

Daily Insight

USD under pressure

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Liquidity under tax payments 2

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Primary auction announcement 2

At the end of last week, the MoF announced the conditions for tomorrow's auction. All offerings will be in local currency with maturities from six months to three years. The 6-month, 1-year and 3-year bonds will be the same as they were at recent auctions. The 2-year bond will be a re-offering of the July 2019 bond; in July, the MoF offered May 2019 bonds.

Foreign exchange markets 3

USD under pressure 3

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MONDAY, 31 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 28 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 28 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	44,663	-5.10	-10.19
Deposit certificates* (UAHm)	55,842	-2.40	-10.28
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9300	-0.02	-4.32
Total trade volume (US\$m)	N/A		
UAH index CPI-based	108.446	-0.28	+0.41
UAH index PPI-based	167.141	-0.28	-0.73
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	-68bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,472.10	-0.13	+10.42
MSCI EM	1,062.97	-0.56	+23.28
US dollar index (DXY)	93.259	-0.64	-8.76
EUR / USD	1.1751	+0.63	+11.73
Crude oil WTI (US\$/bbl)	49.71	+1.37	-7.46
Crude oil BRENT (US\$/bbl)	52.52	+2.00	-7.57
CRB, commodities index	182.12	+0.54	-5.40
Gold (US\$/ounce)	1,269.65	+0.84	+10.19

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity under tax payments

Last Thursday, the Treasury collected approximately UAH8.5bn of tax payments versus lower expenditures and an insignificant VAT refund. As the result, the balance of Treasury operations was negative UAH4.15bn, caused by a decline in liquidity. There were outflows via other operations as well, including interest on NBU loans. Only inflows via cash partially offset outflows. Ultimately, liquidity declined UAH3.77bn.

As a source for outflows, banks' correspondent accounts with the NBU declined UAH2.40bn and total CDs outstanding slid UAH1.37bn. Investments in 14-day CDs remained steady as banks decreased investments in ON CDs.

Investment implications: Liquidity continues to decline, and could decline further today as last Friday was the last day of month-end tax payments. We do not anticipate outflows to be offset, as last Friday's VAT refund was so paltry. The NBU held no FX auction last Friday and could purchase some FX today. Because of these factors, liquidity could decline below UAH100bn.

Primary auction announcement

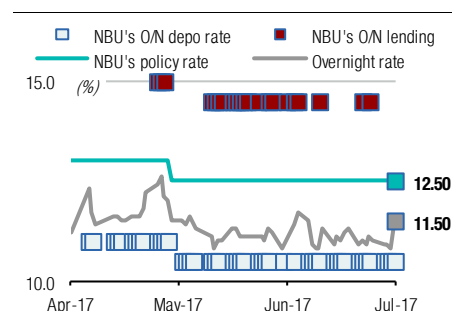
At the end of last week, the MoF announced the conditions for tomorrow's auction. All offerings will be in local currency with maturities from six months to three years. The 6-month, 1-year and 3-year bonds will be the same as they were at recent auctions. The 2-year bond will be a re-offering of the July 2019 bond; in July, the MoF offered May 2019 bonds.

This week, local currency debt repayments in local currency should be around UAH2.5bn but the majority will be to the NBU portfolio. Little is scheduled for refinancing, and demand should be low.

Investment implications: Most likely, the MoF will announce 2-year and 3-year offerings and possibly for short-term bonds as well. Interest rates should remain unchanged from those in July and June.

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Interest rates in the banks' reserves market (three months through 28 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 28 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	11.48	-2bp	-11bp	-3bp	+1bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	44,663	-5.10	-4.84	-7.92	-10.19
DepCerts ³	55,842	-2.40	+11.06	-3.41	-10.28
Total	100,505	-3.62	+3.38	-5.47	-10.24
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	367,904	+0.00	+0.00	-1.37	+3.30
Banks	296,590	+1.33	+1.29	+5.76	+72.10
Residents	21,925	+1.23	+1.06	-5.31	+39.84
Non-res ⁴	3	+0.00	+163.4	-98.99	-99.95
Total	686,422	+0.61	+0.59	+1.41	+24.69
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	4.99	+23bp	-10ppt	-10ppt	-17ppt
3 months	10.77	+150bp	-35bp	+109bp	-11ppt
6 months	10.45	+3bp	-250bp	-308bp	-759bp
1 year	11.05	-2bp	-74bp	-356bp	-494bp
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 under pressure

Following the Federal Reserve's statement on Wednesday that inflation remains below its 2% target and investors see no possibility for further rate hikes this year, the USD fell. On top of this news, US macroeconomic data showed that growth accelerated less than expected in the second quarter, up only 2.6% annualized in the 2Q17. Moreover, first quarter results were revised downward to 1.2% from 1.4% previously, causing the DXY fall to 93.39. By the end of Friday, it declined 0.6%, to 93.26.

The euro rose on Friday in the back of weak dollar and improving confidence in the Eurozone economy. Overwhelming 0.9% QoQ GDP growth in Spain in the second quarter, hitting a 2-year high with France GDP data, pushed the euro up to 1.1763, closing at 1.1751 up 0.6% from the previous day.

Over the past week, the UAH declined against the dollar 0.4%, mainly due to an increase in banks' reserves. By the end of the day on Friday, the HRY was 25.9156, down 0.06% from the previous day, staying in the 25.82 – 25.92 USD/UAH range. 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 8.018% from 100.41 last year.

Russia's central bank kept the key policy rate unchanged at 9% as expected, but authorities stated there might be a cut later this year. The USD/RUB traded in the range of 59.36-59.64 USD/RUB, per data from the Moscow Exchange. The rise in oil prices and weak dollar didn't influence the ruble significantly because of inflationary risks. US sanctions decree against Russia, supported by the Congress and Senate, is likely to be signed by Trump. On Friday, the ruble closed down 0.1% to 59.56 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](#).

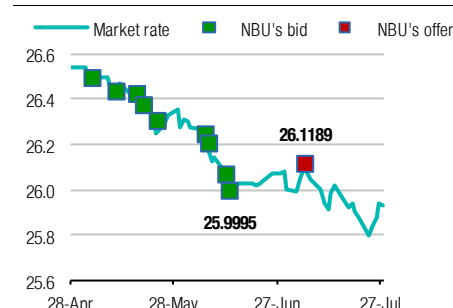
Key indicators (as of 28 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9300	-0.02	+0.19	-0.56	-4.32
USD ¹	93.259	-0.64	-0.64	-2.87	-8.76
EUR	1.1751	+0.63	+0.75	+3.28	+11.73
JPY	110.6800	-0.52	-0.40	-1.44	-5.37
GBP ²	1.3136	+0.54	+1.07	+1.62	+6.45
CNY	6.7369	-0.09	-0.44	-0.93	-3.00
RUB	59.5586	+0.05	+0.34	+0.51	-3.22

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

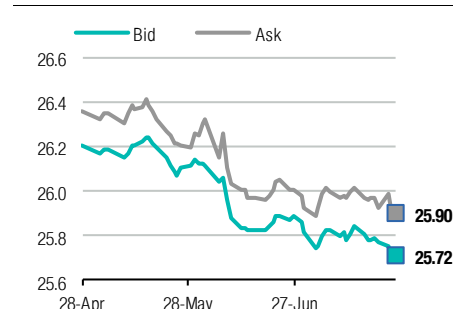
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 28 July 2017)



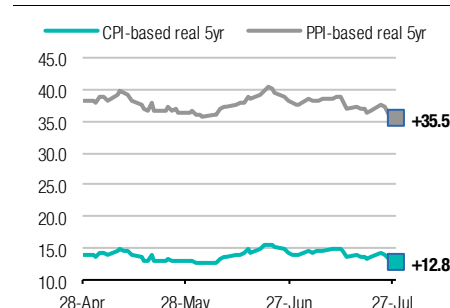
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 28 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 28 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)

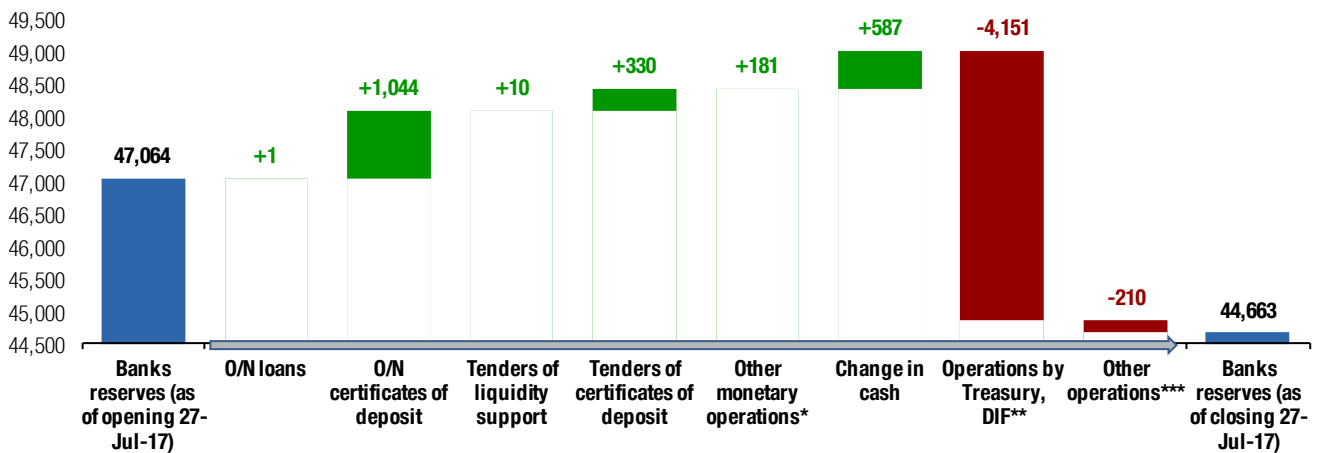
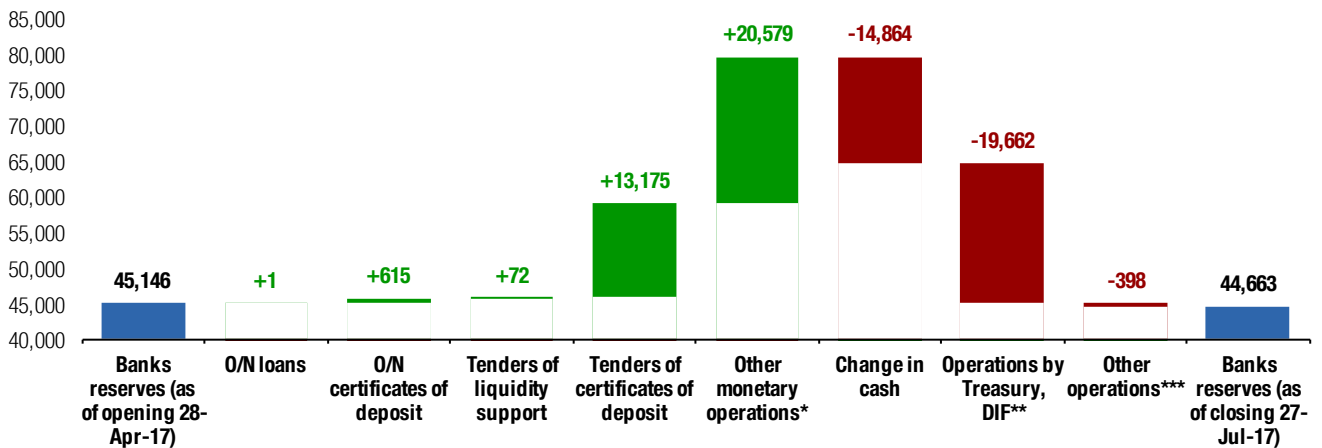
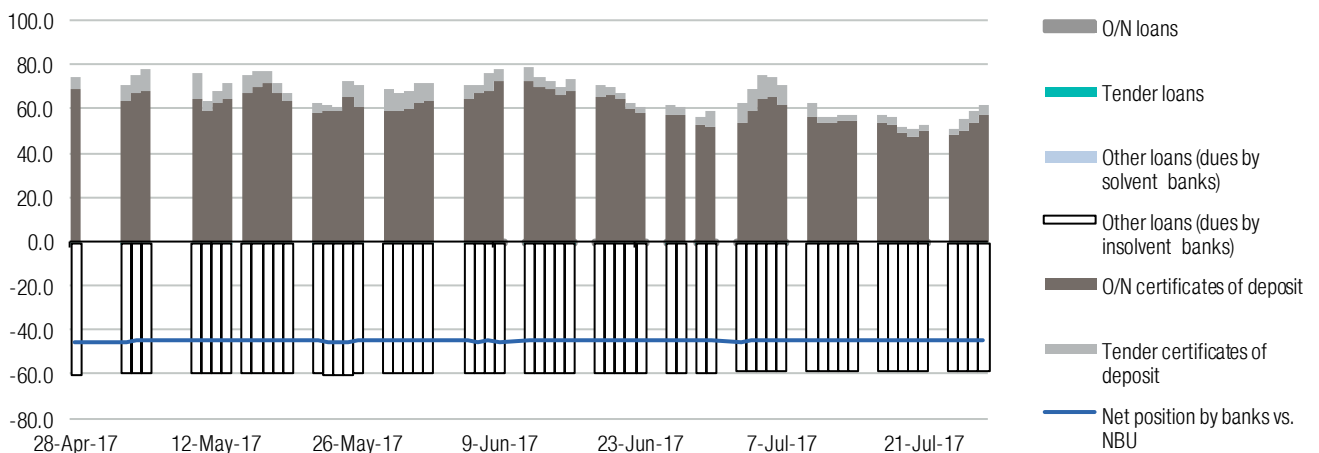


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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