



Daily Insight

Hryvnia hits year's high

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TUESDAY, 15 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 14 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 14 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.10	+20bp	+50bp
Banks reserves (UAHm)	47,669	-2.03	-4.15
Deposit certificates* (UAHm)	46,841	-0.31	-24.74
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.6225	-0.17	-5.45
Total trade volume (US\$m)	204.03	-4.13	+20.29
UAH index CPI-based	109.648	+0.31	+1.53
UAH index PPI-based	168.993	+0.31	+0.37
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	550bp	+0bp	-103bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,465.84	+1.00	+10.14
MSCI EM	1,053.65	+1.04	+22.19
US dollar index (DXY)	93.411	+0.37	-8.61
EUR / USD	1.1780	-0.35	+12.01
Crude oil WTI (US\$/bbl)	47.59	-2.52	-11.41
Crude oil BRENT (US\$/bbl)	50.73	-2.63	-10.72
CRB, commodities index	177.51	-1.17	-7.79
Gold (US\$/ounce)	1,282.14	-0.56	+11.27

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

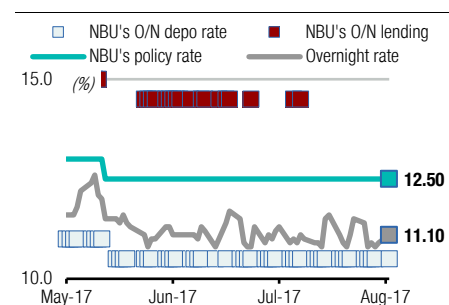
Liquidity under pressure of non-monetary issues

On Friday, domestic liquidity (excluding UAH government bonds in financial institutions' portfolios) fell 1.2%, or UAH1.13bn, to UAH94.5bn, due to the ongoing conversion of reserves into cash for clients. The contribution from Treasury operation was insufficient along with the decrease of banks' investments in CDs.

14-day CDs decreased UAH 0.74bn as ON CDs rose UAH0.59bn, resulting in the total effect of NBU monetary operations increasing reserves in banks' accounts of UAH0.15bn. The conversion of reserves into cash currency was UAH1.25bn, having a significant negative impact on liquidity. Treasury and other operations caused a slightly offset this by UAH 0.12bn. Overall, autonomous non-monetary operations' was negative UAH1.13bn. Thus, commercial banks' correspondent accounts with the NBU declined UAH0.98bn. The interbank ON rate index increased 9 bp to 10.86%, remaining within the NBU's target range of 10.5-12.5%.

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Interest rates in the banks' reserves market (three months through 14 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 14 August 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.10	+20bp	-30bp	-20bp	+50bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	47,669	-2.03	+3.29	+10.75	-4.15
DepCerts ³	46,841	-0.31	-4.95	-15.23	-24.74
Total	94,510	-1.19	-0.96	-3.86	-15.59
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	365,704	+0.00	-0.11	-1.43	+2.68
Banks	296,071	+0.00	-0.05	+1.01	+71.80
Residents	22,514	+0.07	-0.58	+4.40	+43.60
Non-res ⁴	11	+4.13	+5.51	+817.4	-99.83
Total	684,300	+0.00	-0.10	-0.20	+24.30
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.44	+24bp	+16bp	-353bp	-11ppt
3 months	11.75	+37bp	-67bp	+210bp	-10ppt
6 months	11.77	-3bp	+4bp	-122bp	-627bp
1 year	11.60	-7bp	-5bp	-19bp	-439bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	550	+0bp	+10bp	-35bp	-103bp

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

Hryvnia hits year's high

The US dollar slightly rebounded against other major currencies at the start of the week amid improved risk as tensions between Washington and Pyongyang eased after a high US official said the diplomatic solution is a priority. In addition, with no US macroeconomic data releases scheduled for Monday, geopolitics mainly influenced investors' decisions. After Friday's plunge of 0.4% due to disappointing US inflation data (growth of 1.7% YoY in July versus the forecast of 1.8% YoY), the DXY index rose 0.4% to 93.41 on Monday, while through the day it was 93.05 – 93.49.

The euro retreated to last week's levels in response to the dollar's strength. The single European currency declined 0.35% to 1.178 EUR/USD on Monday, but is still near the psychological rate of 1.18 EUR/USD. Market players are eyeing the Eurozone real GDP data (forecast 2.1% YoY in 2Q17) and the Eurozone inflation report (forecast 1.3% YoY in July) scheduled for August 16 and 17, respectively. In case forecasts meet expectations, the euro may continue to rally.

Easing tensions between the United States and North Korea bolstered EM currencies, including the UAH and RUB, as investors turned to riskier assets.

The hryvnia hit this year's high, having strengthened 0.25% to 25.6307 USD/UAH, per data from the NBU, supported by strong real GDP data in 2Q17 as Ukraine's economy grew 2.4% YoY and 0.6% QoQ SA, as well as the weak US dollar and declining liquidity in the banking sector. On Monday, the UAH sold for 25.57 USD/UAH versus 25.74 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.31% to 109.65, while in year-on-year terms, up 10.05% from 99.64 last year.

On Monday, the Russian ruble traded in 59.56 – 59.89 range, having closed at 59.87 USD/RUB, per data from the Moscow Exchange. Rising oil prices and forthcoming tax payments helped bolster the currency. Moreover, investors hope for a possible key policy rate cut in September by 25-50 bps (the current rate is 9%), which should increase demand for the ruble.

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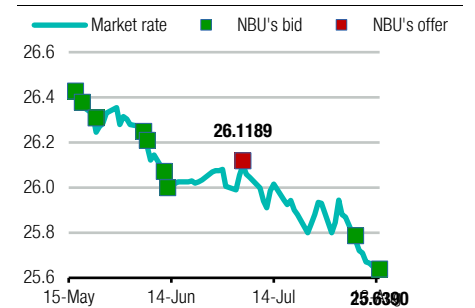
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 14 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.6225	-0.17	-0.55	-1.51	-5.45
USD ¹	93.411	+0.37	-0.02	-1.83	-8.61
EUR	1.1780	-0.35	-0.13	+2.70	+12.01
JPY	109.6300	+0.40	-1.01	-2.58	-6.27
GBP ²	1.2964	-0.38	-0.54	-1.02	+5.06
CNY	6.6712	+0.11	-0.75	-1.54	-3.94
RUB	59.8968	+0.10	-0.22	+1.50	-2.67

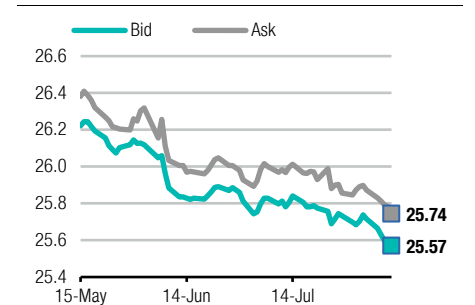
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 14 August 2017)



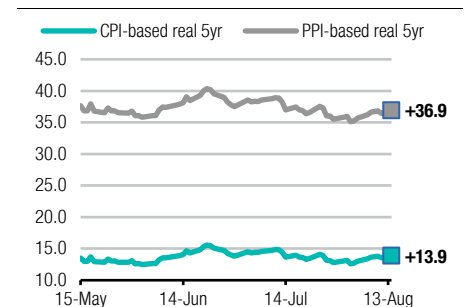
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 14 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 14 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)

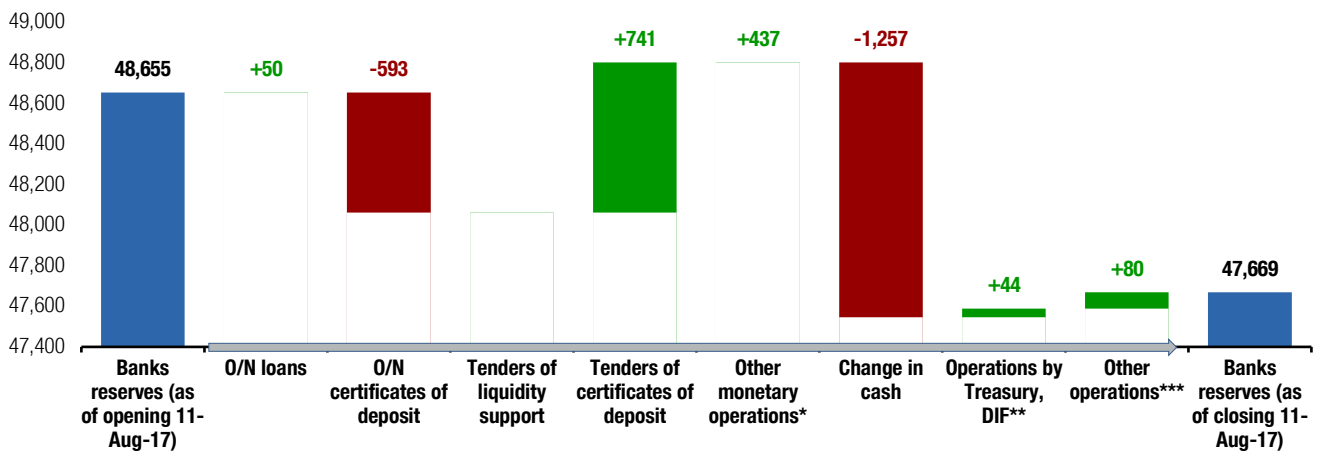
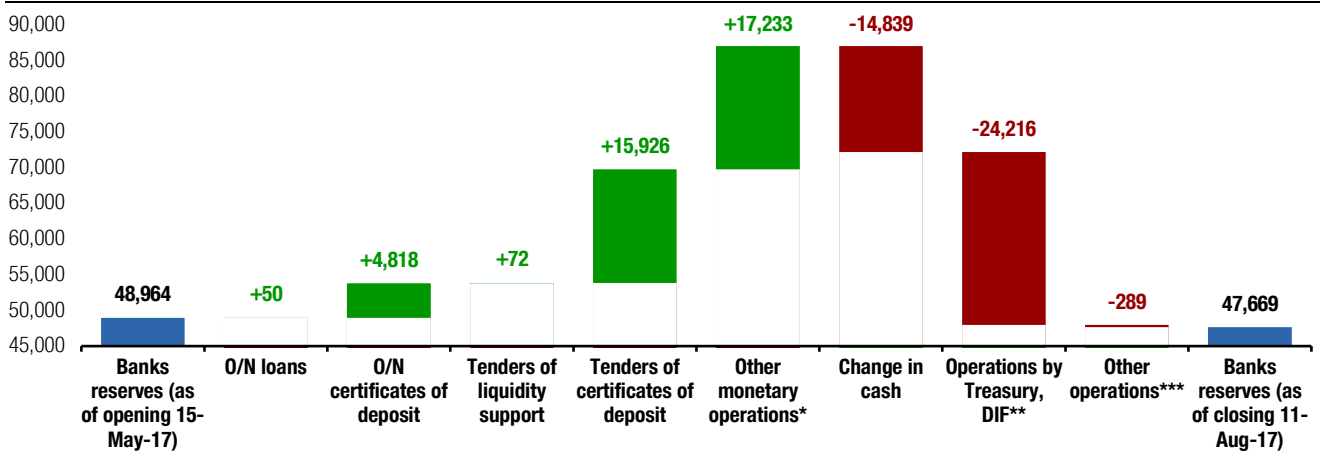
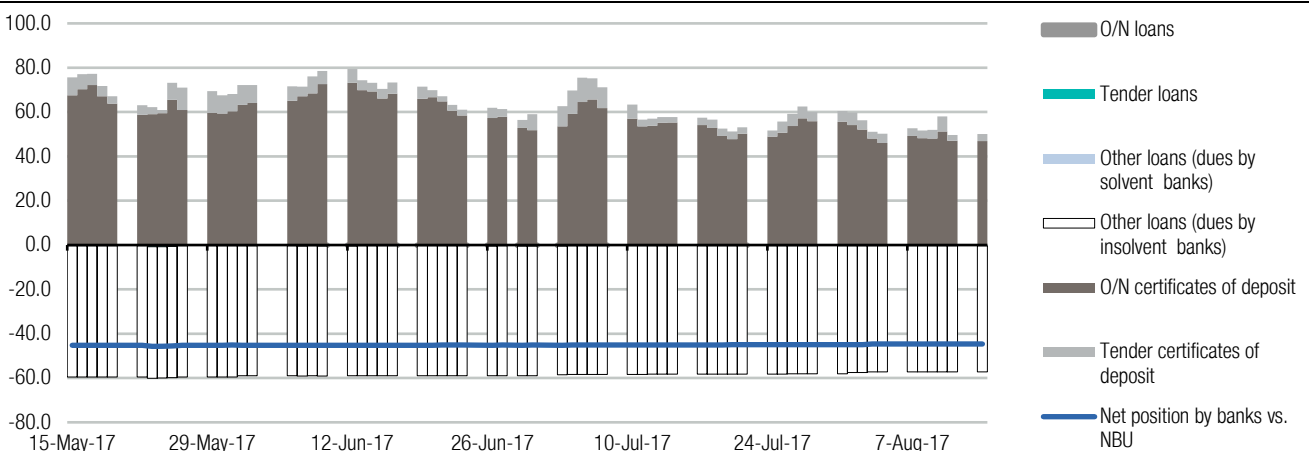


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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