

Daily Insight

Liquidity decreases

Key messages of the today's comments

Domestic liquidity 2

Liquidity decreases 2

Last Thursday, there was a liquidity outflow, mostly via Treasury operations, mainly due to an increase in tax payments as the Treasury received UAH1.38bn more in revenues than the day before. However, as budget expenditures were lower than the previous day, the total impact of Treasury operations was UAH1.81bn. Cash and other non-monetary operations also had a negative impact on liquidity, and the total impact of non-monetary operations amounted to UAH2.23bn. As the NBU held no monetary operations which could have a further impact on liquidity, banking sector liquidity slid UAH2.23bn to UAH97.22bn.

Foreign exchange markets 3

Hryvnia rises amid supportive global backdrop of EUR/USD pair 3

The hryvnia continued to strengthen amid weak the US currency as a result of excess USD in the domestic market. The Ukrainian currency was well below the weakest level of the last three months at 26.753 USD/UAH. The weighted average exchange rate of the hryvnia rose 0.15% to 25.8897 USD/UAH on trading volume of US\$283.84m as it sold for 25.97 USD/UAH versus 25.79 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index grew 0.16% to 109.5, while on a year-on-year basis, this index was up 9.1% from 99.95 last year.

Appendix #1: Domestic liquidity 4

MONDAY, 24 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 21 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 21 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.00	-10bp	+40bp
Banks reserves (UAHm)	46,936	-9.07	-5.62
Deposit certificates* (UAHm)	50,283	+5.13	-19.21
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.8800	-0.08	-4.50
Total trade volume (US\$m)	177.31	+4.46	+4.54
UAH index PCI-based	109.048	+0.16	+0.97
UAH index PPI-based	168.069	+0.16	-0.18
UKRAINE SOVEREIGN EUROBOOND MARKET			
CDS 5yr	585bp	+0bp	-68bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,472.54	-0.04	+10.44
MSCI EM	1,060.18	+0.07	+22.95
US dollar index (DXY)	93.858	-0.48	-8.17
EUR / USD	1.1663	+0.28	+10.90
Crude oil WTI (US\$/bbl)	45.77	-2.45	-14.80
Crude oil BRENT (US\$/bbl)	48.06	-2.52	-15.42
CRB, commodities index	176.66	-0.97	-8.23
Gold (US\$/ounce)	1,255.05	+0.85	+8.92

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity decreases

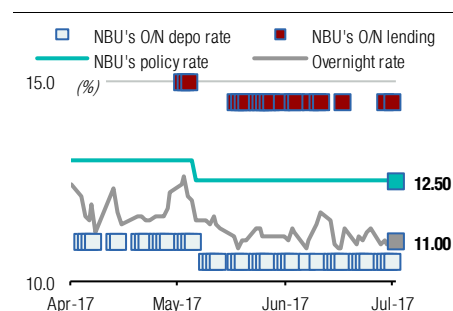
Last Thursday, there was a liquidity outflow, mostly via Treasury operations, mainly due to an increase in tax payments as the Treasury received UAH1.38bn more in revenues than the day before. However, as budget expenditures were lower than the previous day, the total impact of Treasury operations was UAH1.81bn. Cash and other non-monetary operations also had a negative impact on liquidity, and the total impact of non-monetary operations amounted to UAH2.23bn. As the NBU held no monetary operations which could have a further impact on liquidity, banking sector liquidity slid UAH2.23bn to UAH97.22bn.

Meanwhile, banks increased purchases of CDs. Of the UAH4.68bn decline in banks' correspondent accounts with the NBU, UAH2.45bn was invested in new CDs, in addition to refinancing repayments. UAH2.97bn of 14-day CDs were purchased, with no redemptions of that maturity, while the NBU redeemed only ON CDs.

Investment implications: Month-end tax payments began last Thursday, putting additional pressure on liquidity. Lower expenditures and a lack of inflows from the NBU added to this, and the VAT refund amounted to only UAH0.25b on Thursday. The Treasury appears to have accumulated funds for future repayments.

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Interest rates in the banks' reserves market (three months through 21 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 21 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	11.00	-10bp	-30bp	+0bp	+40bp
ON \$ swap	11.60	-7bp	+15bp	+39bp	+13bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	46,936	-9.07	+9.04	+2.60	-5.62
DepCerts ³	50,283	+5.13	-9.00	-22.47	-19.21
Total	97,219	-2.24	-1.10	-12.10	-13.17
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	367,907	+0.00	-0.84	-1.37	+3.30
Banks	292,820	-0.06	-0.10	+4.05	+69.91
Residents	21,695	+0.50	+0.60	-5.05	+38.37
Non-res ⁴	1	-8.21	+1.65	-97.95	-99.98
Total	682,423	-0.01	-0.48	+0.75	+23.96
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	15.09	+9bp	+11bp	+50bp	-722bp
3 months	11.12	-29bp	+148bp	-329bp	-11ppt
6 months	12.96	-1bp	-4bp	+141bp	-509bp
1 year	11.78	+6bp	+0bp	-283bp	-421bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	585	+0bp	+0bp	+6bp	-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

Hryvnia rises amid supportive global backdrop of EUR/USD pair

The hryvnia continued to strengthen amid weak the US currency as a result of excess USD in the domestic market. The Ukrainian currency was well below the weakest level of the last three months at 26.753 USD/UAH. The weighted average exchange rate of the hryvnia rose 0.15% to 25.8897 USD/UAH on trading volume of US\$283.84m as it sold for 25.97 USD/UAH versus 25.79 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index grew 0.16% to 109.5, while on a year-on-year basis, this index was up 9.1% from 99.95 last year.

The euro steady at 2-year high. On Thursday, the single European currency surged 1% on the news that the future of the bank's asset purchase program will be discussed in the autumn with no set date yet. The euro remained strong on Friday, too. It rose 0.3% against the USD to 1.1663 EUR/USD.

The US dollar continued to struggle near 13-month lows. Having dropped more than 0.5% on Thursday, it did not recover on Friday. Robert Mueller's new round of investigation into allegations that Russia meddled in the 2016 U.S. presidential election brought additional pressure on the US currency. The DXY index decreased by 0.5% to 93.86 on Friday, while as of 9.00 a.m. Monday, the DXY index was 93.89.

On Friday morning, the ruble was bolstered thanks to rising oil prices. However, oil prices fell in the afternoon due to rising fears that oil supply of OPEC-countries will grow substantially in July. Market participants are looking forward to the OPEC meeting which is scheduled on July 24. On Friday, the ruble closed down 0.7% to 59.36 USD/RUB.

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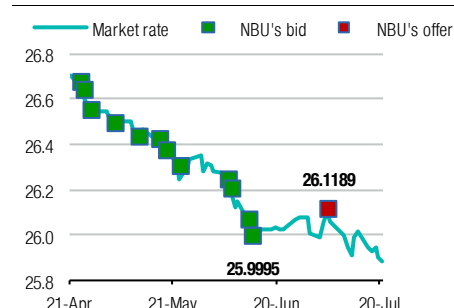
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 21 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.8800	-0.08	-0.52	-0.54	-4.50
USD ¹	93.858	-0.48	-1.36	-3.79	-8.17
EUR	1.1663	+0.28	+1.68	+4.43	+10.90
JPY	111.1300	-0.70	-1.24	-0.22	-4.98
GBP ²	1.2997	+0.18	-0.77	+2.57	+5.32
CNY	6.7667	+0.10	-0.13	-0.92	-2.57
RUB	59.3575	+0.78	+0.58	-1.53	-3.54

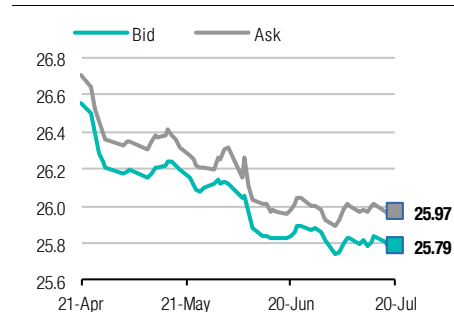
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 21 July 2017)



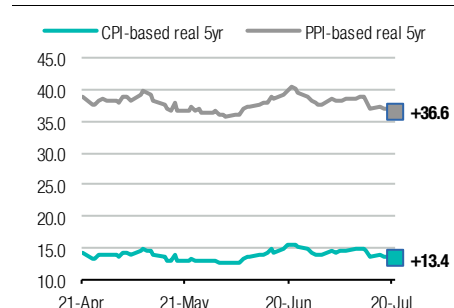
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 21 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 21 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)

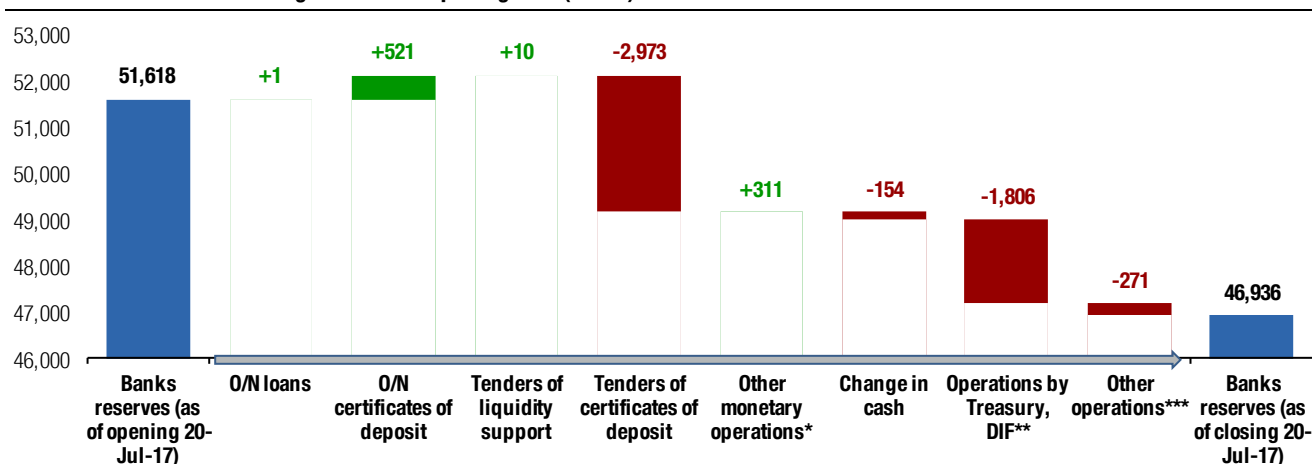
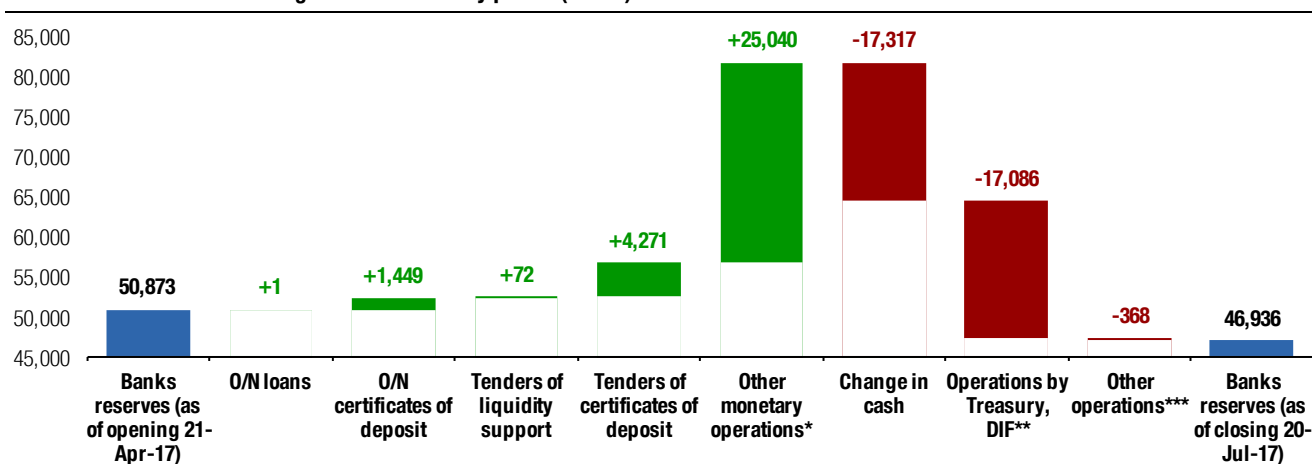
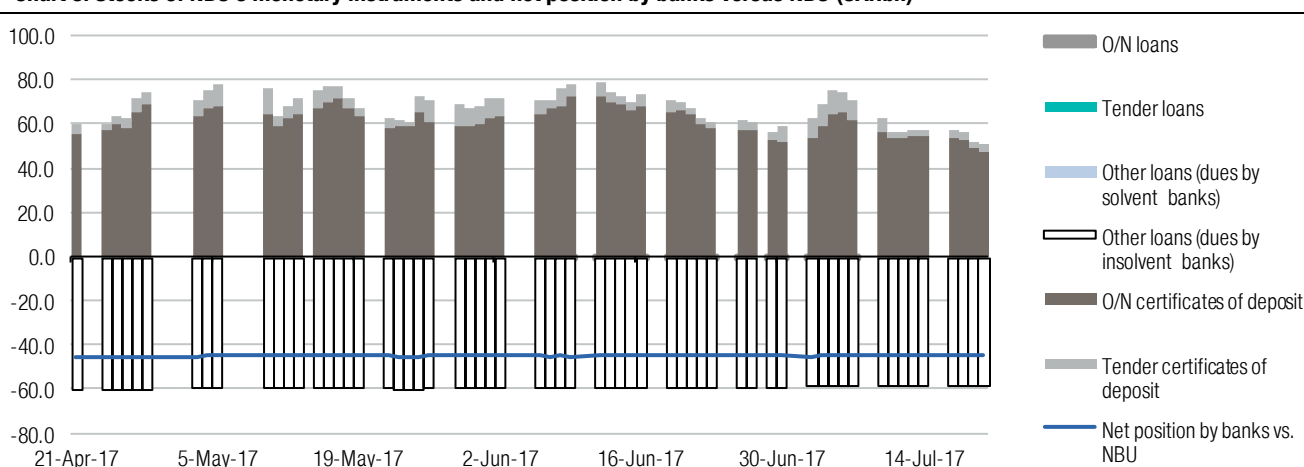


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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