

Daily Insight

Hryvnia stronger

Key messages of the today's comments

Domestic liquidity **2**

Liquidity continues to increase slightly 2

Last Friday, banks withdrew funds from CDs as the NBU redeemed UAH16.82bn of 2-week CDs and offered only ON certificates, causing total CDs outstanding to fall UAH9.32bn to UAH52.48bn. Banks' correspondent accounts with the NBU rose UAH10.45bn to UAH46.39bn after receiving inflows from the Treasury and NBU. 2

Bond portfolios up with new local currency bonds issued 2

Last week, various investors purchased UAH5.24bn of new local currency bonds at the auction, which were redistributed last Thursday as follows: non-residents purchased the main portion of bonds, UAH2.73bn, and increased their portfolio to UAH12.06bn, or 1.62% of total bonds outstanding, or 3.1% of bonds excluding the NBU portfolio. 2

Foreign exchange markets **3**

Hryvnia stronger 3

Thanks to excess FX supply on the local market as exporters started to sell foreign currency to meet quarterly tax payments, on Monday, the hryvnia strengthened 0.8% to 26.8404 UAH/USD, after appreciating 3% in nominal terms last week, In the local market, the hryvnia 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 110.58; in year-on-year terms, it is up 4.34% from 105.98 last year. 3

Appendix #1: Domestic liquidity **4**

TUESDAY, 13 FEBRUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 12 February 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 12 February 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	16.00	+0bp	+150bp
Overnight rate (interbank)	15.30	-30bp	+250bp
Banks reserves (UAHm)	46,392	+29.08	-3.37
Deposit certificates* (UAHm)	52,479	-15.09	-9.67
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.8200	-0.78	-4.45
Total trade volume (US\$m)	243.21	-3.02	-2.10
UAH index CPI-based	110.577	+0.42	+3.24
UAH index PPI-based	175.298	+0.42	+3.24

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr N/A

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,656.00	+1.39	-0.66
MSCI EM	1,153.37	+0.92	-0.44
US dollar index (DXY)	90.208	-0.26	-2.08
EUR / USD	1.2292	+0.33	+2.39
Crude oil WTI (US\$/bbl)	59.29	+0.15	-1.87
Crude oil BRENT (US\$/bbl)	62.59	-0.32	-6.40
CRB, commodities index	189.08	+0.30	-2.47
Gold (US\$/ounce)	1,322.76	+0.50	+1.51

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to increase slightly

Last Friday, banks withdrew funds from CDs as the NBU redeemed UAH16.82bn of 2-week CDs and offered only ON certificates, causing total CDs outstanding to fall UAH9.32bn to UAH52.48bn. Banks' correspondent accounts with the NBU rose UAH10.45bn to UAH46.39bn after receiving inflows from the Treasury and NBU.

The positive impact of non-monetary operations amounted to UAH0.86bn, including UAH2.48bn from the Treasury, reduced by UAH1.70bn of reserves exchanged into cash. Non-monetary operations provided UAH0.08bn of funds via other operations. There was also UAH0.27bn via FX operations, most likely FX purchases via best quote.

ICU view: *Liquidity rose prior to quarterly tax payments which began yesterday, and Treasury operations could see outflows. Despite inflows from the NBU though FX purchases of at least UAH1.34bn, liquidity could decrease. However, if the Treasury maintains its operations balance at zero or positive, liquidity could move above UAH100bn.*

Bond portfolios up with new local currency bonds issued

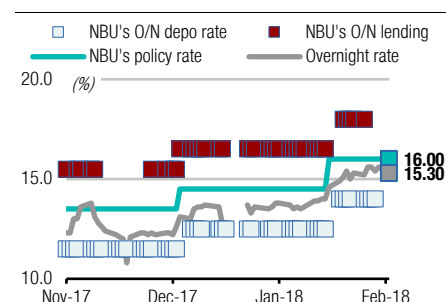
Last week, various investors purchased UAH5.24bn of new local currency bonds at the auction, which were redistributed last Thursday as follows: non-residents purchased the main portion of bonds, UAH2.73bn, and increased their portfolio to UAH12.06bn, or 1.62% of total bonds outstanding, or 3.1% of bonds excluding the NBU portfolio.

In a US dollar equivalent, the portfolio rose by more than US\$0.10bn to UAH0.44bn, and highest amount since the end of October 2016. Also, the individual investors' portfolio increased UAH0.11bn with UAH0.10bn from the purchase of local currency bonds. Non-banks purchased UAH1.6bn of new bonds, increasing their portfolio to UAH24.63bn.

ICU view: *Per NBU data on secondary market deals, most likely non-residents purchased bonds with maturity in April and July 2018, as there were only two deals for each bond at a total amount close to the non-residents' portfolio increase. Also, with a large amount of deals with bonds maturing this October, there were 22 deals whose final owners could be from different groups of bondholders, probably individuals and non-banks.*

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Interest rates in the banks' reserves market (three months through 12 February 2018)



Source: Bloomberg, ICU.

Key indicators (as of 12 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	15.30	-30bp	+10bp	+150bp	+250bp
ON \$ swap	15.20	+51bp	+28bp	+0bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	46,392	+29.08	+12.48	-11.65	-3.37
DepCerts ³	52,479	-15.09	-4.61	+1.35	-9.67
Total	98,871	+1.16	+2.72	-5.20	-6.82
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	356,248	+0.00	-0.65	-1.20	-1.20
Banks	350,084	-0.10	-0.84	-3.09	-2.97
Residents	24,686	+0.23	+6.93	+12.21	+11.17
Individuals	1,594	+0.70	+5.50	+7.76	+8.63
Non-res ⁴	12,078	+0.17	+29.41	+129.8	+131.4
Total	744,690	-0.03	-0.11	-0.78	-0.74
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	14.26	+539bp	+469bp	+205bp	-155bp
3 months	9.89	-2bp	+100bp	-173bp	-105bp
6 months	10.50	-10bp	+267bp	-120bp	-191bp
1 year	9.97	-142bp	+265bp	-183bp	-216bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	N/A	N/A	N/A	N/A	N/A

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 stronger

Thanks to excess FX supply on the local market as exporters started to sell foreign currency to meet quarterly tax payments, on Monday, the hryvnia strengthened 0.8% to 26.8404 UAH/USD, after appreciating 3% in nominal terms last week. In the local market, the hryvnia 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 110.58; in year-on-year terms, it is up 4.34% from 105.98 last year.

Investors sold USD as Wall Street's main indexes opened higher this week, causing the US dollar to trade slightly lower. The DXY index declined 0.3% to 90.21. The euro traditionally moved in the opposite direction to the US currency, closing up 0.3% to 1.2292 USD/EUR.

The Chinese yuan weakened 0.4% to 6.3275 CNY/USD on the back of muted trading ahead of Chinese New Year. The Russian ruble strengthened 1.1% to 57.7639 RUB/USD as oil prices rebounded after falling last week.

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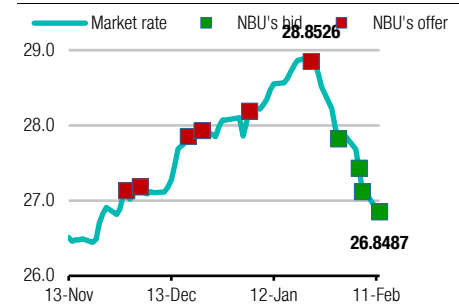
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 12 February 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8200	-0.78	-3.12	-6.07	-4.45
USD ¹	90.208	-0.26	+0.73	-0.84	-2.08
EUR	1.2292	+0.33	-0.61	+0.74	+2.39
JPY	108.6600	-0.13	-0.39	-2.16	-3.58
GBP ²	1.3838	+0.08	-0.87	+0.80	+2.41
CNY	6.3275	+0.39	+0.55	-2.19	-2.76
RUB	57.7639	-1.04	+0.80	+2.06	+0.13

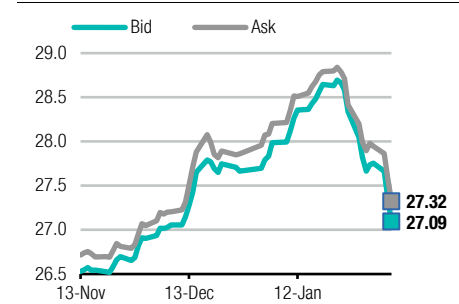
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 12 February 2018)



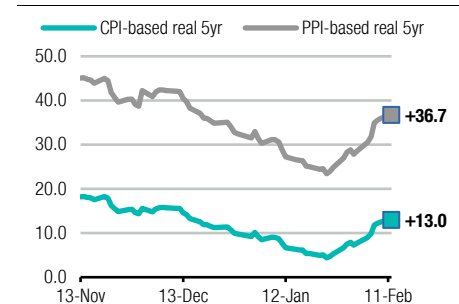
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 12 February 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 12 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)

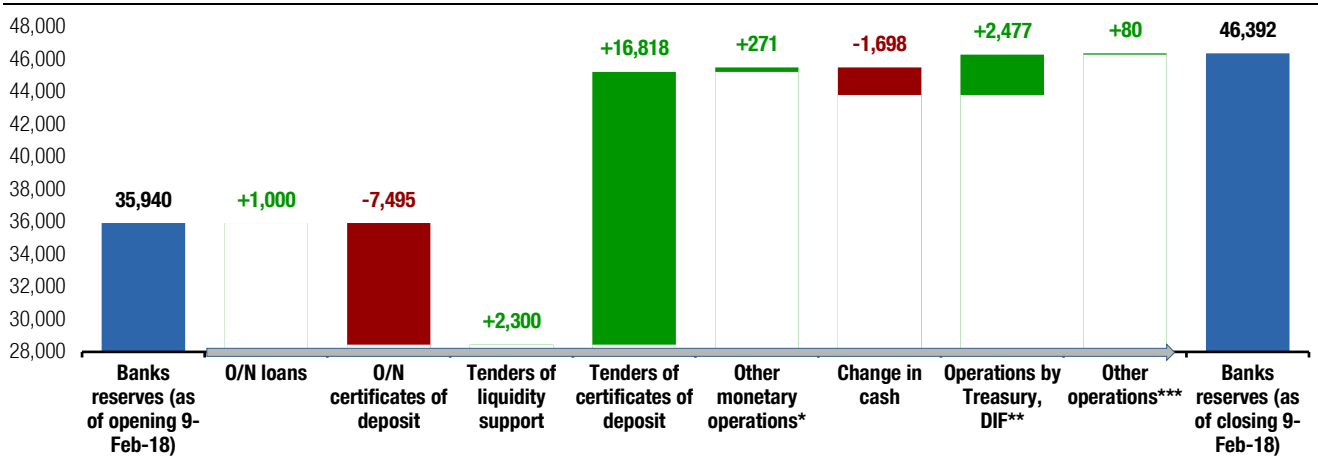
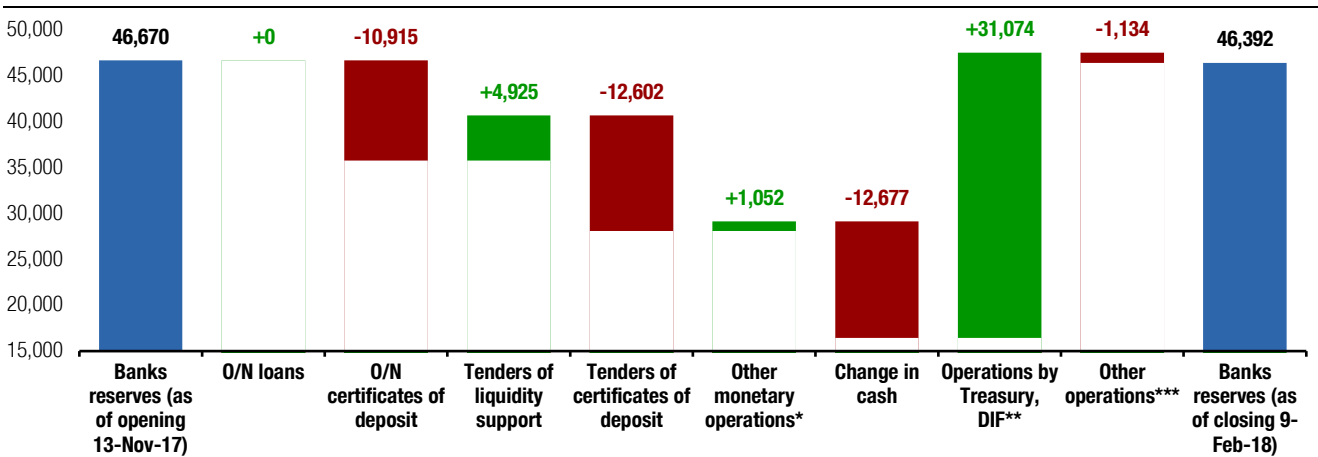
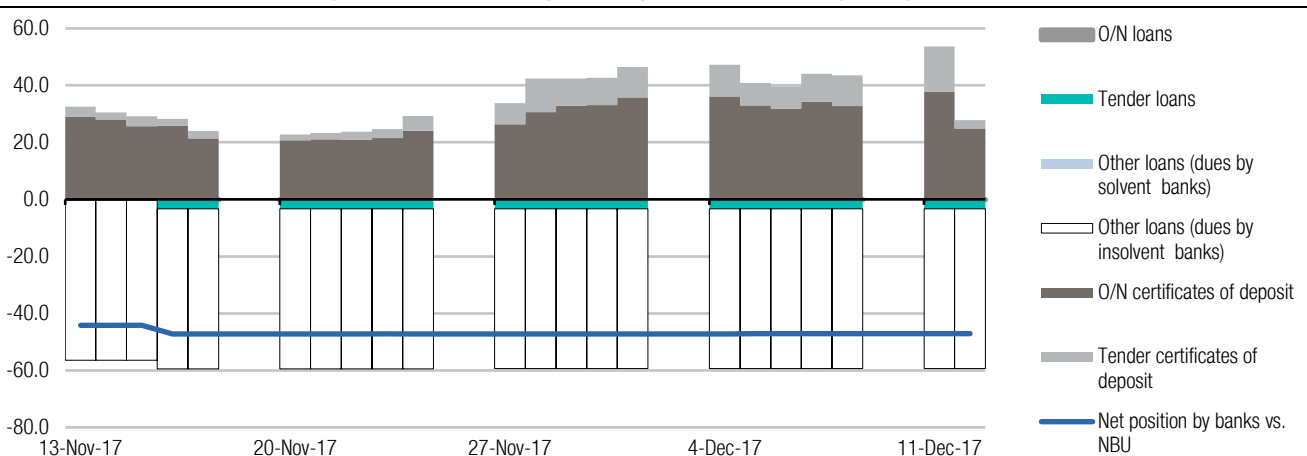


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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