

# Daily Insight

## Liquidity recovers slightly

### Key messages of the today's comments

#### Domestic liquidity ..... 2

##### Liquidity recovers slightly ..... 2

Last Friday and this Monday, liquidity recovered slightly but remained below UAH100bn, and yesterday it started at UAH99.46bn, up UAH0.64bn from the day before, as a result of the positive impact of non-monetary operations and NBU monetary operations. For the first time over the last two weeks, the impact of cash was positive, and with inflows from the Treasury and other operations, with the positive impact of non-monetary operations of UAH0.33bn. The NBU provided via monetary operations, most likely an FX purchase of UAH0.31bn.

##### Partial refinancing ..... 2

Yesterday's demand at the auction was insufficient and amounted to UAH234.4m (par value), which is four times less than the average demand at auctions this year. The MoF received only three bids yesterday, one for 2-year and two for 3-year bonds. Total demand was UAH55m lower than today's principal repayments, excluding payments to the NBU. In sum, a large part of today's market debt repayments were refinanced.

#### Foreign exchange markets ..... 3

##### Greenback extends losses ..... 3

The US dollar continued to decline on Tuesday. Disappointing macroeconomic data and Yellen's speech, which failed to indicate when the Federal Reserve will make its next policy move, pushed the USD down at the end of last week. On Tuesday, two more Republican senators said they will vote against their party's healthcare reform plan, news which deepened the selloff of the US dollar. The DXY index fell another 0.6% to 94.6 yesterday, per data from Bloomberg. As of 9.00 a.m. Wednesday, the DXY index was 94.77.

#### Appendix #1: Domestic liquidity ..... 4

WEDNESDAY, 19 JULY 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 18 July 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 18 July 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.00	+10bp	+40bp
Banks reserves (UAHm)	46,674	+4.53	-6.15
Deposit certificates* (UAHm)	52,784	-2.55	-15.19
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	25.9250	-0.08	-4.34
Total trade volume (US\$m)	155.36	+6.76	-8.40
UAH index PCI-based	109.235	-0.26	+1.14
UAH index PPI-based	168.357	-0.26	-0.01
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	585bp	+0bp	-68bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,460.61	+0.06	+9.91
MSCI EM	1,053.23	+0.16	+22.15
US dollar index (DXY)	94.604	-0.55	-7.44
EUR / USD	1.1554	+0.66	+9.86
Crude oil WTI (US\$/bbl)	46.40	+0.83	-13.63
Crude oil BRENT (US\$/bbl)	48.84	+0.87	-14.04
CRB, commodities index	176.88	+0.57	-8.12
Gold (US\$/ounce)	1,244.06	+0.81	+7.97

Notes: \* NBU's short-term bonds.

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity recovers slightly

Last Friday and this Monday, liquidity recovered slightly but remained below UAH100bn, and yesterday it started at UAH99.46bn, up UAH0.64bn from the day before, as a result of the positive impact of non-monetary operations and NBU monetary operations. For the first time over the last two weeks, the impact of cash was positive, and with inflows from the Treasury and other operations, with the positive impact of non-monetary operations of UAH0.33bn. The NBU provided via monetary operations, most likely an FX purchase of UAH0.31bn.

This Monday, banks continued to accumulate funds at banks' accounts at the NBU, probably in anticipation of large outflows soon and as a result of low inflows from the Treasury (as the positive balance of Treasury operations amounted to UAH0.04bn this Monday). Banks' correspondent accounts with the NBU rose UAH2.02bn to UAH46.67bn while total CDs outstanding slid UAH1.38bn to UAH52.78bn. The decline in CDs outstanding was in 14-day CDs partly while the amount of ON CDs was slightly up, an increase most likely in anticipation of outflows very soon.

**Investment implications: The slight recovery in liquidity was mostly due to an insufficient but positive impact of non-monetary operations. Yesterday, the Treasury paid about UAH757.57m in VAT refunds, similar to the amount paid earlier this month. These payments could support liquidity today, but for a short period of time, as tomorrow month-end tax payments begin. Thus, liquidity could remain volatile at around UAH100bn with a chance to increase with additional VAT refunds this month.**

## Partial refinancing

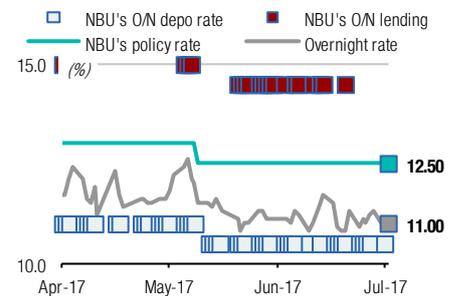
Yesterday's demand at the auction was insufficient and amounted to UAH234.4m (par value), which is four times less than the average demand at auctions this year. The MoF received only three bids yesterday, one for 2-year and two for 3-year bonds. Total demand was UAH55m lower than today's principal repayments, excluding payments to the NBU. In sum, a large part of today's market debt repayments were refinanced.

Interest rates remained steady for the fifth consecutive week, with demand mostly for mid-term bonds. Market players do not anticipate that the NBU will cut the key monetary rate in August, considering the NBU's explanations of its decision in June.

**Investment implications: Next week could be more active at the primary market. The MoF should repay about UAH600m to the market, including roughly UAH300m in principal. Approximately UAH270m in VAT-bond repayments are scheduled. We predict that demand could be up two-fold from this week. Also, activity could be up due to the 2-year FX-denominated bond offering, not yet offered this year, with the actual amount sold depending on the cut-off rate.**

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## Interest rates in the banks' reserves market (three months through 18 July 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 18 July 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.00	+10bp	-10bp	-10bp	+40bp
ON \$ swap	11.40	+6bp	-9bp	+15bp	-7bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	46,674	+4.53	-0.47	-4.76	-6.15
DepCerts <sup>3</sup>	52,784	-2.55	-1.44	-22.62	-15.19
<b>Total</b>	<b>99,458</b>	<b>+0.65</b>	<b>-0.99</b>	<b>-15.15</b>	<b>-11.18</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	371,007	+0.00	+0.00	-0.54	+4.17
Banks	293,107	-0.05	+8.43	+4.21	+70.08
Residents	21,571	-0.03	+0.25	-5.83	+37.58
Non-res <sup>4</sup>	1	+5.97	-76.91	-97.63	-99.98
<b>Total</b>	<b>685,685</b>	<b>-0.02</b>	<b>+3.44</b>	<b>+1.25</b>	<b>+24.55</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	14.78	-46bp	-23bp	-8bp	-753bp
3 months	10.32	-12ppt	-84bp	+77bp	-12ppt
6 months	12.88	-211bp	-65bp	-63bp	-517bp
1 year	11.71	-213bp	-296bp	-327bp	-428bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	585	+0bp	+0bp	+15bp	-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

## Greenback extends losses

The US dollar continued to decline on Tuesday. Disappointing macroeconomic data and Yellen's speech, which failed to indicate when the Federal Reserve will make its next policy move, pushed the USD down at the end of last week. On Tuesday, two more Republican senators said they will vote against their party's healthcare reform plan, news which deepened the selloff of the US dollar. The DXY index fell another 0.6% to 94.6 yesterday, per data from Bloomberg. As of 9.00 a.m. Wednesday, the DXY index was 94.77.

The Euro posted large gains on the USD, up 0.7% to 1.155 EUR/USD. The ECB is taking steps to shift its monetary policy, placing additional pressure on the US currency.

Again, this protracted decline of the USD yesterday strengthened EM currencies. Further EM positive news came from China a day before, where real GDP growth of 6.9% YoY in 2Q17 bolstered the renminbi. The Chinese onshore currency extended gains on Tuesday, up 0.35% to 6.747 USD/CNY as it hit an eight-month high.

The hryvnia responded to the plunge of the USD by rising 0.13% to 25.93 USD/UAH. The previous day's trading volume was US\$245.74m, per data from the NBU. The US dollar sold for 25.97 USD/UAH, while it could be bought for 25.81 USD/UAH in the Ukrainian cash market. The hryvnia's trade-weighted index declined 0.26% to 109.24, while in year-on-year terms, the TWI was up 9.72% from 99.56 last year. However, on Tuesday the Treasury transferred about UAH750m in a VAT refund, which is as much as the total amount previously refunded this month. This may put pressure on the hryvnia over the next couple of days.

The RUB also closed up 0.25% to 59.18 USD/RUB, per data from the Moscow Exchange. During the first half of Tuesday, Russia's currency was supported by rising oil prices, but in the afternoon it reversed on the back of a turnaround in oil prices. However, dividend and tax payments which start this week should support the ruble.

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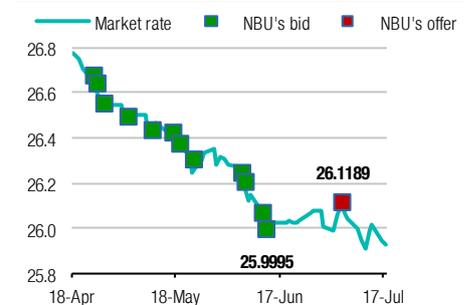
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 18 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	25.9250	-0.08	-0.06	-0.38	-4.34
USD <sup>1</sup>	94.604	-0.55	-1.11	-2.63	-7.44
EUR	1.1554	+0.66	+0.76	+3.18	+9.86
JPY	112.0700	-0.50	-1.64	+1.07	-4.18
GBP <sup>2</sup>	1.3040	-0.11	+1.49	+2.01	+5.67
CNY	6.7466	-0.35	-0.82	-0.94	-2.86
RUB	59.4750	+0.23	-2.21	+3.20	-3.35

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 18 July 2017)



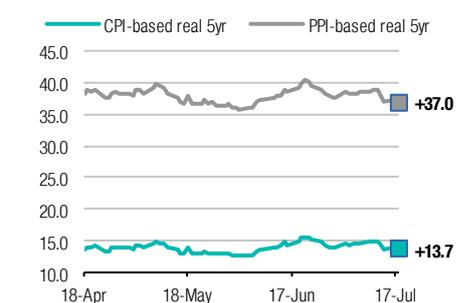
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 18 July 2017)



Source: NBU.

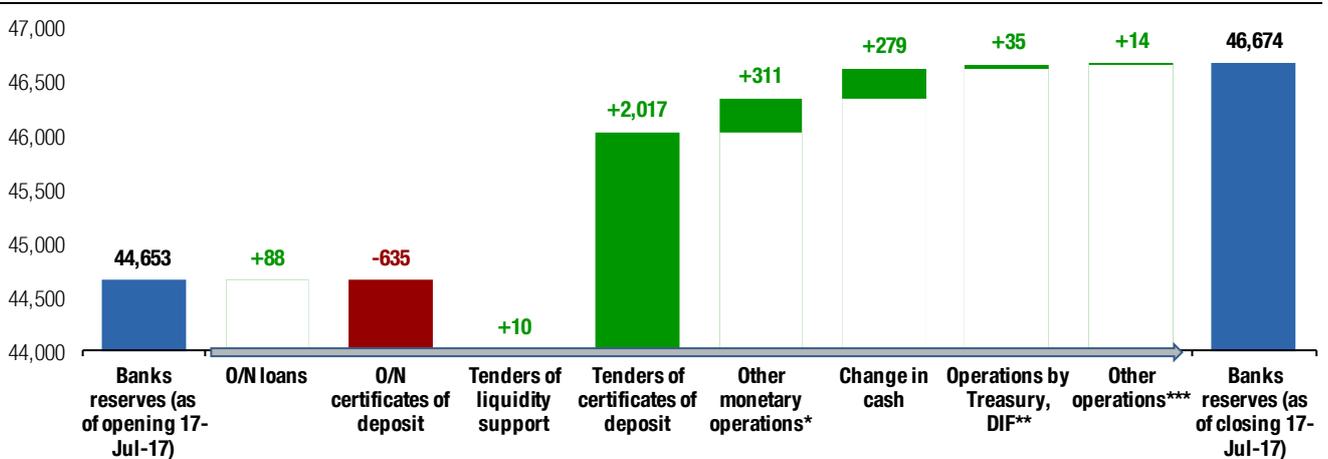
## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 18 July 2017)



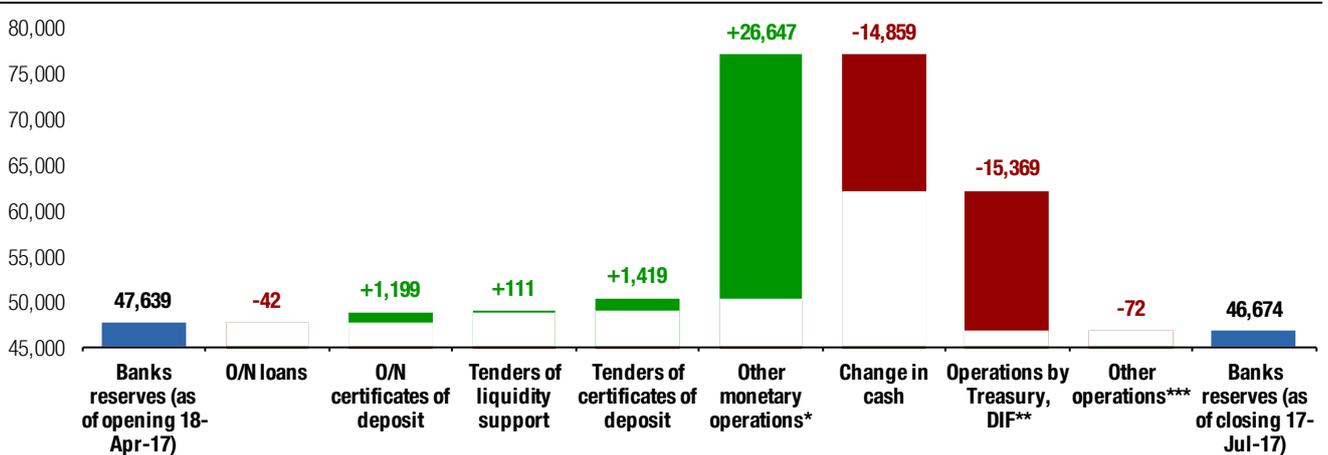
Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

# Appendix #1: Domestic liquidity

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

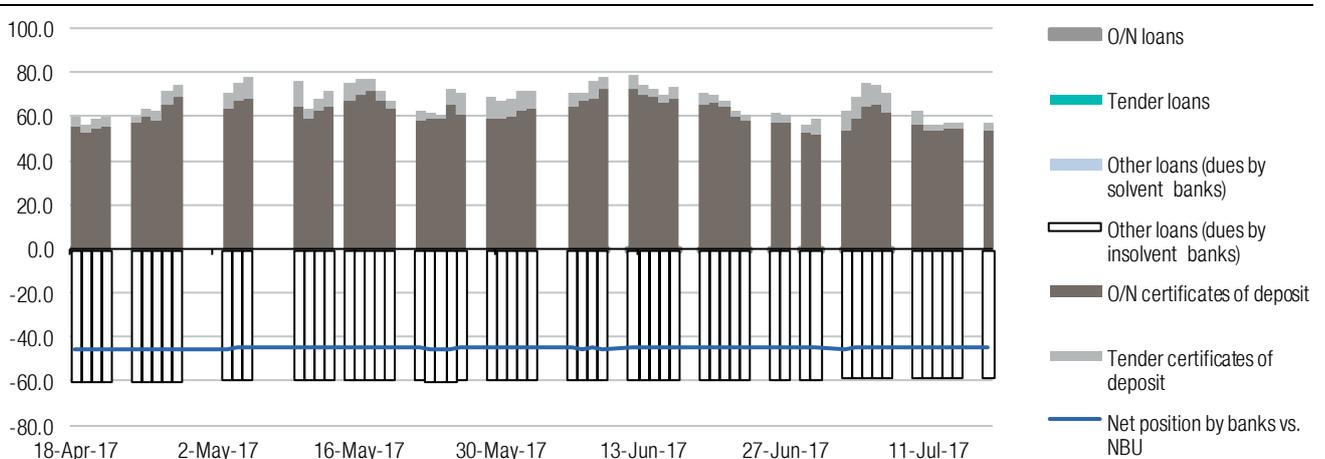


**Chart 2. Banks reserves usages over last 90-day period (UAHm)**



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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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