

Daily Insight

Liquidity decreases on higher volatility

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Following Tuesday's cyber attack, banking gradually recovered as client and tax payments resumed. After a significant decline in budget revenues on Tuesday, the Treasury received UAH8.5bn last Thursday as expenditures were UAH2.5bn lower. This impact of non-monetary operations was negative UAH2.14bn as the NBU provided only minor funds via monetary operations.

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MONDAY, 3 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 30 June 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 30 June 2017)

| | Last | Daily chg (%) | YTD chg (%) |
|---|----------|------------------|----------------|
| DOMESTIC LIQUIDITY | | | |
| NBU key policy rate (%) | 12.50 | +0bp | -150bp |
| Overnight rate (interbank) | 11.70 | +30bp | +110bp |
| Banks reserves (UAHm) | 53,981 | -5.90 | +2.14 |
| Deposit certificates* (UAHm) | 51,882 | -24.56 | -37.11 |
| FOREIGN EXCHANGE MARKET | | | |
| UAH per US dollar | 26.0050 | -0.29 | -4.04 |
| Total trade volume (US\$m) | 177.24 | +232.75 | +4.50 |
| UAH index PCI-based | 109.433 | +0.16 | +1.33 |
| UAH index PPI-based | 168.663 | +0.16 | +0.17 |
| UKRAINE SOVEREIGN EUROBOND MARKET | | | |
| CDS 5yr | 585bp | +0bp | +0bp |
| GLOBAL FINANCIAL MARKET INDICATORS | | | |
| S&P 500 | 2,423.41 | +0.15 | +8.24 |
| MSCI EM | 1,010.80 | -0.32 | +17.23 |
| US dollar index (DXY) | 95.628 | +0.00 | -6.44 |
| EUR / USD | 1.1426 | -0.13 | +8.64 |
| Crude oil WTI (US\$/bbl) | 46.04 | +2.47 | -14.30 |
| Crude oil BRENT (US\$/bbl) | 48.77 | +2.85 | -14.17 |
| CRB, commodities index | 174.78 | +1.68 | -9.21 |
| Gold (US\$/ounce) | 1,241.55 | -0.32 | +7.75 |

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity decreases on higher volatility

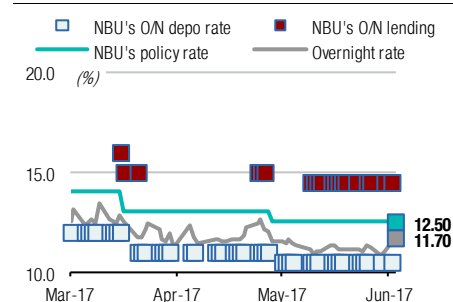
Following Tuesday's cyber attack, banking gradually recovered as client and tax payments resumed. After a significant decline in budget revenues on Tuesday, the Treasury received UAH8.5bn last Thursday as expenditures were UAH2.5bn lower. This impact of non-monetary operations was negative UAH2.14bn as the NBU provided only minor funds via monetary operations.

Total liquidity declined UAH2.11bn to UAH105.86bn, with equal declines in its two components. Banks' correspondent accounts with the NBU slid UAH1.10bn to UAH53.98bn while total CDs outstanding fell UAH1.02bn to UAH51.88bn. Banks once more decreased the amount of 14-day CDs and increased ON CDs outstanding by UAH3.51bn.

Investment implications: *The banking system recovery took several days, having an impact on liquidity and its structure. Instability and the final days of month-end tax payments period most likely forced banks to increase the availability of funds. CD tenders might have been unavailable for some banks as a result of the cyber attack. We could see a recovery in both CDs outstanding and 14-day CD purchases this week.*

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Interest rates in the banks' reserves market (three months through 30 June 2017)



Source: Bloomberg, ICU.

Key indicators (as of 30 June 2017)

| | Last | Daily | Weekly | Monthly | YTD |
|---|----------------|---------------|---------------|---------------|---------------|
| | chg (%) | chg (%) | chg (%) | chg (%) | chg (%) |
| BANKS' RESERVES MARKET (%) | | | | | |
| NBU rate ¹ | 12.50 | +0bp | +0bp | +0bp | -150bp |
| Overnight | 11.70 | +30bp | +50bp | +30bp | +110bp |
| KYIV PRIME RATES (%) | | | | | |
| Overnight | N/A | N/A | N/A | N/A | N/A |
| 1 week | N/A | N/A | N/A | N/A | N/A |
| 1 month | N/A | N/A | N/A | N/A | N/A |
| 2 months | N/A | N/A | N/A | N/A | N/A |
| 3 months | N/A | N/A | N/A | N/A | N/A |
| DOMESTIC LIQUIDITY (UAH MILLION) | | | | | |
| Reserves ² | 53,981 | -5.90 | +2.81 | +5.80 | +2.14 |
| DepCerts ³ | 51,882 | -24.56 | -33.13 | -34.03 | -37.11 |
| Total | 105,863 | -15.04 | -16.68 | -16.22 | -19.68 |
| BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION) | | | | | |
| NBU | 371,007 | +0.00 | -0.54 | -1.37 | +4.17 |
| Banks | 281,426 | -0.09 | +0.25 | -0.09 | +63.15 |
| Residents | 23,170 | -0.08 | +0.40 | +2.05 | +47.66 |
| Non-res ⁴ | 321 | -0.29 | -0.01 | -93.94 | -94.96 |
| Total | 675,923 | -0.04 | -0.18 | -1.45 | +22.73 |
| IMPLIED YIELDS OF THE UAH NDF MARKET (%) | | | | | |
| 3 months | 11.62 | +119bp | -318bp | -320bp | -11ppt |
| 6 months | 14.30 | -252bp | +59bp | +66bp | -417bp |
| 9 months | 14.83 | -167bp | +40bp | +46bp | -318bp |
| 1 year | 15.53 | -125bp | +31bp | -1bp | -147bp |
| UKRAINE SOVEREIGN EUROBOND MARKET | | | | | |
| CDS 5yr | 585 | +0bp | +0bp | -10bp | +0bp |

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

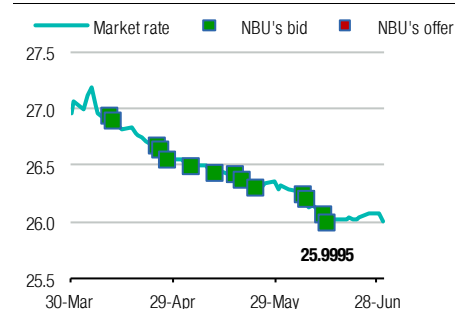
Key indicators (as of 30 червня 2017)

| | Last | Daily chg (%) | Weekly chg (%) | Monthly chg (%) | YTD chg (%) |
|---|----------|------------------|-------------------|--------------------|----------------|
| EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND) | | | | | |
| UAH | 26.0050 | -0.29 | -0.11 | -1.05 | -4.04 |
| USD ¹ | 95.628 | +0.00 | -1.68 | -1.70 | -6.44 |
| EUR | 1.1426 | -0.13 | +2.07 | +2.15 | +8.64 |
| JPY | 112.3900 | +0.19 | +1.00 | +1.39 | -3.91 |
| GBP ² | 1.3025 | +0.14 | +2.41 | +1.29 | +5.55 |
| CNY | 6.7809 | -0.09 | -0.81 | -1.09 | -2.36 |
| RUB | 58.8720 | -0.92 | -0.98 | +4.07 | -4.33 |

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

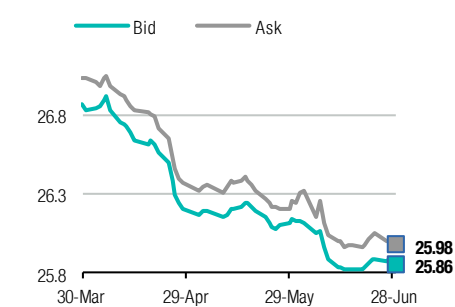
Source: Bloomberg, ICU.

**Ukraine hryvnia UAH exchange rate
per US dollar at the interbank market
(three months through 30 June 2017)**



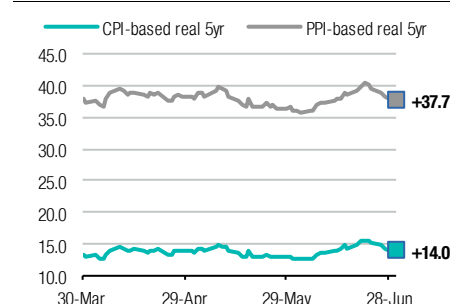
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

**Ukraine hryvnia UAH exchange rate
per US dollar at the cash market
(three months through 30 June 2017)**



Source: NBU.

**UAH exchange rate misalignment¹ from
fundamental level² (%)
(three months through 30 June 2017)**



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

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

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

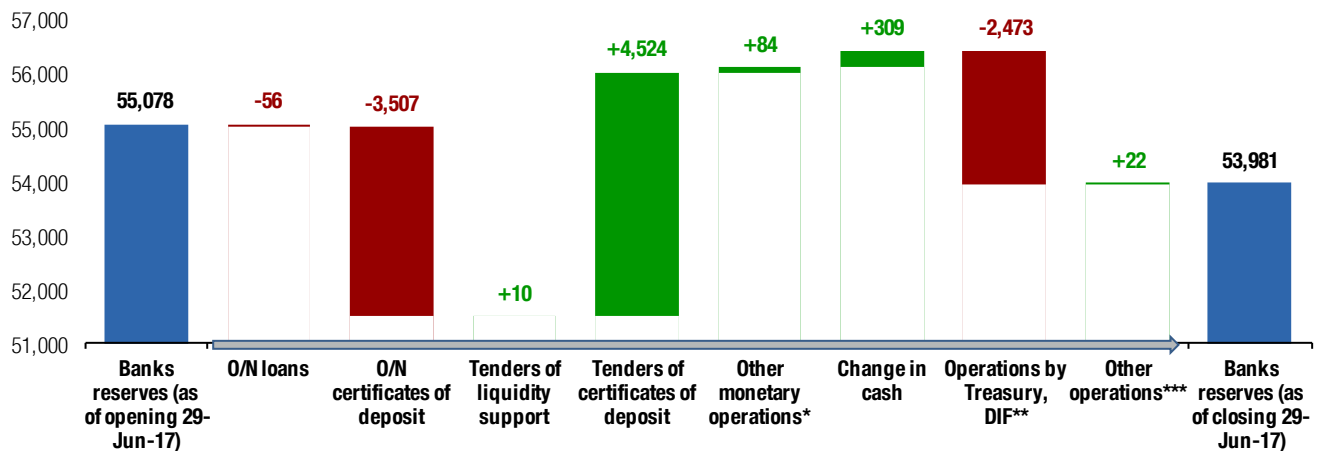
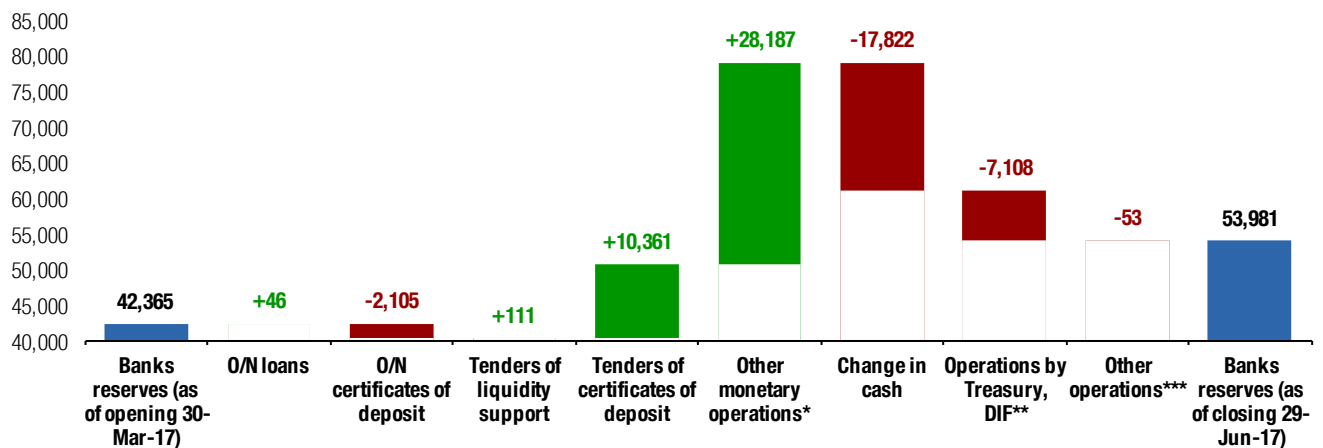


Chart 2. Banks reserves usages over last 90-day period (UAHm)

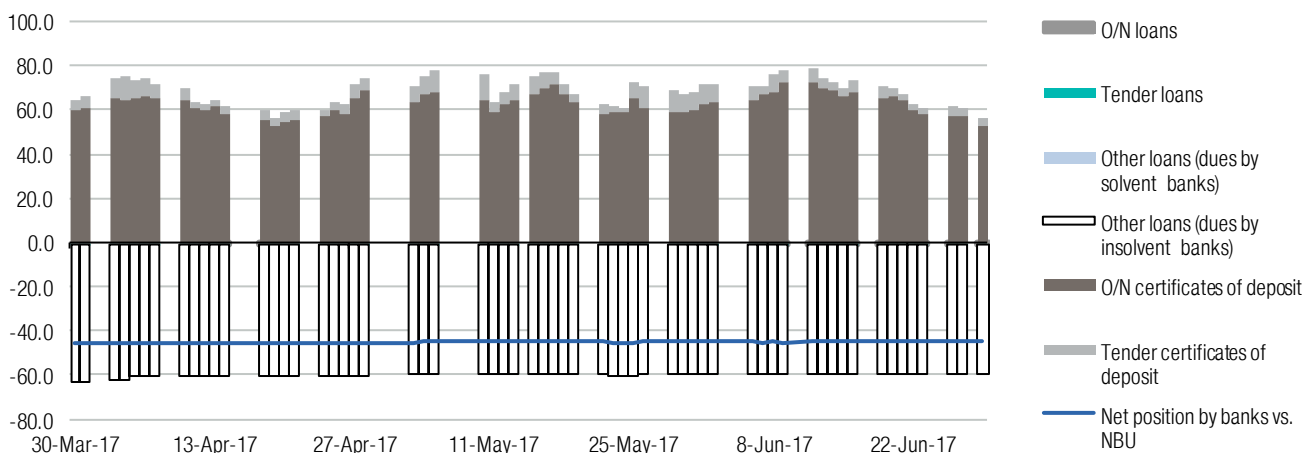


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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