

Daily Insight

Liquidity steady

Key messages of the today's comments

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Despite Tuesday's the large VAT, total banking sector liquidity rose only UAH0.18bn, remaining below UAH100bn at UAH99.64bn yesterday, as a result of Treasury operations, a large refund, and lower regular expenditures. The net impact of Treasury operations was UAH0.22bn, which offset outflows via cash, resulting in a net positive impact of non-monetary operations of UAH0.18bn. The NBU provided no funds via monetary operations.

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USD falls to multi-month lows 3

The USD tested multi-month lows on Wednesday amid doubts over Trump's ability to carry out reforms. After two more senators from the Republican Party refused to cancel Obamacare, Donald Trump's anticipated tax reform and fiscal stimuli plans appear less likely. The DXY index plunged over 0.6% to 94.6 on Tuesday and remained slightly above this level on Wednesday. In a report released on Wednesday, the US Department of Commerce said that housing starts rose 8.3% MoM, beating the forecast of 5.8% MoM growth, but the data did not have significant impact on the USD. As of 9.00 a.m. Thursday, the DXY index was 94.89, up/down 0.1% to the same time on Wednesday.

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THURSDAY, 20 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 19 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 19 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	50,430	+8.05	+1.40
Deposit certificates* (UAHm)	38,812	-26.47	-37.64
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9425	+0.07	-4.27
Total trade volume (US\$m)	136.73	-11.99	-19.39
UAH index PCI-based	109.192	-0.04	+1.10
UAH index PPI-based	168.292	-0.04	-0.05
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	-68bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,473.83	+0.54	+10.50
MSCI EM	1,060.12	+0.65	+22.95
US dollar index (DXY)	94.779	+0.18	-7.27
EUR / USD	1.1515	-0.34	+9.49
Crude oil WTI (US\$/bbl)	47.12	+1.55	-12.29
Crude oil BRENT (US\$/bbl)	49.70	+1.76	-12.53
CRB, commodities index	178.66	+1.01	-7.20
Gold (US\$/ounce)	1,241.21	-0.23	+7.72

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity steady

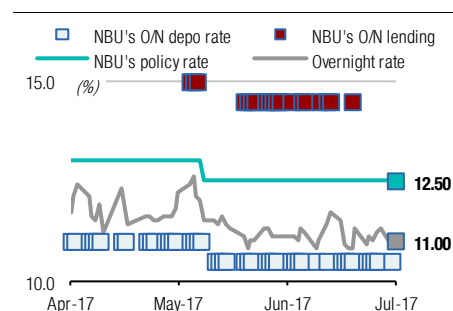
Despite Tuesday's the large VAT, total banking sector liquidity rose only UAH0.18bn, remaining below UAH100bn at UAH99.64bn yesterday, as a result of Treasury operations, a large refund, and lower regular expenditures. The net impact of Treasury operations was UAH0.22bn, which offset outflows via cash, resulting in a net positive impact of non-monetary operations of UAH0.18bn. The NBU provided no funds via monetary operations.

There was an additional reallocation of funds to banks' accounts. Banks' correspondent accounts with the NBU rose UAH3.76bn to UAH50.43bn while total CDs outstanding fell UAH3.57bn to UAH49.21bn. Banks mostly decreased investments in 14-day and ON CDs.

Investment implications: Most likely, banks accumulated funds prior to month-end tax payments, putting additional pressure on liquidity. The Treasury could soften this pressure by increasing regular expenditures and/or VAT refunds.

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Interest rates in the banks' reserves market (three months through 19 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 19 July 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	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	50,430	+8.05	+10.40	-1.23	+1.40
DepCerts ³	38,812	-26.47	-27.87	-41.18	-37.64
Total	89,242	-10.27	-10.30	-23.75	-20.30
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	371,007	+0.00	+0.00	-0.54	+4.17
Banks	293,019	-0.03	+0.09	+4.13	+70.03
Residents	21,585	+0.07	+0.43	-5.42	+37.67
Non-res ⁴	1	-7.75	-77.06	-97.82	-99.98
Total	685,612	-0.01	+0.05	+1.23	+24.54
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	15.03	+24bp	-24bp	+18bp	-728bp
3 months	10.90	+58bp	+2bp	-362bp	-11ppt
6 months	12.90	+2bp	-72bp	-62bp	-514bp
1 year	11.77	+6bp	-292bp	-284bp	-422bp
UKRAINE SOVEREIGN EUROBOND MARKET					
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

USD falls to multi-month lows

The USD tested multi-month lows on Wednesday amid doubts over Trump's ability to carry out reforms. After two more senators from the Republican Party refused to cancel Obamacare, Donald Trump's anticipated tax reform and fiscal stimuli plans appear less likely. The DXY index plunged over 0.6% to 94.6 on Tuesday and remained slightly above this level on Wednesday. In a report released on Wednesday, the US Department of Commerce said that housing starts rose 8.3% MoM, beating the forecast of 5.8% MoM growth, but the data did not have significant impact on the USD. As of 9.00 a.m. Thursday, the DXY index was 94.89, up/down 0.1% to the same time on Wednesday.

On Tuesday, the euro hit a 14-month high of 1.158 EUR/USD, but reversed on Wednesday. Market participants awaited the outcome of the ECB policy meeting scheduled on Thursday. While interest rates are expected to remain unchanged, fears are rising that the ECB could begin to reduce stimulus measures. The common European currency decreased 0.3% to 1.151 EUR/USD on Wednesday.

The hryvnia fell slightly against the USD on Wednesday. The UAH closed down 0.05% to 25.944 USD/UAH on trading volume of US\$217.28m as it sold for 25.96 USD/UAH versus 25.78 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index declined 0.04% to 109.19, while in year-on-year terms, this index was up 9.54% from 99.68 last year. In the short run, the Ukrainian currency should weaken slightly as the Treasury is projected to make sizable VAT refunds using funds from its NBU account to the reserve accounts of commercial banks that receive VAT refunds (so far UAH1.5bn has been transferred, while the monthly average exceeds UAH5bn).

The Russian ruble closed up 0.3% to 59 USD/RUB. As we reported previously, tax and dividend payments which start this week should provide support. At the same time, market participants await Thursday's ECB meeting, the Federal Reserve's meeting on 26 July 2017, and, most importantly, Russia's central bank policy meeting on 28 July 2017.

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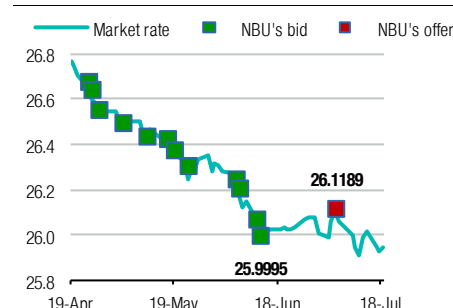
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 19 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9425	+0.07	+0.13	-0.32	-4.27
USD ¹	94.779	+0.18	-1.03	-2.84	-7.27
EUR	1.1515	-0.34	+0.90	+3.28	+9.49
JPY	111.9700	-0.09	-1.06	+0.39	-4.27
GBP ²	1.3022	-0.14	+1.06	+2.24	+5.53
CNY	6.7519	+0.08	-0.53	-0.99	-2.78
RUB	58.9847	-0.82	-1.66	+0.87	-4.15

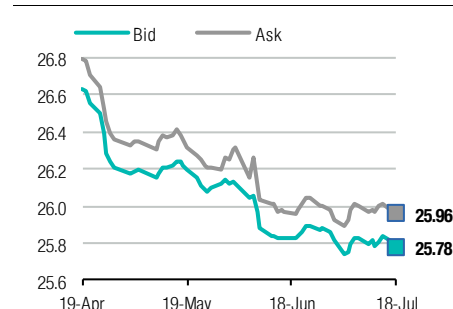
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 19 July 2017)



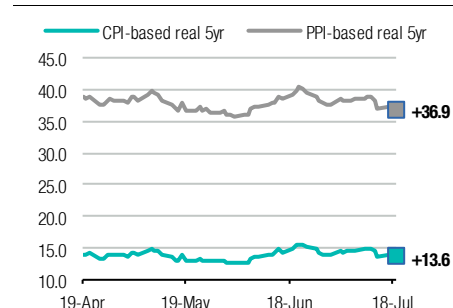
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 19 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 19 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)

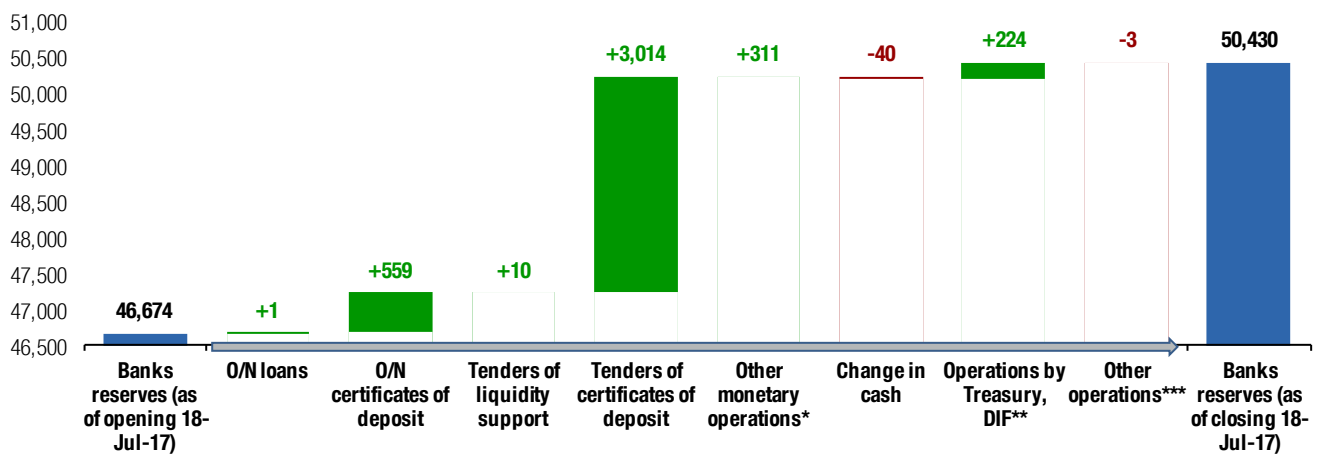
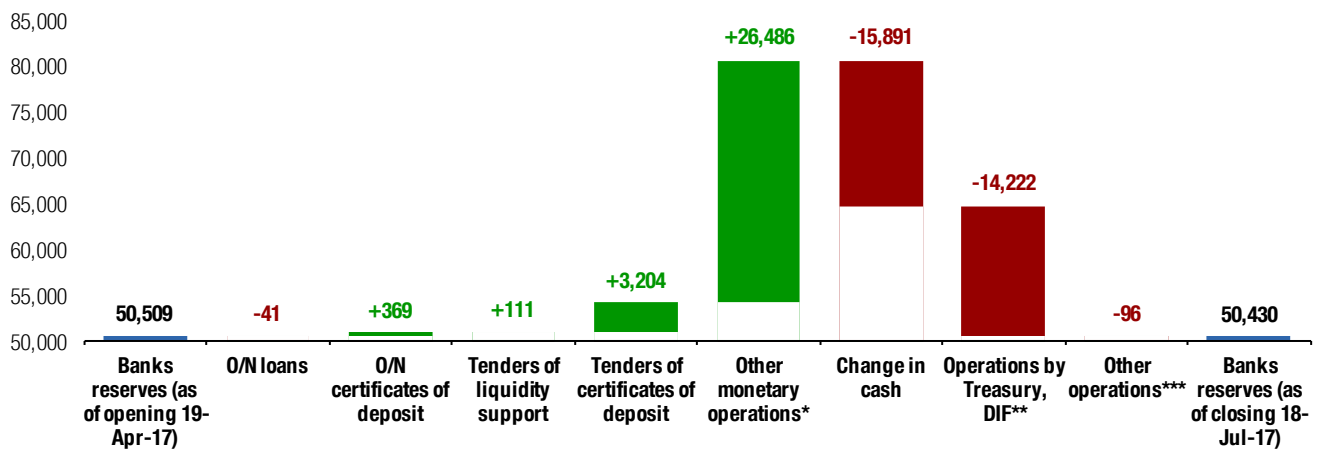
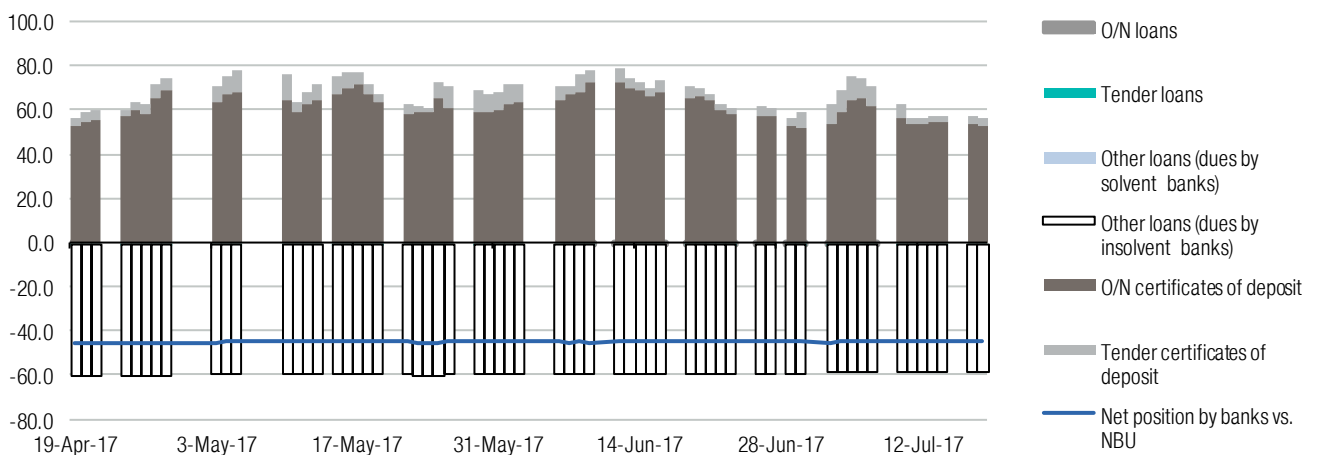


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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