

# Daily Insight

## Liquidity continues to decline

### Key messages of the today's comments

#### Domestic liquidity ..... 2

##### Liquidity continues to decline ..... 2

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#### Foreign exchange markets ..... 3

##### Pound loses its position ..... 3

The DXY on Thursday traded in the 92.705-93.028 range, still near a 15-month low. The greenback was under pressure of mixed economic data. Initial jobless claims decreased by 5,000 to 240,000 against expectations of 242,000. On the other hand, the index of non-manufacturing activity fell to 53.9 from 57.4 in June, when economists forecasted 57. By the end of Thursday, the DXY didn't changed and was on 92.84.

#### Appendix #1: Domestic liquidity ..... 4

### FRIDAY, 4 AUGUST 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 3 August 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 3 August 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	48,907	+8.23	-1.66
Deposit certificates* (UAHm)	48,018	-7.85	-22.85
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	25.8800	-0.25	-4.50
Total trade volume (US\$m)	N/A		
UAH index CPI-based	108.368	+0.09	+0.34
UAH index PPI-based	167.021	+0.09	-0.80
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	540bp	-20bp	-113bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,472.16	-0.22	+10.42
MSCI EM	1,064.07	-0.55	+23.40
US dollar index (DXY)	92.839	+0.00	-9.17
EUR / USD	1.1870	+0.12	+12.86
Crude oil WTI (US\$/bbl)	49.03	-1.13	-8.73
Crude oil BRENT (US\$/bbl)	52.01	-0.67	-8.47
CRB, commodities index	180.65	-0.73	-6.16
Gold (US\$/ounce)	1,268.52	+0.15	+10.09

Notes: \* NBU's short-term bonds.

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity continues to decline

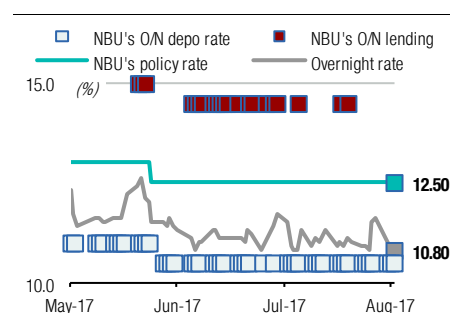
As the result of Wednesday's cashflows, total banking sector liquidity fell only UAH0.37bn to UAH96.93bn, just UAH1.72 above the lowest level of this year. The decline in liquidity was caused by outflows to the Treasury which absorbed UAH0.81bn, half of which paid for new government bonds. Nearly half of the outflows was compensated by inflows from the change in cash of UAH0.42bn.

At the same time, banks significantly decreased investments in CDs, reduced total CDs outstanding by UAH4.09bn to UAH48.02bn, reallocated funds to accounts at the NBU, and increased banks' correspondent accounts' balance with the NBU by UAH3.72bn to UAH48.91bn.

**Investment implications: The Treasury significantly decreased its negative impact on liquidity, but this did not allow liquidity to stabilize or rise on Wednesday. The significant reallocation could indicate that liquidity could fall soon, but it also could have occurred prior the NBU board meeting yesterday. So, liquidity should remain volatile, but at the end of next week could fall significantly due to quarterly tax payments that start in the second half of August.**

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## Interest rates in the banks' reserves market (three months through 3 August 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 3 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	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
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	48,907	+8.23	+3.92	-3.72	-1.66
DepCerts <sup>3</sup>	48,018	-7.85	-16.08	-10.32	-22.85
<b>Total</b>	<b>96,925</b>	<b>-0.38</b>	<b>-7.05</b>	<b>-7.10</b>	<b>-13.44</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
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 <sup>4</sup>	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	7.48	+306bp	+272bp	-864bp	-15ppt
3 months	11.68	+242bp	+241bp	-326bp	-10ppt
6 months	10.97	+52bp	+54bp	-278bp	-708bp
1 year	11.27	+25bp	+20bp	-351bp	-472bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	540	-20bp	-45bp	-45bp	-113bp

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

## Pound loses its position

The DXY on Thursday traded in the 92.705-93.028 range, still near a 15-month low. The greenback was under pressure of mixed economic data. Initial jobless claims decreased by 5,000 to 240,000 against expectations of 242,000. On the other hand, the index of non-manufacturing activity fell to 53.9 from 57.4 in June, when economists forecasted 57. By the end of Thursday, the DXY didn't changed and was on 92.84.

The British pound, after reaching a 10-month high, fell 0.6% at the end of the day to 1.3138. The pound started to lose its position after the Bank of England's board meeting at which they decided to hold the key policy rate at 0.25%. Additionally, the forecast on GDP growth was changed from 1.9% to 1.7% in 2017 and from 1.7% to 1.6% in 2018. The GBP/USD pair traded in the 1.3114 - 1.3260 range.

The USD/UAH pair corrected on Thursday. The Ukrainian currency appreciated 0.1% against the dollar to 25.8858. Despite banking sector liquidity continuing to decline, the hryvna seemed resilient. The UAH sold for 25.87 USD/UAH versus 25.68 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.09% to 108.36, while in year-on-year terms, this index was up 6.4% from 101.42 last year.

The ruble on Thursday regained its losses from the previous day. Donald Trump signed the sanctions law, but this had little influence on the ruble, only pushing the RUB/USD pair up at the beginning of the day. However, around midday, the ruble began to rapidly strengthen against the dollar due to increasing oil prices, which held above US\$52 per barrel. The ruble traded in the 60.09-60.85 range and finished the day at 60.36 RUB/USD, having appreciated 0.4%.

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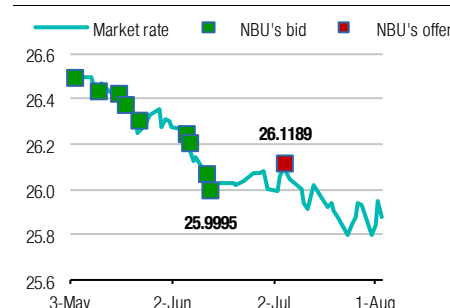
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 3 серпня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	25.8800	-0.25	-0.21	-0.42	-4.50
USD <sup>1</sup>	92.839	+0.00	-1.09	-3.51	-9.17
EUR	1.1870	+0.12	+1.65	+4.45	+12.86
JPY	110.0500	-0.61	-1.09	-2.94	-5.91
GBP <sup>2</sup>	1.3138	-0.64	+0.55	+1.53	+6.47
CNY	6.7172	-0.07	-0.38	-1.22	-3.28
RUB	60.3475	-0.35	+1.37	+1.90	-1.93

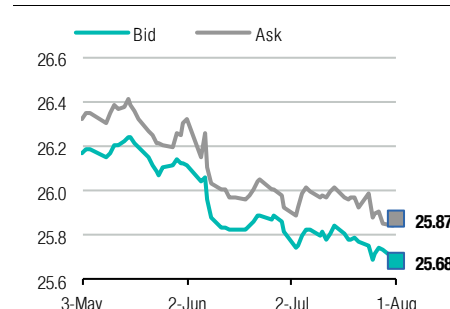
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 3 August 2017)



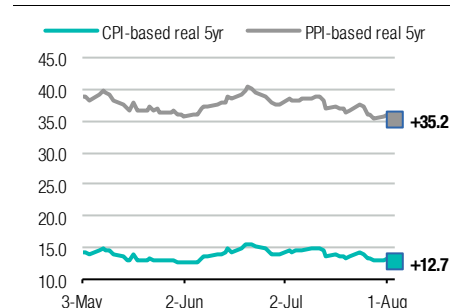
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 3 August 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 3 August 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)

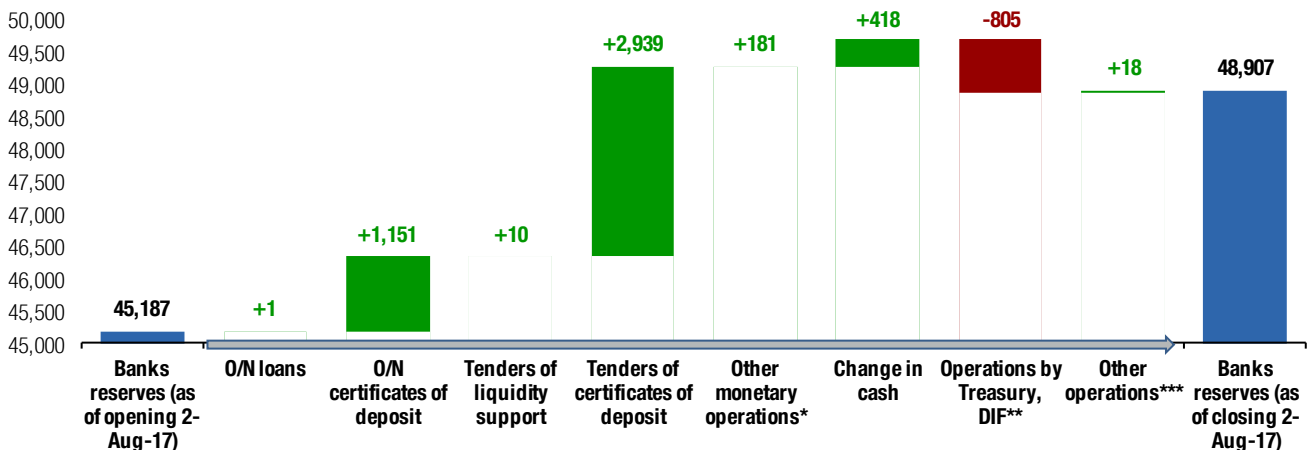
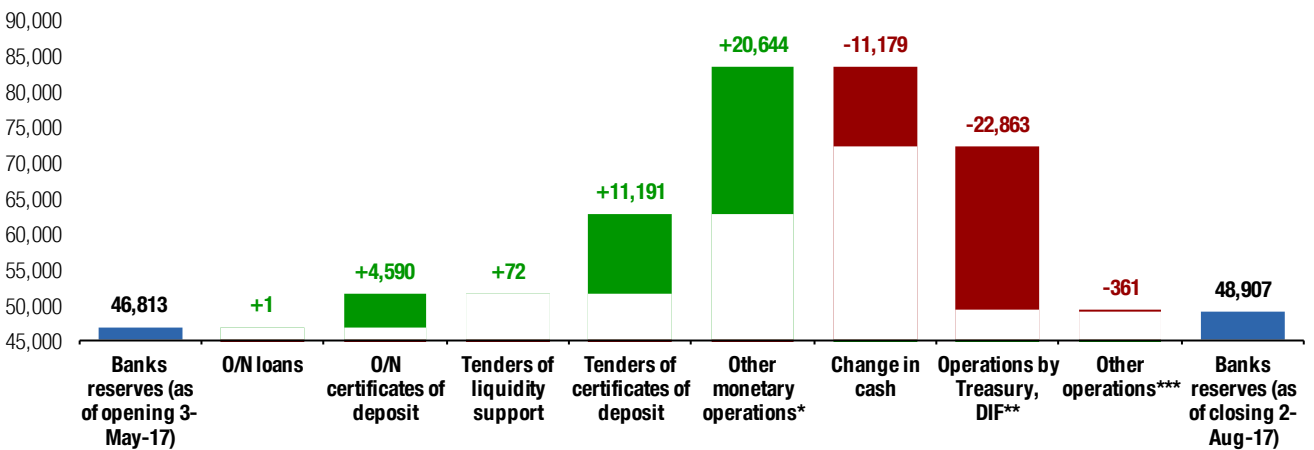
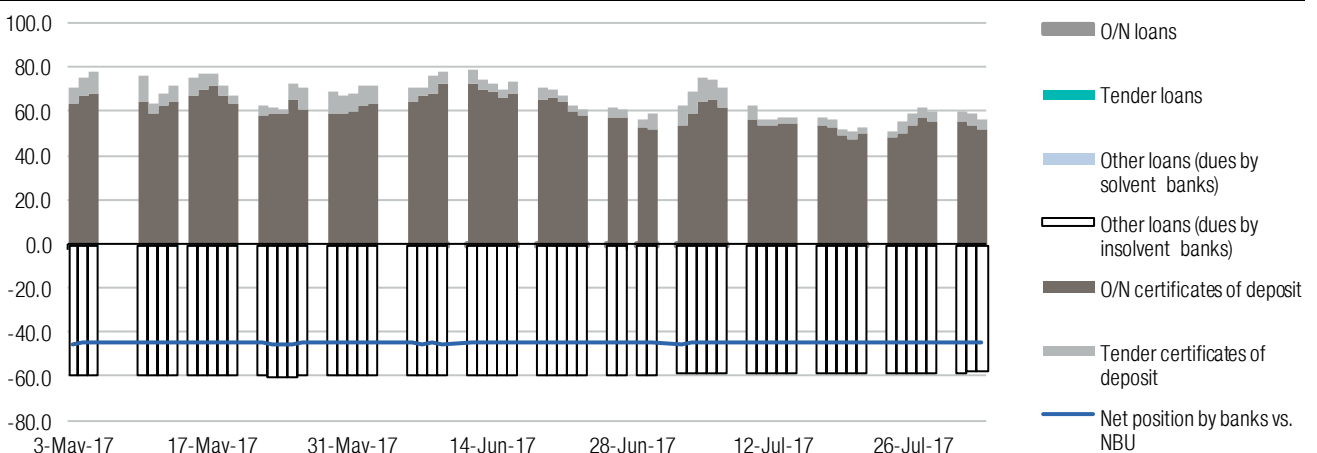


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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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