

Daily Insight

UAH rally

Key messages of the today's comments

THURSDAY, 1 FEBRUARY 2018

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The Treasury continued to absorb funds as it paid about UAH7bn in expenditures against revenues of UAH9.6bn, resulting in a net outflow of UAH2.68bn. Inflows from cash exchanged into reserves offset some of this outflow, decreasing the negative impact from non-monetary operations to UAH1.83bn. Meanwhile, the NBU provided banks with UAH2.42bn of funds, UAH1.12bn via the FX market and UAH1.30bn via an ON loan to one bank. 2

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The hryvnia appreciated another 0.6% to 27.8435 UAH/USD following the NBU's key policy rate increase last week. Traders who expected the hryvnia to weaken were forced to sell foreign currency, increase the FX supply and support the local currency. In the local market, it sold for 27.82 UAH/USD versus 27.99 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.33% to 105.41; in year-on-year terms, it is down 1.47% from 106.98 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 31 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 31 January 2018)

| | Last | Daily chg (%) | YTD chg (%) |
|---|----------|---------------|-------------|
| DOMESTIC LIQUIDITY | | | |
| NBU key policy rate (%) | 16.00 | +0bp | +150bp |
| Overnight rate (interbank) | 15.40 | +30bp | +260bp |
| Banks reserves (UAHm) | 44,154 | -3.28 | -8.03 |
| Deposit certificates* (UAHm) | 52,577 | +4.14 | -9.51 |
| FOREIGN EXCHANGE MARKET | | | |
| UAH per US dollar | 27.8150 | -0.55 | -0.91 |
| Total trade volume (US\$m) | 367.86 | +39.59 | +48.07 |
| UAH index CPI-based | 105.411 | +0.33 | -1.58 |
| UAH index PPI-based | 167.109 | +0.33 | -1.58 |
| UKRAINE SOVEREIGN EUROBOND MARKET | | | |
| CDS 5yr | 317bp | -23bp | -115bp |
| GLOBAL FINANCIAL MARKET INDICATORS | | | |
| S&P 500 | 2,823.81 | +0.05 | +5.62 |
| MSCI EM | 1,254.59 | +0.56 | +8.30 |
| US dollar index (DXY) | 89.133 | -0.03 | -3.25 |
| EUR / USD | 1.2414 | +0.10 | +3.41 |
| Crude oil WTI (US\$/bbl) | 64.73 | +0.36 | +7.13 |
| Crude oil BRENT (US\$/bbl) | 68.89 | -0.19 | +3.02 |
| CRB, commodities index | 197.38 | -0.38 | +1.81 |
| Gold (US\$/ounce) | 1,345.15 | +0.50 | +3.23 |

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

NBU supports liquidity

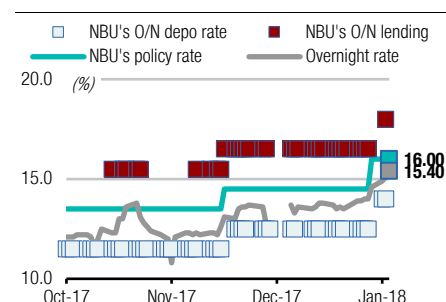
The Treasury continued to absorb funds as it paid about UAH7bn in expenditures against revenues of UAH9.6bn, resulting in a net outflow of UAH2.68bn. Inflows from cash exchanged into reserves offset some of this outflow, decreasing the negative impact from non-monetary operations to UAH1.83bn. Meanwhile, the NBU provided banks with UAH2.42bn of funds, UAH1.12bn via the FX market and UAH1.30bn via an ON loan to one bank.

Notably, liquidity rose UAH0.59bn to UAH96.73bn only as the result of the 18.0% ON NBU loan to the one bank. There was a significant reallocation to CDs, as banks' correspondent accounts with the NBU declined UAH1.50bn to UAH44.15bn while total CDs outstanding increased UAH2.09bn to UAH42.58bn. Banks increased purchases of 2-week CDs, signaling that NBU support via loans could be short-lived.

ICU view: Yesterday, the NBU held two FX auctions to purchase over UAH2bn in FX, possibly in a move to stabilize liquidity despite fully repay ON loans. At the beginning of February, outflows should be offset by cash, NBU purchases of FX, and higher budget expenditures.

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Interest rates in the banks' reserves market (three months through 31 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 31 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 | 15.40 | +30bp | +140bp | +260bp | +260bp |
| ON \$ swap | 15.01 | +58bp | +180bp | +0bp | +0bp |
| DOMESTIC LIQUIDITY (UAH MILLION) | | | | | |
| Reserves ² | 44,154 | -3.28 | -20.48 | -8.03 | -8.03 |
| DepCerts ³ | 52,577 | +4.14 | +16.44 | -9.51 | -9.51 |
| Total | 96,731 | +0.61 | -3.93 | -8.84 | -8.84 |
| BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION) | | | | | |
| NBU | 358,571 | +0.00 | +0.00 | -0.56 | -0.56 |
| Banks | 361,175 | -0.27 | -0.72 | +0.10 | +0.10 |
| Residents | 23,513 | -0.16 | +3.18 | +5.89 | +5.89 |
| Individuals | 1,514 | -0.49 | -0.47 | +3.17 | +3.17 |
| Non-res ⁴ | 5,856 | -0.01 | +11.27 | +12.20 | +12.20 |
| Total | 750,629 | -0.13 | -0.17 | +0.05 | +0.05 |
| IMPLIED YIELDS OF THE UAH NDF MARKET (%) | | | | | |
| 1 month | 7.08 | -73bp | -534bp | -874bp | -874bp |
| 3 months | 7.38 | -125bp | -290bp | -355bp | -355bp |
| 6 months | 6.00 | -11bp | -396bp | -641bp | -641bp |
| 1 year | 6.30 | -6bp | -537bp | -584bp | -584bp |
| UKRAINE SOVEREIGN EUROBOND MARKET | | | | | |
| CDS 5yr | 317 | -23bp | -23bp | -115bp | -115bp |

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 rally

The hryvnia appreciated another 0.6% to 27.8435 UAH/USD following the NBU's key policy rate increase last week. Traders who expected the hryvnia to weaken were forced to sell foreign currency, increase the FX supply and support the local currency. In the local market, it sold for 27.82 UAH/USD versus 27.99 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.33% to 105.41; in year-on-year terms, it is down 1.47% from 106.98 last year.

The euro closed up 0.1% to 1.2414 USD/EUR because of solid macroeconomic statistics. The Eurozone's unemployment rate remained at 8.7%, the lowest since January 2009, while consumer prices declined less than expected -- to 1.3% YoY in January.

The USD traded lower on Wednesday in anticipation of the Fed's policy meeting. Its decision to maintain the status quo, combined with the stronger EUR, pushed the USD slightly down. The DXY index closed down 0.03% to 89.13.

Globally weaker USD supported EM currencies. The Chinese yuan strengthened 0.6% to 6.2888 CNY/USD, having posted the biggest monthly gain (+3.4% in January) since April 2007. Higher demand for local currency, the upcoming domestic government bond auction and higher oil prices pushed the Russian ruble up 0.3% to 56.1922 RUB/USD.

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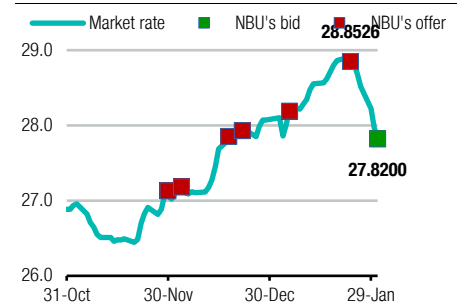
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 31 January 2018)

| | Last | Daily chg (%) | Weekly chg (%) | Monthly chg (%) | YTD chg (%) |
|---|----------|---------------|----------------|-----------------|-------------|
| EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND) | | | | | |
| UAH | 27.8150 | -0.55 | -3.49 | -0.91 | -0.91 |
| USD ¹ | 89.133 | -0.03 | -0.08 | -3.25 | -3.25 |
| EUR | 1.2414 | +0.10 | +0.05 | +3.41 | +3.41 |
| JPY | 109.1900 | +0.38 | -0.03 | -3.11 | -3.11 |
| GBP ² | 1.4191 | +0.31 | -0.36 | +5.02 | +5.02 |
| CNY | 6.2888 | -0.56 | -1.08 | -3.35 | -3.35 |
| RUB | 56.1922 | -0.34 | +0.07 | -2.59 | -2.59 |

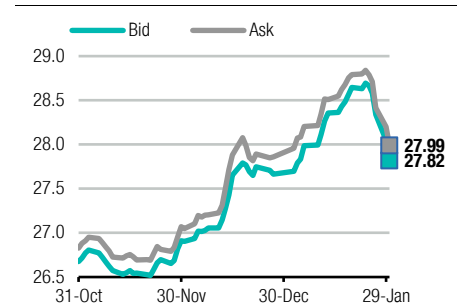
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 31 January 2018)



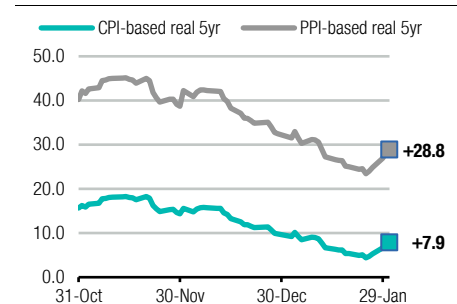
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 31 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 31 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)

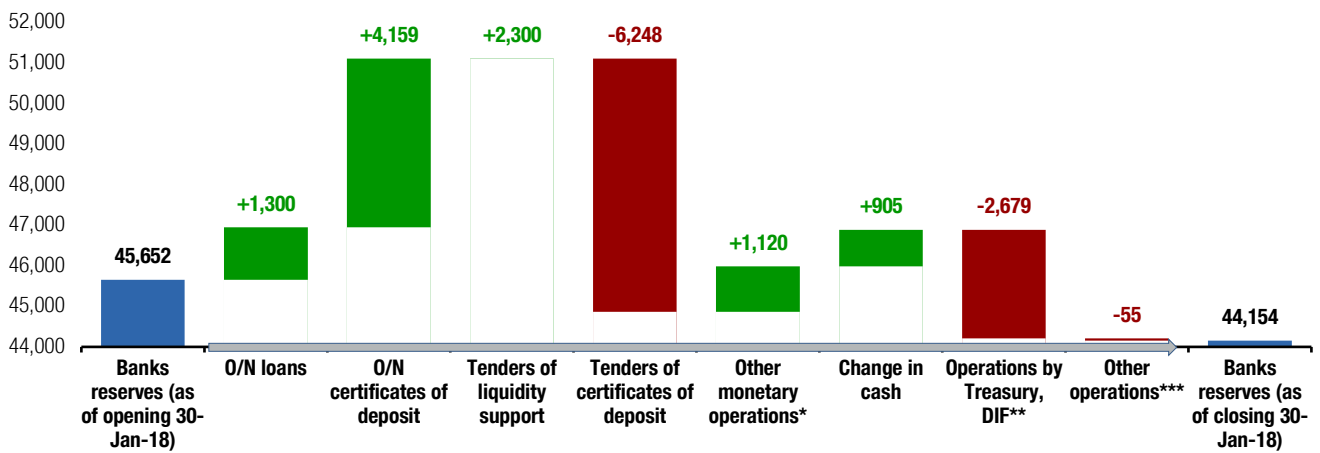
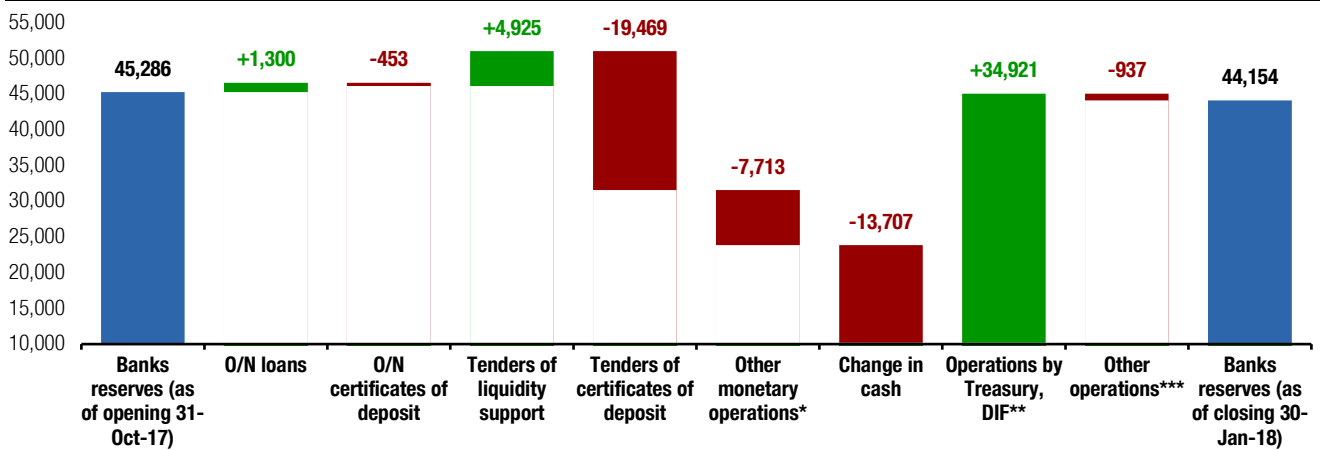
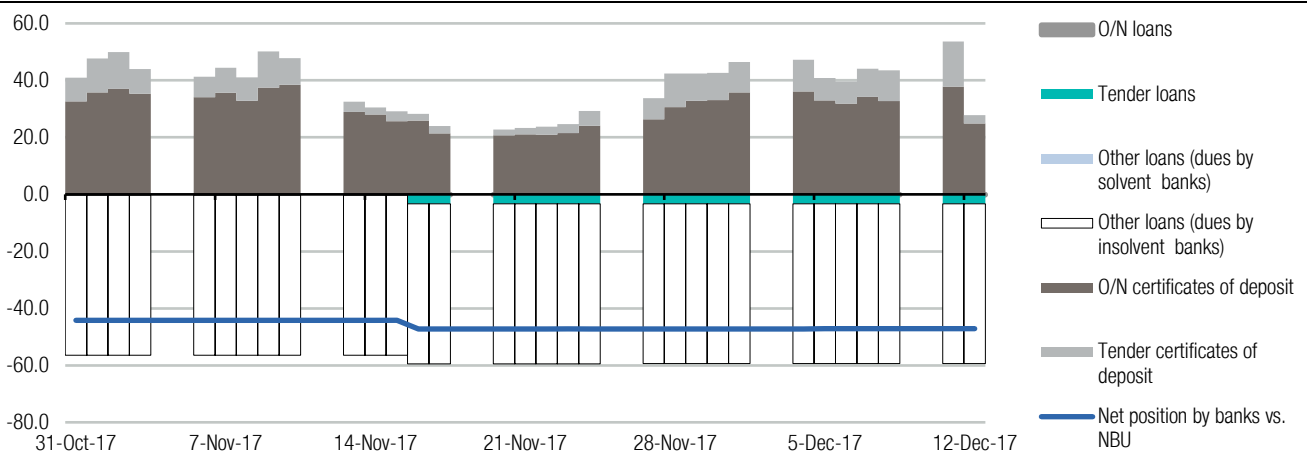


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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