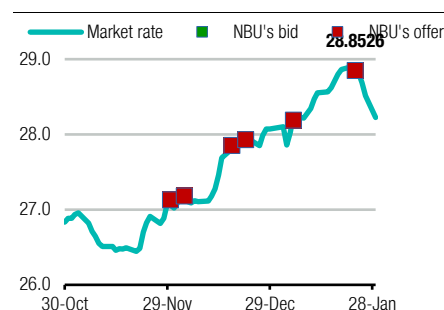
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Key indicators (as of 29 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.2250	-1.02	-2.34	+0.55	+0.55
USD ¹	89.308	+0.27	-1.21	-3.06	-3.06
EUR	1.2383	-0.35	+0.99	+3.15	+3.15
JPY	108.9600	+0.35	-1.77	-3.31	-3.31
GBP ²	1.4074	-0.61	+0.62	+4.15	+4.15
CNY	6.3405	+0.19	-1.01	-2.56	-2.56
RUB	56.3151	+0.13	-0.30	-2.38	-2.38

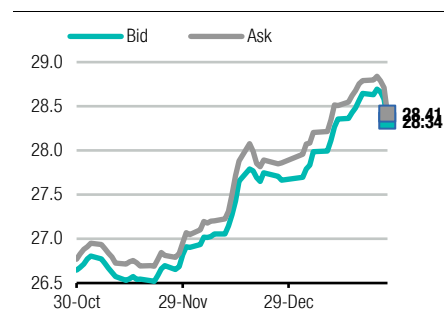
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 29 January 2018)



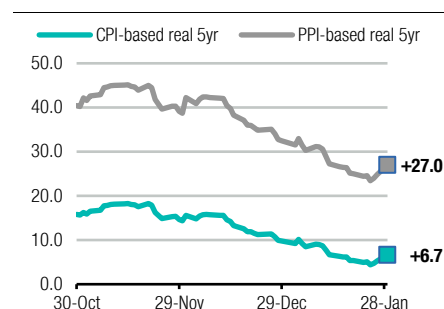
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 29 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 29 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)

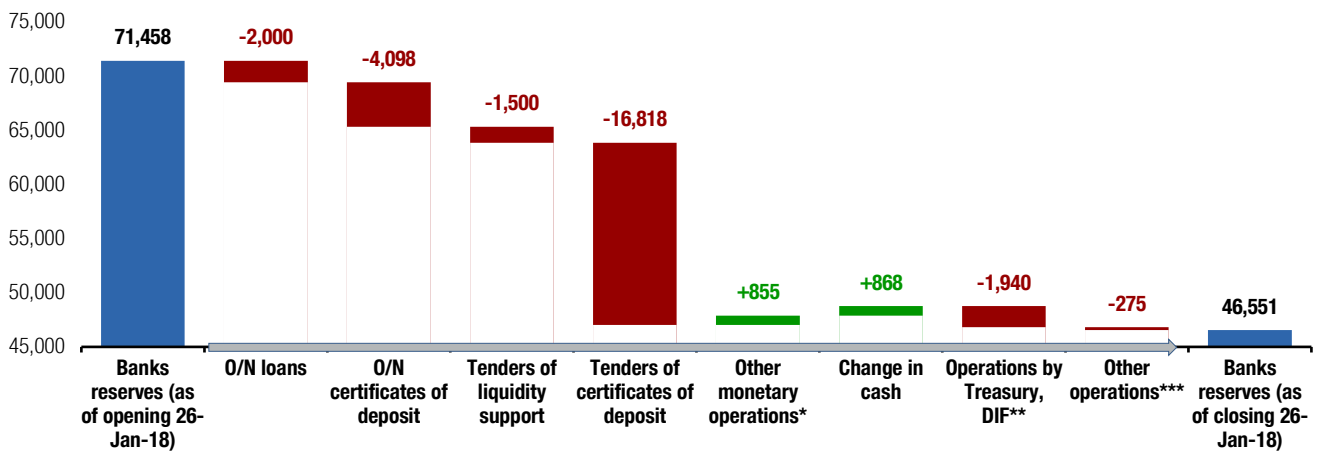
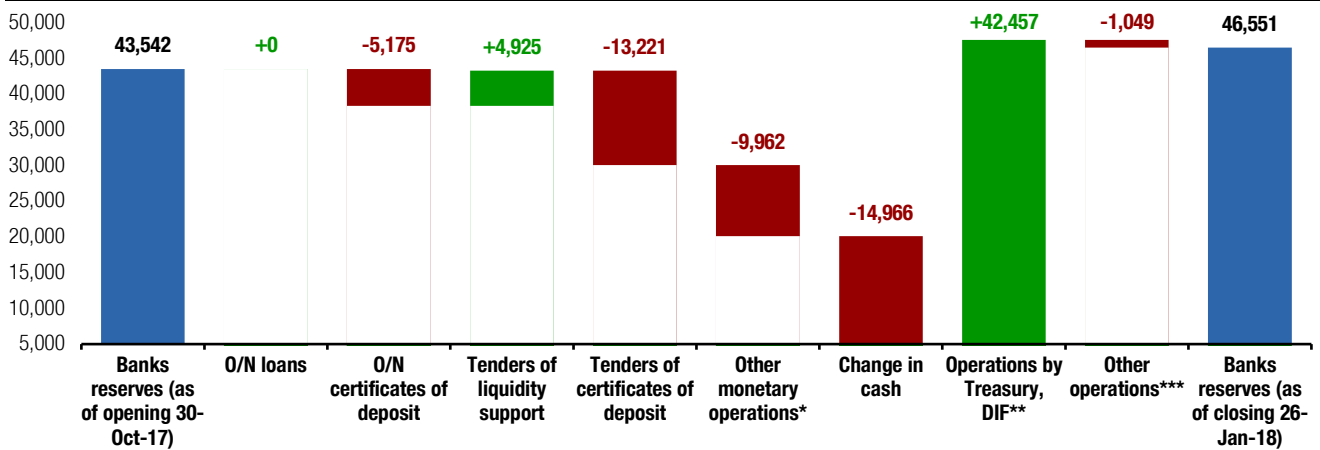
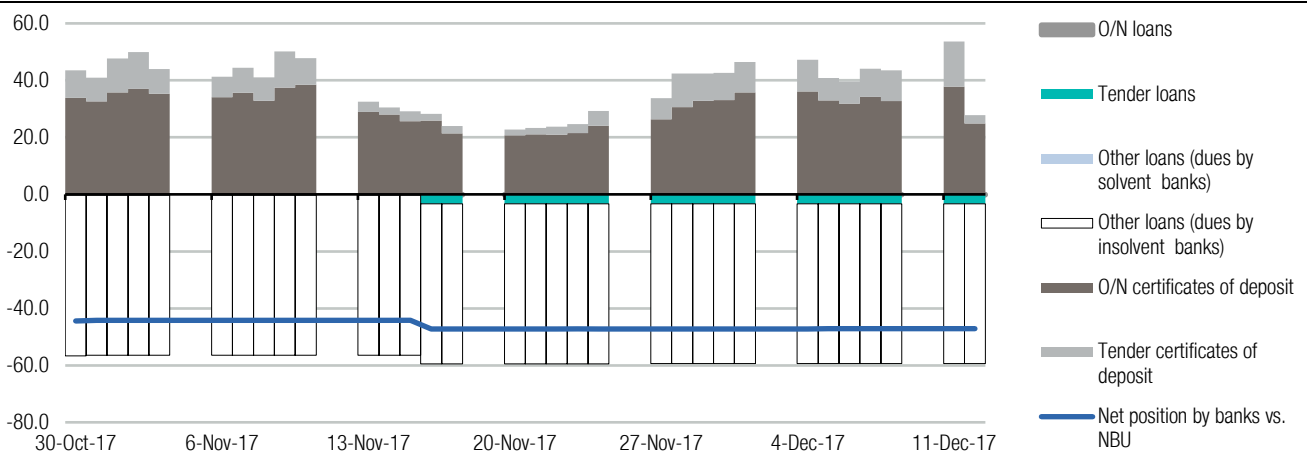


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;
 * 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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