

Daily Insight

USD recovers losses

Key messages of the today's comments

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Liquidity declines 2

This Wednesday, banks' correspondent accounts balance with the NBU fell UAH4.73bn to UAH47.06bn, most of which were invested in new CDs. Total CDs outstanding was up UAH3.48bn to UAH57.22bn, due to an increase in 14-day CDs. Total banking sector liquidity slid a mere UAH1.24bn to UAH104.28bn.

Foreign exchange markets 3

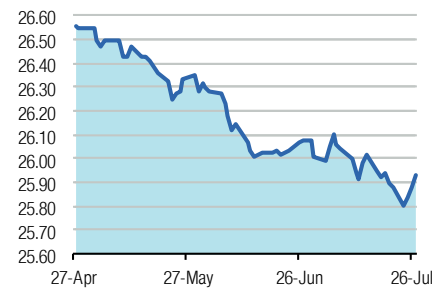
USD recovers losses 3

The US dollar hit new 13-month lows after the Federal Reserve said on Wednesday that inflation remains below its 2% target even as near-term risks to the economic outlook appear "roughly balanced". This sparked fresh uncertainty over the possibility of another interest rate hike this year. The DXY index was 94.24 ahead of the Fed statement, but fell 0.9% to 93.44 after the report was released. The USD recovered some losses on Thursday as investors found it too undervalued after Wednesday's plunge. Mixed US statistics also supported the US currency. Orders for durable goods increased by a seasonally adjusted 6.5% in June, beating the forecast of 3% growth. On the other hand, initial jobless claims rose by 10,000 to 244,000, while analysts expected growth of 7,000 claims. As a result, on Thursday the DXY index rose 0.2% to 93.86.

Appendix #1: Domestic liquidity 4

FRIDAY, 28 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 27 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 27 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	47,064	-9.13	-5.37
Deposit certificates* (UAHm)	57,216	+6.48	-8.07
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9350	+0.21	-4.30
Total trade volume (US\$m)	207.05	+5.25	+22.07
UAH index CPI-based	108.753	+0.00	+0.70
UAH index PPI-based	167.615	+0.00	-0.45
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	-68bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,475.42	-0.10	+10.57
MSCI EM	1,068.95	+0.63	+23.97
US dollar index (DXY)	93.864	+0.20	-8.17
EUR / USD	1.1677	-0.49	+11.03
Crude oil WTI (US\$/bbl)	49.04	+0.59	-8.71
Crude oil BRENT (US\$/bbl)	51.49	+1.02	-9.38
CRB, commodities index	181.14	+0.94	-5.91
Gold (US\$/ounce)	1,259.13	-0.11	+9.27

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity declines

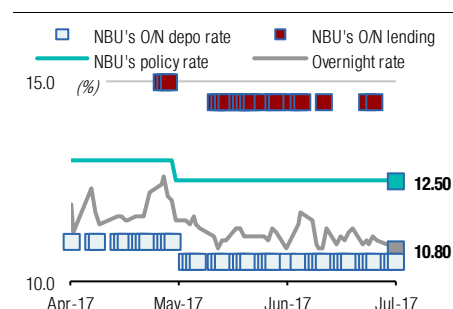
This Wednesday, banks' correspondent accounts balance with the NBU fell UAH4.73bn to UAH47.06bn, most of which were invested in new CDs. Total CDs outstanding was up UAH3.48bn to UAH57.22bn, due to an increase in 14-day CDs. Total banking sector liquidity slid a mere UAH1.24bn to UAH104.28bn.

The decline was caused by autonomous non-monetary operations, mainly by the Treasury. Outflows to Treasury accounts amounted to UAH1.88bn and were only partially offset by the positive impact of changes in cash. The NBU had no additional monetary operations.

Investment implications: The Treasury absorbed some funds via month-end tax payments. Excluding VAT refunds or additional expenditures, the outflow was not offset. Principal and interest repayments were not able to offset outflows, as half of them were to the NBU, and a quarter of the repayments was refinanced at the auction. Liquidity should stay above UAH100bn and decline slightly through the end of this week, as banks invested additional funds in 14-day CDs with redemption ahead of quarterly tax payments in August.

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Interest rates in the banks' reserves market (three months through 27 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 27 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	47,064	-9.13	-8.82	-2.97	-5.37
DepCerts ³	57,216	+6.48	+19.62	-1.03	-8.07
Total	104,280	-1.18	+4.86	-1.92	-6.87
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	367,904	+0.00	+0.00	-1.37	+3.30
Banks	292,708	+0.07	-0.10	+4.38	+69.85
Residents	21,659	+0.21	+0.34	-6.46	+38.14
Non-res ⁴	3	+0.00	+141.8	-98.99	-99.95
Total	682,275	+0.04	-0.03	+0.79	+23.93
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	4.76	-225bp	-10ppt	-10ppt	-18ppt
3 months	9.27	-113bp	-214bp	-41bp	-13ppt
6 months	10.42	-79bp	-254bp	-311bp	-762bp
1 year	11.07	-21bp	-66bp	-355bp	-492bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	585	+0bp	+0bp	+0bp	-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 recovers losses

The US dollar hit new 13-month lows after the Federal Reserve said on Wednesday that inflation remains below its 2% target even as near-term risks to the economic outlook appear “roughly balanced”. This sparked fresh uncertainty over the possibility of another interest rate hike this year. The DXY index was 94.24 ahead of the Fed statement, but fell 0.9% to 93.44 after the report was released. The USD recovered some losses on Thursday as investors found it too undervalued after Wednesday’s plunge. Mixed US statistics also supported the US currency. Orders for durable goods increased by a seasonally adjusted 6.5% in June, beating the forecast of 3% growth. On the other hand, initial jobless claims rose by 10,000 to 244,000, while analysts expected growth of 7,000 claims. As a result, on Thursday the DXY index rose 0.2% to 93.86.

The USD’s drop helped bolster other currencies. The euro hit a two-and-a-half high, rising to 1.1776, while the renminbi rose to the highest level in 9 months to 6.7251 USD/CNY. However, the subsequent recovery of the USD led to retreat of the CNY and EUR from fresh records. On Thursday, the euro closed down 0.5% to 1.1677 EUR/USD, while the renminbi rose 0.2% to 6.743 USD/CNY.

A UAH9bn increase in banks’ reserves on Monday and Tuesday caused the hryvnia to decrease by 0.16% against the USD on Wednesday. The Ukrainian currency was almost flat against the US dollar on Thursday, having closed down 0.05% to 25.9004 USD/UAH, amidst a correction. The UAH sold for 25.90 USD/UAH versus 25.72 USD/UAH to buy in the Ukrainian cash market. The hryvnia’s CPI-based real trade-weighted index rose to 108.75, while in year-on-year terms, this index was up 8.48% from 100.25 last year.

Yesterday, the Russian ruble was supported by the increase in oil prices following the last OPEC meeting in Saint Petersburg. However, new sanctions against Russia, to be introduced by the end of this week, raised investors’ concerns. Less severe than investors expected, the sanctions possible influence on Russia’s economy is still uncertain. Market players await Friday’s meeting of Russia’s central bank, where the decision about the next policy rate move will be announced. On Thursday, the ruble closed down 0.2% to 59.4975 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](#).

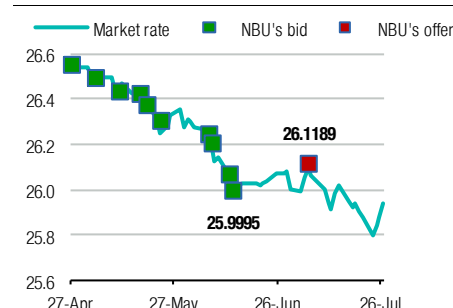
Key indicators (as of 27 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9350	+0.21	+0.14	-0.54	-4.30
USD ¹	93.864	+0.20	-0.47	-2.62	-8.17
EUR	1.1677	-0.49	+0.40	+2.98	+11.03
JPY	111.2600	+0.07	-0.58	-0.97	-4.87
GBP ²	1.3066	-0.43	+0.72	+1.97	+5.88
CNY	6.7430	-0.16	-0.25	-1.02	-2.91
RUB	59.5295	+0.18	+1.07	+0.18	-3.26

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

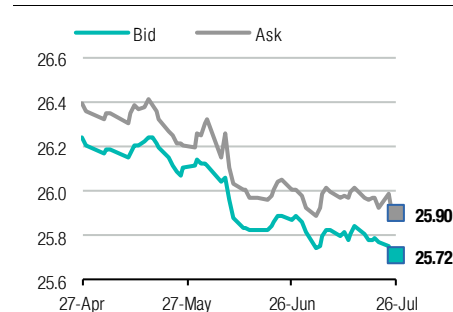
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 27 July 2017)



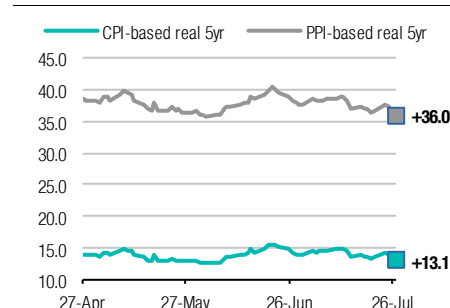
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 27 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 27 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)

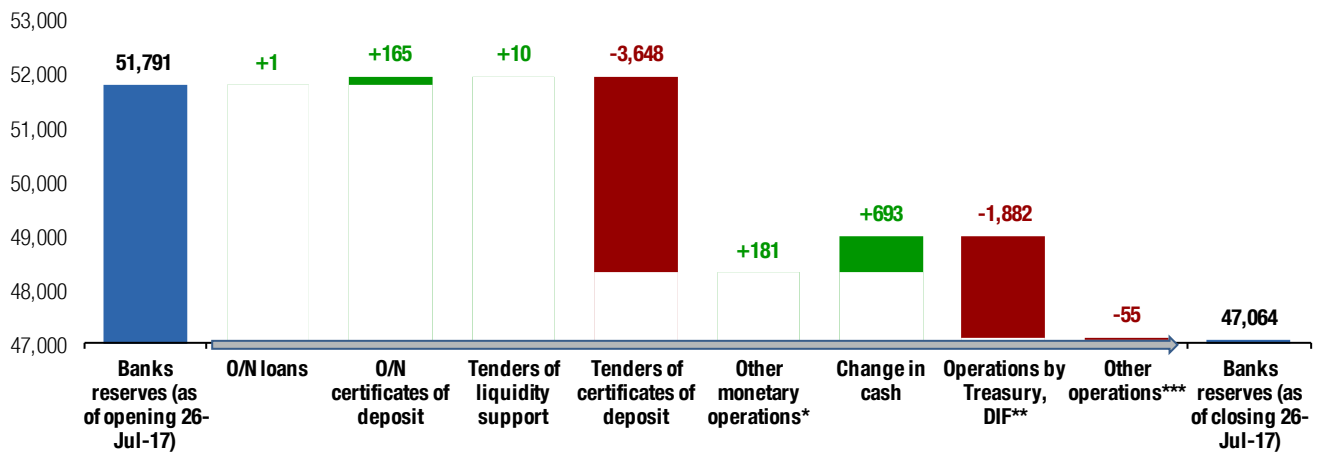
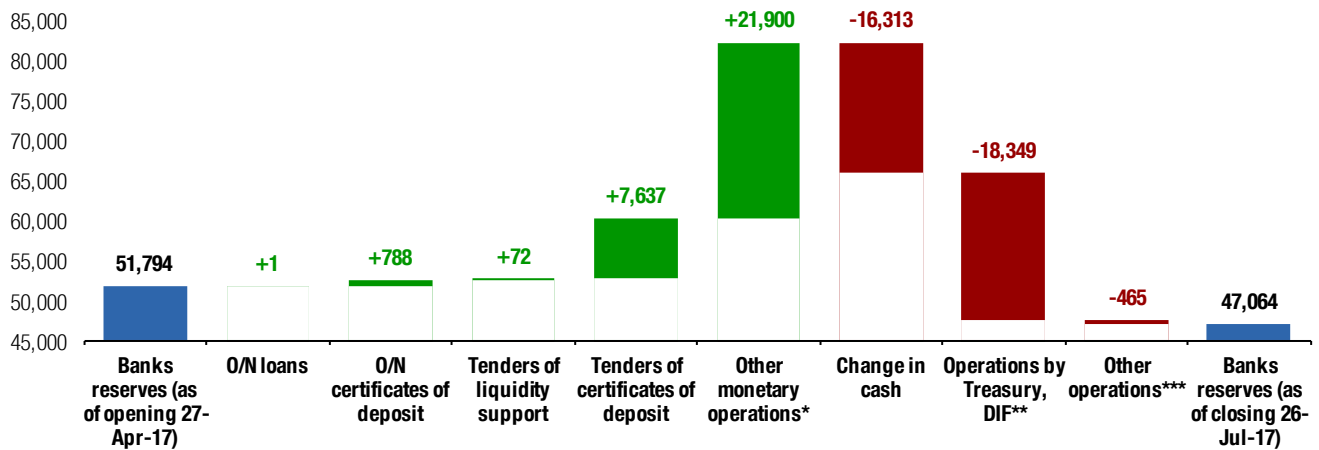
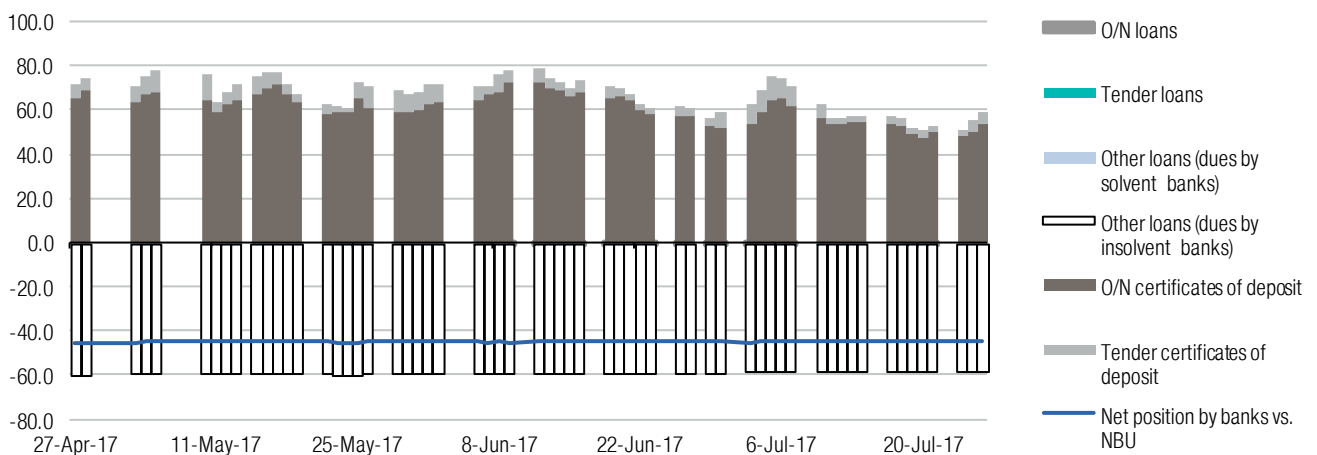


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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