

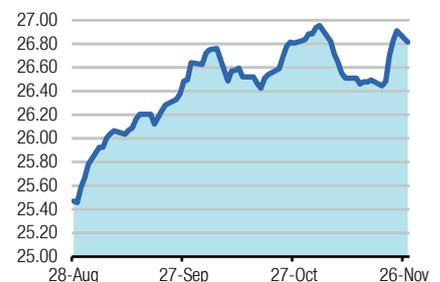
Daily Insight

Liquidity above UAH80bn

Key messages of the today's comments

TUESDAY, 28 NOVEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 27 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 27 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.20	-20bp	+160bp
Banks reserves (UAHm)	54,782	-1.14	+10.16
Deposit certificates* (UAHm)	26,330	+9.33	-57.70
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.8150	-0.35	-1.05
Total trade volume (US\$m)	171.88	-20.49	+1.34
UAH index CPI-based	111.762	+0.40	+3.47
UAH index PPI-based	169.428	+0.40	+0.60
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	434bp	+0bp	-219bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,601.42	-0.04	+16.20
MSCI EM	1,144.33	-0.86	+32.71
US dollar index (DXY)	92.904	+0.13	-9.10
EUR / USD	1.1898	-0.29	+13.13
Crude oil WTI (US\$/bbl)	58.11	-1.42	+8.17
Crude oil BRENT (US\$/bbl)	63.84	-0.03	+12.35
CRB, commodities index	191.63	-0.31	-0.46
Gold (US\$/ounce)	1,294.56	+0.45	+12.35

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

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Liquidity above UAH80bn

Banking sector liquidity recovered and hit a new high this month after falling significantly due to quarterly tax payments, up UAH1.62bn to UAH81.11bn. As funds were reallocated from reserves to CDs, total CDs outstanding rose UAH2.25bn to UAH26.33bn while banks' corresponding accounts with the NBU slid UAH0.63bn to UAH54.78bn. 2

Primary auction: Additional FX-denominated bonds

Today, the MoF will hold its primary auction, offering a wide set of bonds per yesterday's changes to its schedule which will include 11 issues, out of which only four are denominated in local currency. The other seven bonds are denominated in US dollars and will have put-options at the bondholders' discretion. 2

Foreign exchange markets

3

Hryvnia appreciates

At the beginning of the week, The hryvnia grew against the US dollar after falling 1.6% last week. On Monday, the supply of foreign currency in the local market exceeded demand, which positively affected the hryvnia, despite the UAH1.6b. increase in liquidity. In addition, the US dollar declined in world markets against other major currencies that supported emerging market currencies, causing the hryvnia to rise 0.3% to 26.8353 USD/UAH. It sold for 26.7 USD/UAH versus 26.81 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.4% to 111.76; in year-on-year terms, it is down 0.47% from 112.29 last year. 3

Appendix #1: Domestic liquidity

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Domestic liquidity

Liquidity above UAH80bn

Banking sector liquidity recovered and hit a new high this month after falling significantly due to quarterly tax payments, up UAH1.62bn to UAH81.11bn. As funds were reallocated from reserves to CDs, total CDs outstanding rose UAH2.25bn to UAH26.33bn while banks' corresponding accounts with the NBU slid UAH0.63bn to UAH54.78bn.

The increase came mostly from the Treasury, which injected UAH1.25bn, while cash exchange into reserves increased the positive impact of non-monetary operations to UAH1.62bn. The NBU did not provide or absorb any funds this day.

ICU view: *Liquidity rose significantly last week, but they could decline this week because of significant month-end tax payments. The current level of liquidity is quite positive and liquidity should not set a new record low this year.*

Primary auction: Additional FX-denominated bonds

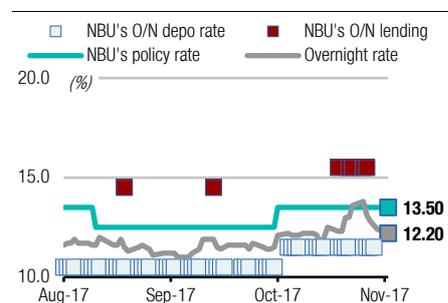
Today, the MoF will hold its primary auction, offering a wide set of bonds per yesterday's changes to its schedule which will include 11 issues, out of which only four are denominated in local currency. The other seven bonds are denominated in US dollars and will have put-options at the bondholders' discretion.

Local currency bonds will include the usual maturities as scheduled, from six months to three years. FX-denominated bonds will have very small difference between maturities ranging from 490 to 546 days. The last time bonds with put-options were sold was in 2013. What is new for these bonds today is that they will have a fixed coupon rate at 3.85%.

ICU view: *The announced auction is abnormal for the last two years due to the number of bonds and their conditions. According to the original schedule, FX-denominated bonds were scheduled to be offered on 19 December. This newly implemented wide range of bond offering could signal that the MoF anticipates specific demand today.*

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Interest rates in the banks' reserves market (three months through 27 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 27 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	13.50	+0bp	+0bp	+0bp	-50bp
ON rate	12.20	-20bp	-160bp	+10bp	+160bp
ON \$ swap	11.98	-10bp	-99bp	+12bp	+51bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	54,782	-1.14	+16.25	-0.76	+10.16
DepCerts ³	26,330	+9.33	+26.86	-5.59	-57.70
Total	81,112	+2.03	+19.49	-2.38	-27.56
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	310,149	+0.06	-0.88	-1.31	+79.97
Residents	21,349	+0.05	-1.29	-3.61	-9.47
Non-res ⁴	4,786	+0.00	-9.93	+4.11	-24.65
Total	697,974	+0.03	-0.48	-0.64	+26.79
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	15.57	-75bp	+25bp	-21bp	-674bp
3 months	15.00	-26bp	+5bp	-18bp	-707bp
6 months	12.82	+14bp	+11bp	+15bp	-523bp
1 year	11.72	-4bp	+2bp	+2bp	-427bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	434	+0bp	+0bp	-13bp	-219bp

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, The hryvnia grew against the US dollar after falling 1.6% last week. On Monday, the supply of foreign currency in the local market exceeded demand, which positively affected the hryvnia, despite the UAH1.6b. increase in liquidity. In addition, the US dollar declined in world markets against other major currencies that supported emerging market currencies, causing the hryvnia to rise 0.3% to 26.8353 USD/UAH. It sold for 26.7 USD/UAH versus 26.81 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.4% to 111.76; in year-on-year terms, it is down 0.47% from 112.29 last year.

The US dollar continued to decline against other major currencies on world markets because of the rising euro, as investors preferred the euro to the USD and concerns about US key policy rate hike because of ongoing low inflation. Investors also anticipate the approval of Jerome Powell as US Fed chairman which should take place on Tuesday. Tax reform remains a major concern as well. However, as new home sales rose unexpectedly by 6.2% in October the maximum in 10 years, the USD regained some of its losses in late trading. The DXY index traded at 92.496-92.98, closing up 0.1% to 92.904.

The euro rose in Monday trading as Germany's economy becomes more promising after German business confidence rose previously following Merkel's positive moves toward a parliamentary majority coming to fruition. However euro declined to the end of trade as USD increased. The EUR/USD pair traded within 1.1896-1.1961 EUR/USD, up 0.3% to 1.1898 EUR/USD.

The Russian ruble rose against the US dollar on Monday. Although oil prices were rather volatile and declined due to increased activity in the US oil industry, this had little impact on the ruble. Instead, ongoing tax payments and the declining USD drove the ruble higher at first half of the trading session. Ruble retreated later in the day as it traded within 57.925-58.4961 USD/RUB, down 0.1% to 58.4961.

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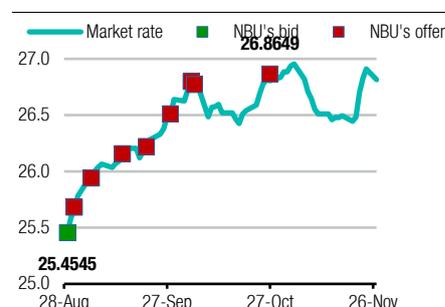
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 27 November 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8150	-0.35	+1.40	+0.04	-1.05
USD ¹	92.904	+0.13	-1.25	-2.12	-9.10
EUR	1.1898	-0.29	+1.41	+2.50	+13.13
JPY	111.0900	-0.39	-1.36	-2.27	-5.02
GBP ²	1.3318	-0.14	+0.63	+1.45	+7.93
CNY	6.5992	-0.04	-0.57	-0.77	-4.98
RUB	58.4961	+0.08	-1.49	+0.69	-4.94

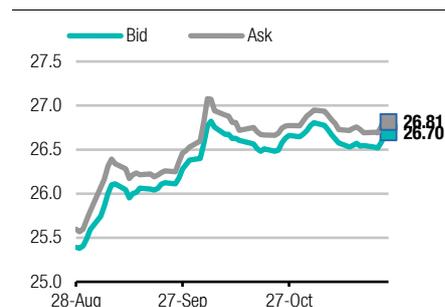
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 27 November 2017)



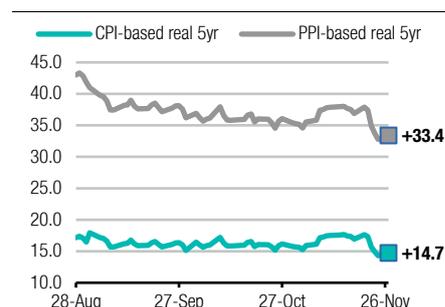
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 27 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 27 November 2017)



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)

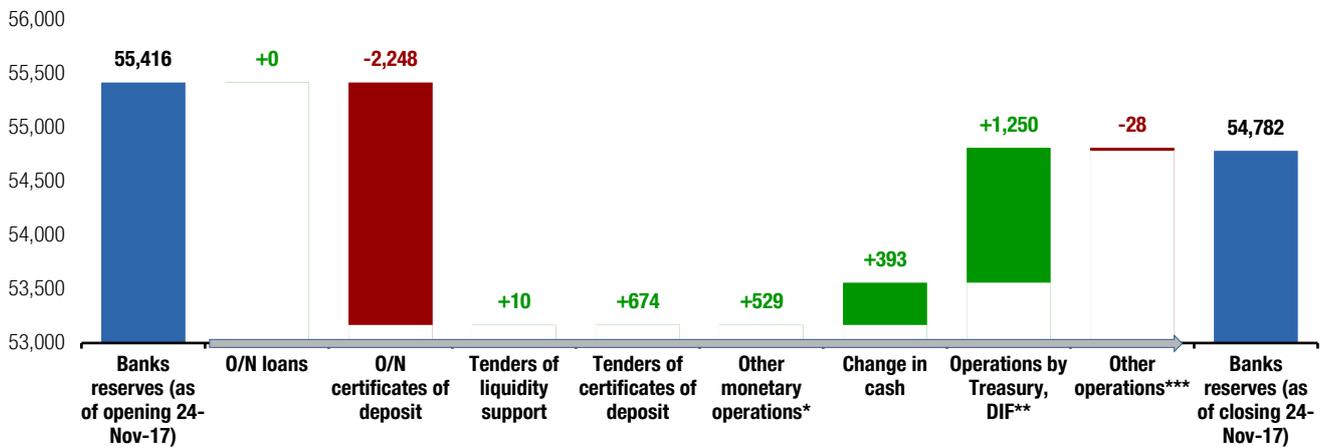
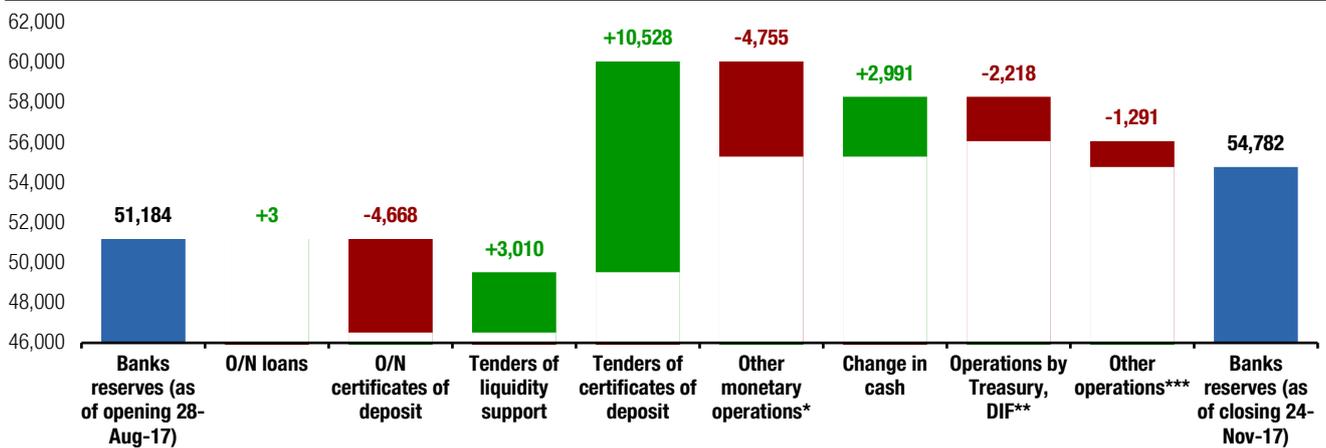
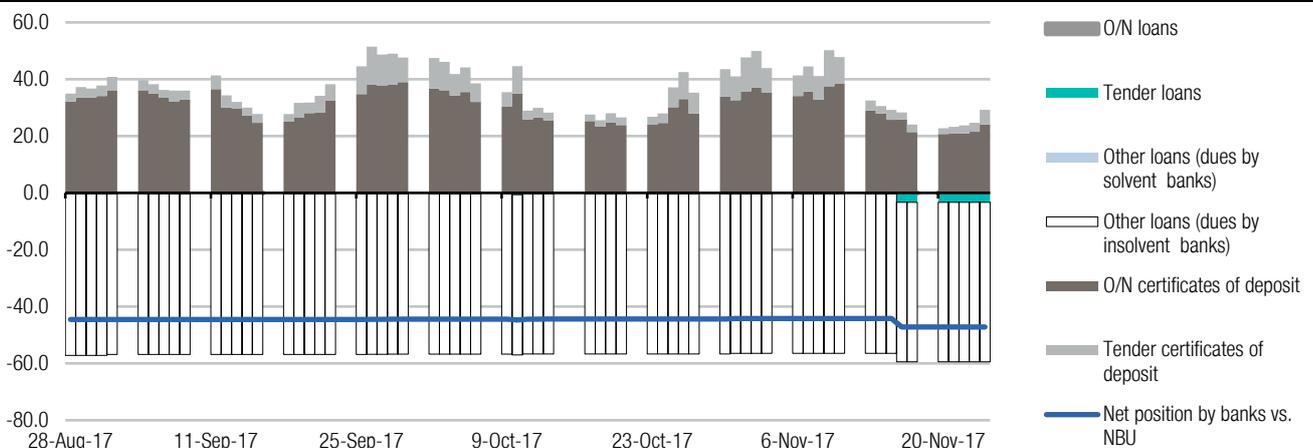


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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