

Daily Insight

UAH still below 26 per greenback

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Liquidity decline continues 2

Banking-sector liquidity declined this Wednesday due to the negative impact of non-monetary operations. Banks continued to increase cash, and withdraw funds from correspondent accounts, while the Treasury absorbed funds from the banking sector, but in insufficient amounts. Banks paid nearly UAH0.43bn for new government bonds on Wednesday, which probably was the main reason for the absorption, as the negative impact from Treasury operations amounted to UAH0.35bn.

Auction pre-announcement 2

The MoF continues to consultate with primary dealers ahead of auctions. Yesterday, they published conditions for next Tuesday. They are looking to offer four bonds: one six-month zero-coupon bond, and three bonds with semi-annual coupon payments with 12-month, two-year, and three-year maturities.

Foreign exchange markets 3

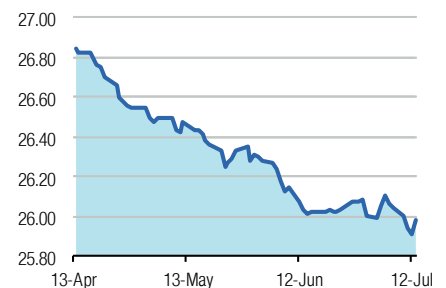
UAH still below 26 per greenback 3

The UAH closed down 0.22% to 25.9689 UAH/USD from the previous day's trading on volume of US\$296.98m, per data from the NBU. The US dollar sold for 25.97 UAH/USD, while it could be bought for 25.78 UAH/USD in the Ukrainian cash market. The hryvnia's trade-weighted index declined 0.31% to 110.01, while in year-on-year terms, the TWI was up 10.49% from 99.56 last year.

Appendix #1: Domestic liquidity 4

FRIDAY, 14 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 13 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 13 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.20	+20bp	+60bp
Banks reserves (UAHm)	43,130	-5.58	-13.28
Deposit certificates* (UAHm)	55,118	+2.44	-11.44
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9850	+0.29	-4.11
Total trade volume (US\$m)	206.08	+51.48	+21.50
UAH index PCI-based	110.006	-0.31	+1.86
UAH index PPI-based	169.545	-0.31	+0.70
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	-68bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,447.83	+0.19	+9.34
MSCI EM	1,040.72	+1.05	+20.70
US dollar index (DXY)	95.728	-0.03	-6.34
EUR / USD	1.1398	-0.12	+8.38
Crude oil WTI (US\$/bbl)	46.08	+1.30	-14.22
Crude oil BRENT (US\$/bbl)	48.42	+1.42	-14.78
CRB, commodities index	174.35	+0.27	-9.43
Gold (US\$/ounce)	1,217.58	-0.24	+5.67

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity decline continues

Banking-sector liquidity declined this Wednesday due to the negative impact of non-monetary operations. Banks continued to increase cash, and withdraw funds from correspondent accounts, while the Treasury absorbed funds from the banking sector, but in insufficient amounts. Banks paid nearly UAH0.43bn for new government bonds on Wednesday, which probably was the main reason for the absorption, as the negative impact from Treasury operations amounted to UAH0.35bn.

Banks' correspondent accounts with the NBU slid UAH2.55bn to UAH43.13bn yesterday, partially due to a reallocation of UAH1.31bn to CDs, as total CDs outstanding rose to UAH55.12bn. Other funds from banks' accounts went to cash and the budget. So, the total amount of banking-sector liquidity slid UAH1.24bn to UAH98.25bn.

Investment implications: The Treasury continued to accumulate funds, keeping its revenues and expenditures balance near flat. This allowed other operations to have a greater impact on liquidity. But cash in recent days was the main reason for the decline and volatility, likely impacted by summer vacations, as many payments remain in cash. So, we expect this situation to remain unchanged over the next days, ie, a liquidity decline through cash if there is low support from the Treasury and NBU.

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Auction pre-announcement

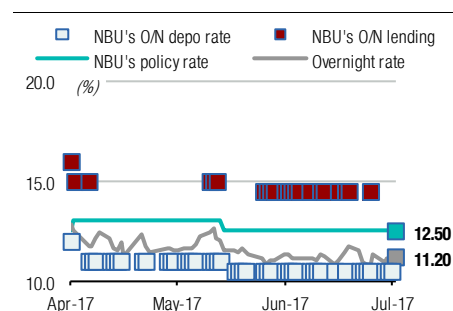
The MoF continues to consultate with primary dealers ahead of auctions. Yesterday, they published conditions for next Tuesday. They are looking to offer four bonds: one six-month zero-coupon bond, and three bonds with semi-annual coupon payments with 12-month, two-year, and three-year maturities.

All similar maturities have been sold within the last three weeks. Six-month bonds were sold last week at 13.85%, 12-month bonds two weeks ago at 14.40%, two-year bonds three weeks ago at 14.46%, and three-year bonds were sold this Tuesday at 14.54%.

Investment implications: The range of interest rates is tight and the most attractive are the longest bonds, which give a fixed rate for a longer term. But depending on the investor, bonds with shorter maturities could also see demand. The MoF will decide on maturities next Monday after receiving indications of demand from dealers. We anticipate larger demand than this week, and at the same rates without changes.

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Interest rates in the banks' reserves market (three months through 13 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 13 July 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.20	+20bp	+40bp	-10bp	+60bp
ON \$ swap	11.52	+11bp	+34bp	+2bp	+4bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	43,130	-5.58	+13.39	-4.17	-13.28
DepCerts ³	55,118	+2.44	-16.14	-21.17	-11.44
Total	98,248	-1.24	-5.31	-14.52	-12.26
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	371,007	+0.00	+0.00	-0.79	+4.17
Banks	293,030	+0.09	+8.26	+4.40	+70.03
Residents	21,470	-0.11	-0.14	-5.20	+36.94
Non-res ⁴	6	+4.90	-0.99	-90.55	-99.91
Total	685,513	+0.04	+3.37	+1.21	+24.52
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	16.16	+89bp	+151bp	+124bp	-615bp
3 months	9.09	-178bp	-535bp	-544bp	-13ppt
6 months	13.24	-38bp	-23bp	-29bp	-481bp
1 year	11.82	-287bp	-279bp	-319bp	-417bp
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

UAH still below 26 per greenback

The UAH closed down 0.22% to 25.9689 UAH/USD from the previous day's trading on volume of US\$296.98m, per data from the NBU. The US dollar sold for 25.97 UAH/USD, while it could be bought for 25.78 UAH/USD in the Ukrainian cash market. The hryvnia's trade-weighted index declined 0.31% to 110.01, while in year-on-year terms, the TWI was up 10.49% from 99.56 last year.

After a morning decline to 60.27 RUB/USD from the Wednesday's close of 60 RUB/USD, the Russian ruble recovered thanks to demand for ruble liquidity from exporters, who are preparing for tax period. Oil prices did not have significant impact on the Russian currency. Additional support for the ruble came from the statement of the head of the central bank of Russia who said that Russia must keep a floating exchange rate. At the same time, investors remain interested in carry trade operations after Janet Yellen failed to give new signals about when the Federal Reserve will make its next policy moves. Thus, the Russian ruble closed up 0.3% to 59.8225 RUB/USD, per data from the Moscow Exchange.

The US dollar remained under pressure after mixed US data. The number of initial jobless claims rose 3,000 more than expected to 247,000, while economists had expected jobless claims to come in at 245,000. At the same time, producer prices rose 2% YoY, beating forecasts of 1.9% YoY growth. On this data, the DXY was down 0.07% to 95.49. Janet Yellen's speech yesterday did not have much impact on the US dollar. As of 9:00 a.m. Friday, the DXY index was up 0.14% to 95.71.

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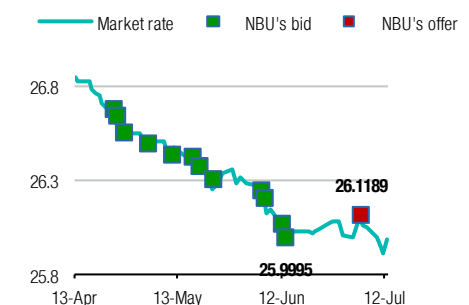
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 13 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9689	+0.29	-0.29	-0.17	-4.11
USD ¹	95.728	-0.03	-0.08	-1.29	-6.34
EUR	1.1398	-0.12	-0.22	+1.67	+8.38
JPY	113.2800	+0.10	+0.05	+2.92	-3.15
GBP ²	1.2939	+0.42	-0.25	+1.45	+4.85
CNY	6.7835	-0.06	-0.26	-0.23	-2.33
RUB	59.7957	-0.31	-0.57	+4.91	-2.83

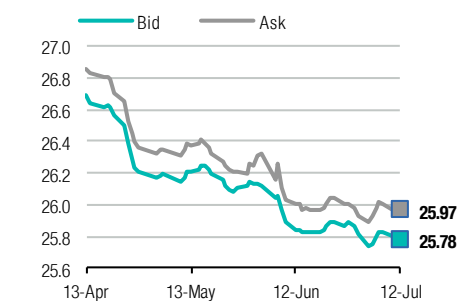
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 13 July 2017)



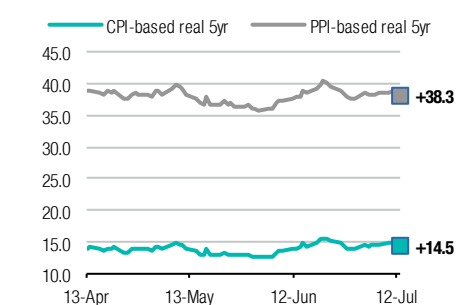
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 13 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 13 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)

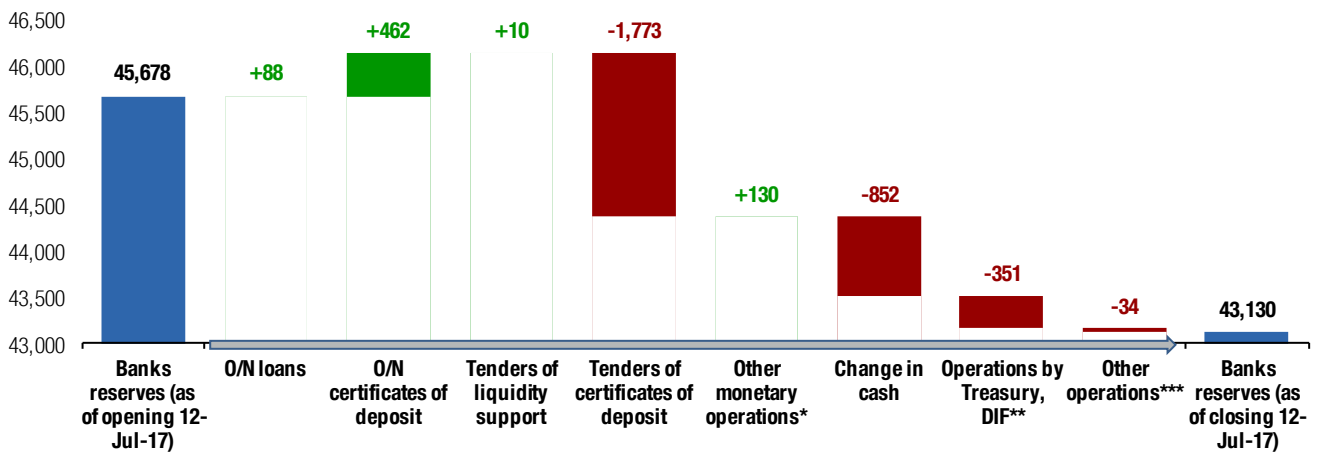
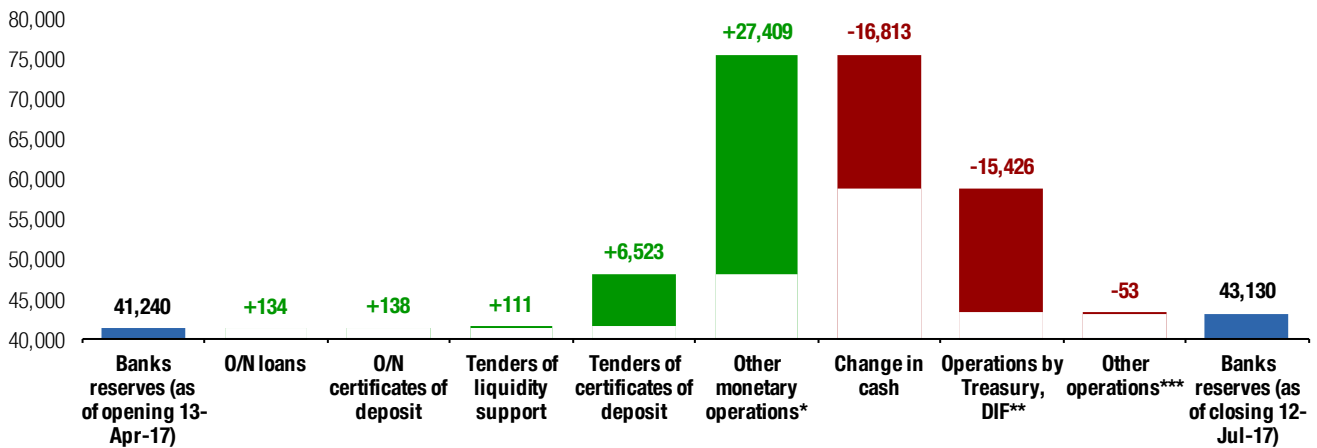
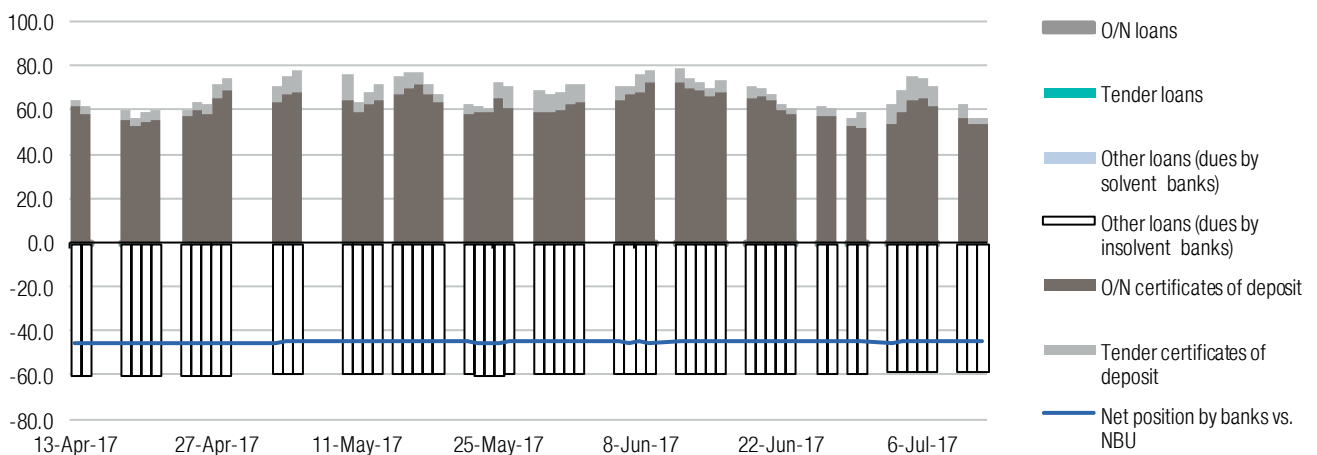


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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