

Daily Insight

Budget absorbs funds from bond sales

Key messages of the today's comments

Domestic liquidity **2**

Budget absorbs funds from bond sales 2

Liquidity fell following Tuesday's auction sales, with UAH5.57bn in outflows from Treasury operations due UAH5.24bn in bond settlements and UAH6.10bn via tax payments. The negative impact from Treasury operations was increased by UAH0.67bn of reserves exchanged into cash, UAH0.16bn in other non-monetary operations and a UAH1.30bn ON loan repayment. Inflows were significantly lower with just UAH3.55bn in FX purchases by the NBU via FX auctions and best quote.

Foreign exchange markets **3**

Hryvnia stable 3

Despite its decline against the US dollar at the beginning of the trading on Thursday because of NBU FX transactions, following a UAH4.2bn decrease in liquidity, the hryvnia recovered at the end of the day to close at 27.1240 UAH/USD. It sold for 27.09 UAH/USD versus 27.32 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.42% to 109.85; in year-on-year terms, it is up 2.19% from 107.5 last year.

Appendix #1: Domestic liquidity **4**

FRIDAY, 9 FEBRUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 8 February 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 8 February 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	16.00	+0bp	+150bp
Overnight rate (interbank)	15.40	-20bp	+260bp
Banks reserves (UAHm)	38,568	-13.74	-19.67
Deposit certificates* (UAHm)	57,554	+3.58	-0.94
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.1250	+0.00	-3.37
Total trade volume (US\$m)	235.04	+37.28	-5.39
UAH index CPI-based	109.846	+0.42	+2.56
UAH index PPI-based	174.139	+0.42	+2.56

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	317bp	+0bp	-115bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,581.00	-3.75	-3.46
MSCI EM	1,163.09	-0.88	+0.40
US dollar index (DXY)	90.229	-0.03	-2.06
EUR / USD	1.2247	-0.14	+2.02
Crude oil WTI (US\$/bbl)	61.15	-1.04	+1.21
Crude oil BRENT (US\$/bbl)	64.81	-1.07	-3.08
CRB, commodities index	191.77	-0.29	-1.08
Gold (US\$/ounce)	1,318.77	+0.02	+1.21

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Budget absorbs funds from bond sales

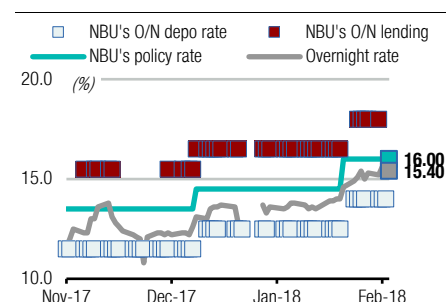
Liquidity fell following Tuesday's auction sales, with UAH5.57bn in outflows from Treasury operations due UAH5.24bn in bond settlements and UAH6.10bn via tax payments. The negative impact from Treasury operations was increased by UAH0.67bn of reserves exchanged into cash, UAH0.16bn in other non-monetary operations and a UAH1.30bn ON loan repayment. Inflows were significantly lower with just UAH3.55bn in FX purchases by the NBU via FX auctions and best quote.

Although liquidity hit the lowest amount of this year, down UAH4.16bn to UAH96.12bn, banks increased CDs purchases. The NBU the last sold 3-month CDs on Wednesday, selling UAH0.30bn against UAH1.20bn in a repayments of 3-month CDs sold last November. With 3-month instruments being limited, banks increased purchases of ON CDs with plans to reallocate some funds into 2-week CDs yesterday. Total CDs outstanding rose UAH1.99bn to UAH57.55bn while banks' correspondent accounts balance with the NBU fell UAH6.14bn to UAH38.57bn.

ICU view: Liquidity rose above UAH100bn for only one day. It could remain stable until quarterly tax payments begin next week. Higher FX purchases and in budget expenditures also could provide support.

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Interest rates in the banks' reserves market (three months through 8 February 2018)



Source: Bloomberg, ICU.

Key indicators (as of 8 February 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	16.00	+0bp	+0bp	+150bp	+150bp
ON rate	15.40	-20bp	+40bp	+180bp	+260bp
ON \$ swap	14.87	-3bp	+8bp	+209bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	38,568	-13.74	-15.86	+4.21	-19.67
DepCerts ³	57,554	+3.58	+10.41	-17.77	-0.94
Total	96,122	-4.14	-1.88	-10.17	-9.41
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	356,248	-0.65	-0.65	-1.20	-1.20
Banks	353,631	+0.72	+1.00	-1.85	-1.99
Residents	24,213	+4.80	+5.45	+8.99	+9.04
Individuals	1,568	+0.13	+6.43	+7.05	+6.83
Non-res ⁴	9,329	+0.05	+11.12	+78.76	+78.74
Total	744,988	+0.18	+0.47	-0.64	-0.70
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	7.80	+93bp	-109bp	-437bp	-801bp
3 months	8.13	+26bp	-53bp	-366bp	-281bp
6 months	7.50	+15bp	+102bp	-426bp	-491bp
1 year	8.74	+10bp	+147bp	-306bp	-340bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	317	+0bp	+0bp	-110bp	-115bp

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 stable

Despite its decline against the US dollar at the beginning of the trading on Thursday because of NBU FX transactions, following a UAH4.2bn decrease in liquidity, the hryvnia recovered at the end of the day to close at 27.1240 UAH/USD. It sold for 27.09 UAH/USD versus 27.32 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.42% to 109.85; in year-on-year terms, it is up 2.19% from 107.5 last year.

The US dollar rose after a two-year draft congressional bill was approved to increase spending by US\$300bn. Although the number of applications for unemployment benefits fell to a 45-year low of 221,000, the lowest in 45 years, a higher British pound caused the dollar index (DXY) to close down to 90.229 after it had traded at 90.013-90.567.

In a volatile range of 1.2212-1.2295 USD/EUR, the euro declined 0.1% to 1.2247 USD/EUR. As China's trade balance surplus came in below expectations due to higher imports, and the yuan fell 0.8% to 6.3298 CNY/USD.

The Russian ruble was volatile as it traded in the range of 57.5198-58.4612 RUB/USD amidst declining oil prices and a highly anticipated key policy rate cut. It closed down 0.9% to 58.4159 RUB/USD.

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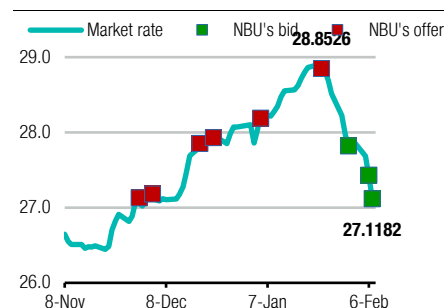
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 8 February 2018)

	Last	Daily	Weekly	Monthly	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.1250	+0.00	-2.66	-3.86	-3.37
USD ¹	90.229	-0.03	+1.76	-2.31	-2.06
EUR	1.2247	-0.14	-2.10	+2.34	+2.02
JPY	108.7400	-0.54	-0.60	-3.85	-3.51
GBP ²	1.3913	+0.23	-2.46	+2.54	+2.96
CNY	6.3298	+0.83	+0.53	-2.62	-2.72
RUB	58.4159	+0.89	+4.39	+2.26	+1.26

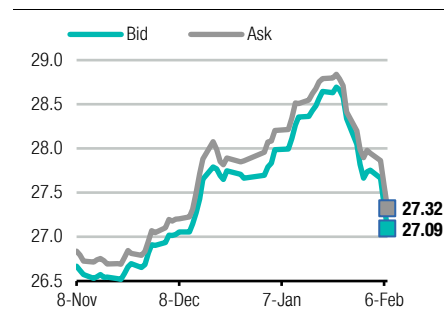
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 8 February 2018)



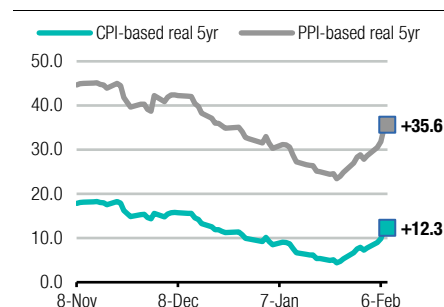
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 8 February 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 8 February 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)

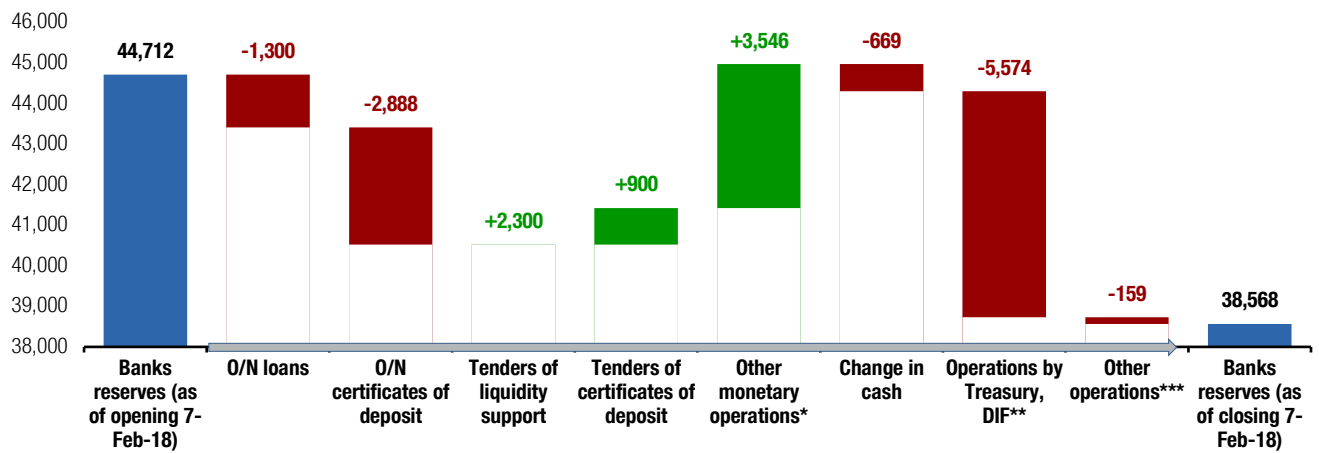
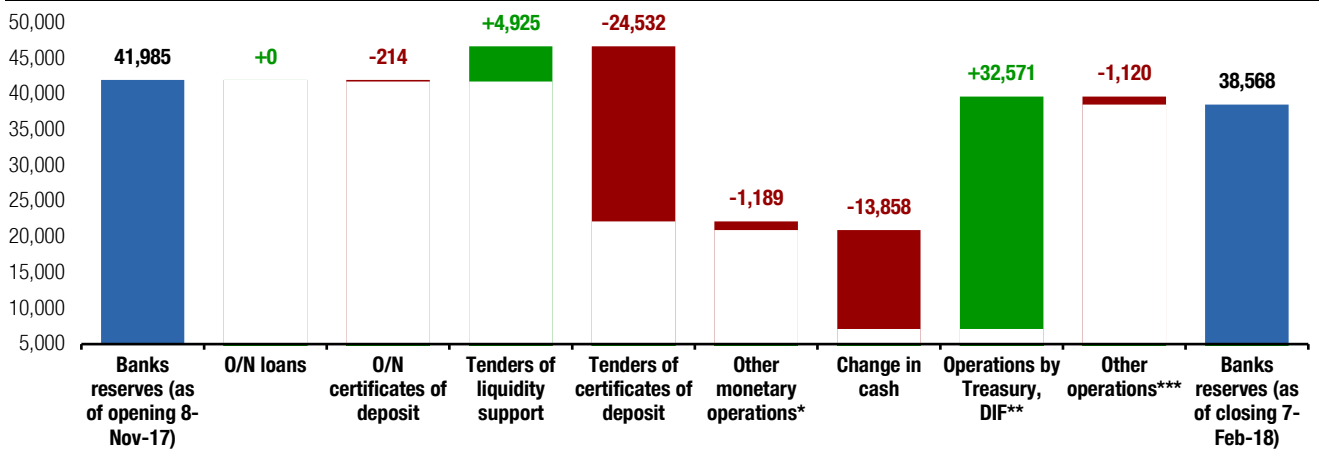
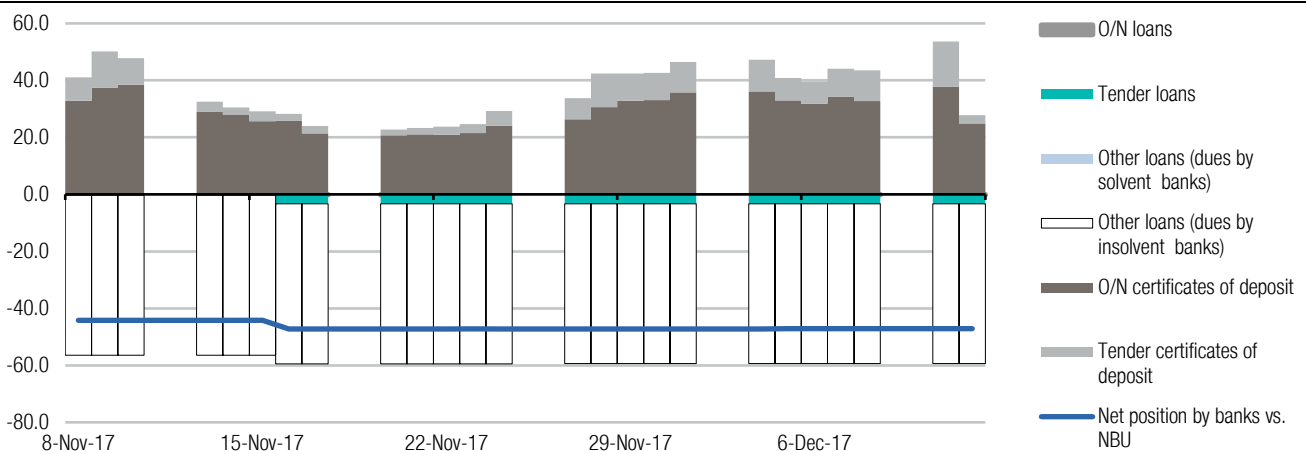


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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