

Daily Insight

Liquidity at 5-month low

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Last week, important news for the primary bond market, bound to be decisive over the following weeks, was released. Most importantly, the NBU left its key monetary rate unchanged at 12.5%, which will keep interest rates at the primary auctions unchanged for the most part. This was expected, as at the last auction demand was only in competitive bids at the same rate.

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As of Friday morning, banking sector liquidity hit UAH96.62bn, down UAH0.3bn from the previous day. This time, the main driver of the decline was the cash outflow instead of Treasury operations, which did the inverse. Total CDs outstanding declined from the banks' side in 14-day instruments with funds reallocated to ON CDs along with funds at accounts with the NBU.

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Ruble strengthens 3

By the end of the week, the dollar got support from positive macroeconomic data concerning the labor market. According to the US Labor Department, in July America's economy added 209,000 jobs against 189,000 expected. The unemployment rate decreased to 4.3% in July from 4.4% the previous month. Also, the average hourly earnings increased 0.3% after 0.2% in June. Thus, the greenback has a slight reprieve after depreciating 0.6% from the beginning of the week through Thursday. By the end of Friday, the DXY traded in the 92.701 - 93.740 range and finished the day at 93.542, having appreciated 0.8%.

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MONDAY, 7 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 4 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 4 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.50	+40bp	+90bp
Banks reserves (UAHm)	50,524	+3.31	+1.59
Deposit certificates* (UAHm)	46,098	-4.00	-25.93
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.8700	-0.04	-4.54
Total trade volume (US\$m)	189.02	-16.78	+11.44
UAH index CPI-based	108.682	+0.29	+0.63
UAH index PPI-based	167.505	+0.29	-0.52
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	540bp	+0bp	-113bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,476.83	+0.19	+10.63
MSCI EM	1,067.26	+0.30	+23.77
US dollar index (DXY)	93.542	+0.76	-8.48
EUR / USD	1.1773	-0.82	+11.94
Crude oil WTI (US\$/bbl)	49.58	+1.12	-7.71
Crude oil BRENT (US\$/bbl)	52.42	+0.79	-7.74
CRB, commodities index	180.68	+0.02	-6.14
Gold (US\$/ounce)	1,258.77	-0.77	+9.24

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Primary bond market news

Last week, important news for the primary bond market, bound to be decisive over the following weeks, was released. Most importantly, the NBU left its key monetary rate unchanged at 12.5%, which will keep interest rates at the primary auctions unchanged for the most part. This was expected, as at the last auction demand was only in competitive bids at the same rate.

Secondly, the MoF slightly changed its auction schedule, replacing the 3-year local currency bond with a 2-year FX bond next week. This was unexpected, as the MoF was not going to offer FX-denominated bonds very often, but this will be the second FX offering in 3Q17 and third this year. The successful placement of these bonds in July could force the MoF to change its view.

Investment implications: *The MoF offers FX-denominated bonds very rarely, but this quarter there will be a second offering and third for this year. We could see demand focused on the FX-denominated bond next week. Local currency bonds will also see demand in August, but less so and without volatility in its interest rate.*

Liquidity at 5-month low

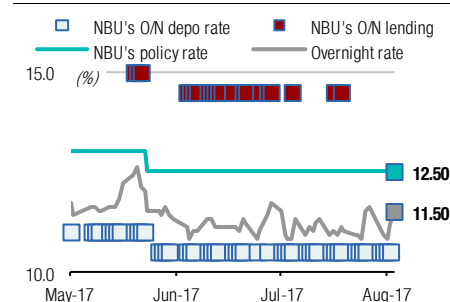
As of Friday morning, banking sector liquidity hit UAH96.62bn, down UAH0.3bn from the previous day. This time, the main driver of the decline was the cash outflow instead of Treasury operations, which did the inverse. Total CDs outstanding declined from the banks' side in 14-day instruments with funds reallocated to ON CDs along with funds at accounts with the NBU.

Banks decreased investments in 14-day CDs by UAH2.97bn while ON CDs rose by UAH1.05bn. Banks' correspondent accounts with the NBU rose UAH1.62bn while CDs outstanding decreased UAH1.92bn. The reallocation from 14-day CDs to ON instruments and banks accounts happens every time the NBU board meets and 14-day CDs are not offered. There was a cash outflow of UAH0.46bn which was offset by Treasury operations of UAH0.17bn, resulting in a UAH0.3bn decrease in liquidity caused by autonomous non-monetary operations.

Investment implications: *Liquidity has hit a 5-month low. Despite the positive influence of the Treasury on liquidity's volume, its insufficiency led to its decreasing for the seventh day. There was a reallocation of funds from 14-day instruments because on the day of the NBU board's meeting the NBU do not sell 14-day CDs as well as of increasing funds at accounts with the NBU. It is likely that investments in 14-day instruments will increase on Friday.*

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Interest rates in the banks' reserves market (three months through 4 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 4 August 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	11.50	+40bp	-10bp	+60bp	+90bp
ON \$ swap	11.79	+9bp	+31bp	+0bp	+32bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	50,524	+3.31	+13.12	+14.60	+1.59
DepCerts ³	46,098	-4.00	-17.45	-22.15	-25.93
Total	96,622	-0.31	-3.86	-6.47	-13.71
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	7.94	+46bp	+296bp	-698bp	-14ppt
3 months	10.27	-142bp	-50bp	+95bp	-12ppt
6 months	11.05	+8bp	+59bp	-247bp	-700bp
1 year	11.30	+3bp	+25bp	-335bp	-469bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	540	+0bp	-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

Ruble strengthens

By the end of the week, the dollar got support from positive macroeconomic data concerning the labor market. According to the US Labor Department, in July America's economy added 209,000 jobs against 189,000 expected. The unemployment rate decreased to 4.3% in July from 4.4% the previous month. Also, the average hourly earnings increased 0.3% after 0.2% in June. Thus, the greenback has a slight reprieve after depreciating 0.6% from the beginning of the week through Thursday. By the end of Friday, the DXY traded in the 92.701 - 93.740 range and finished the day at 93.542, having appreciated 0.8%.

At the end of the day, the euro and the British pound reacted similarly to the strong dollar. The euro traded in the 1.1732 - 1.1887 range and depreciated 0.8%, finishing the day at 1.1773. The British pound, after decreasing on Thursday, continued that trend and traded in the 1.3026 - 1.3164 range, having depreciated 0.8% to 1.3040.

On Friday, the hryvnia continued to appreciate against the dollar. Liquidity decreased for the seventh day in a row and hit a 5-month low, also giving the Ukrainian currency strength. The hryvnia appreciated 0.2% against the dollar to 25.8429 and sold for 25.90 USD/UAH versus 25.74 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.29% to 108.68, while in year-on-year terms, this index was up 6.7% from 101.45 last year.

Despite the dollar's strength by the end of the day, the ruble continued to appreciate against the US currency. Oil prices remained above US\$52 per barrel and supported the ruble. The macroeconomic data also helped the Russian currency. The trade balance surplus rose 31% in the first half of the year and inflation was 0.1% in July against 0.6% in June. Yearly inflation stood at 3.9%. On Friday, the USD/RUB pair traded within 59.84-60.48 and finished the day at 59.97, appreciating 0.7%.

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

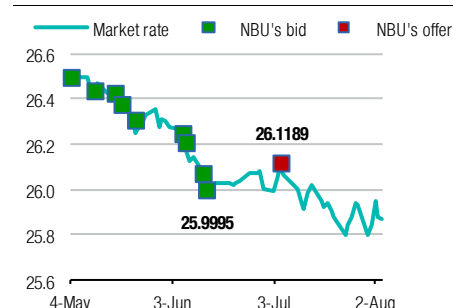
Key indicators (as of 4 серпня 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.8700	-0.04	-0.23	-0.71	-4.54
USD ¹	93.542	+0.76	+0.30	-2.78	-8.48
EUR	1.1773	-0.82	+0.19	+3.76	+11.94
JPY	110.6900	+0.58	+0.01	-2.29	-5.36
GBP ²	1.3040	-0.75	-0.73	+0.93	+5.67
CNY	6.7289	+0.17	-0.12	-1.06	-3.11
RUB	59.9685	-0.63	+0.69	+0.91	-2.55

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

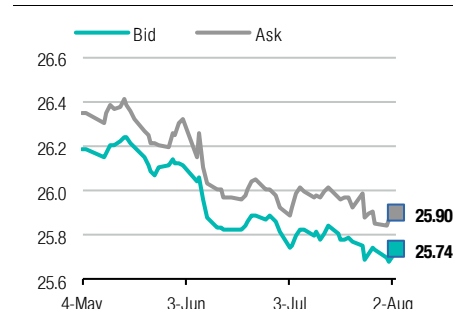
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 4 August 2017)



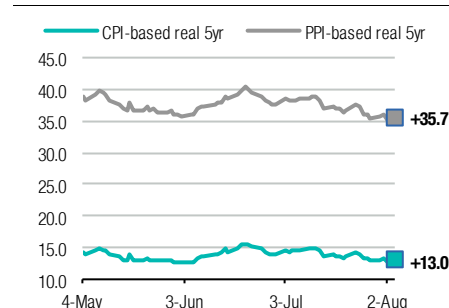
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 4 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 4 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)

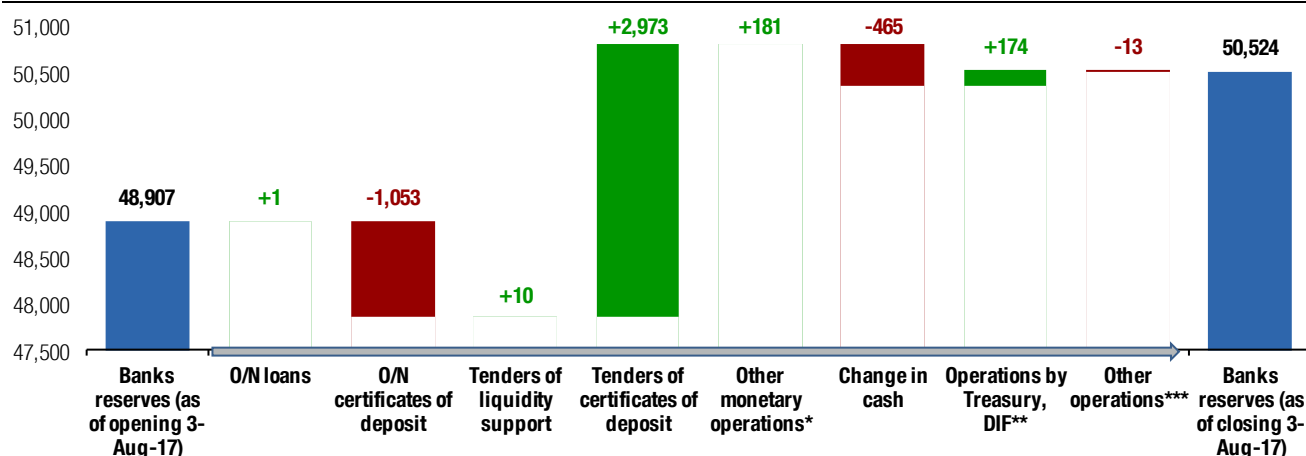
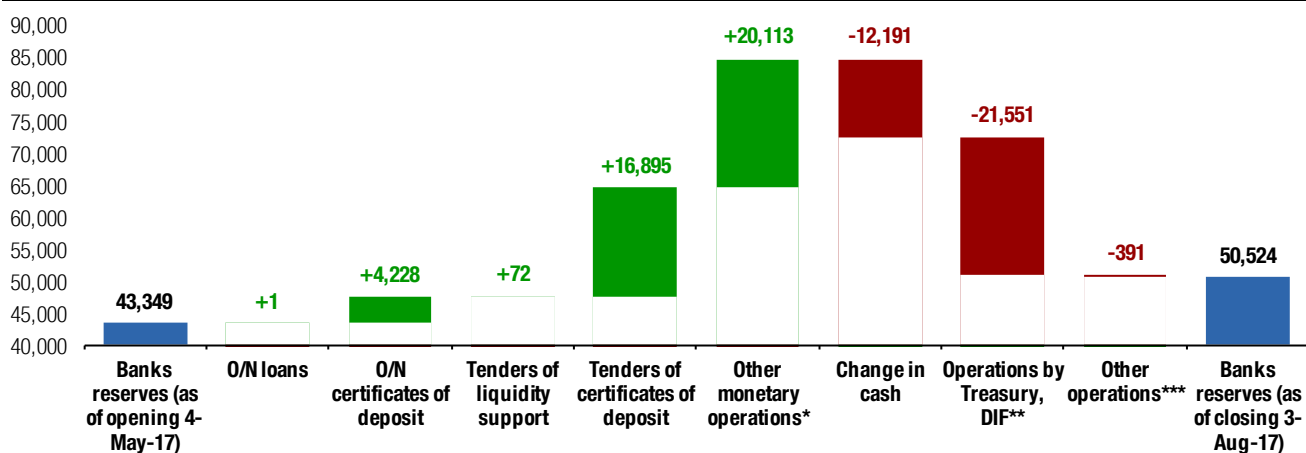


Chart 2. Banks reserves usages over last 90-day period (UAHm)

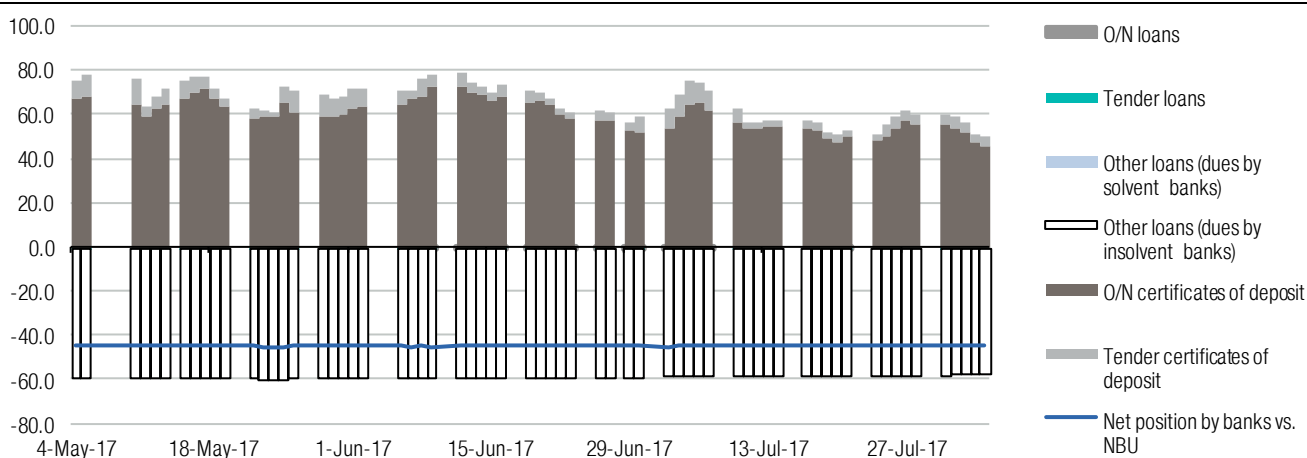


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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