

Daily Insight

Dollar under pressure after Yellen's speech

Key messages of the today's comments

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Insufficient volatility 2

On Tuesday, the total amount of banking-sector liquidity slid UAH0.96bn to UAH99.48bn, the second time below UAH100bn during July. But this Tuesday, the structure of liquidity changed a bit in a positive way, with an increase in CDs outstanding.

Banks' bond portfolios up 2

According to the NBU, on Tuesday, banks' portfolios were up UAH22.43bn, and their share of total bonds outstanding was up nearly 200bp. This happened on the day of the primary auction, but not through the auction itself. At the auction, banks purchased only UAH0.42bn of new bonds, and the settlement day was yesterday, not on Tuesday.

Foreign exchange markets 3

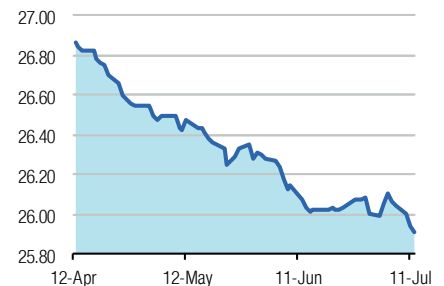
Dollar under pressure after Yellen's speech 3

Federal Reserve chair Janet Yellen pointed out that inflation remains below the central bank's target of 2% (1.4% YoY in May), and the Federal Reserve does not know when inflation will finally pick up. According to Yellen's testimony, the central bank will start unwinding its balance sheet this year. At the same time, Janet Yellen did not give signals when the Federal Reserve will make its next policy moves. The DXY index responded to the testimony with a decline of 0.3% to 95.51, but then rebounded to 95.93. As of 10:00 a.m. Thursday, the DXY index was down 0.19% to 95.58.

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THURSDAY, 13 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 12 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 12 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	45,678	-2.59	-8.15
Deposit certificates* (UAHm)	53,807	+0.47	-13.55
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9100	-0.12	-4.39
Total trade volume (US\$m)	N/A		
UAH index PCI-based	110.349	-0.04	+2.17
UAH index PPI-based	170.074	-0.04	+1.01
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	-68bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,443.25	+0.73	+9.13
MSCI EM	1,029.90	+1.15	+19.44
US dollar index (DXY)	95.761	+0.10	-6.31
EUR / USD	1.1412	-0.48	+8.51
Crude oil WTI (US\$/bbl)	45.49	+1.00	-15.32
Crude oil BRENT (US\$/bbl)	47.74	+0.46	-15.98
CRB, commodities index	173.88	-0.03	-9.68
Gold (US\$/ounce)	1,220.48	+0.22	+5.92

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Insufficient volatility

On Tuesday, the total amount of banking-sector liquidity slid UAH0.96bn to UAH99.48bn, the second time below UAH100bn during July. But this Tuesday, the structure of liquidity changed a bit in a positive way, with an increase in CDs outstanding.

Banks' correspondent accounts with the NBU slid UAH1.22bn, while total CDs outstanding were up a mere UAH0.25bn. Banks increased purchases of both kinds of CDs, ON and 14-day maturities.

Investment implications: Liquidity remains volatile at around the UAH100bn level, but the structure has changed. After a few days of reallocation of banks' accounts, this Tuesday, banks increased the amount of CDs. But yesterday's purchase of UAH0.42bn of new government bonds should have a negative impact on indicators.

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Banks' bond portfolios up

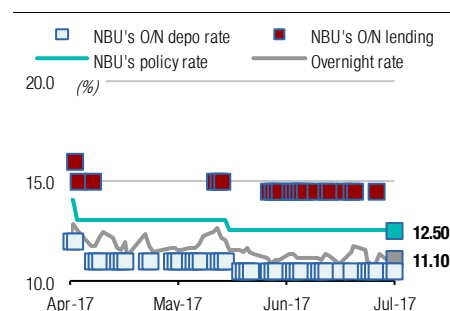
According to the NBU, on Tuesday, banks' portfolios were up UAH22.43bn, and their share of total bonds outstanding was up nearly 200bp. This happened on the day of the primary auction, but not through the auction itself. At the auction, banks purchased only UAH0.42bn of new bonds, and the settlement day was yesterday, not on Tuesday.

Only recently announced, an increase in Privatbank's share capital could be partially done at UAH22.5bn.

Investment implications: Structure of bondholders was changed slightly with banks' share increasing, while NBU's share slid to 54.14%. At the same time, these bonds will probably not be in the secondary market, so will not satisfy a portion of demand in the bond market, and will not have an impact on primary auctions and budget financing.

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Interest rates in the banks' reserves market (three months through 12 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 12 July 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	N/A	N/A	N/A	N/A	N/A
ON rate	N/A	N/A	N/A	N/A	N/A
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	45,678	-2.59	+17.27	+14.45	-8.15
DepCerts ³	53,807	+0.47	-16.54	-26.42	-13.55
Total	99,485	-0.96	-3.80	-11.99	-11.15
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	371,007	+0.00	+0.00	-0.79	+4.17
Banks	292,758	+8.30	+4.27	+4.19	+69.87
Residents	21,493	-0.11	-7.20	-4.55	+37.09
Non-res ⁴	6	-7.15	-98.22	-91.01	-99.91
Total	685,264	+3.38	+1.48	+1.14	+24.48
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	15.27	+26bp	-38bp	+46bp	-704bp
3 months	10.87	-29bp	-388bp	-362bp	-11ppt
6 months	13.62	+9bp	+0bp	+14bp	-443bp
1 year	14.69	+2bp	+2bp	-29bp	-130bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	585	+0bp	+0bp	+35bp	-68bp

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

Dollar under pressure after Yellen's speech

Federal Reserve chair Janet Yellen pointed out that inflation remains below the central bank's target of 2% (1.4% YoY in May), and the Federal Reserve does not know when inflation will finally pick up. According to Yellen's testimony, the central bank will start unwinding its balance sheet this year. At the same time, Janet Yellen did not give signals when the Federal Reserve will make its next policy moves. The DXY index responded to the testimony with a decline of 0.3% to 95.51, but then rebounded to 95.93. As of 10:00 a.m. Thursday, the DXY index was down 0.19% to 95.58.

On the back of the declining US dollar, the hryvnia continued to strengthen. The UAH closed up 0.24% to 25.9107 UAH/USD from the previous trading day on volume of US\$181.2m, per data from the NBU. At the same time, the appreciation was bolstered by an excess supply of USD in the domestic market. The hryvnia's trade-weighted index declined 0.04% to 110.35, while in year-on-year terms, the TWI was up 11.1% from 99.31 last year. The US dollar sold for 25.98 UAH/USD, while it could be bought for 25.81 UAH/USD in the Ukrainian cash market.

On Wednesday, oil prices rose more than 1%, and exceeded US\$48 a barrel in response to a fall in U.S. fuel inventories, and a cut in the U.S. government's forecast for crude output. Rising oil prices bolstered the Russian ruble, which closed up 1.4% to 59.98 RUB/USD, according to Bloomberg. At the same time, Russia recorded a current-account deficit of US\$0.3bn, the first deficit in a second quarter since 1998 (in recent years, Russia recorded a seasonal deficit in the third quarter), which may provide some negative background to the USD/RUB pair in the short term. However, still relatively high interest rates kept by Russia's central bank allows the RUB to enjoy support in the foreign-exchange market irrespective of past developments in the shape of the current account. Our real TWI analysis for RUB says that the Russian currency is not overvalued even after sizable appreciation of 1H17, ie, it has support.

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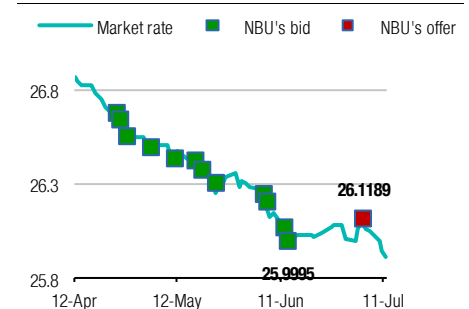
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 12 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9100	-0.12	-0.73	-0.61	-4.39
USD ¹	95.761	+0.10	-0.55	-1.42	-6.31
EUR	1.1412	-0.48	+0.53	+1.87	+8.51
JPY	113.1700	-0.68	-0.08	+2.93	-3.24
GBP ²	1.2885	+0.29	-0.38	+1.79	+4.42
CNY	6.7878	-0.22	-0.21	-0.15	-2.26
RUB	59.9817	-1.38	-0.01	+5.11	-2.53

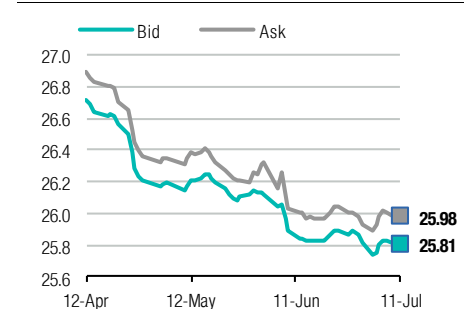
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 12 July 2017)



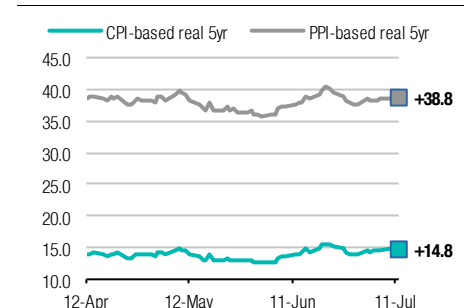
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 12 July 2017)



Source: NBU.

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

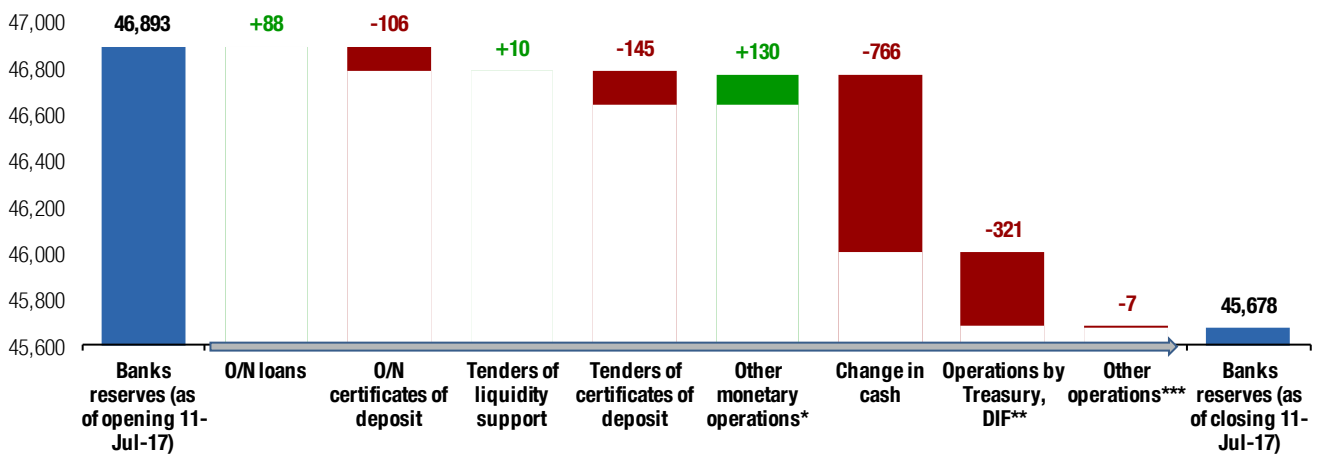
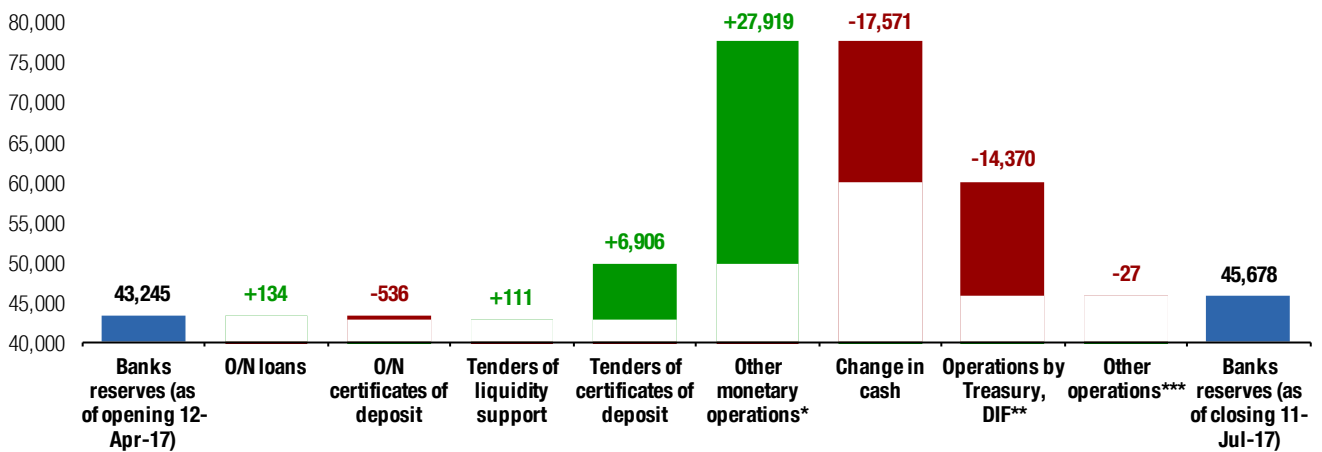
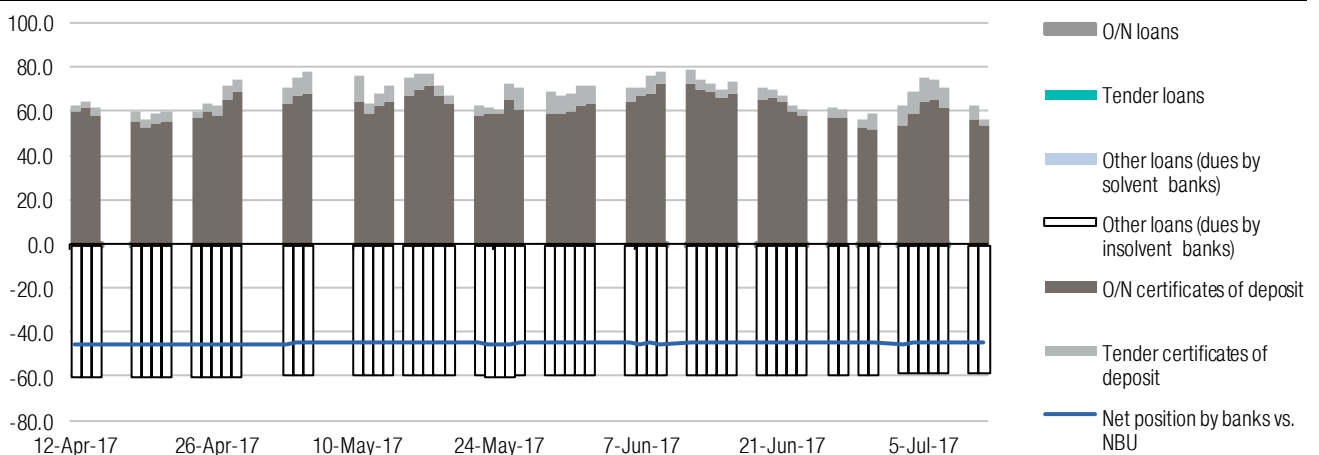


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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