

# Daily Insight

## UAH almost unchanged

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##### Liquidity near record high 2

Last Friday, the Treasury boosted banking sector liquidity by an unprecedented UAH13.25bn including UAH3.25bn in VAT refunds. Despite outflows via the FX auction, partial repayment of an NBU loan and reserves exchanged into cash, liquidity set a new record high since mid-August 2017 of UAH94.05bn. 2

##### Large non-competitive demand for bonds 2

Yesterday, the MoF borrowed short-term funds in local currency bonds with maturities of less than one year while borrowings in euro had a maturity of about 17 months. Total MoF budget proceeds were UAH1.58bn, of which UAH0.25 was denominated in local currency. 2

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WEDNESDAY, 27 DECEMBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 26 December 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 26 December 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	14.50	+0bp	+50bp
Overnight rate (interbank)	13.60	-10bp	+300bp
Banks reserves (UAHm)	55,829	+11.56	+12.26
Deposit certificates* (UAHm)	38,222	+9.78	-38.59
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	27.8500	-0.39	+2.77
Total trade volume (US\$m)	187.31	-34.37	+10.43
UAH index CPI-based	107.254	+0.15	-0.70
UAH index PPI-based	162.594	+0.15	-3.45
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	434bp	+0bp	-219bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,680.50	-0.11	+19.73
MSCI EM	1,138.63	-0.22	+32.05
US dollar index (DXY)	93.257	-0.01	-8.76
EUR / USD	1.1858	-0.10	+12.75
Crude oil WTI (US\$/bbl)	59.97	+2.57	+11.63
Crude oil BRENT (US\$/bbl)	67.02	+2.71	+17.95
CRB, commodities index	190.47	+1.38	-1.06
Gold (US\$/ounce)	1,283.02	+0.61	+11.35

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity near record high

Last Friday, the Treasury boosted banking sector liquidity by an unprecedented UAH13.25bn including UAH3.25bn in VAT refunds. Despite outflows via the FX auction, partial repayment of an NBU loan and reserves exchanged into cash, liquidity set a new record high since mid-August 2017 of UAH94.05bn.

Banks' correspondent accounts with the NBU rose UAH5.78bn to UAH55.83bn while total CDs outstanding was up UAH3.41bn to UAH38.22bn. As banks paid UAH1.30bn at the FX auction and repaid a UAH0.80bn ON loan, outflows via monetary operations amounted to UAH2.10bn. Additional outflows via non-monetary operations, due to reserves exchanged into cash, amounted to UAH1.93bn, causing liquidity to rise only UAH9.19bn to UAH94.05bn.

**ICU view: The Treasury spent UAH20bn in expenditures, including VAT refunds, causing liquidity to increase. Revenue collections also rose last Friday, but less so to about UAH7.6bn, and could continue to rise. As the increase in expenditures is large, liquidity could rise further to new record highs this year. The year's liquidity high was seen at the end of April at UAH117.44bn.**

## Large non-competitive demand for bonds

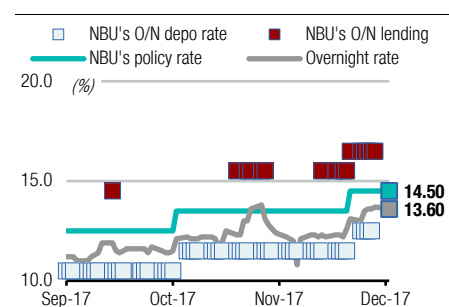
Yesterday, the MoF borrowed short-term funds in local currency bonds with maturities of less than one year while borrowings in euro had a maturity of about 17 months. Total MoF budget proceeds were UAH1.58bn, of which UAH0.25 was denominated in local currency.

Local currency borrowing yields were expectedly flat in the range of 15.85-16.00%, where the most expensive was for 3-month bonds while for euro-denominated bond interest rate remained unchanged at 3.95%.

**ICU view: MoF changes interest rates fell very little while the volume of borrowings declined significantly. At the same time, demand for FX-denominated bonds in euro slightly rose to above EUR40m, with a significant part of demand was non-competitive, enabling the MoF to keep interest rates near last week's rates. This will signal to the market that the MoF is unlikely to increase yields.**

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## Interest rates in the banks' reserves market (three months through 26 December 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 26 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	14.50	+0bp	+0bp	+100bp	+50bp
ON rate	13.60	-10bp	+10bp	+120bp	+300bp
ON \$ swap	12.94	-20bp	-15bp	+120bp	+147bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	55,829	+11.56	+7.34	+0.75	+12.26
DepCerts <sup>3</sup>	38,222	+9.78	+26.87	+58.72	-38.59
<b>Total</b>	<b>94,051</b>	<b>+10.83</b>	<b>+14.50</b>	<b>+18.31</b>	<b>-16.00</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	337,347	+0.11	+0.29	+8.83	+95.75
Residents	21,806	+0.12	+0.97	+2.20	-7.54
Individuals	1,453	+0.48	+11.72	+30.66	+1,296.7
Non-res <sup>4</sup>	5,216	+0.01	+1.50	+9.00	-17.87
<b>Total</b>	<b>726,395</b>	<b>+0.06</b>	<b>+0.20</b>	<b>+4.10</b>	<b>+31.95</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	12.06	+40bp	+12bp	-425bp	-10ppt
3 months	11.50	+12bp	+1bp	-376bp	-11ppt
6 months	11.74	+7bp	+3bp	-94bp	-631bp
1 year	11.77	+0bp	+2bp	+1bp	-422bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	434	+0bp	+0bp	+0bp	-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

## UAH almost unchanged

The hryvnia remained close to its 2.8-year low as it closed slightly up to 27.9446 UAH/USD on Tuesday. The Ukrainian currency remains under pressure from increased liquidity, up a dramatic UAH13.25bn to UAH94.05bn on Friday, and from the State Treasury's reimbursement of more than UAH6.4bn in VAT refunds on Thursday and Friday last week which enabled exporters to not sell USD at the local FX market and shrunk the supply of US currency. At the Ukrainian cash market, the hryvnia sold for 27.75 UAH/USD versus 27.89 to buy, while its CPI-based real trade-weighted index rose 0.15% to 107.25. In year-on-year terms, it is down 3.92% from 111.45 last year.

Absent any significant macroeconomic statistics and political news, the greenback and the euro remained almost unchanged on thin trading volumes. Thus, the DXY index closed down 0.01% to 93.26, while the euro weakened 0.1% to 1.1858 USD/EUR.

The Chinese renminbi fell 0.1% to 6.545 CNY/USD despite the PBOC's decision to strengthen the reference rate to 6.5416 CNY/USD, the strongest level since September 13. At the same time, market participants expect that the renminbi will remain stable in the future thanks to a sluggish USD.

The Russian ruble traded at a 2-month high on Tuesday, having strengthened for the fifth consecutive trading session, up 0.6% to 57.6577 RUB/USD. It got support from soared oil prices, tax payments and increased demand on the back of this year's final auction of domestic government bonds scheduled by Russia's Ministry of Finance on Wednesday.

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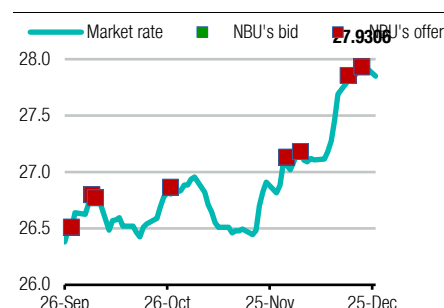
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 26 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	27.8500	-0.39	-0.20	+3.49	+2.77
USD <sup>1</sup>	93.257	-0.01	-0.20	+0.51	-8.76
EUR	1.1858	-0.10	+0.15	-0.63	+12.75
JPY	113.2300	-0.03	+0.30	+1.52	-3.19
GBP <sup>2</sup>	1.3374	+0.02	-0.08	+0.28	+8.38
CNY	6.5450	+0.08	-0.90	-0.86	-5.76
RUB	57.6577	-0.59	-1.90	-1.35	-6.30

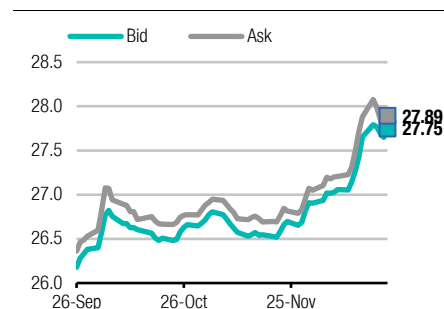
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 26 December 2017)



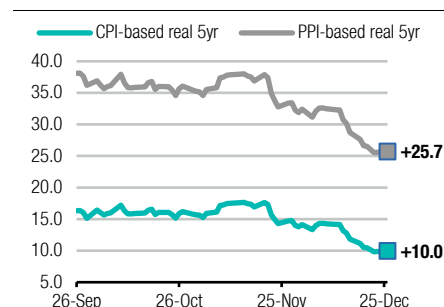
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 26 December 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 26 December 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)

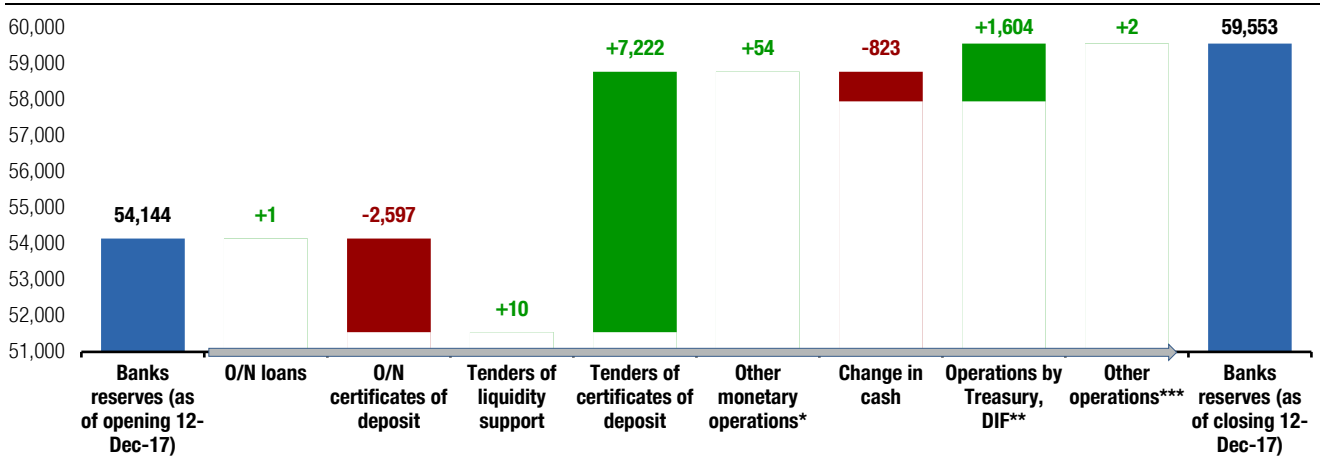
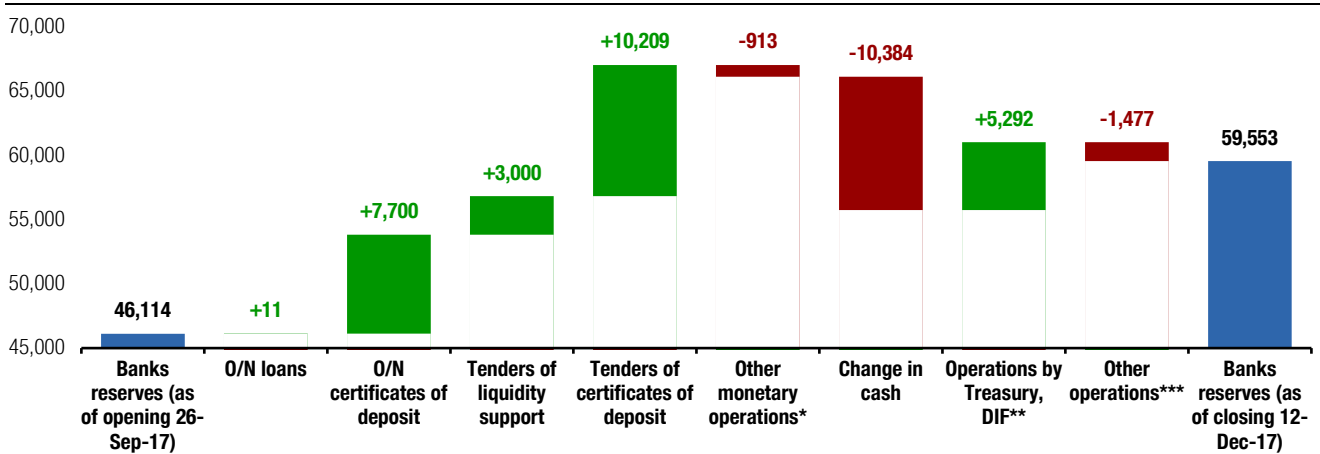
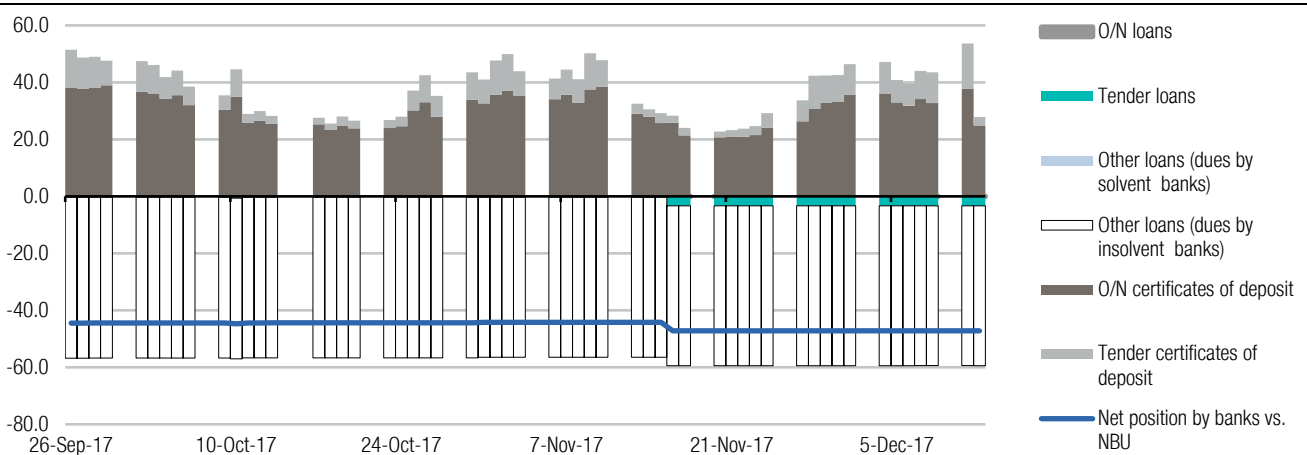


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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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