

Daily Insight

Liquidity near year's low

Key messages of the today's comments

TUESDAY, 6 FEBRUARY 2018

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Liquidity near year's low 2

Last Friday, liquidity declined UAH1.73bn to UAH96.26bn, or just UAH0.12bn above this year's low seen at the end of January, because of UAH0.83bn of non-monetary operation outflows, including UAH0.61bn in cash and UAH0.22bn to Treasury accounts. Also one bank repaid a UAH1.20bn ON loan and purchased a new one at UAH0.30bn. 2

Non-residents' portfolio rises to UAH9.3bn 2

Last week, non-residents purchased about UAH3.5bn of new bonds, increasing their portfolio to UAH9.33bn, including UAH9.24bn of local currency bonds at various maturities from this year to the beginning of 2019 through 2022. 2

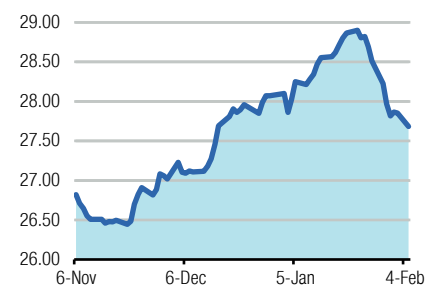
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Hryvnia appreciates 3

At the beginning of the week, despite the higher US dollar, the hryvnia strengthened by 0.5% to 27.7424 UAH/USD because liquidity fell UAH1.7bn and banks' correspondent accounts with the NBU decreased by UAH5.1bn. It sold for 27.75 UAH/USD versus 27.94 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 1.16% to 106.54; in year-on-year terms, it is up 0.47% from 106.04 last year. 3

Appendix #1: Domestic liquidity 4

Ukraine's hryvnia exchange rate per US dollar (three months through 5 February 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 5 February 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	16.00	+0bp	+150bp
Overnight rate (interbank)	15.20	-10bp	+240bp
Banks reserves (UAHm)	41,244	-11.02	-14.09
Deposit certificates* (UAHm)	55,014	+6.54	-5.31
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.6850	-0.61	-1.37
Total trade volume (US\$m)	171.22	-21.13	-31.08
UAH index CPI-based	106.543	+1.16	-0.53
UAH index PPI-based	168.904	+1.16	-0.53
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	317bp	+0bp	-115bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,648.94	-4.10	-0.92
MSCI EM	1,209.34	-1.75	+4.39
US dollar index (DXY)	89.554	+0.40	-2.79
EUR / USD	1.2367	-0.77	+3.02
Crude oil WTI (US\$/bbl)	64.15	-1.99	+6.17
Crude oil BRENT (US\$/bbl)	67.62	-1.40	+1.12
CRB, commodities index	195.67	-1.35	+0.93
Gold (US\$/ounce)	1,339.68	+0.51	+2.81

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity near year's low

Last Friday, liquidity declined UAH1.73bn to UAH96.26bn, or just UAH0.12bn above this year's low seen at the end of January, because of UAH0.83bn of non-monetary operation outflows, including UAH0.61bn in cash and UAH0.22bn to Treasury accounts. Also one bank repaid a UAH1.20bn ON loan and purchased a new one at UAH0.30bn.

Other banks increased CD purchases by UAH3.38bn of additional ON CDs last Friday. Total CDs outstanding rose to UAH55.01bn, while banks' correspondent accounts with the NBU fell UAH5.11bn to UAH41.24bn. The NBU purchased US\$80m of FX via request of best quote, but this did not occur last Friday.

ICU view: As expected, liquidity declined without support from the NBU and the Treasury. While NBU support via ON loans has waned, having little impact on liquidity, it is scheduled to repay UAH1.2bn in CD redemptions tomorrow but sell only UAH0.30bn of 3-month CDs. Also, a UAH3.0bn 3-month loan is scheduled for repayment on Wednesday if it was not paid earlier in January.

Non-residents' portfolio rises to UAH9.3bn

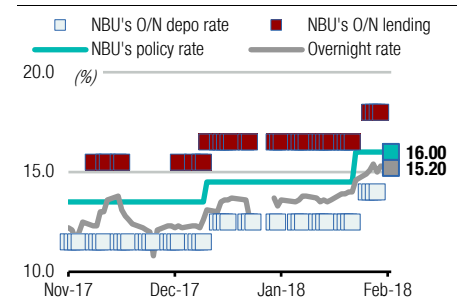
Last week, non-residents purchased about UAH3.5bn of new bonds, increasing their portfolio to UAH9.33bn, including UAH9.24bn of local currency bonds at various maturities from this year to the beginning of 2019 through 2022.

Per NBU and Bloomberg data, some funds were invested in bonds through CLN issued by Citigroup, with about UAH1.0bn of CLN in investments last week. New CLN were issued maturing in April and July 2018, January 2019 and October 2022.

ICU view: A stronger hryvnia and key policy rate hike increased the attractiveness of local currency bonds, and this trend could continue. The non-residents' share of total bonds outstanding rose to 1.25%, and their rising demand could enable the MoF to reject higher bids from local investors and still attract high proceeds. Today, the MoF will offer six bonds with maturities from 2.5 months to three years, and non-residents' demand could be significant.

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Interest rates in the banks' reserves market (three months through 5 February 2018)



Source: Bloomberg, ICU.

Key indicators (as of 5 February 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	16.00	+0bp	+0bp	+150bp	+150bp
ON rate	15.20	-10bp	+30bp	+160bp	+240bp
ON \$ swap	14.92	-11bp	+26bp	+214bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	41,244	-11.02	-11.40	+11.44	-14.09
DepCerts ³	55,014	+6.54	+5.16	-21.40	-5.31
Total	96,258	-1.77	-2.64	-10.04	-9.28
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	358,570	+0.00	+0.00	-0.56	-0.56
Banks	353,033	+0.01	-2.86	-2.02	-2.15
Residents	23,086	+0.22	-2.32	+3.92	+3.96
Individuals	1,511	+0.24	-1.50	+3.18	+2.97
Non-res ⁴	9,333	+0.00	+59.31	+78.83	+78.81
Total	745,533	+0.01	-0.99	-0.57	-0.63
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	9.57	+65bp	+100bp	-105bp	-624bp
3 months	8.89	+27bp	-100bp	-217bp	-204bp
6 months	7.83	+14bp	-210bp	-363bp	-458bp
1 year	7.32	+4bp	-432bp	-444bp	-481bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	317	+0bp	-23bp	-110bp	-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 appreciates

At the beginning of the week, despite the higher US dollar, the hryvnia strengthened by 0.5% to 27.7424 UAH/USD because liquidity fell UAH1.7bn and banks' correspondent accounts with the NBU decreased by UAH5.1bn. It sold for 27.75 UAH/USD versus 27.94 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 1.16% to 106.54; in year-on-year terms, it is up 0.47% from 106.04 last year.

The US dollar strengthened after the ISM Non-Manufacturing index increased to 59.9 points, a new ten-year high. Investor sentiment also rose after Janet Yellen commented on the likelihood of raising interest rates in the future. Accordingly, the dollar index (DXY) traded at 89.021-89.699, closing up 0.4% to 89.554.

The euro declined after retail sales decreased in December MoM by 1.1% in the Eurozone, and down 1.9% in Germany. It traded at 1.2363-1.2475 USD/EUR, down 0.8% to 1.2367. The Chinese yuan rose by 0.1% to close at 6.2926 CNY/USD.

The Russian ruble weakened further on Monday in anticipation of the Central Bank's key policy rate cut. The PMI services sector index decreased to 55.1 points in January from 56.8 in the previous period, the ruble traded at 56.1156-57.3649, closing down 1.3% to 57.3081 RUB/USD.

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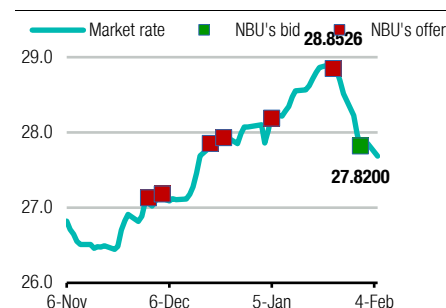
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 5 February 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.6850	-0.61	-1.91	-2.00	-1.37
USD ¹	89.554	+0.40	+0.28	-2.60	-2.79
EUR	1.2367	-0.77	-0.13	+2.81	+3.02
JPY	109.0900	-0.98	+0.12	-3.50	-3.19
GBP ²	1.3959	-1.13	-0.82	+2.86	+3.30
CNY	6.2926	-0.13	-0.76	-3.02	-3.29
RUB	57.3081	+1.36	+1.76	+0.66	-0.66

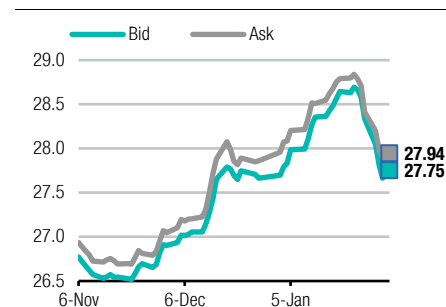
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 5 February 2018)



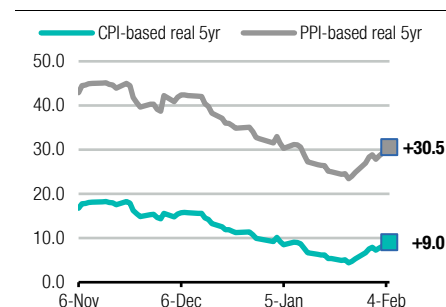
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 5 February 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 5 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)

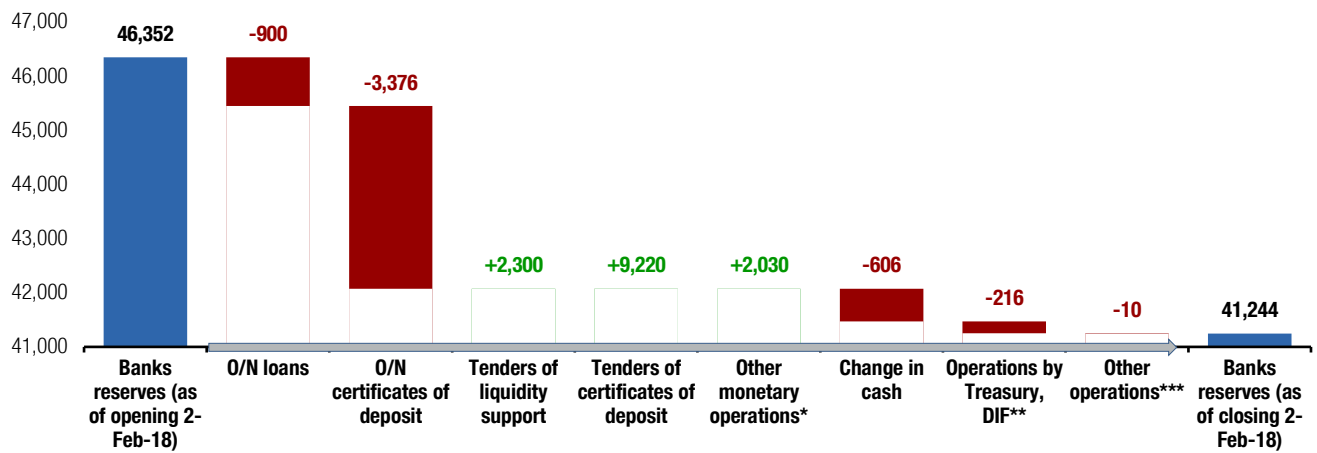
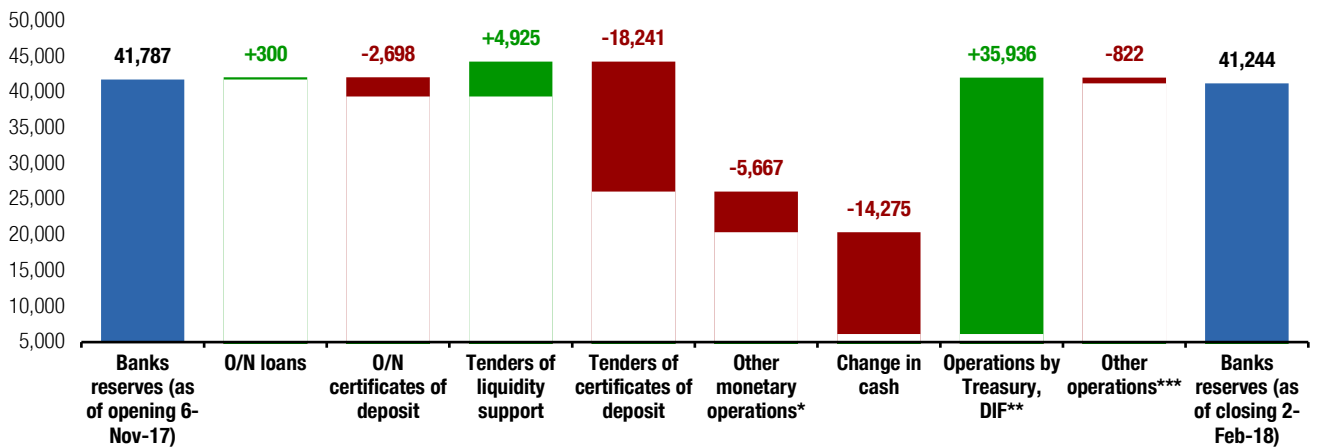
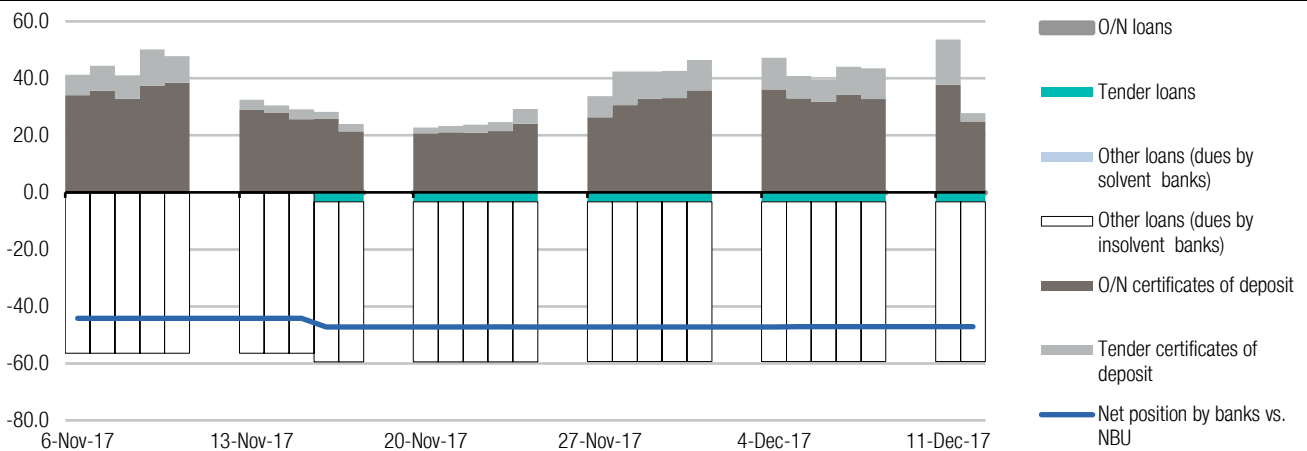


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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