

Weekly Insight

Positive start for hryvna

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Liquidity falls as expected 2

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Primary auction today 2

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The DXY on Monday traded in the 92.787-93.530 range, which is beneath Friday's 93.259. Investors are concerned about political uncertainty in the US and whether the Fed will raise its key policy rate this year. Despite the acceleration of the US economy's growth in the second quarter, which came in slightly less than expected, it missed its inflation target. The implementation of tax reforms and fiscal stimulus by the Trump administration are weighing on the dollar. By the end of Monday, the DXY declined 0.4%, to 92.86.

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TUESDAY, 1 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 31 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 31 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.10	-50bp	+50bp
Banks reserves (UAHm)	43,940	-1.62	-11.65
Deposit certificates* (UAHm)	55,519	-0.58	-10.80
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.8000	-0.50	-4.80
Total trade volume (US\$m)	197.01	+13.20	+16.15
UAH index CPI-based	108.686	+0.22	+0.63
UAH index PPI-based	167.512	+0.22	-0.51

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	562bp	-23bp	-91bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,470.30	-0.07	+10.34
MSCI EM	1,066.23	+0.31	+23.65
US dollar index (DXY)	92.863	-0.42	-9.14
EUR / USD	1.1842	+0.77	+12.60
Crude oil WTI (US\$/bbl)	50.17	+0.93	-6.61
Crude oil BRENT (US\$/bbl)	52.72	+0.38	-7.22
CRB, commodities index	182.64	+0.29	-5.13
Gold (US\$/ounce)	1,269.44	-0.02	+10.17

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity falls as expected

Last week, total liquidity fell UAH1.05bn to UAH99.46bn, as expected, mainly as a result of the Treasury collecting about UAH7.0bn of revenues amidst lower expenditures and insignificant VAT refunds. The balance of Treasury operations was negative UAH1.36bn.

Additionally, the NBU absorbed UAH0.12bn of liquidity, while only inflows from cash offset some of the outflows. Banks decreased their accounts' balance with the NBU by UAH0.72bn to UAH43.94bn as well as investments in CDs, down UAH0.32bn to UAH55.52bn, with reallocations of some funds from 14-day CDs to ON certificates.

Investment implications: Most likely, liquidity should rise slightly this week as month-end tax payments had to be paid last week and as banks try to accumulate funds prior to quarterly tax payments due in August. Banks could invest more funds in 14-day CDs for tax payments. The Treasury should not cause significant inflows this week, and the balance of its operations could be positive.

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Primary auction today

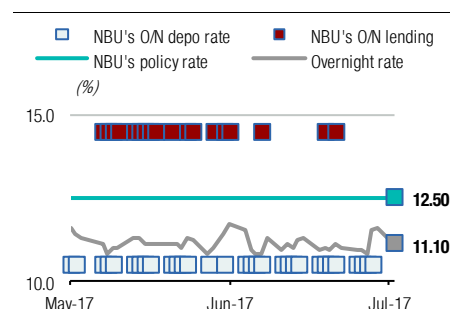
For the first time in 3Q17 since the launch of the new two-phase announcement for auctions, after consulting with primary dealers, the MoF announced that it will offer 5-month, 11.5-month with semi-annual coupons, 2-year and 3-year bonds.

By our estimates, sources for refinancing via new bonds from tomorrow's debt repayments will be insufficient as most payments will be within the NBU portfolio. There could be investors for bonds with maturities less than one year.

Investment implications: Despite the regular NBU board meeting to decide to decrease the key monetary rate once more, we do not anticipate significant changes in interest rates at the auction. Only the 11.5-month could have slight decline in its interest rate, as coupon payments provide better conditions for this issue and a higher YTM.

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Interest rates in the banks' reserves market (three months through 31 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 31 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	-50bp	+20bp	+0bp	+50bp
ON \$ swap	11.87	+21bp	+27bp	+0bp	+40bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	43,940	-1.62	-7.97	+0.00	-11.65
DepCerts ³	55,519	-0.58	+13.38	+0.00	-10.80
Total	99,459	-1.04	+2.84	+0.00	-11.17
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	N/A	N/A	N/A	N/A	N/A
Banks	N/A	N/A	N/A	N/A	N/A
Residents	N/A	N/A	N/A	N/A	N/A
Non-res ⁴	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.14	+616bp	+97bp	+0bp	-11ppt
3 months	8.09	-268bp	-417bp	+0bp	-14ppt
6 months	11.52	+106bp	+17bp	+0bp	-653bp
1 year	11.60	+55bp	+8bp	+0bp	-439bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	562	-23bp	-23bp	+0bp	-91bp

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

Positive start for hryvna

The DXY on Monday traded in the 92.787-93.530 range, which is beneath Friday's 93.259. Investors are concerned about political uncertainty in the US and whether the Fed will raise its key policy rate this year. Despite the acceleration of the US economy's growth in the second quarter, which came in slightly less than expected, it missed its inflation target. The implementation of tax reforms and fiscal stimulus by the Trump administration are weighing on the dollar. By the end of Monday, the DXY declined 0.4%, to 92.86.

From the beginning of the day, the hryvna began to strengthen at 25.9027 UAH/USD. Demand for the hryvnia was pretty high, and, according to the NBU, by Monday's close, the HRY was 25.8548, up 0.2% from the previous day. The UAH sold for 25.86 USD/UAH versus 25.73 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose to 108.69, while in year-on-year terms, this index was up 9.09% from 99.63 last year.

On Monday, the Russian ruble fell versus the USD on expectations of the implementation of the new sanctions against Russia. Following the opening, the RUB fell to 60.35 as rising oil prices couldn't support the ruble and merely reduced its losses. The Russian government responded to the sanctions by Putin ordering the US to withdraw 755 US diplomatic service employees. Thus, the ruble traded in the 59.60-60.35 range and closed at 59.78 RUB/USD, down 0,4% from Friday.

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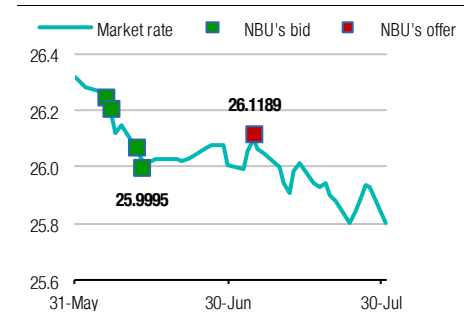
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 31 липня 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.8000	-0.50	+0.00	+0.00	-4.80
USD ¹	92.863	-0.42	-1.19	+0.00	-9.14
EUR	1.1842	+0.77	+1.72	+0.00	+12.60
JPY	110.2600	-0.38	-0.76	+0.00	-5.73
GBP ²	1.3215	+0.60	+1.44	+0.00	+7.09
CNY	6.7266	-0.15	-0.36	+0.00	-3.14
RUB	59.7779	+0.37	-0.41	+0.00	-2.86

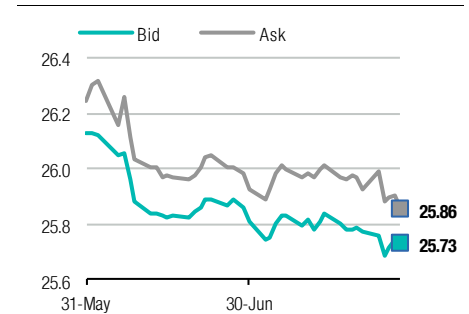
Notes: [1] DXY, US dollar index; [2] British pound. Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 31 July 2017)



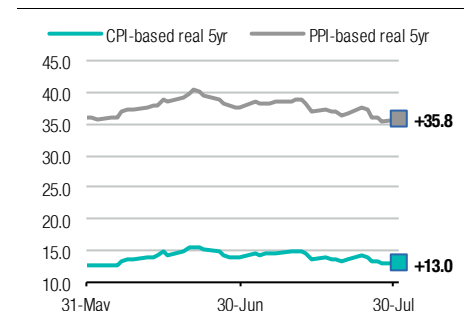
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 31 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 31 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)

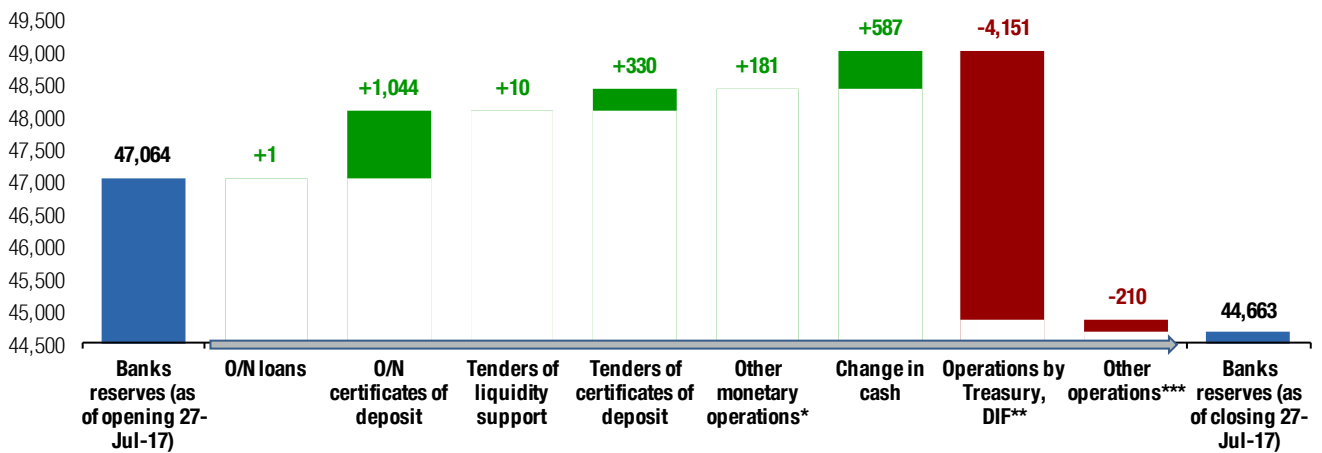
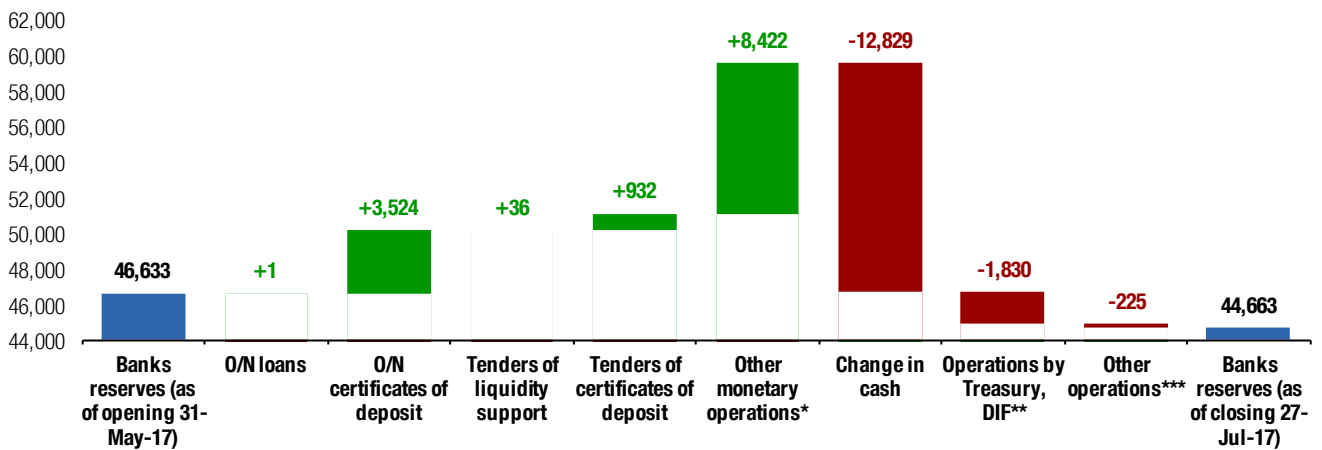
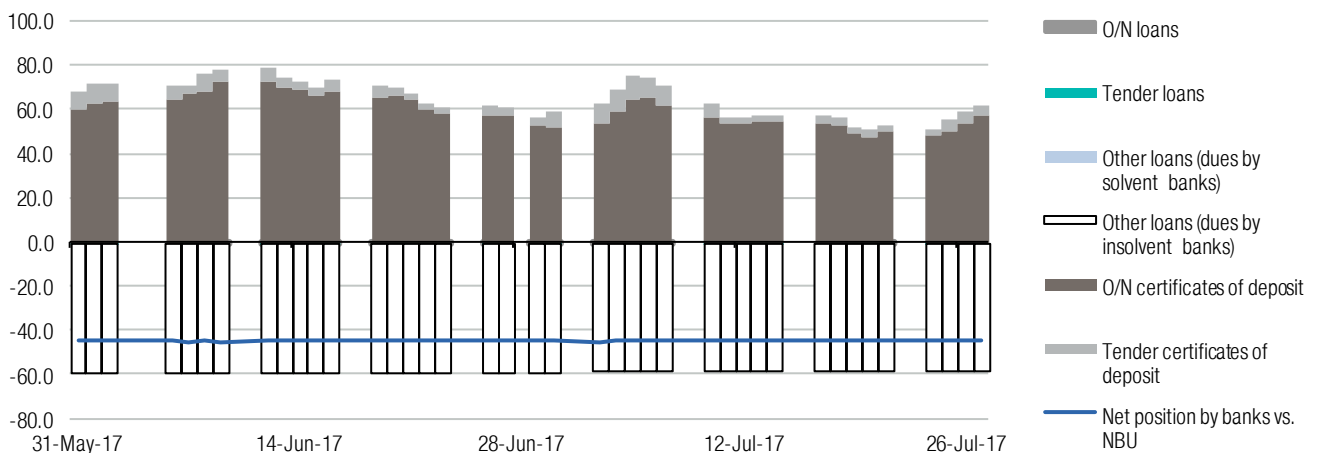


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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