

# Daily Insight

## UAH continues to strengthen

### Key messages of the today's comments

#### Domestic liquidity **2**

##### Liquidity up on FX purchasing.....2

The NBU purchased about US\$200m over the past two days, including Tuesday's operations which provided banks with UAH2.5bn. Its UAH1.3bn ON loan offset outflows via non-monetary operations, pushing liquidity above UAH100bn. The Treasury absorbed UAH1.01bn, banks exchanged UAH0.48bn of reserves in cash and via other non-monetary operations, outflows amounted to UAH0.02bn. So, negative impact from non-monetary operations was UAH1.51bn. **2**

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

##### UAH continues to strengthen.....3

The hryvnia appreciated another 1.3% to 27.1196 UAH/USD, hitting a two-month high. Up 2.8% in nominal terms since the beginning of the week, Tuesday's auction with higher interest rates that attracted non-resident investors appears to be the catalyst. The NBU also purchased about US\$200bn (see comment on liquidity). In the local market, the hryvnia sold for 27.36 UAH/USD versus 27.59 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 1.84% to 109.38; in year-on-year terms, it is up 1.73% from 107.52 last year. **3**

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

### THURSDAY, 8 FEBRUARY 2018

#### Ukraine's hryvnia exchange rate per US dollar (three months through 7 February 2018)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 7 February 2018)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	16.00	+0bp	+150bp
Overnight rate (interbank)	15.60	+0bp	+280bp
Banks reserves (UAHm)	44,712	-9.32	-6.87
Deposit certificates* (UAHm)	55,566	+11.18	-4.36
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	27.1250	-1.02	-3.37
Total trade volume (US\$m)	N/A		
UAH index CPI-based	109.382	+1.84	+2.12
UAH index PPI-based	173.404	+1.84	+2.12
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	317bp	+0bp	-115bp

#### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,681.66	-0.50	+0.30
MSCI EM	1,173.38	-0.24	+1.29
US dollar index (DXY)	90.255	+0.75	-2.03
EUR / USD	1.2264	-0.91	+2.16
Crude oil WTI (US\$/bbl)	61.79	-2.52	+2.27
Crude oil BRENT (US\$/bbl)	65.51	-2.02	-2.03
CRB, commodities index	192.34	-1.24	-0.79
Gold (US\$/ounce)	1,318.52	-0.42	+1.19

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity up on FX purchasing

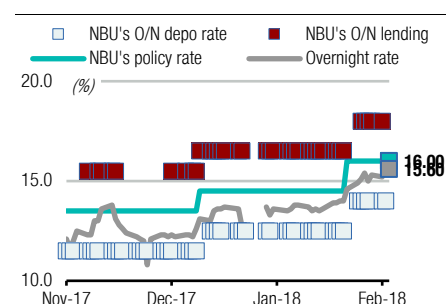
The NBU purchased about US\$200m over the past two days, including Tuesday's operations which provided banks with UAH2.5bn. Its UAH1.3bn ON loan offset outflows via non-monetary operations, pushing liquidity above UAH100bn. The Treasury absorbed UAH1.01bn, banks exchanged UAH0.48bn of reserves in cash and via other non-monetary operations, outflows amounted to UAH0.02bn. So, negative impact from non-monetary operations was UAH1.51bn.

The net positive impact from all operations caused liquidity to rise UAH0.99bn to UAH100.28bn. Also, Tuesday's portion of liquidity was reallocated from reserves into CDs which had been reallocated into reserves on Monday. Total CDs outstanding rose UAH5.59bn on Tuesday to UAH55.57bn while banks' correspondent accounts with the NBU fell UAH4.59bn to UAH44.71bn. Banks increased ON CDs only by UAH0.69bn but purchased UAH4.90bn of 2-week CDs.

**ICU view: NBU continued to purchase FX from the market, most likely sold by non-residents to pay for new government bonds. Following yesterday's UAH5.24bn in bond purchases, liquidity could decline below UAH100bn despite the UAH3.0bn inflow from the NBU at yesterday's FX auction.**

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

## Interest rates in the banks' reserves market (three months through 7 February 2018)



Source: Bloomberg, ICU.

## Key indicators (as of 7 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	+0bp	+20bp	+200bp	+280bp
ON \$ swap	15.10	-7bp	+10bp	+232bp	+0bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	44,712	-9.32	+1.26	+20.81	-6.87
DepCerts <sup>3</sup>	55,566	+11.18	+5.68	-20.61	-4.36
<b>Total</b>	<b>100,278</b>	<b>+1.00</b>	<b>+3.67</b>	<b>-6.28</b>	<b>-5.50</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	358,570	+0.00	+0.00	-0.56	-0.56
Banks	351,101	-0.36	-2.79	-2.55	-2.69
Residents	23,103	+0.18	-1.75	+3.99	+4.04
Individuals	1,566	-0.29	+3.42	+6.91	+6.70
Non-res <sup>4</sup>	9,325	-0.08	+59.22	+78.67	+78.65
<b>Total</b>	<b>743,664</b>	<b>-0.17</b>	<b>-0.93</b>	<b>-0.82</b>	<b>-0.88</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	6.88	-159bp	-20bp	-375bp	-893bp
3 months	7.86	-57bp	+48bp	-320bp	-307bp
6 months	7.35	-27bp	+135bp	-412bp	-506bp
1 year	8.63	+98bp	+234bp	-312bp	-350bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	317	+0bp	+0bp	-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

## UAH continues to strengthen

The hryvnia appreciated another 1.3% to 27.1196 UAH/USD, hitting a two-month high. Up 2.8% in nominal terms since the beginning of the week, Tuesday's auction with higher interest rates that attracted non-resident investors appears to be the catalyst. The NBU also purchased about US\$200bn (see comment on liquidity). In the local market, the hryvnia sold for 27.36 UAH/USD versus 27.59 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 1.84% to 109.38; in year-on-year terms, it is up 1.73% from 107.52 last year.

The USD traded higher as US equity markets became less volatile. Also, the Chicago Fed chief also stated that he would support further interest rate hikes if inflation picks up. On Wednesday, the DXY index increased 0.75% to 90.26.

In response to the stronger USD and political uncertainty in Germany, the euro weakened 0.9% to 1.2264 USD/EUR.

Despite the Chinese central bank's setting the reference rate lower than expected, signaling that appreciation should slow, the yuan strengthened at the open by 0.6% to 6.2525 CNY/USD, the strongest rate since August 2015. However, in response to the stronger US dollar, the yuan retreated and closed up only 0.2% to 6.2778 CNY/USD.

The Russian ruble dropped 1.8% to 57.9011 RUB/USD due to plunged oil prices. Meanwhile, Russia's central bank policy may cut the key policy rate at the meeting on Friday.

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

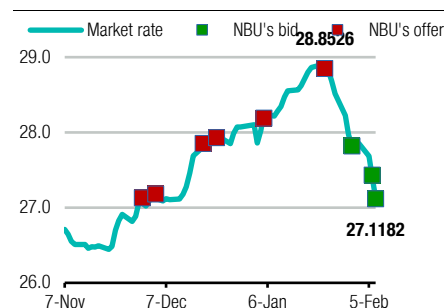
## Key indicators (as of 7 February 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.1250	-1.02	-2.48	-3.98	-3.37
USD <sup>1</sup>	90.255	+0.75	+1.26	-1.84	-2.03
EUR	1.2264	-0.91	-1.21	+1.95	+2.16
JPY	109.3300	-0.21	+0.13	-3.29	-2.98
GBP <sup>2</sup>	1.3881	-0.49	-2.18	+2.28	+2.72
CNY	6.2778	-0.21	-0.17	-3.25	-3.52
RUB	57.9011	+1.83	+3.04	+1.71	+0.37

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

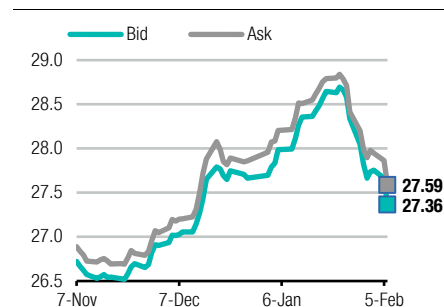
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 7 February 2018)



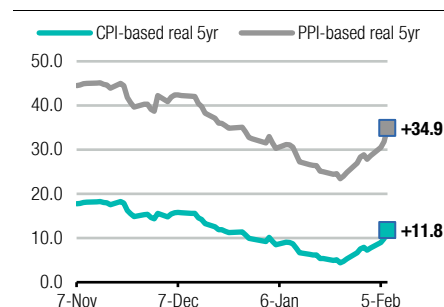
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 7 February 2018)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 7 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)

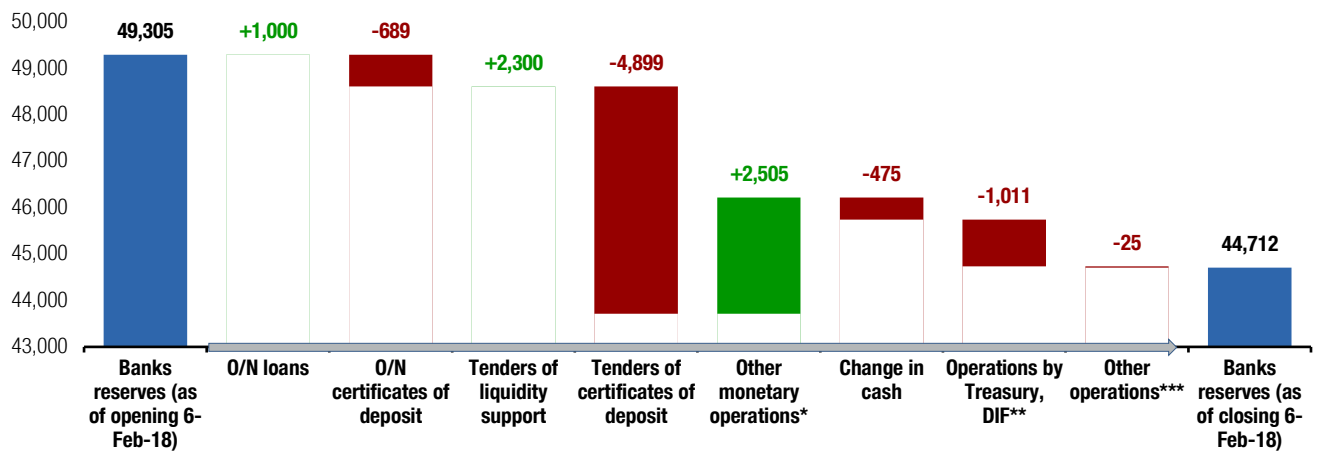
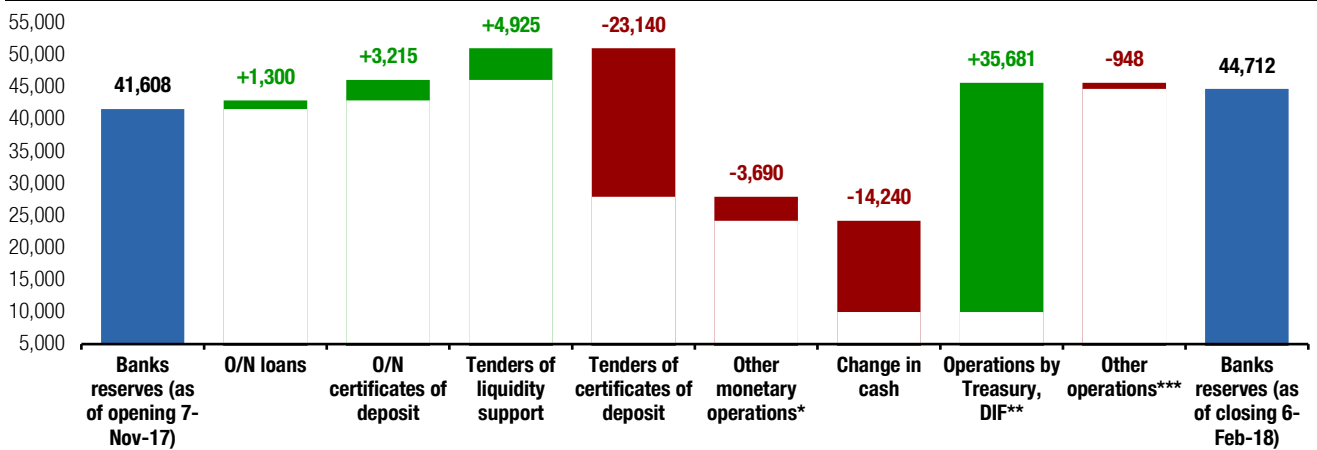
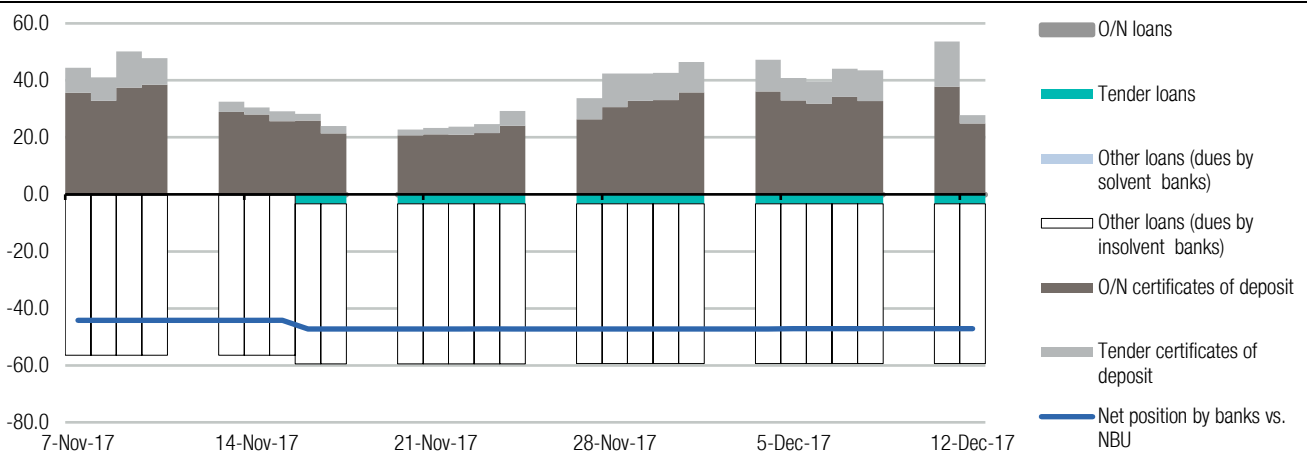


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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