

Daily Insight

MoF borrows FX

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Liquidity down slightly.....2

After one week of positive impacts on liquidity from non-monetary operations, autonomous operations on Monday had a negative impact. The Treasury absorbed UAH1.94bn and other non-monetary operations caused an outflow of UAH0.16bn, while inflows from cash exchanges into reserves amounted to just UAH1.28bn, which offset a major portion of outflows. NBU operations had no impact on liquidity. 2

MoF borrows FX.....2

Yesterday, the MoF borrowed US\$575.09m of bonds with maturities from 490 to 546 days at a fixed 3.85% interest rate, as pre-announced by the MoF. All issues sold have a put-option at the bondholders' discretion. Various maturities were distributed evenly at a volume of US\$73.01-73.38m, at a slightly larger amount for the shortest term bond at US\$135.81m. 2

Foreign exchange markets 3

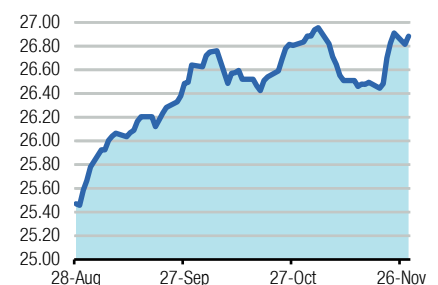
Hryvnia retreats3

After a slight increase the day before, the hryvnia declined again against the US dollar on Tuesday, but stood above 26.9 USD/UAH. Higher demand for foreign currency in the local market weighed against the hryvnia, while liquidity in the banking system decreased by UAH0.8bn. Thus, the Ukrainian hryvnia declined by 0.1% to 26.8718 USD/UAH on Tuesday. It sold for 26.65 USD/UAH versus 26.79 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.05% to 111.82; in year-on-year terms, it is down 0.82% from 112.75 last year. 3

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WEDNESDAY, 29 NOVEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 28 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 28 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.10	-10bp	+150bp
Banks reserves (UAHm)	49,639	-9.39	-0.19
Deposit certificates* (UAHm)	30,654	+16.42	-50.75
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.8838	+0.26	-0.80
Total trade volume (US\$m)	282.27	+64.22	+66.42
UAH index CPI-based	111.817	+0.05	+3.52
UAH index PPI-based	169.512	+0.05	+0.65
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	434bp	+0bp	-219bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,627.04	+0.98	+17.34
MSCI EM	1,146.50	+0.19	+32.96
US dollar index (DXY)	93.270	+0.39	-8.75
EUR / USD	1.1840	-0.49	+12.58
Crude oil WTI (US\$/bbl)	57.99	-0.21	+7.95
Crude oil BRENT (US\$/bbl)	63.61	-0.36	+11.95
CRB, commodities index	191.21	-0.22	-0.67
Gold (US\$/ounce)	1,293.96	-0.05	+12.30

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity down slightly

After one week of positive impacts on liquidity from non-monetary operations, autonomous operations on Monday had a negative impact. The Treasury absorbed UAH1.94bn and other non-monetary operations caused an outflow of UAH0.16bn, while inflows from cash exchanges into reserves amounted to just UAH1.28bn, which offset a major portion of outflows. NBU operations had no impact on liquidity.

Meanwhile, banks continued to increase the amount of funds invested in CDs, increasing total CDs outstanding by UAH4.32bn to UAH30.65bn as they purchased additional ON CDs. Due to this purchase, banks' correspondent accounts with the NBU fell UAH5.14bn to UAH49.64bn.

ICU view: Liquidity remains steady with only a slight decline. However, over the last few days of November, it could fall below UAH80bn. Banks are utilizing ON CDs to minimize risk.

MoF borrows FX

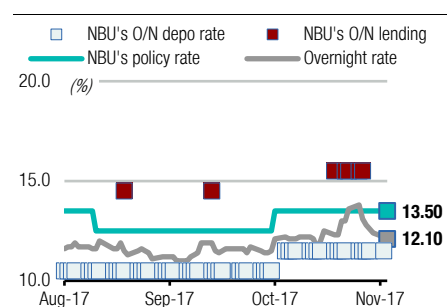
Yesterday, the MoF borrowed US\$575.09m of bonds with maturities from 490 to 546 days at a fixed 3.85% interest rate, as pre-announced by the MoF. All issues sold have a put-option at the bondholders' discretion. Various maturities were distributed evenly at a volume of US\$73.01-73.38m, at a slightly larger amount for the shortest term bond at US\$135.81m.

Demand for the bond with the shortest maturity of 490 days came in four bids which the MoF fully satisfied. Other issues saw only one bid each. At the same time, the four local currency bonds received only one non-competitive bid, which was submitted for 3-year bond at UAH380,000, and was not satisfied due to lack of competitive demand.

ICU view: Demand at yesterday's auction appears to have been submitted by one bank which divided the amount between all issues, while for the shortest one there were bids from other bidders. The result of this auction will not have an impact on future auctions as conditions were incompatible. On 19 December, we will see usual demand at around 5.40%, while bonds sold yesterday will remain in the portfolio of one bank without secondary market trading.

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Interest rates in the banks' reserves market (three months through 28 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 28 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	12.10	-10bp	-100bp	+0bp	+150bp
ON \$ swap	11.94	-11bp	-97bp	+8bp	+47bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	49,639	-9.39	+1.85	-10.08	-0.19
DepCerts ³	30,654	+16.42	+45.87	+9.91	-50.75
Total	80,293	-1.01	+15.11	-3.37	-28.29
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	309,899	-0.08	-0.93	-1.39	+79.82
Residents	21,326	-0.10	-1.34	-3.71	-9.57
Non-res ⁴	4,780	-0.12	-9.98	+3.98	-24.75
Total	697,721	-0.04	-0.50	-0.67	+26.74
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	16.09	+52bp	-419bp	+31bp	-622bp
3 months	15.18	+18bp	-47bp	+0bp	-689bp
6 months	12.85	+3bp	-17bp	+18bp	-520bp
1 year	11.77	+4bp	-12bp	+6bp	-422bp
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 retreats

After a slight increase the day before, the hryvnia declined again against the US dollar on Tuesday, but stood above 26.9 USD/UAH. Higher demand for foreign currency in the local market weighed against the hryvnia, while liquidity in the banking system decreased by UAH0.8bn. Thus, the Ukrainian hryvnia declined by 0.1% to 26.8718 USD/UAH on Tuesday. It sold for 26.65 USD/UAH versus 26.79 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.05% to 111.82; in year-on-year terms, it is down 0.82% from 112.75 last year.

The US dollar rose against other currencies, but remained under pressure on the prospect of tax reform and the pace of the future key rate hike. However, in the second half of the trading session, the dollar grew more accentuated due to an unexpected increase in the consumer confidence index, which rose to 129.5 points in November from 126.2 in October (expected to decline to 124). The DXY index traded at 92.827-93.336, closing up 0.4% to 93.27.

On Tuesday, the euro had no support of macroeconomic indicators and declined against the US dollar, continuing the trend from Monday. Thus, the EUR/USD pair traded within 1.1827-1.192 EUR/USD, down 0.5% to 1.1840 EUR/USD. The Chinese yuan, after a relatively stable first half of the day, began to decline against the US dollar and finished at 6.6078 USD/CNY, down 0.1%.

The Russian ruble ignored the decline of oil prices on Tuesday and rose against the US dollar during the trading session. The ruble received support due to local market demand. However, by the end of the trading session, the Russian currency began to decline against the strong dollar as it traded within 58.2155-58.5705 USD/RUB and closed up 0.1% to 58.4191.

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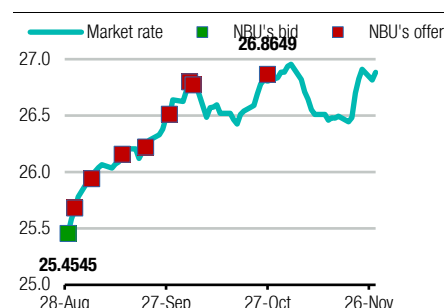
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 28 November 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8838	+0.26	+1.52	+0.29	-0.80
USD ¹	93.270	+0.39	-0.73	-1.73	-8.75
EUR	1.1840	-0.49	+0.87	+2.00	+12.58
JPY	111.4800	+0.35	-0.86	-1.93	-4.69
GBP ²	1.3339	+0.16	+0.76	+1.61	+8.10
CNY	6.6078	+0.13	-0.32	-0.64	-4.86
RUB	58.4191	-0.13	-1.24	+0.55	-5.07

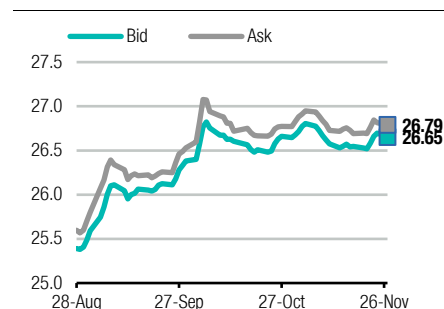
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 28 November 2017)



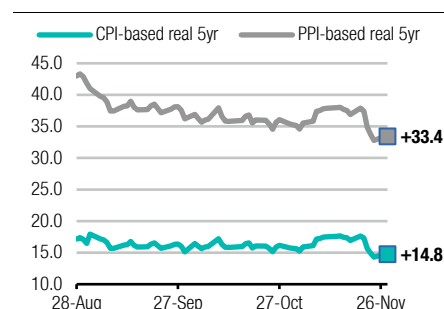
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 28 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 28 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)

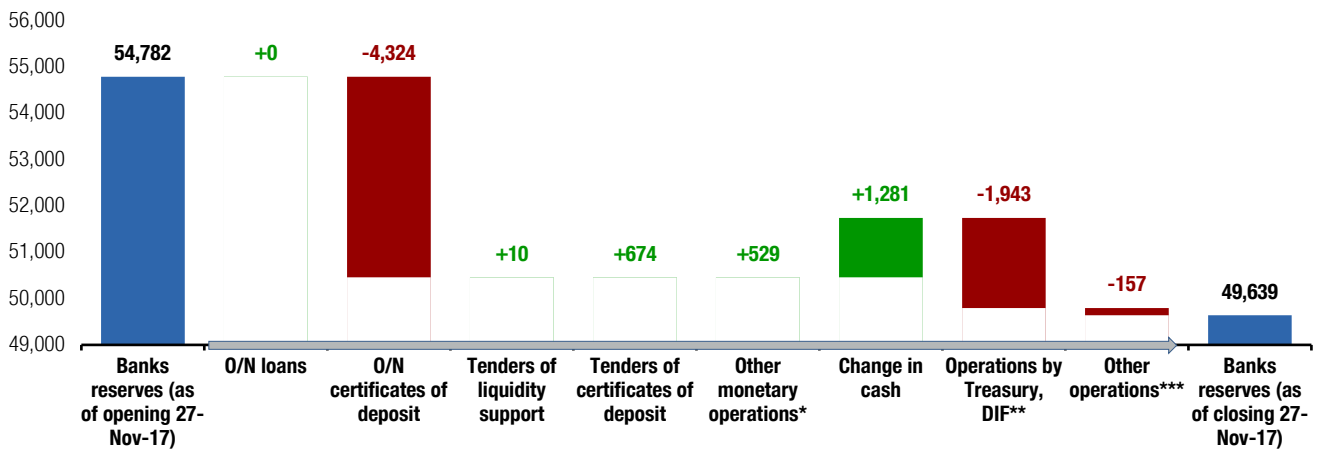
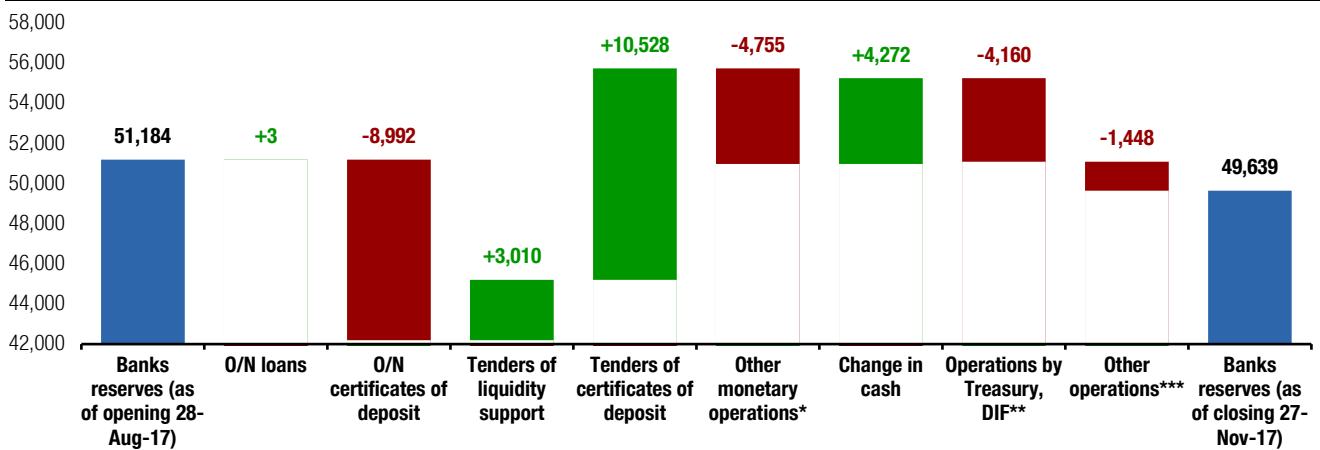
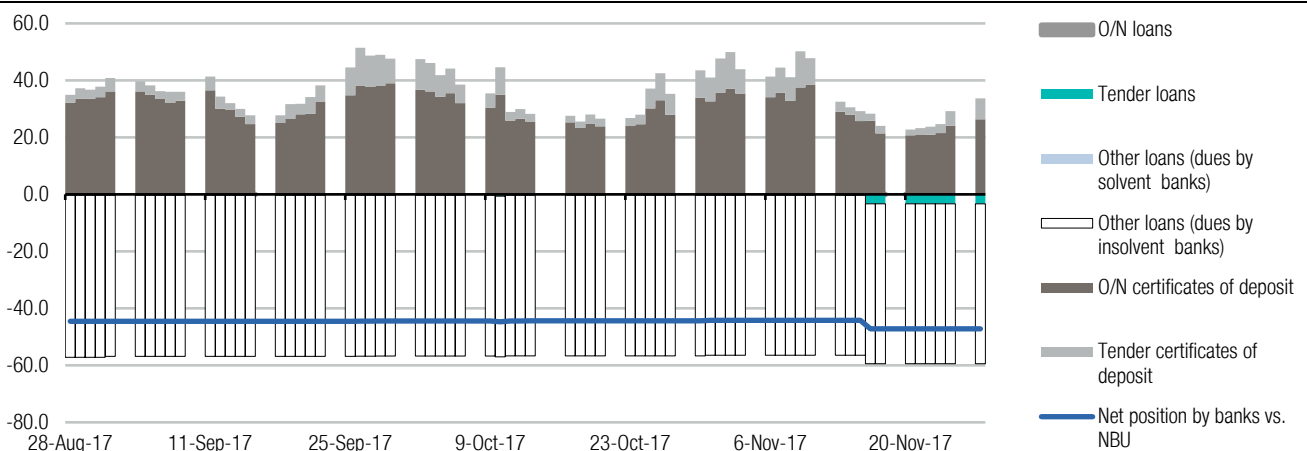


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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