

# Daily Insight

## Liquidity is on YTD low

### Key messages of the today's comments

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##### Liquidity is on YTD low ..... 2

Despite Monday's currency auction when the NBU bought US\$50m, banking sector liquidity continued to decline. As of Tuesday morning, it stood at UAH93.59bn, down UAH1.8bn from the previous day, mainly due to the State Treasury's drain on reserves and lesser so to the conversion of reserves into cash currency (i.e. cash outflow). Banks' reserve accounts with the NBU declined along with investments in CDs.

##### Slight demand at auction ..... 2

Yesterday, the Ministry of Finance offered only 3-year bonds after consultations with primary dealers, thus concentrating demand on this maturity. Demand was moderate but greater than last week, as expected. Banks submitted only three bids amounting to UAH250m, all at 14.54%, the same as last week's cut-off and weighted-average interest rate.

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

##### US dollar stages another recovery ..... 3

Friday's strong labor market data helped push the US dollar up 0.8%. Being flat at the beginning of the week, on Tuesday the US currency continued to increase against other major currencies due to better-than-expected job openings data. In a US Labor Department report, job openings rose to 6.16m in June from 5.7m in May, beating the forecast of a 5.77m increase. This data boosted investors' optimism towards a third interest rate hike this year. The DXY index surged 0.5% to 93.78 just after the report. By Tuesday's close, the DXY traded in the 93.24 - 93.88 range and finished the day at 93.65, having strengthened 0.23%.

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

WEDNESDAY, 9 AUGUST 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 8 August 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 8 August 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	10.80	-60bp	+20bp
Banks reserves (UAHm)	45,317	-1.81	-8.88
Deposit certificates* (UAHm)	48,274	-2.04	-22.44
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	25.7200	-0.17	-5.09
Total trade volume (US\$m)	176.10	-19.39	+3.82
UAH index CPI-based	109.375	+0.28	+1.27
UAH index PPI-based	168.572	+0.28	+0.12
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	540bp	+0bp	-113bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,474.92	-0.24	+10.55
MSCI EM	1,078.53	+0.29	+25.08
US dollar index (DXY)	93.647	+0.23	-8.38
EUR / USD	1.1752	-0.36	+11.74
Crude oil WTI (US\$/bbl)	49.17	-0.45	-8.47
Crude oil BRENT (US\$/bbl)	52.14	-0.44	-8.24
CRB, commodities index	181.09	+0.07	-5.93
Gold (US\$/ounce)	1,260.95	+0.24	+9.43

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity is on YTD low

Despite Monday's currency auction when the NBU bought US\$50m, banking sector liquidity continued to decline. As of Tuesday morning, it stood at UAH93.59bn, down UAH1.8bn from the previous day, mainly due to the State Treasury's drain on reserves and lesser so to the conversion of reserves into cash currency (i.e. cash outflow). Banks' reserve accounts with the NBU declined along with investments in CDs.

The Treasury absorbed from the banking sector UAH2.9bn along with the UAH0.42bn cash outflow, having a negative impact on autonomous non-monetary operations in amount of UAH3.3bn. Banks decreased investments in 14-day CDs by UAH0.98bn and little in ON instruments, resulting in an overall decline in CDs of UAH1.01bn. Other monetary NBU operations of UAH1.49bn did nothing to help reverse the current trend, as expected after the recent currency auction. Thus, bank's correspondent accounts with the NBU decreased by UAH0.83bn. The interbank ON rate increased 1.2% on Monday due to lower liquidity.

**Investment implications: Banking sector liquidity hit its lowest level since the beginning of the year, now at a 7.5 month low. The currency auction did not restrain the liquidity decline, which has continued for nine consecutive days. The key factor that influenced liquidity was Treasury operations which caused a major liquidity outflow and had lasting negative effect on cash outflows.**

## Slight demand at auction

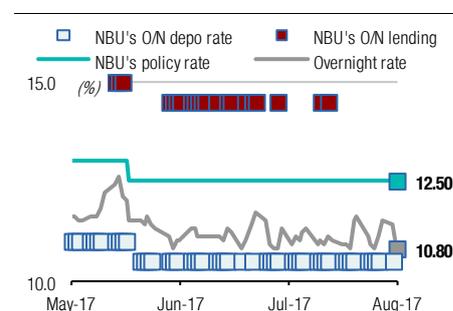
Yesterday, the Ministry of Finance offered only 3-year bonds after consultations with primary dealers, thus concentrating demand on this maturity. Demand was moderate but greater than last week, as expected. Banks submitted only three bids amounting to UAH250m, all at 14.54%, the same as last week's cut-off and weighted-average interest rate.

The MoF satisfied all submitted demand, which is in line with today's payments of UAH250m. This time, demand was almost double that seen last week. Probably, market participants are awaiting next week's auction when 2-year currency bonds will be offered, which saw high demand last month.

Overall, yesterday's auction results were moderate but unsurprising. After consultations with primary dealers, only 3-year bonds were offered, unlike the previous week when all instruments were placed. Bond yields remained unchanged.

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## Interest rates in the banks' reserves market (three months through 8 August 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 8 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	10.80	-60bp	-10bp	-50bp	+20bp
ON \$ swap	11.69	-62bp	+18bp	+70bp	+22bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	45,317	-1.81	+1.07	+12.95	-8.88
DepCerts <sup>3</sup>	48,274	-2.04	-10.74	-21.95	-22.44
<b>Total</b>	<b>93,591</b>	<b>-1.93</b>	<b>-5.39</b>	<b>-8.22</b>	<b>-16.42</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	366,104	+0.00	-0.49	-1.32	+2.80
Banks	296,082	-0.04	+0.08	+9.45	+71.80
Residents	22,555	-0.40	-0.09	+4.93	+43.86
Non-res <sup>4</sup>	10	-1.52	+101.9	+83.04	-99.84
<b>Total</b>	<b>684,752</b>	<b>-0.03</b>	<b>-0.23</b>	<b>+3.28</b>	<b>+24.38</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	10.94	-35bp	+181bp	-403bp	-11ppt
3 months	11.42	-100bp	+57bp	-312bp	-11ppt
6 months	11.72	-1bp	+56bp	-180bp	-632bp
1 year	11.57	-8bp	+16bp	-306bp	-442bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	540	+0bp	-20bp	-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

## US dollar stages another recovery

Friday's strong labor market data helped push the US dollar up 0.8%. Being flat at the beginning of the week, on Tuesday the US currency continued to increase against other major currencies due to better-than-expected job openings data. In a US Labor Department report, job openings rose to 6.16m in June from 5.7m in May, beating the forecast of a 5.77m increase. This data boosted investors' optimism towards a third interest rate hike this year. The DXY index surged 0.5% to 93.78 just after the report. By Tuesday's close, the DXY traded in the 93.24 - 93.88 range and finished the day at 93.65, having strengthened 0.23%.

The UAH is strengthening for the fourth trading session. On Tuesday, the hryvnia closed up 0.2% to 25.7326 USD/UAH, per data from the NBU. The appreciation is mostly due to an excess supply of USD in the domestic market. The Ukrainian currency was supported by declining liquidity in the banking sector, which hit 7-month lows on Monday. The UAH sold for 25.66 USD/UAH versus 25.83 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.28% to 109.37, while in year-on-year terms, this index was up 8.3% from 100.96 last year.

The appreciation of the greenback pushed the euro down 0.4% to 1.1752 EUR/USD. In addition, European macroeconomic data did not support the euro. German exports fell 2.8% in June, the first decrease in five months.

The Russian ruble was volatile on Tuesday and traded in the 59.865 - 60.335 USD/RUB range. The impact of new sanctions against Russia has diminished and the ruble reverted to correlating with oil prices. Market participants awaited the outcome of the OPEC meeting in Abu Dhabi which could push oil prices higher. On Tuesday, the ruble closed up 0.4% to 59.8175 USD/RUB.

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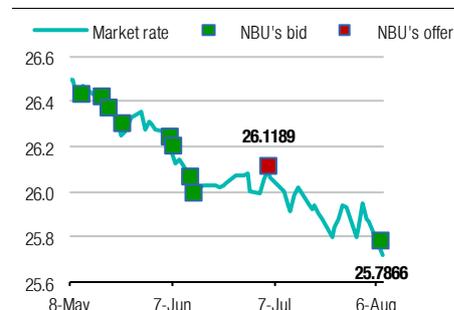
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 8 сeрня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	25.7200	-0.17	-0.48	-1.25	-5.09
USD <sup>1</sup>	93.647	+0.23	+0.65	-2.46	-8.38
EUR	1.1752	-0.36	-0.42	+3.08	+11.74
JPY	110.3200	-0.39	-0.04	-3.16	-5.68
GBP <sup>2</sup>	1.2992	-0.33	-1.60	+0.79	+5.28
CNY	6.7061	-0.23	-0.18	-1.46	-3.44
RUB	59.8652	-0.28	-0.79	-0.86	-2.72

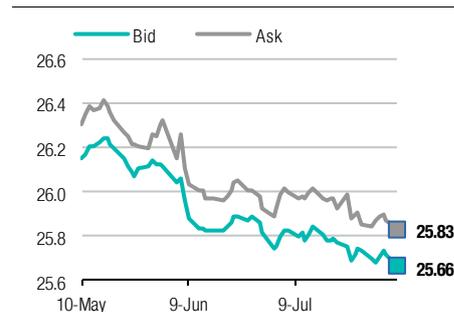
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 8 August 2017)



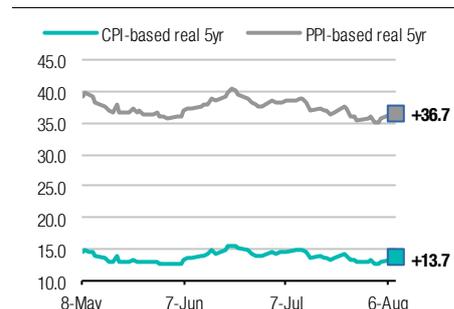
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 8 August 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 8 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)

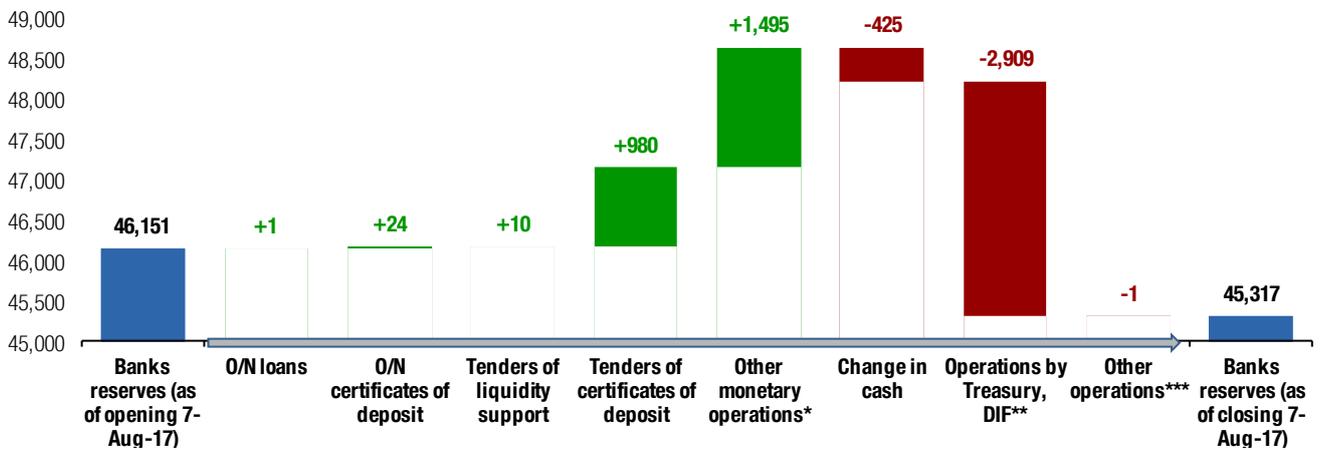
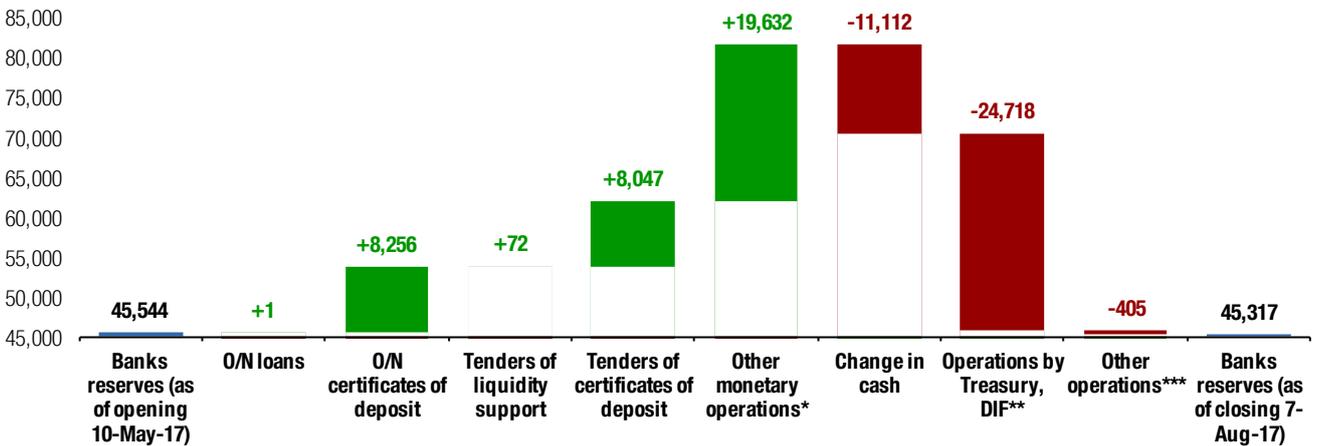
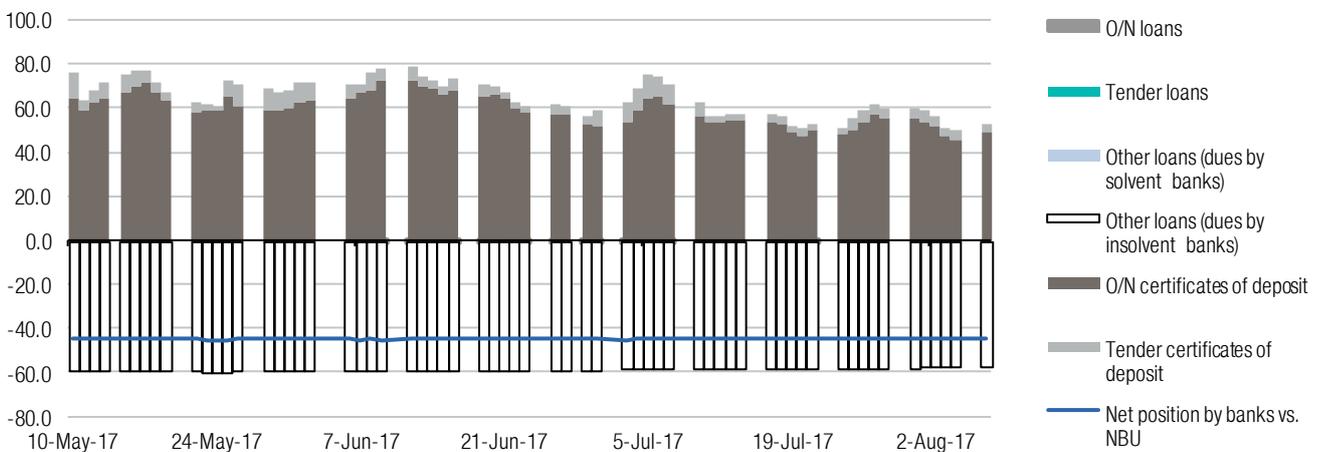


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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