

# Daily Insight

## Hryvnia corrects

### Key messages of the today's comments

#### Domestic liquidity **2**

##### Liquidity continues to rise.....2

This Wednesday, liquidity rose UAH1.23bn to UAH97.96bn as a result of inflows via FX auctions and an NBU ON loan. The increase was fully allocated to reserves with a portion of funds from CDs. Banks' correspondent accounts with the NBU rose UAH1.68bn to UAH45.84bn while total CDs outstanding slid UAH0.45bn to UAH52.13bn. 2

##### Non-residents' portfolio increases bond holdings .....2

This Tuesday, the MoF sold UAH3.7bn of local currency bonds which were mostly purchased by non-residents. Wednesday was the settlement day and non-residents increased their portfolio in local currency by UAH2.54bn, including mostly bonds maturing this year. 2

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

##### Hryvnia corrects .....3

Since the NBU's key policy rate increase last Friday, the hryvnia has appreciated 3% in nominal terms, closing at 27.8435 UAH/USD on Wednesday, only to correct slightly on Thursday, closing down 0.1% to 27.8695 UAH/USD. In the local market, it sold for 27.66 UAH/USD versus 27.90 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.58% to 104.8; in year-on-year terms, it is down 3.08% from 108.13 last year. 3

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

FRIDAY, 2 FEBRUARY 2018

#### Ukraine's hryvnia exchange rate per US dollar (three months through 1 February 2018)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 1 February 2018)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	16.00	+0bp	+150bp
Overnight rate (interbank)	15.00	-40bp	+220bp
Banks reserves (UAHm)	45,838	+3.81	-4.52
Deposit certificates* (UAHm)	52,127	-0.86	-10.28
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	27.8650	+0.18	-0.73
Total trade volume (US\$m)	157.17	-57.27	-36.73
UAH index CPI-based	104.796	-0.58	-2.16
UAH index PPI-based	166.134	-0.58	-2.16

#### UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	317bp	+0bp	-115bp
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#### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,821.98	-0.06	+5.55
MSCI EM	1,248.65	-0.47	+7.79
US dollar index (DXY)	88.671	-0.52	-3.75
EUR / USD	1.2510	+0.77	+4.21
Crude oil WTI (US\$/bbl)	65.80	+1.65	+8.90
Crude oil BRENT (US\$/bbl)	69.65	+1.10	+4.16
CRB, commodities index	198.35	+0.49	+2.31
Gold (US\$/ounce)	1,348.70	+0.26	+3.50

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity continues to rise

This Wednesday, liquidity rose UAH1.23bn to UAH97.96bn as a result of inflows via FX auctions and an NBU ON loan. The increase was fully allocated to reserves with a portion of funds from CDs. Banks' correspondent accounts with the NBU rose UAH1.68bn to UAH45.84bn while total CDs outstanding slid UAH0.45bn to UAH52.13bn.

The Treasury collected UAH7.23bn of revenues, causing UAH1.53bn of outflows due to lower budget expenditures, becoming a base for the negative impact of non-monetary operations. Cash exchanged into reserves declined to UAH0.48bn, covering only a small part of outflows to the Treasury, decreasing the negative impact of non-monetary operations to UAH1.10bn. Meanwhile, the NBU provided banks with more than UAH2bn: UAH2.03bn were injected via FX auctions and UAH0.30 via an ON loan increase to UAH1.6bn.

**ICU view:** *Liquidity becomes steady and slightly rose at the end of January due to inflows from the FX market. However, at the beginning of the month, we could see outflows to cash which could prevent liquidity from moving above UAH100bn.*

## Non-residents' portfolio increases bond holdings

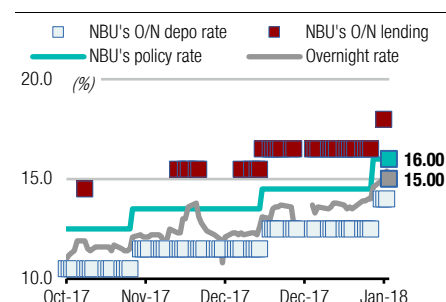
This Tuesday, the MoF sold UAH3.7bn of local currency bonds which were mostly purchased by non-residents. Wednesday was the settlement day and non-residents increased their portfolio in local currency by UAH2.54bn, including mostly bonds maturing this year.

According to details of Wednesday's deals, UAH914.5m were bonds maturing in July and UAH938.5m maturing in October 2018, the two constituting 58% of the total. UAH741.3m mature in October 2022, or 23% of the total. Total deals amounted to UAH2.59bn to the non-residents' portfolio increase.

**ICU view:** *Most likely not all, but most, of the purchased bonds were transferred to non-residents on Wednesday as that portfolio rose to UAH8.4bn. In reaction to last Friday's key policy rate hike, non-residents were motivated to buy these bonds because of the hryvnia strengthening amidst the high interest rates offered.*

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## Interest rates in the banks' reserves market (three months through 1 February 2018)



Source: Bloomberg, ICU.

## Key indicators (as of 1 February 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	16.00	+0bp	+150bp	+150bp	+150bp
ON rate	15.00	-40bp	+100bp	+220bp	+220bp
ON \$ swap	14.79	-91bp	+140bp	+0bp	+0bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	45,838	+3.81	-19.09	-4.52	-4.52
DepCerts <sup>3</sup>	52,127	-0.86	+14.12	-10.28	-10.28
<b>Total</b>	<b>97,965</b>	<b>+1.28</b>	<b>-4.26</b>	<b>-7.68</b>	<b>-7.68</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	358,570	+0.00	+0.00	-0.56	-0.56
Banks	350,118	-3.06	-4.10	-2.96	-2.96
Residents	22,962	-2.34	-1.31	+3.40	+3.40
Individuals	1,473	-2.70	-4.77	+0.38	+0.38
Non-res <sup>4</sup>	8,396	+43.36	+43.08	+60.86	+60.86
<b>Total</b>	<b>741,519</b>	<b>-1.21</b>	<b>-1.70</b>	<b>-1.17</b>	<b>-1.17</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	8.90	+182bp	-489bp	-692bp	-692bp
3 months	8.66	+128bp	-219bp	-227bp	-227bp
6 months	6.48	+49bp	-480bp	-593bp	-593bp
1 year	7.27	+97bp	-456bp	-487bp	-487bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	317	+0bp	-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

## Hryvnia corrects

Since the NBU's key policy rate increase last Friday, the hryvnia has appreciated 3% in nominal terms, closing at 27.8435 UAH/USD on Wednesday, only to correct slightly on Thursday, closing down 0.1% to 27.8695 UAH/USD. In the local market, it sold for 27.66 UAH/USD versus 27.90 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.58% to 104.8; in year-on-year terms, it is down 3.08% from 108.13 last year.

The USD struggled to find direction amidst mixed statistics. The ISM manufacturing index fell less than expected in January, while worker productivity declined for the first time since early 2016. On Thursday, the DXY index closed down 0.5% to 88.67.

The euro closed up 0.8% to 1.2510 USD/EUR thanks to the weaker USD and expectations that the ECB is nearing the end of its QE programme.

The Russian ruble was volatile. Although supported by rising oil prices, anticipations of possible sanctions against Russia to be released today caused the ruble to close up 0.4% to 55.9599 RUB/USD yesterday.

The Chinese yuan closed down 0.1% to 6.2962 CNY/USD. Chinese exporters are concerned about its having strengthened 3.4% in nominal terms in January.

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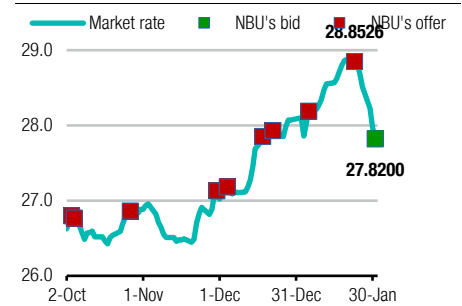
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 1 February 2018)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	27.8650	+0.18	-2.88	-0.73	-0.73
USD <sup>1</sup>	88.671	-0.52	-0.81	-3.87	-3.75
EUR	1.2510	+0.77	+0.92	+4.15	+4.21
JPY	109.4000	+0.19	-0.01	-2.87	-2.92
GBP <sup>2</sup>	1.4264	+0.51	+0.86	+5.64	+5.56
CNY	6.2962	+0.12	-0.48	-3.24	-3.24
RUB	55.9599	-0.41	+0.09	-3.00	-3.00

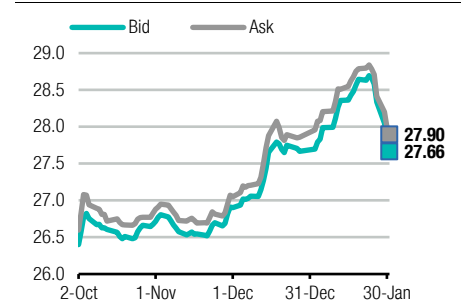
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 1 February 2018)



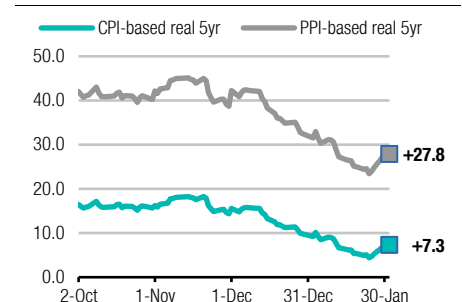
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 1 February 2018)



Source: NBU.

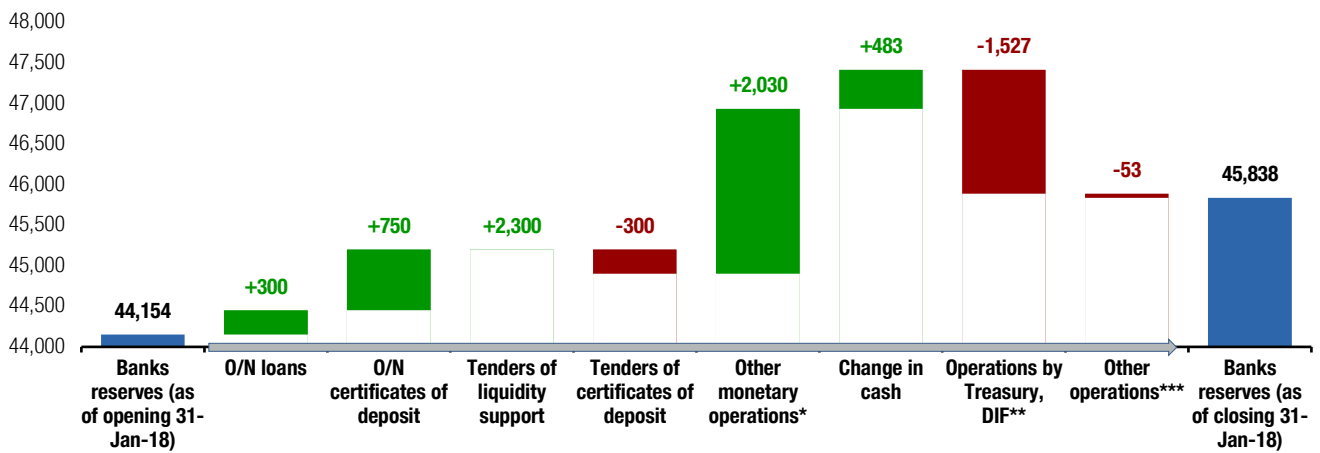
## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 1 February 2018)



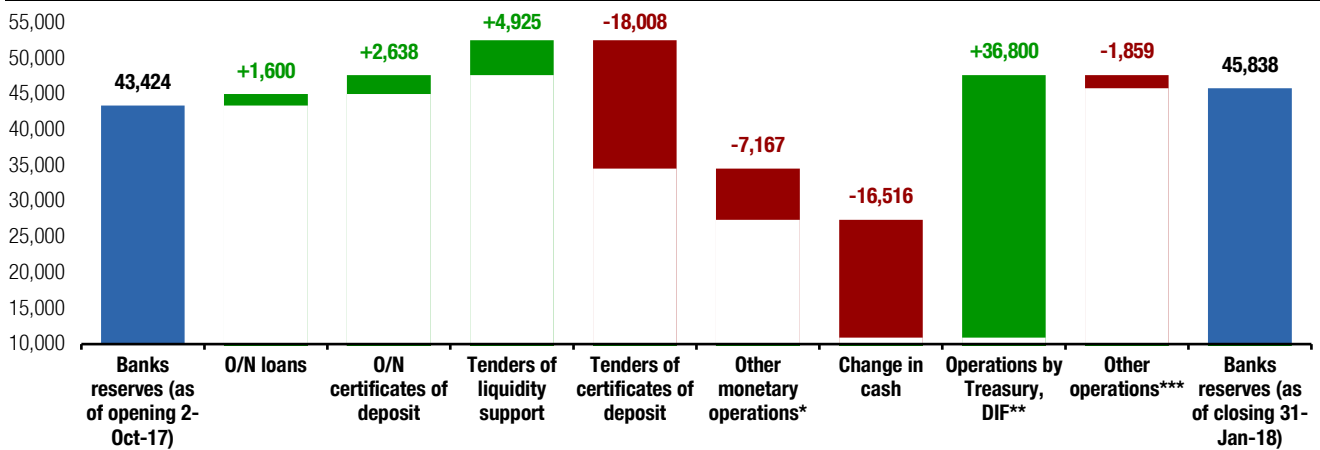
Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

# Appendix #1: Domestic liquidity

**Chart 1. Banks reserves usages over last reporting date (UAHm)**

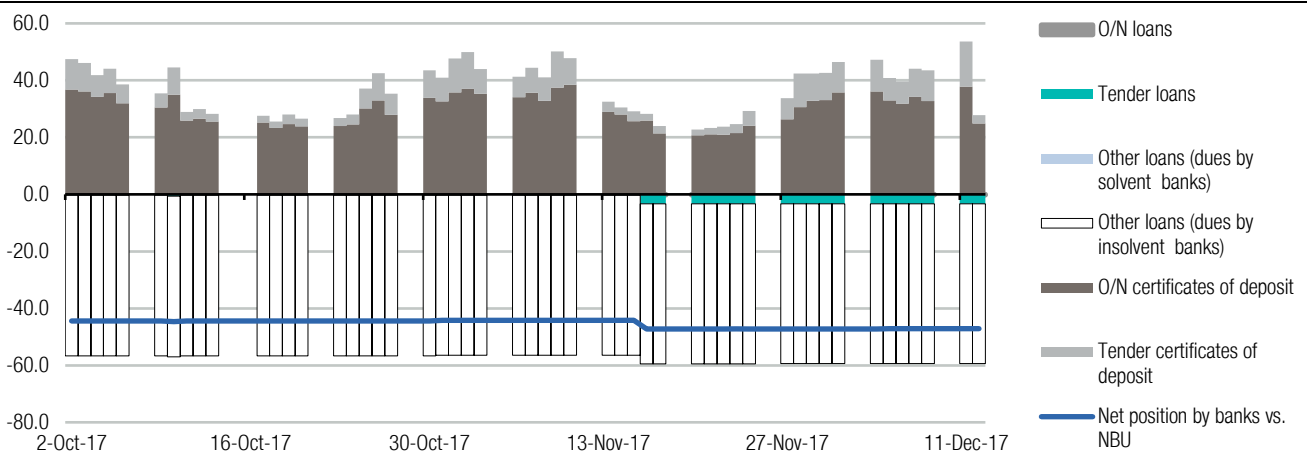


**Chart 2. Banks reserves usages over last 90-day period (UAHm)**



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.

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