

# Daily Insight

## MoF borrows UAH5.24bn from new bonds

### Key messages of the today's comments

WEDNESDAY, 7 FEBRUARY 2018

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##### Significant liquidity increase ..... 2

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##### MoF borrows UAH5.24bn from new bonds ..... 2

Yesterday, the MoF sold UAH5.24bn in bonds with maturities up to one year while it rejected high rate bids and low demand for 2-year and 3-year bonds. Accepting nearly 85% of demand, the 3-month and 6-month bonds attracted the most demand, exceeding UAH2bn for each bond, while the 9-month drew UAH1.07bn and the 1-year had only UAH0.19bn. 2-year and 3-year bonds received demand of UAH0.10bn and UAH0.23bn, respectively. 2

#### Foreign exchange markets 3

##### Another good day for UAH ..... 3

The hryvnia soared 1% to 27.4609 UAH/USD as a result of yesterday's auction. Non-residents bought hryvnia in advance to purchase UAH-denominated instruments offered at higher interest rates. In the local market, it sold for 27.67 UAH/USD versus 27.86 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.81% to 107.41; in year-on-year terms, it is up 0.94% from 106.41 last year. 3

#### Appendix #1: Domestic liquidity 4

#### Ukraine's hryvnia exchange rate per US dollar (three months through 6 February 2018)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 6 February 2018)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	16.00	+0bp	+150bp
Overnight rate (interbank)	15.60	+40bp	+280bp
Banks reserves (UAHm)	49,305	+19.55	+2.70
Deposit certificates* (UAHm)	49,978	-9.15	-13.98
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	27.4050	-1.01	-2.37
Total trade volume (US\$m)	N/A		
UAH index CPI-based	107.408	+0.81	+0.28
UAH index PPI-based	170.274	+0.81	+0.28
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	317bp	+0bp	-115bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,695.14	+1.74	+0.81
MSCI EM	1,176.18	-2.74	+1.53
US dollar index (DXY)	89.585	+0.03	-2.76
EUR / USD	1.2377	+0.08	+3.10
Crude oil WTI (US\$/bbl)	63.39	-1.18	+4.92
Crude oil BRENT (US\$/bbl)	66.86	-1.12	-0.01
CRB, commodities index	194.75	-0.47	+0.45
Gold (US\$/ounce)	1,324.10	-1.16	+1.62

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Significant liquidity increase

This Monday, the Treasury and the NBU caused liquidity to increase close to UAH100bn, and yesterday it possibly rose even further following NBU purchases of FX, higher budget expenditures, and VAT refunds.

Total CDs outstanding fell UAH5.04bn while banks' correspondent accounts with the NBU rose UAH8.06bn upon receiving additional funds. The NBU provided one bank with a UAH1.3bn loan instead redeeming UAH0.30bn from last Friday. Also, the NBU purchased UAH0.28bn of FX on Monday as non-monetary operations had a significant positive UAH1.75bn impact on liquidity, including UAH1.64bn of Treasury inflows. As a result, liquidity rose UAH3.03bn to UAH99.28bn.

**ICU view: Higher budget expenditures support liquidity. With yesterday's UAH1.5bn NBU inflows and a UAH0.35 VAT refund from the Treasury, liquidity could cross UAH100bn, albeit temporarily.**

## MoF borrows UAH5.24bn from new bonds

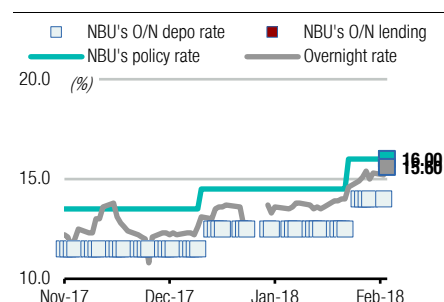
Yesterday, the MoF sold UAH5.24bn in bonds with maturities up to one year while it rejected high rate bids and low demand for 2-year and 3-year bonds. Accepting nearly 85% of demand, the 3-month and 6-month bonds attracted the most demand, exceeding UAH2bn for each bond, while the 9-month drew UAH1.07bn and the 1-year had only UAH0.19bn. 2-year and 3-year bonds received demand of UAH0.10bn and UAH0.23bn, respectively.

Interest rates were quite different from last week's auction, no higher than 17.00%, and for mid-term bonds no higher than 16.50%. However, for bonds with maturities up to nine months, the MoF set cut-off rates at 16.50%, and for the 1-year bond – at 16.40%, unchanged from last week. For three of the four bonds, the cut-off rate was at the bottom; only the 9-month bond's lowest rate at 16.47% decreased its weighted-average rate to 16.48%.

**ICU view: Although demand remained high, it was much lower than it was a week ago. Most likely, the majority of demand was from non-residents, similar to last week's auction, which could continue next week, but their demand could be lower as the hryvnia has strengthened (see comment below).**

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

## Interest rates in the banks' reserves market (three months through 6 February 2018)



Source: Bloomberg, ICU.

## Key indicators (as of 6 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	+0bp	+150bp	+150bp
ON rate	15.60	+40bp	+50bp	+200bp	+280bp
ON \$ swap	15.05	+20bp	+53bp	+226bp	+0bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	49,305	+19.55	+8.00	+33.22	+2.70
DepCerts <sup>3</sup>	49,978	-9.15	-1.01	-28.59	-13.98
<b>Total</b>	<b>99,283</b>	<b>+3.14</b>	<b>+3.27</b>	<b>-7.21</b>	<b>-6.43</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	358,570	+0.00	+0.00	-0.56	-0.56
Banks	352,368	-0.19	-2.70	-2.20	-2.34
Residents	23,060	-0.11	-2.08	+3.80	+3.85
Individuals	1,571	+3.92	+3.21	+7.23	+7.01
Non-res <sup>4</sup>	9,332	+0.00	+59.34	+78.82	+78.80
<b>Total</b>	<b>744,901</b>	<b>-0.08</b>	<b>-0.90</b>	<b>-0.65</b>	<b>-0.72</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	8.47	-111bp	+66bp	-216bp	-735bp
3 months	8.43	-46bp	-20bp	-263bp	-250bp
6 months	7.62	-21bp	+151bp	-385bp	-479bp
1 year	7.66	+34bp	+130bp	-410bp	-448bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
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

## Another good day for UAH

The hryvnia soared 1% to 27.4609 UAH/USD as a result of yesterday's auction. Non-residents bought hryvnia in advance to purchase UAH-denominated instruments offered at higher interest rates. In the local market, it sold for 27.67 UAH/USD versus 27.86 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.81% to 107.41; in year-on-year terms, it is up 0.94% from 106.41 last year.

The US dollar paired losses after the US stock markets rebounded after a sharply lower open. The DXY index closed almost unchanged at 89.59, trading at 89.37-90.03.

The euro traded higher against the USD following some progress in coalition negotiations in Germany, closing up 0.1% to 1.2377 USD/EUR.

The Russian ruble and Chinese yuan were volatile on Tuesday as the USD fluctuated. The yuan closed up 0.03% at 6.2907 CNY/USD, trading at 6.2687-6.3045 CNY/USD, while the RUB strengthened 0.8% to 56.8588 RUB/USD, as oil prices turned to growth.

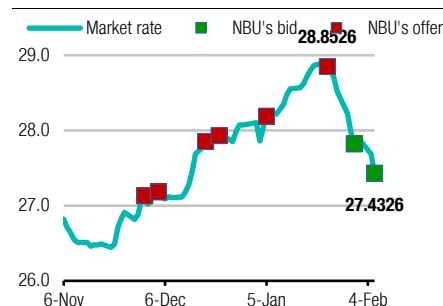
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## Key indicators (as of 6 February 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	27.4050	-1.01	-2.02	-2.99	-2.37
USD <sup>1</sup>	89.585	+0.03	+0.48	-2.57	-2.76
EUR	1.2377	+0.08	-0.20	+2.89	+3.10
JPY	109.5600	+0.43	+0.72	-3.09	-2.78
GBP <sup>2</sup>	1.3949	-0.07	-1.40	+2.79	+3.23
CNY	6.2907	-0.03	-0.52	-3.05	-3.32
RUB	56.8588	-0.78	+0.84	-0.12	-1.44

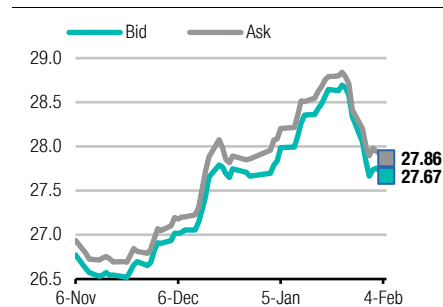
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 6 February 2018)



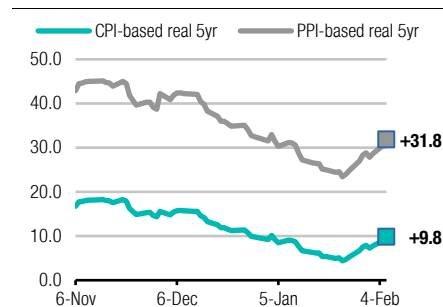
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 6 February 2018)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 6 February 2018)

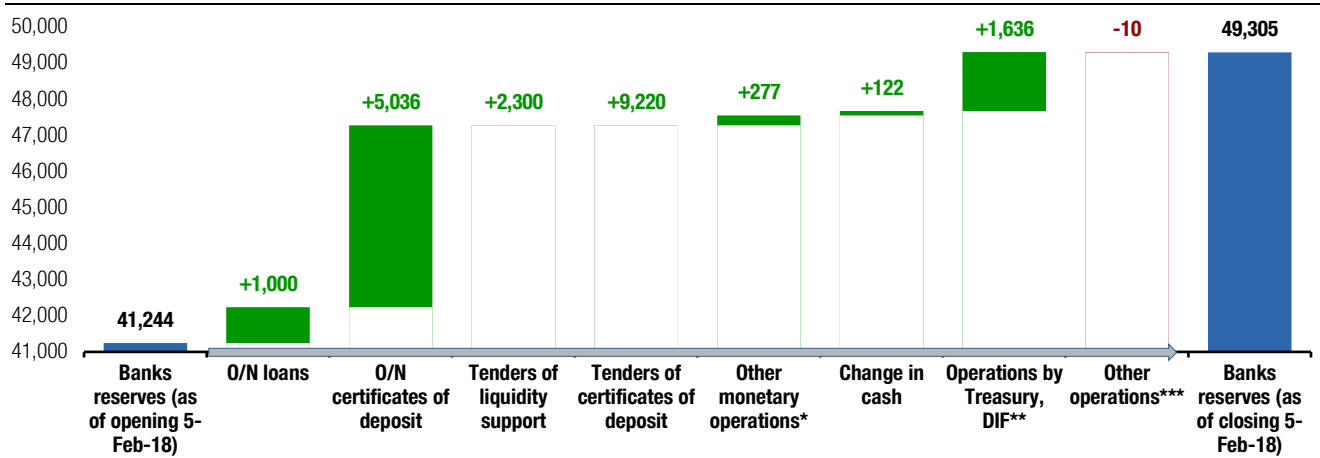


Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

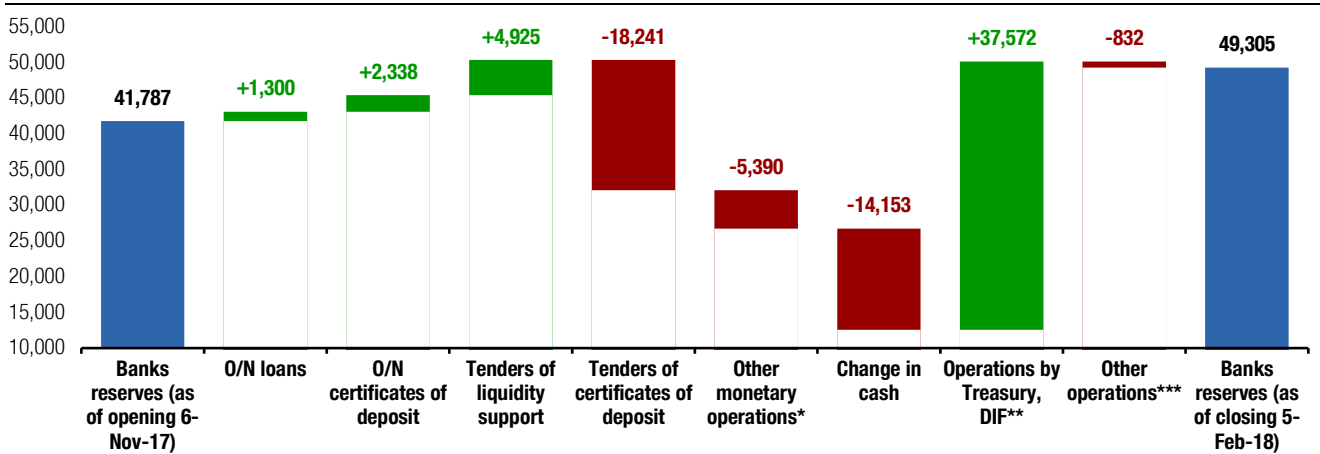
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

# Appendix #1: Domestic liquidity

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

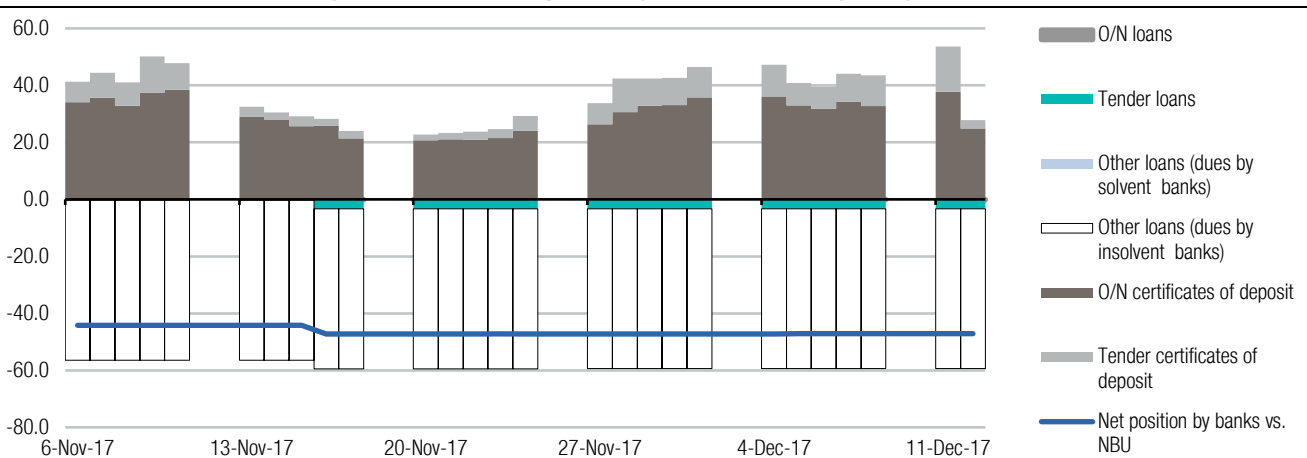


**Chart 2. Banks reserves usages over last 90-day period (UAHm)**



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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