

Daily Insight

Liquidity continues to decline

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Liquidity continues to decline 2

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Primary auction today 2

The Ministry of Finance announced that today it will offer only one bond with a 3-year maturity. The other three bonds with maturities from six months to two years from the pre-announcement were excluded after consultations with primary dealers, similar to what occurred last month.

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Yesterday, the American currency traded lower than on Friday, when labor market data was published, which helped the dollar to gain against other major currencies. The dollar traded lower against the euro but increased against the British pound. Market participants anticipate a positive CPI report this week which should support the greenback. By the end of Monday, the DXY traded in the 93.308 - 93.535 range and finished the day at 93.432, having depreciated 0.1%.

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TUESDAY, 8 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 7 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 7 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.40	-10bp	+80bp
Banks reserves (UAHm)	46,151	-8.66	-7.20
Deposit certificates* (UAHm)	49,278	+6.90	-20.82
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.7650	-0.41	-4.93
Total trade volume (US\$m)	218.45	+15.57	+28.79
UAH index CPI-based	109.072	+0.36	+0.99
UAH index PPI-based	168.106	+0.36	-0.16
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	540bp	+0bp	-113bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,480.91	+0.16	+10.81
MSCI EM	1,075.36	+0.76	+24.71
US dollar index (DXY)	93.432	-0.12	-8.59
EUR / USD	1.1795	+0.19	+12.15
Crude oil WTI (US\$/bbl)	49.39	-0.38	-8.06
Crude oil BRENT (US\$/bbl)	52.37	-0.10	-7.83
CRB, commodities index	180.97	+0.16	-5.99
Gold (US\$/ounce)	1,257.90	-0.07	+9.17

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to decline

As of Monday morning, banking sector liquidity was UAH95.43bn, down UAH1.2bn from the previous day. The negative effect of cash outflows continue for the second day as Treasury operations have little impact. Funds at accounts with the NBU declined along with an increase of CDs outstanding in 14-day instruments, as anticipated.

Unlike the previous day, when 14-day CDs were not offered and funds were reallocated to accounts with the NBU and ON instruments, this was an opposite reaction of market participants. Banks increased investments in 14-day CDs by UAH3.88bn while ON CDs decreased by UAH0.7bn, thus CDs outstanding increased by UAH3.18bn. Banks' correspondent accounts with the NBU declined UAH4.37bn, the largest amount in seven days. A UAH1.22bn cash outflow was offset by Treasury operations of just UAH0.16bn, resulting in a UAH1.19bn decrease in liquidity - the result of autonomous non-monetary operations.

Investment implications: *Banking sector liquidity continues to decline for the eighth day in a row and is at a 5-month low. Additionally, the NBU bought US\$50m, which should support the liquidity volume. Lately, the Treasury almost did not intervene or influence volume as the main part of autonomous operations went to cash outflows. There was a reallocation of funds from accounts with the NBU to 14-day CDs, as expected.*

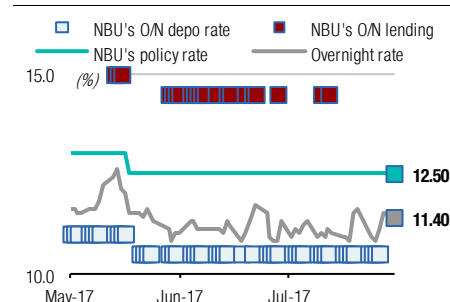
Primary auction today

The Ministry of Finance announced that today it will offer only one bond with a 3-year maturity. The other three bonds with maturities from six months to two years from the pre-announcement were excluded after consultations with primary dealers, similar to what occurred last month.

Investment implications: *We expect a small amount of payments to the market, about UAH250m, so demand will be restrained. However, taking into account last month's results when demand was unexpectedly high, this situation could repeat itself.*

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Interest rates in the banks' reserves market (three months through 7 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 7 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	11.40	-10bp	+30bp	+10bp	+80bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	46,151	-8.66	+5.03	+15.03	-7.20
DepCerts ³	49,278	+6.90	-11.24	-20.32	-20.82
Total	95,429	-1.24	-4.05	-6.41	-14.77
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	11.28	+334bp	+14bp	-368bp	-11ppt
3 months	12.42	+215bp	+433bp	-212bp	-965bp
6 months	11.73	+68bp	+21bp	-179bp	-632bp
1 year	11.65	+35bp	+5bp	-299bp	-434bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	540	+0bp	-22bp	-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

Hryvna is strong against the dollar

Yesterday, the American currency traded lower than on Friday, when labor market data was published, which helped the dollar to gain against other major currencies. The dollar traded lower against the euro but increased against the British pound. Market participants anticipate a positive CPI report this week which should support the greenback. By the end of Monday, the DXY traded in the 93.308 - 93.535 range and finished the day at 93.432, having depreciated 0.1%.

The euro and the British pound traded inversely to the dollar. The euro traded in the 1.1772 - 1.1813 range and appreciated 0.2%, finishing the day at 1.1795. The British pound, after decreasing on Friday, continued that trend and traded in the 1.3015 - 1.3059 range, having depreciated 0.04% to 1.3035.

The hryvnia started the week up against the dollar. Demand for the national currency increased as banking sector liquidity continued to decline. The situation may change tomorrow as the NBU has bought US\$50m which could bolster liquidity. As of the end of Monday, the hryvnia appreciated 0.2% against the dollar to 25.7851 and sold for 25.87 USD/UAH versus 25.72 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.36% to 109.07, while in year-on-year terms, this index was up 7.1% from 101.30 last year.

On Monday, the ruble was under pressure from oil prices which declined during the day. After significantly strengthening on Friday by 0.7%, the Russian currency lost its position. In the middle of the trading day, the ruble declined to 60.33 USD/RUB, but offset its losses in the evening. On Monday, the USD/RUB pair traded within 59.86-60.33 and finished the day at 60.03, depreciating 0.1%.

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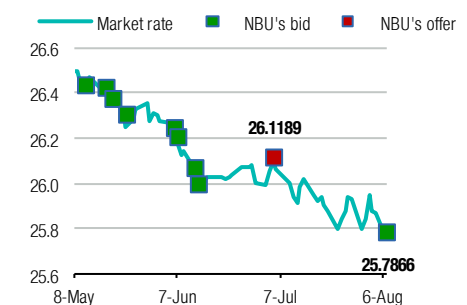
Key indicators (as of 7 серпня 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.7650	-0.41	-0.14	-1.08	-4.93
USD ¹	93.432	-0.12	+0.61	-2.68	-8.59
EUR	1.1795	+0.19	-0.40	+3.46	+12.15
JPY	110.7500	+0.05	+0.44	-2.78	-5.31
GBP ²	1.3035	-0.04	-1.36	+1.12	+5.63
CNY	6.7215	-0.11	-0.08	-1.24	-3.22
RUB	60.0317	+0.11	+0.42	-0.58	-2.45

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

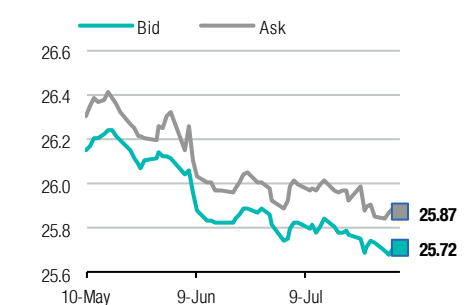
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 7 August 2017)



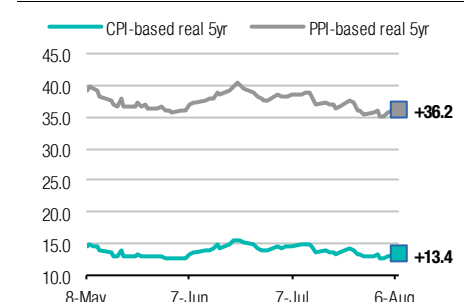
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 7 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 7 August 2017)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

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

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

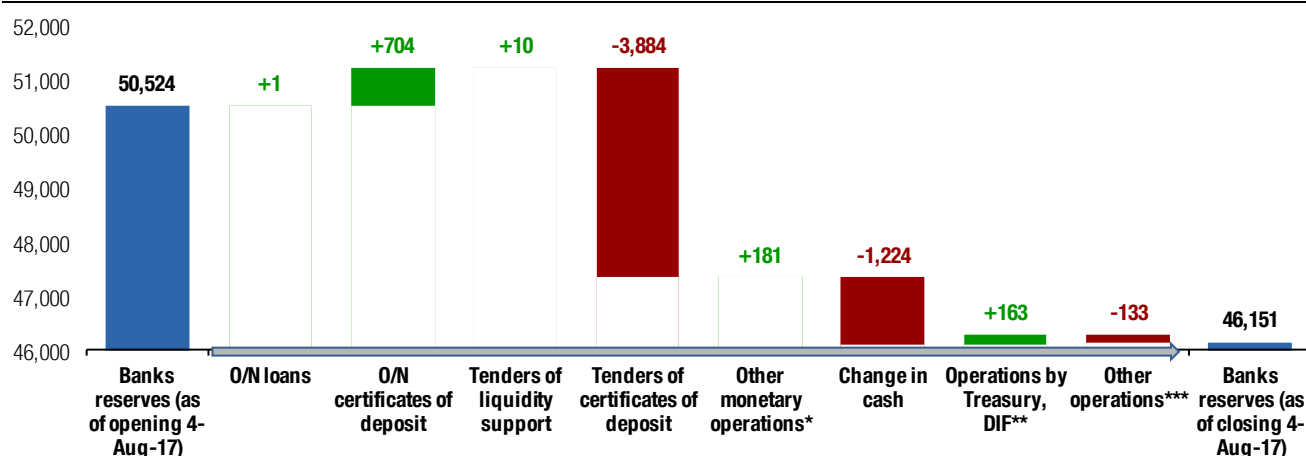
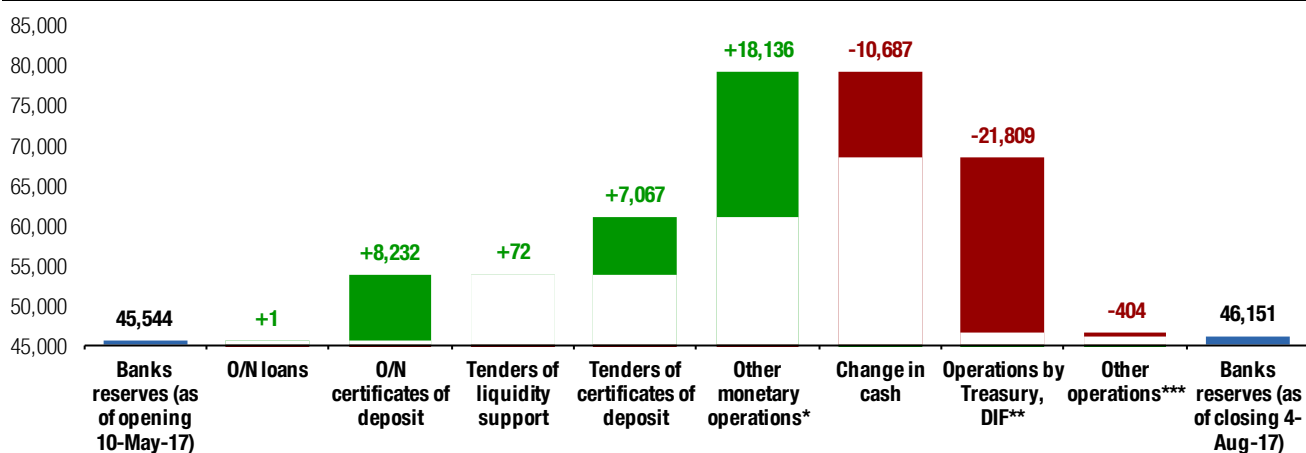


Chart 2. Banks reserves usages over last 90-day period (UAHm)

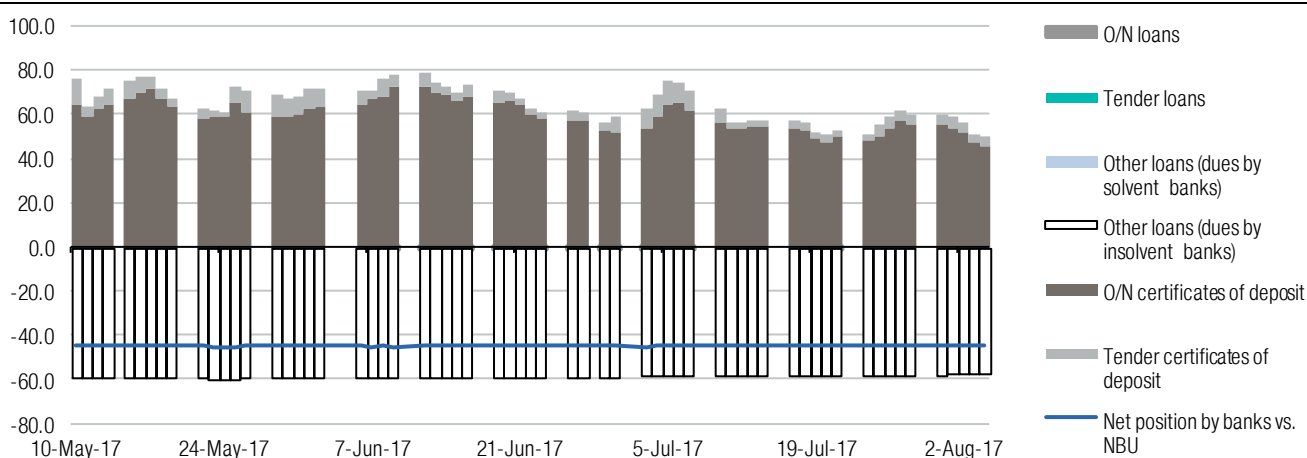


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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