



Daily Insight

Privatbank gets UAH16bn capital injection

Key messages of the today's comments

THURSDAY, 28 DECEMBER 2017

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Liquidity continues to rise2

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Hryvnia unchanged3

For the third consecutive day, liquidity continued to put pressure on the national currency as it rose almost UAH6bn. Despite the strengthening of the hryvnia at the beginning of trading on Wednesday by 0.3%, it finished the day at 27.9485 UAH/USD, slightly lower than the previous day, but still above 28. It sold for 27.71 UAH/USD versus 27.85 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.56% to 106.65; in year-on-year terms, it is down 3.27% from 110.25 last year. 3

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



Source: Bloomberg.

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

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+50bp
Overnight rate (interbank)	12.70	-90bp	+210bp
Banks reserves (UAHm)	53,705	-3.81	+7.99
Deposit certificates* (UAHm)	46,324	+21.20	-25.57
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.9850	+0.48	+3.27
Total trade volume (US\$m)	289.26	+54.43	+70.54
UAH index CPI-based	106.651	-0.56	-1.26
UAH index PPI-based	161.680	-0.56	-4.00

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	434bp	+0bp	-219bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,682.62	+0.08	+19.82
MSCI EM	1,144.39	+0.51	+32.72
US dollar index (DXY)	93.025	-0.25	-8.99
EUR / USD	1.1888	+0.25	+13.04
Crude oil WTI (US\$/bbl)	59.64	-0.55	+11.02
Crude oil BRENT (US\$/bbl)	66.44	-0.87	+16.93
CRB, commodities index	191.47	+0.52	-0.54
Gold (US\$/ounce)	1,287.30	+0.33	+11.72

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Privatbank gets UAH16bn capital injection

Privatbank received a second tranche of recapitalization, the final phase of the UAH38bn capital injection authorized by the government in July 2017. The six month delay arose from verification of property on the bank's balance sheet, including leased assets.

Total government bonds issued for the recapitalization amount to UAH155.3bn. Despite the near 100% provisioning of the corporate loan portfolio, Privatbank may require a future capital injection if the courts dismiss the UAH29.4bn bail in.

After this injection, total government bonds issues significantly rose by UAH16.29bn, of which UAH16.0bn was for Privatbank. Other bonds were issued after the MoF's primary auction on Tuesday.

As the result, bondholders' structure saw some changes. The banks' share rose to 47.61%, very close to the NBU's share which declined to 48.55%. Shares of non-residents and non-banks declined to 0.70% and 2.94%, respectively. Only the individual investors' share remained steady at 0.20%.

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Liquidity continues to rise

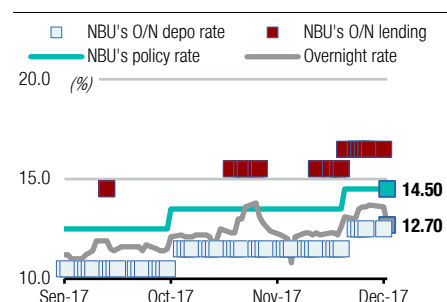
This Tuesday, liquidity continued to rise, up UAH5.98bn to above UAH100bn. Additional funds received by banks increased total CDs outstanding by UAH8.10bn to UAH46.32bn, of which UAH7.02bn invested into 2-week CDs.

The significant inflow provided non-monetary operations which offset s UAH1.50bn loan repayment to the NBU. The net inflow from the Treasury amounted to UAH9.50bn which covered not only the loan repayment, but also UAH2.01bn of reserves exchanged into cash.

ICU view: From the significant inflows received, banks increased investments in CDs by UAH8.10bn and decreased banks' correspondent accounts with the NBU by UAH2.12bn to UAH53.70bn. Liquidity could rise further through the end of the year, with a concentration in CDs with redemptions after the holidays.

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



Source: Bloomberg, ICU.

Key indicators (as of 27 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.50	+0bp	+0bp	+100bp	+50bp
ON rate	12.70	-90bp	-90bp	+50bp	+210bp
ON \$ swap	12.88	-15bp	-26bp	+89bp	+140bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	53,705	-3.81	+1.63	-1.97	+7.99
DepCerts ³	46,324	+21.20	+48.90	+75.94	-25.57
Total	100,029	+6.36	+19.15	+23.32	-10.67
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	353,617	+4.82	+5.11	+14.02	+105.2
Residents	21,822	+0.08	+1.09	+2.22	-7.47
Individuals	1,453	+0.00	+18.90	+29.88	+1,296.7
Non-res ⁴	5,218	+0.03	+0.03	+9.03	-17.85
Total	742,683	+2.24	+2.43	+6.41	+34.91
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.40	+34bp	-39bp	-317bp	-991bp
3 months	11.48	-2bp	+0bp	-352bp	-11ppt
6 months	11.69	-5bp	+0bp	-113bp	-635bp
1 year	11.75	-3bp	-2bp	+2bp	-424bp
UKRAINE SOVEREIGN EUROBOND MARKET					
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

Hryvnia unchanged

For the third consecutive day, liquidity continued to put pressure on the national currency as it rose almost UAH6bn. Despite the strengthening of the hryvnia at the beginning of trading on Wednesday by 0.3%, it finished the day at 27.9485 UAH/USD, slightly lower than the previous day, but still above 28. It sold for 27.71 UAH/USD versus 27.85 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.56% to 106.65; in year-on-year terms, it is down 3.27% from 110.25 last year.

The US dollar weakened as the US consumer confidence index fell to 122.1, far below expectations of a decline to 127.5. The previous month's result was revised downwards to 128.6 from 129.5. Thus, the DXY index traded at 92.956-93.309, down 0.25% to 93.025. The euro appreciated on the weakness of the USD as it traded at 1.1855-1.191 USD/EUR and closed up 0.25% to 1.1888.

The Russian ruble, amidst rather volatile trading, declined against the US dollar as oil prices also fell, as it traded within 56.9404-57.9346 RUB/USD and closed down 0.2% to 57.759. The Chinese yuan also fell against the dollar as it traded at 6.5426-6.5604 CNY/USD and decreased 0.2% to 6.5564.

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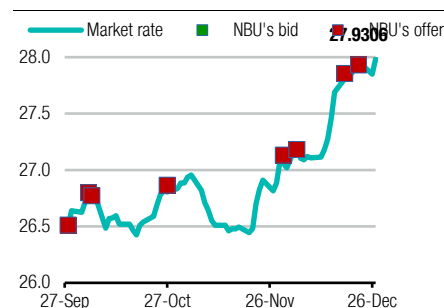
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 27 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.9850	+0.48	+0.45	+4.36	+3.27
USD ¹	93.025	-0.25	-0.31	+0.13	-8.99
EUR	1.1888	+0.25	+0.14	-0.08	+13.04
JPY	113.3500	+0.11	-0.04	+2.03	-3.09
GBP ²	1.3400	+0.19	+0.18	+0.62	+8.59
CNY	6.5564	+0.17	-0.34	-0.65	-5.60
RUB	57.7590	+0.18	-1.66	-1.26	-6.14

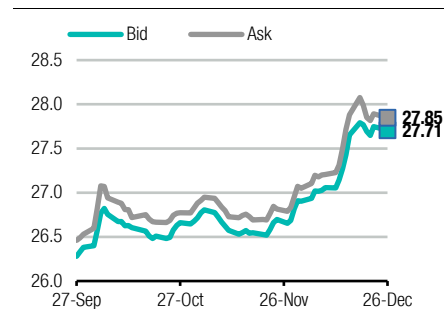
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

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



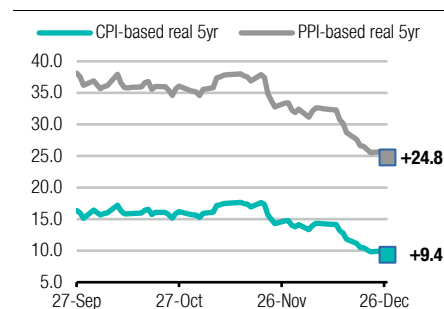
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

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



Source: NBU.

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

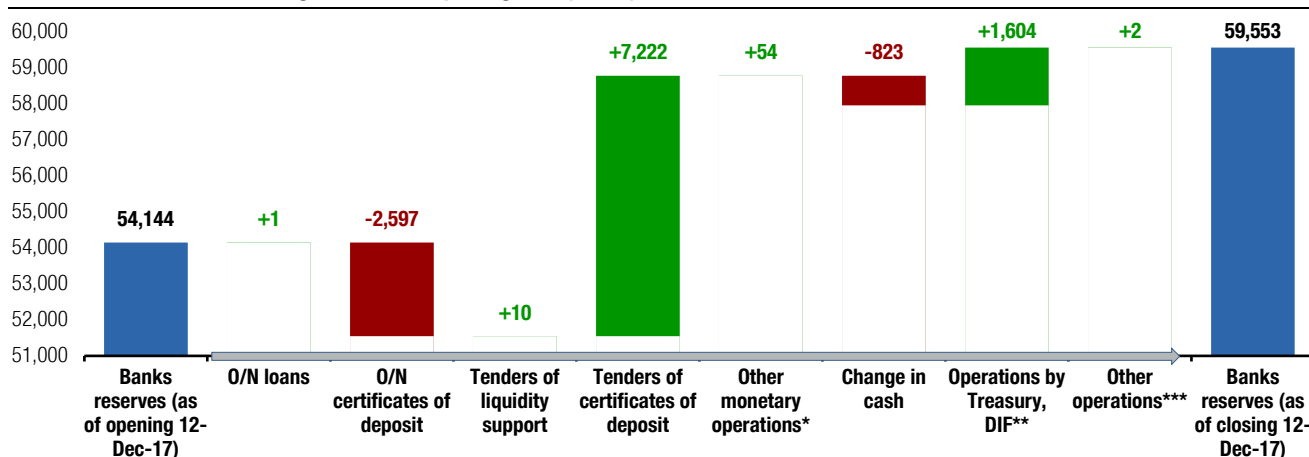
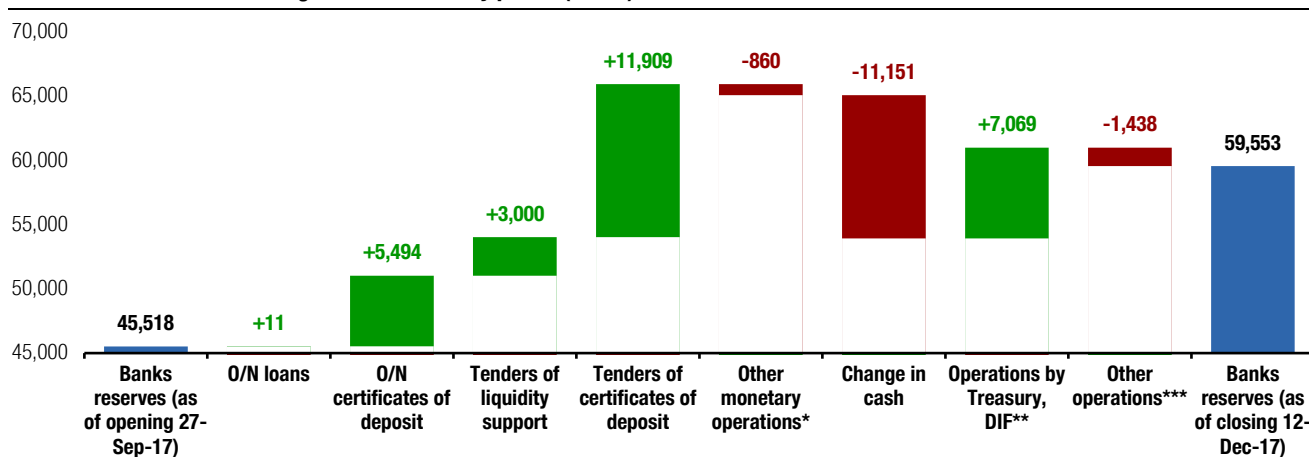
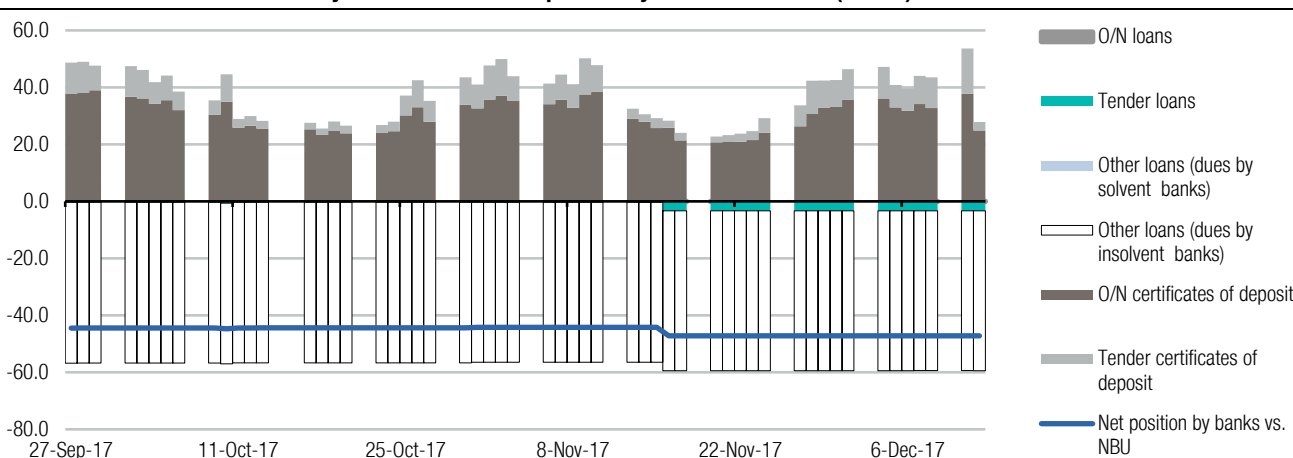


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;
 * 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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