

Daily Insight

Euro hit nearly 2-year high against USD

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Fund reallocations to banks' accounts 2

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Auction pre-announcement 2

Yesterday, the MoF announced which bonds which could be offered next Tuesday. For the second time this year, USD-denominated bonds will be offered next week, with a shorter maturity than in May, maturing on July 10, 2019. The other three bonds will be the same as previously announced in July, with 6-month, 12-month (re-opening of the bond with semi-annual coupon payments) and the re-opening of the issue made in 2012 with maturity in May 2019.

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FRIDAY, 21 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 20 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 20 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.10	+20bp	+50bp
Banks reserves (UAHm)	51,618	+2.36	+3.79
Deposit certificates* (UAHm)	47,831	-2.80	-23.15
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9000	-0.16	-4.43
Total trade volume (US\$m)	169.74	+24.14	+0.07
UAH index PCI-based	108.871	-0.29	+0.81
UAH index PPI-based	167.796	-0.29	-0.34
UKRAINE SOVEREIGN EUROBOOND MARKET			
CDS 5yr	585bp	+0bp	-68bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,473.45	-0.02	+10.48
MSCI EM	1,059.40	-0.07	+22.86
US dollar index (DXY)	94.306	-0.50	-7.73
EUR / USD	1.1631	+1.01	+10.59
Crude oil WTI (US\$/bbl)	46.92	-0.42	-12.66
Crude oil BRENT (US\$/bbl)	49.30	-0.80	-13.23
CRB, commodities index	178.40	-0.14	-7.33
Gold (US\$/ounce)	1,244.48	+0.26	+8.00

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Fund reallocations to banks' accounts

This Wednesday, for the fourth consecutive day, banks accumulated funds at correspondent accounts with the NBU, decreasing investments in CDs. They reinvested fewer funds in 14-day CDs than they received from the redemption of CDs with the same maturity. At the end of day on Wednesday, correspondent accounts banks had UAH51.62bn, equating to UAH1.19bn more than a day before and UAH8.57bn more than at the end of last week. During the same 4-day period, investments in CDs decreased by UAH7.43bn (and by UAH1.38 on Wednesday alone). As there was a reallocation of funds within liquidity, total banking sector liquidity was slightly volatile at around UAH99bn, down UAH0.19bn to UAH99.45bn on Wednesday, but since last Friday it has risen UAH1.15bn.

This Wednesday, the NBU had no impact on liquidity, with the main impact from non-monetary autonomous operations. The Treasury absorbed UAH0.24bn of funds and only a small portion was offset by a positive change in cash and inflows from other operations by a total of UAH0.05bn.

Investment implications: Total liquidity remained rather steady, with slight volatility, but the reallocation to banks' accounts appears to be for the usual month-end tax payments. As a result, liquidity could decline due to the negative impact of Treasury operations, having impact on the money market.

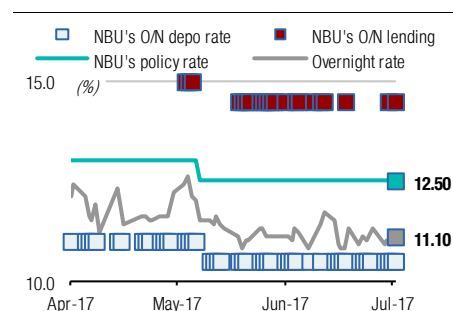
Auction pre-announcement

Yesterday, the MoF announced which bonds which could be offered next Tuesday. For the second time this year, USD-denominated bonds will be offered next week, with a shorter maturity than in May, maturing on July 10, 2019. The other three bonds will be the same as previously announced in July, with 6-month, 12-month (re-opening of the bond with semi-annual coupon payments) and the re-opening of the issue made in 2012 with maturity in May 2019.

Recently, the yield curve of local currency bonds at the primary market was 13.85-14.54%; it most likely will be unchanged next week. If there is demand, interest rates will be at the same levels as before: 13.85% for 6-month, 14.40% for 12-month and 14.46% for 2-year bonds. The YTM of 1-year and 2-year bonds will be similar - close to 15%. At the same time, the terms of the USD-denominated bonds will depend on demand and the MoF's decision. In May, as the MoF accepted demand for 3-year bonds at interest rates no higher than 5.50%, it is unlikely that the 2-year bond's interest rate will be at the same level or higher. If there is sufficient demand, the rate should be no higher than 5.30%.

Investment implications: Currently, demand for FX-denominated bonds is likely to be around US\$500m, only a portion of which will be satisfied. The terms still have no set limits, but the MoF could set a limit for an FX-denominated issue. For local currency bonds, demand could be UAH500-700m at the routine levels of interest rates. Demand should be concentrated on the 2-year maturity and probably a portion of it will be for shorter maturities should the MoF consult with dealers.

Interest rates in the banks' reserves market (three months through 20 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 20 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	11.10	+20bp	-10bp	+0bp	+50bp
ON \$ swap	11.65	+20bp	+13bp	+40bp	+18bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	51,618	+2.36	+19.68	+9.41	+3.79
DepCerts ³	47,831	-2.80	-13.22	-28.36	-23.15
Total	99,449	-0.19	+1.22	-12.72	-11.18
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	367,907	+0.00	-0.84	-1.37	+3.30
Banks	292,995	-0.06	-0.07	+4.03	+69.91
Residents	21,586	+0.50	+1.04	-4.73	+38.37
Non-res ⁴	1	-8.21	-79.47	-97.95	-99.98
Total	682,489	-0.01	-0.45	+0.75	+23.96
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	14.99	-3bp	-116bp	+86bp	-732bp
3 months	11.41	+51bp	+232bp	-289bp	-11ppt
6 months	12.97	+6bp	-27bp	-45bp	-508bp
1 year	11.72	-5bp	-10bp	-284bp	-427bp
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

Euro hit nearly 2-year high against USD

The euro was declining on Thursday ahead of the ECB policy meeting. Market participants had fears that the regulator could begin to reduce stimulus measures. Prior to the meeting, the euro was 1.148 EUR/USD, down 0.3% from the previous close. The ECB announced that it would keep the monetary policy on hold as it kept the key refinancing rate unchanged at 0%. The President of the European central bank said that the future of the bank's asset purchase program will be discussed in the autumn; the governing council did not set the precise date yet. On this news, the euro surged 1.4% to 1.164 EUR/USD, a nearly 2-year high. On Thursday, it closed 1% to 1.163 EUR/USD, while as of 9.00 a.m. Friday, it was up 0.1% to 1.1646 EUR/USD.

The US dollar has come under pressure of the declining probability that the Federal Reserve will increase interest rates once more this year due to lower-than-expected inflation. Recent political turmoil connected with canceling Obamacare showed that Trump will face significant difficulties in carrying out tax reforms and implementing fiscal stimuli plans. On Thursday, the US dollar was supported by strong employment data: the number of people who filed for unemployment assistance in the USA decreased by 15,000 to a seasonally adjusted 233,000 in the week ending July 15 (analysts expected it to decrease by 3,000). At the same time, the Bank of Japan kept its monetary policy unchanged. As a result, the DXY index rose 0.4% to 95.15 ahead of the ECB meeting. However, the outcome of the ECB policy meeting caused the DXY index to plunge 1.1% to 94.12. On Thursday, the DXY index fell 0.5 to 94.31, while as of 9.00 a.m. Friday it was 94.24.

Thursday's plunge of the US dollar strengthened other EM currencies. The weighted average exchange rate of the hryvnia rose 0.1% to 25.9283 USD/UAH on trading volume of US\$258.2m, per data from the NBU. The excess supply of USD in the domestic market also supported the Ukrainian currency. The UAH sold for 25.97 USD/UAH versus 25.78 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.29% to 108.87, while in year-on-year terms, this index was up 8.91% from 99.96 last year.

The ruble was bolstered by the decline of the US dollar. Rising oil prices as well as tax collections also provided support. On the other hand, market participants are preparing for repayments of external debt, which counterbalance the exchange rate. The ruble closed up 0.1 to 58.94 USD/RUB. In our view, the exchange rate will continue to remain in the 59-59.5 USD/RUB range as market participants await the Federal Reserve and Russian central bank policy meeting scheduled for 26 and 28 July 2017, respectively.

To conclude: The current momentum in the global FX markets is on the side of EM currencies. That is good for the UAH.

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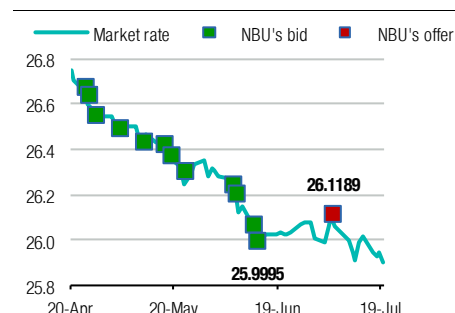
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 20 липня 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9000	-0.16	-0.33	-0.50	-4.43
USD ¹	94.306	-0.50	-1.49	-3.53	-7.73
EUR	1.1631	+1.01	+2.04	+4.46	+10.59
JPY	111.9100	-0.05	-1.21	+0.41	-4.32
GBP ²	1.2973	-0.38	+0.26	+2.72	+5.13
CNY	6.7597	+0.12	-0.35	-1.02	-2.67
RUB	58.9007	-0.14	-1.50	-1.15	-4.28

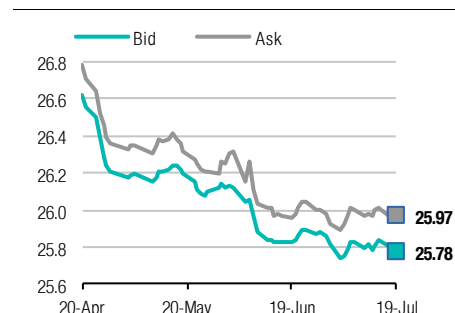
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 20 July 2017)



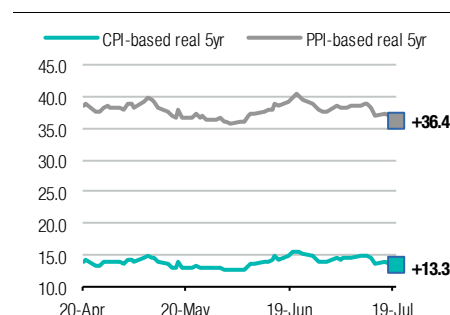
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 20 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 20 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)

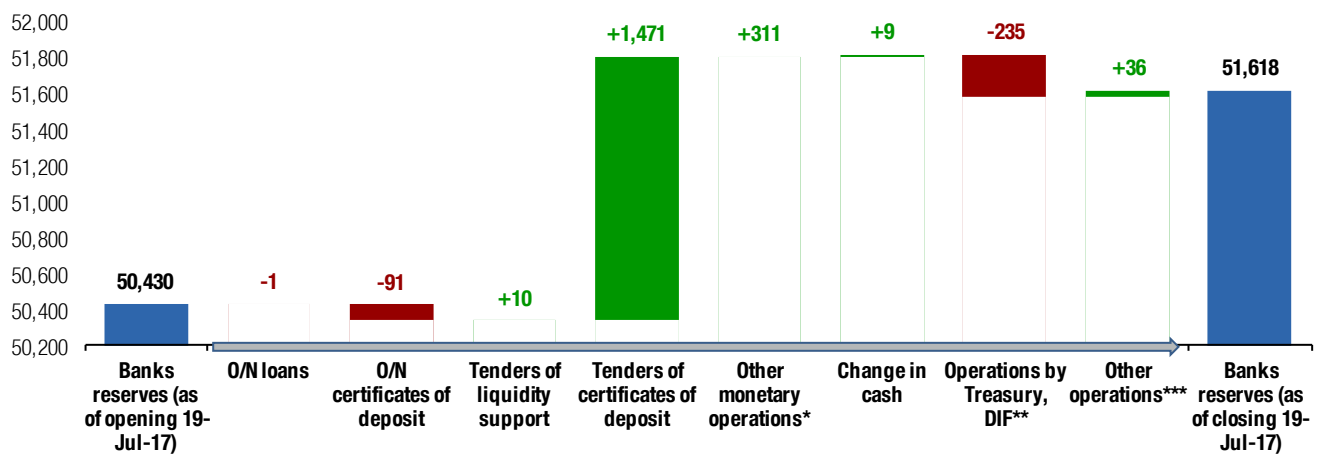
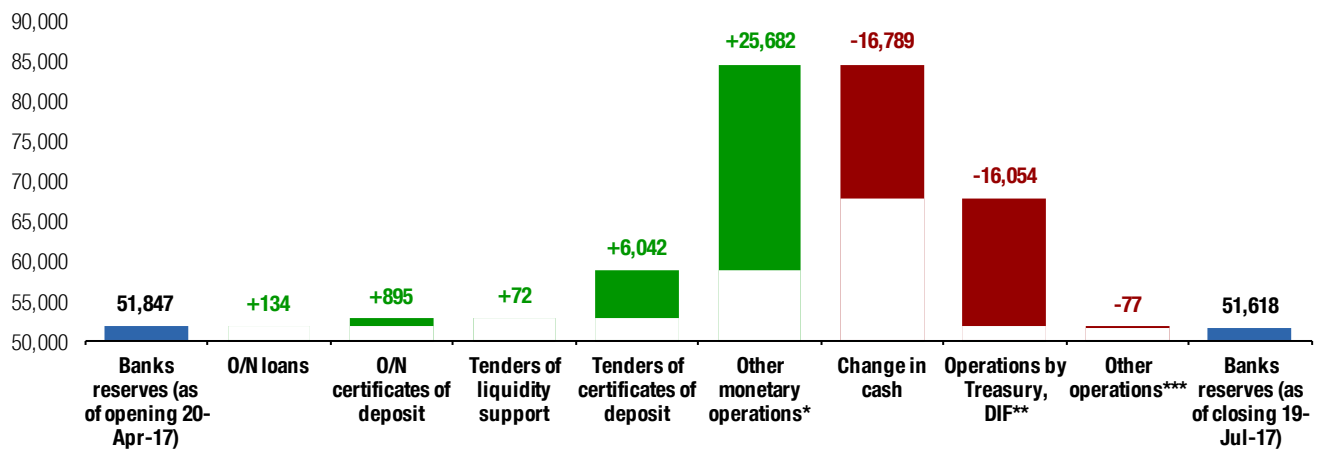
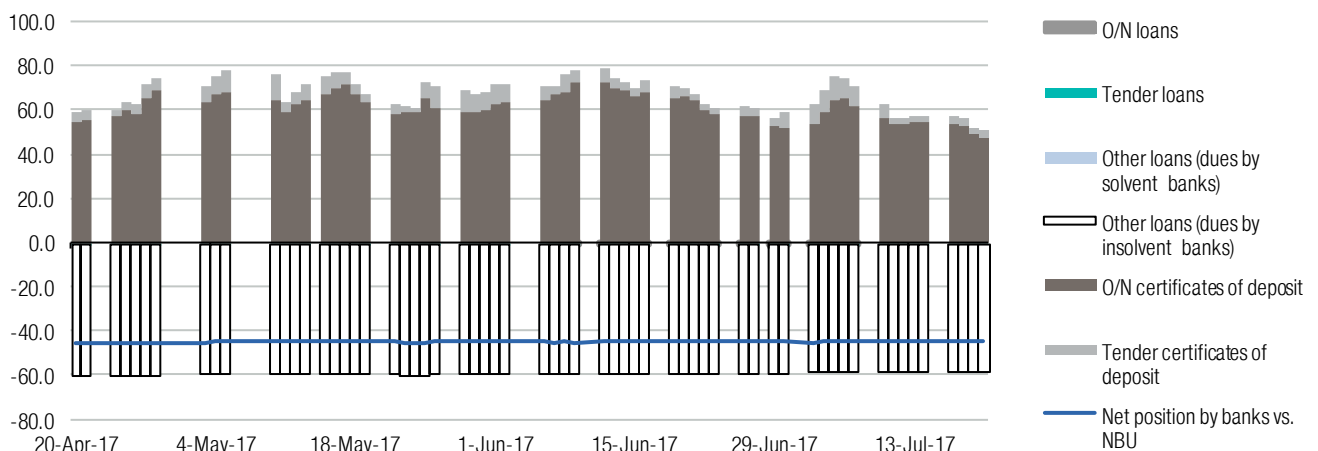


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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