

Daily Insight

Hryvnia below 28.4/USD

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This Wednesday, liquidity rose significantly as the NBU issued a UAH2.30bn loan to one bank for 84 days, constituting more than half of the increase. Other additional funds were injected via non-monetary operations: banks exchanged UAH0.63bn of cash into reserves and the Treasury provided UAH1.32bn. 2

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The UAH depreciated against the US dollar on Thursday as demand for local market foreign currency is maintained before the US weekend (also on Monday) as market participants meet their needs. The UAH4.2bn liquidity increase also negatively affected the hryvnia. As a result, the hryvnia weakened by 0.4% to 28.4457 UAH/USD. It sold for 28.11 UAH/USD versus 28.35 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 1% to 105.07; in year-on-year terms, it is down 2.46% from 107.65 last year. 3

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FRIDAY, 12 JANUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 11 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 11 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	13.80	+20bp	+100bp
Banks reserves (UAHm)	53,487	+54.44	+11.41
Deposit certificates* (UAHm)	49,443	-22.88	-14.90
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.4705	+0.44	+1.43
Total trade volume (US\$m)	211.35	+31.52	-14.93
UAH index CPI-based	105.073	-1.00	-1.90
UAH index PPI-based	166.572	-1.00	-1.90
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	340bp	-87bp	-92bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,767.56	+0.70	+3.51
MSCI EM	1,197.01	-0.04	+3.33
US dollar index (DXY)	91.852	-0.52	-0.30
EUR / USD	1.2032	+0.70	+0.22
Crude oil WTI (US\$/bbl)	63.80	+0.36	+5.59
Crude oil BRENT (US\$/bbl)	69.26	+0.09	+3.57
CRB, commodities index	195.16	+0.17	+0.67
Gold (US\$/ounce)	1,322.37	+0.41	+1.48

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

NBU supports banks

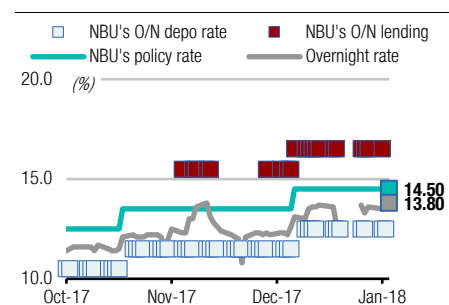
This Wednesday, liquidity rose significantly as the NBU issued a UAH2.30bn loan to one bank for 84 days, constituting more than half of the increase. Other additional funds were injected via non-monetary operations: banks exchanged UAH0.63bn of cash into reserves and the Treasury provided UAH1.32bn.

At the same time, banks significantly decreased investments in CDs. Total CDs outstanding fell UAH14.67bn, including withdrawals of UAH13.66bn from ON CDs and UAH1.00bn from 3-month CDs, causing banks' correspondent accounts to rise UAH18.85bn to UAH53.49bn.

ICU view: Wednesday's reallocation of funds looks like banks moved funds to reserves to meet reserve margins. Most importantly, positive Treasury operations pushed liquidity back above UAH100bn. If the Treasury pays more than it collects, liquidity could stay around UAH100bn until month-end tax payments peak, especially if banks do it repay NBU loans.

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Interest rates in the banks' reserves market (three months through 11 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 11 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.50	+0bp	+0bp	+100bp	+0bp
ON rate	13.80	+20bp	+50bp	+150bp	+100bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	53,487	+54.44	+37.19	+33.31	+11.41
DepCerts ³	49,443	-22.88	-27.94	+30.85	-14.90
Total	102,930	+4.24	-4.34	+32.12	-3.00
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+0.00
Banks	360,926	-0.03	+0.32	+9.43	+0.03
Residents	21,853	-1.63	-1.50	+2.51	-1.59
Individuals	1,464	-0.38	+0.34	+24.62	-0.22
Non-res ⁴	5,220	+0.02	+0.04	+9.09	+0.02
Total	750,037	-0.06	+0.11	+4.51	-0.03
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.54	-79bp	+3bp	-60bp	-327bp
3 months	11.60	-13bp	+2bp	-153bp	+67bp
6 months	11.71	-8bp	-8bp	+19bp	-70bp
1 year	11.77	-5bp	-7bp	+55bp	-37bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	340	-87bp	-87bp	-95bp	-92bp

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 below 28.4/USD

The UAH depreciated against the US dollar on Thursday as demand for local market foreign currency is maintained before the US weekend (also on Monday) as market participants meet their needs. The UAH4.2bn liquidity increase also negatively affected the hryvnia. As a result, the hryvnia weakened by 0.4% to 28.4457 UAH/USD. It sold for 28.11 UAH/USD versus 28.35 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 1% to 105.07; in year-on-year terms, it is down 2.46% from 107.65 last year.

The US dollar traded above previous numbers during the first half of trading, but began to decline after the release of a series of macroeconomic data, namely initial claims for unemployment benefits rising to 261,000 versus an expected 246,000. Moreover, producers' prices decreased by 0.1% in December from the previous month and increased by 2.6% YoY (versus expected increases of 0.2% and 3%, respectively). This raises concerns about the inflation forecast, which is rather low now. The strengthening of the euro also had a negative impact on the DXY index as it traded at 91.787-92.546, closing down 0.5% to 91.852.

The euro rose sharply on Thursday after the ECB minutes were released that announced a possible change in the policy implementation of the bank due to better-than-expected conditions. A plan to reduce asset redemption to EUR30bn a month, starting in January, is also confirmed. In addition, the growth of industrial production in the Eurozone in November was 1%, the highest rate since August. Thus, the euro was in the range of 1.1929-1.2059 USD/EUR, up 0.7% to 1.2032.

The decline of the US dollar supported currencies of developing countries. Thus, the Russian ruble rose on Thursday, further supported by rising oil prices and demand for more risky assets. It traded within 56.4155-57.1071 RUB/USD and closed up 1% to 56.4706.

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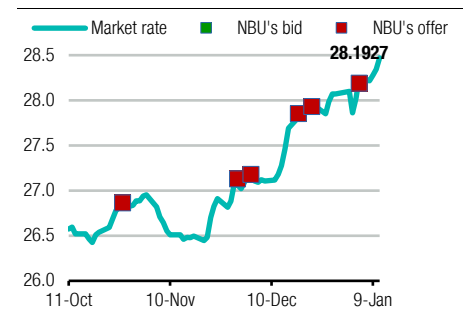
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 11 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.4705	+0.44	+1.59	+5.00	+1.43
USD ¹	91.852	-0.52	+0.00	-2.15	-0.30
EUR	1.2032	+0.70	-0.30	+2.23	+0.22
JPY	111.2600	-0.16	-1.32	-2.03	-1.27
GBP ²	1.3538	+0.23	-0.10	+1.48	+0.19
CNY	6.5063	-0.03	+0.20	-1.70	-0.01
RUB	56.4706	-1.02	-0.84	-4.15	-2.11

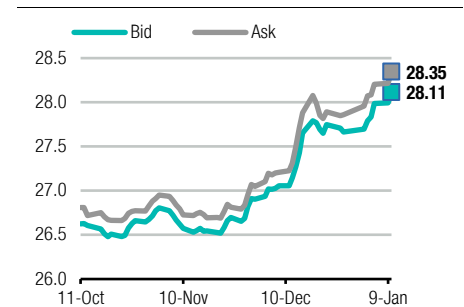
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 11 January 2018)



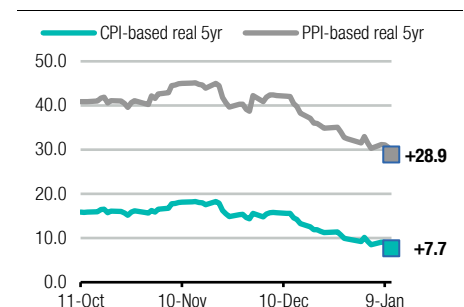
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 11 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 11 January 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)

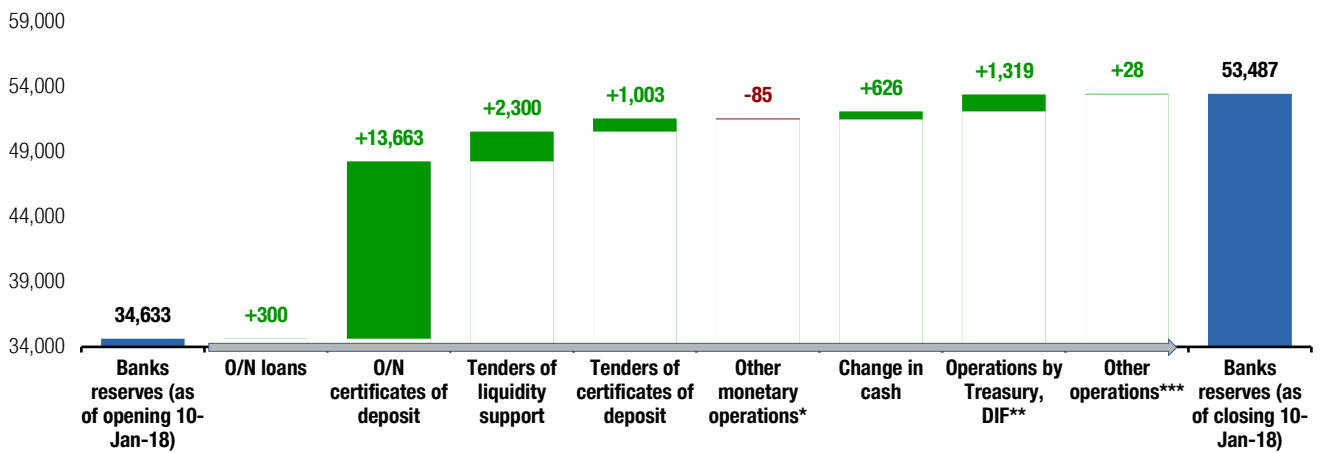
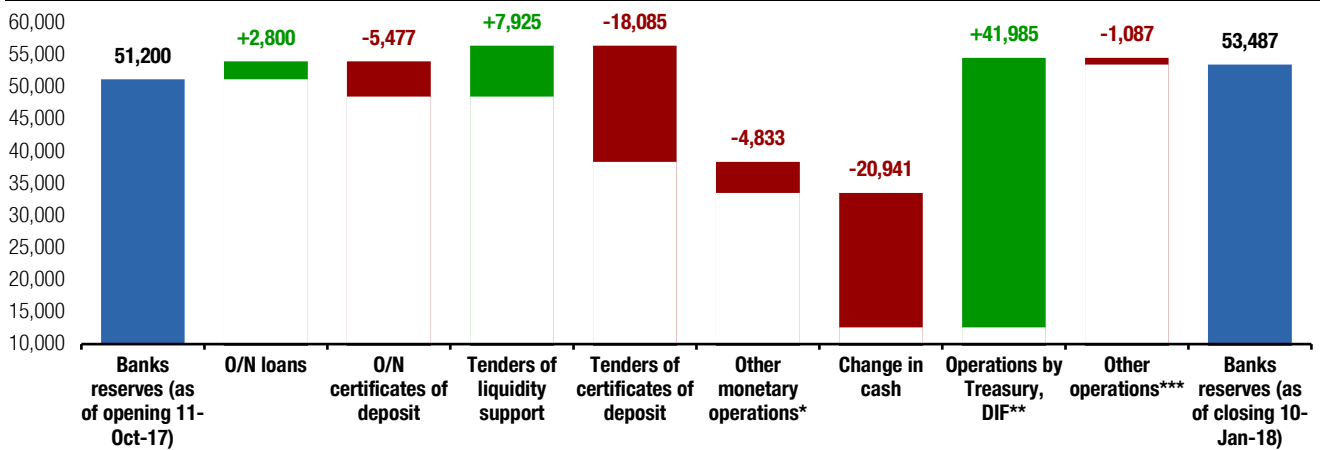
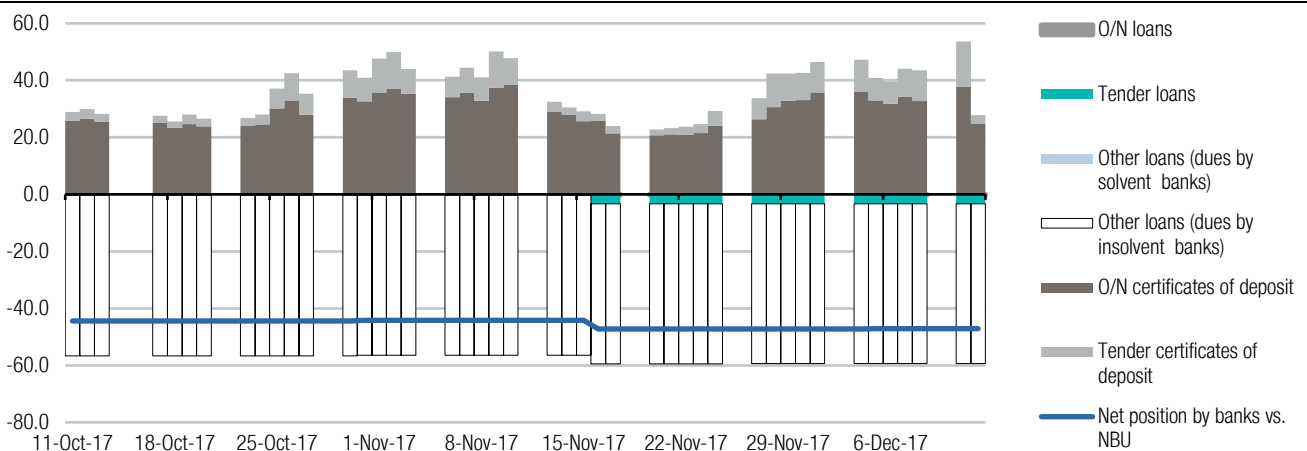


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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