

Daily Insight

USD extends gains

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As of Thursday morning, domestic liquidity (excluding UAH government bonds in financial institutions' portfolios) increased 0.3%, or UAH0.29bn, to UAH94.8bn. The volume of cash reserves and CDs at the NBU grew slightly, despite a significant input of liquidity from the NBU through the auction, when the regulator bought US\$46.2bn. The mentioned operation was offset by Treasury activity.

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USD extends gains 3

The USD strengthened significantly against other major currencies on Tuesday. Easing tensions between the United States and North Korea bolstered the USD at the beginning of the week, while Tuesday's increase resulted largely from strong macroeconomic data. According to a Department of Commerce report, US retail sales rose 0.6% MoM, above the forecast for a gain of 0.4%, the highest growth rate since the beginning of the year. Another report showed that the Empire State manufacturing index surged to 25.2 in August from 9.8 the previous month, having posted the highest level since September 2014. On the back of strong domestic data, the DXY index rose 0.5% to 93.85, while through the day it was 93.43 – 94.14.

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WEDNESDAY, 16 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 15 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 15 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	46,637	-2.17	-6.22
Deposit certificates* (UAHm)	48,163	+2.82	-22.62
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.5900	-0.13	-5.57
Total trade volume (US\$m)	N/A		
UAH index CPI-based	109.970	+0.29	+1.82
UAH index PPI-based	169.490	+0.29	+0.66

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	550bp	+0bp	-103bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,464.61	-0.05	+10.08
MSCI EM	1,052.51	-0.11	+22.06
US dollar index (DXY)	93.853	+0.47	-8.18
EUR / USD	1.1735	-0.38	+11.58
Crude oil WTI (US\$/bbl)	47.55	-0.08	-11.49
Crude oil BRENT (US\$/bbl)	50.80	+0.14	-10.59
CRB, commodities index	176.31	-0.68	-8.42
Gold (US\$/ounce)	1,271.52	-0.83	+10.35

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity stable

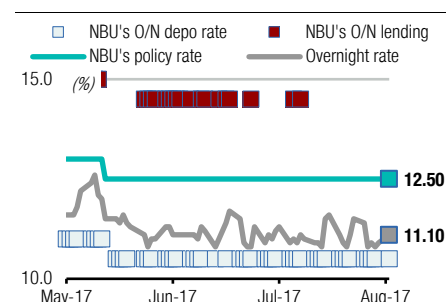
As of Thursday morning, domestic liquidity (excluding UAH government bonds in financial institutions' portfolios) increased 0.3%, or UAH0.29bn, to UAH94.8bn. The volume of cash reserves and CDs at the NBU grew slightly, despite a significant input of liquidity from the NBU through the auction, when the regulator bought US\$46.2bn. The mentioned operation was offset by Treasury activity.

Treasury operations had a negative impact on liquidity, having decreased UAH1.15bn, which was offset by the conversion of reserves into cash currency of UAH0.26bn (the first increase in eight days). Thus, autonomous non-monetary operations were negative UAH0.9bn. Banks increased investments in 14-day CDs by UAH2.3bn along with decreasing ON instruments by UAH0.97bn. Taking into account the results of the NBU's FX auction (other NBU monetary operations added UAH1.18bn), the total effect of NBU monetary operations decreasing reserves in banks' accounts amounted to UAH0.14bn. Therefore, commercial banks' correspondent accounts with the NBU declined UAH1bn. The interbank ON rate index increased 14 bp to 11.0%, remaining within the NBU's target range of 10.5-12.5%.

Investment implications: Autonomous non-monetary operations continue to have a negative impact on liquidity, mostly as a result of Treasury operations. Inversely, the conversion of reserves into cash currency had a positive impact for the first time in eight days. From the beginning of the year, liquidity decreased 15.3%, but compared to the same period last year, it contracted only 0.8%.

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Interest rates in the banks' reserves market (three months through 15 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 15 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	N/A	N/A	N/A	N/A	N/A
ON rate	N/A	N/A	N/A	N/A	N/A
ON \$ swap	11.86	+8bp	+17bp	+42bp	+39bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	46,637	-2.17	+2.91	+8.35	-6.22
DepCerts ³	48,163	+2.82	-0.23	-12.84	-22.62
Total	94,800	+0.31	+1.29	-3.56	-15.34
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	365,704	+0.00	-0.11	-1.43	+2.68
Banks	295,956	-0.04	-0.04	+0.97	+71.73
Residents	22,428	-0.38	-0.56	+4.00	+43.05
Non-res ⁴	11	-0.09	+7.05	+816.5	-99.83
Total	684,100	-0.03	-0.10	-0.23	+24.27
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.25	-19bp	+31bp	-373bp	-11ppt
3 months	11.68	-7bp	+26bp	+204bp	-10ppt
6 months	11.76	-2bp	+3bp	-124bp	-629bp
1 year	11.58	-1bp	+1bp	-20bp	-441bp
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

USD extends gains

The USD strengthened significantly against other major currencies on Tuesday. Easing tensions between the United States and North Korea bolstered the USD at the beginning of the week, while Tuesday's increase resulted largely from strong macroeconomic data. According to a Department of Commerce report, US retail sales rose 0.6% MoM, above the forecast for a gain of 0.4%, the highest growth rate since the beginning of the year. Another report showed that the Empire State manufacturing index surged to 25.2 in August from 9.8 the previous month, having posted the highest level since September 2014. On the back of strong domestic data, the DXY index rose 0.5% to 93.85, while through the day it was 93.43 – 94.14.

The USD's appreciation had a negative impact on its peers. As the USD rebounded, investors bet against the renminbi – the CNY's 1-month risk reversal rose to 0.456%, the highest level since May 24, while the Chinese currency fell 0.2% to 6.6855 USD/CNY. The euro also extended its losses on Tuesday, trading in 1.1687 – 1.1793 (2-week low) range and closed down 0.4% to 1.1735 EUR/USD. However, investors 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.

On Tuesday, the hryvnia closed up 0.1% to 25.5983 USD/UAH, hitting the year's high, as a result of an excess supply of USD in the domestic market. Ongoing weakness of the USD and Ukraine's strong real GDP data (growth of +0.6% QoQ SA or +2.4% SAAR in 2Q17) also strengthened the UAH. On Tuesday, the UAH sold for 25.54 USD/UAH versus 25.72 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.29% to 109.97, while in year-on-year terms, up 10.79% from 99.26 last year. Most notably, the daily twin gains of the UAH (versus the US dollar) and the USD (versus major global currencies as measured by DXY index) pushes the UAH's real TWI even stronger. This creates additional upward momentum for Ukraine's imports, pushing the trade deficit up slightly. Overall, the seemingly positive market momentum puts an additional negative layer onto macro fundamentals like the trade deficit. Simply put, today's UAH strength silently creates future weakness.

The Russian ruble was under influence of opposite factors on Tuesday. Declining oil prices due to concerns about possible increase in oil output in USA put some pressure on Russian currency. However, August tax period, which started on Tuesday, was supportive for the ruble. At the same time, easing tensions between USA and North Korea bolstered EM currencies. On Tuesday the ruble closed up 0.25% to 59.7125 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](#).

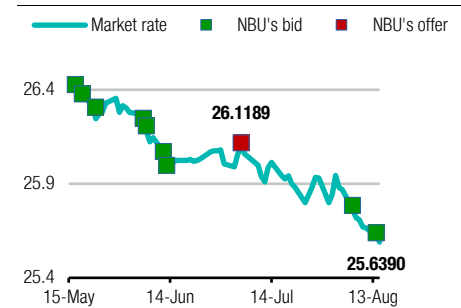
Key indicators (as of 15 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.5900	-0.13	-0.51	-1.63	-5.57
USD ¹	93.853	+0.47	+0.22	-1.37	-8.18
EUR	1.1735	-0.38	-0.14	+2.31	+11.58
JPY	110.6700	+0.95	+0.32	-1.65	-5.38
GBP ²	1.2869	-0.73	-0.95	-1.75	+4.29
CNY	6.6855	+0.21	-0.31	-1.33	-3.74
RUB	59.7059	-0.32	-0.27	+1.17	-2.98

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

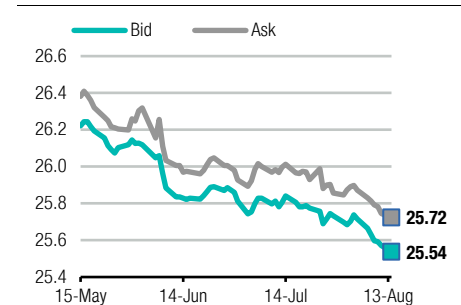
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 15 August 2017)



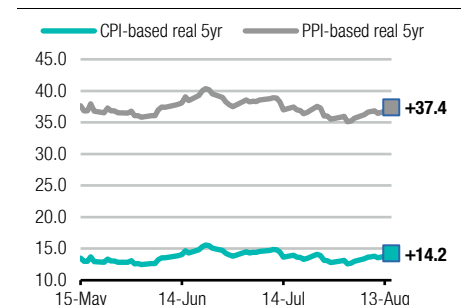
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 15 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 15 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)

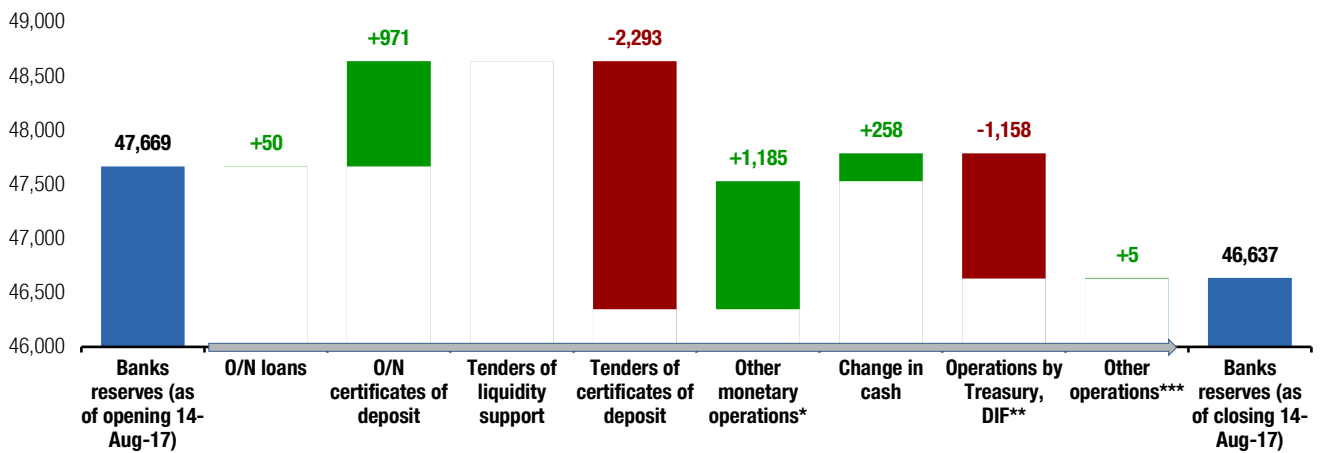
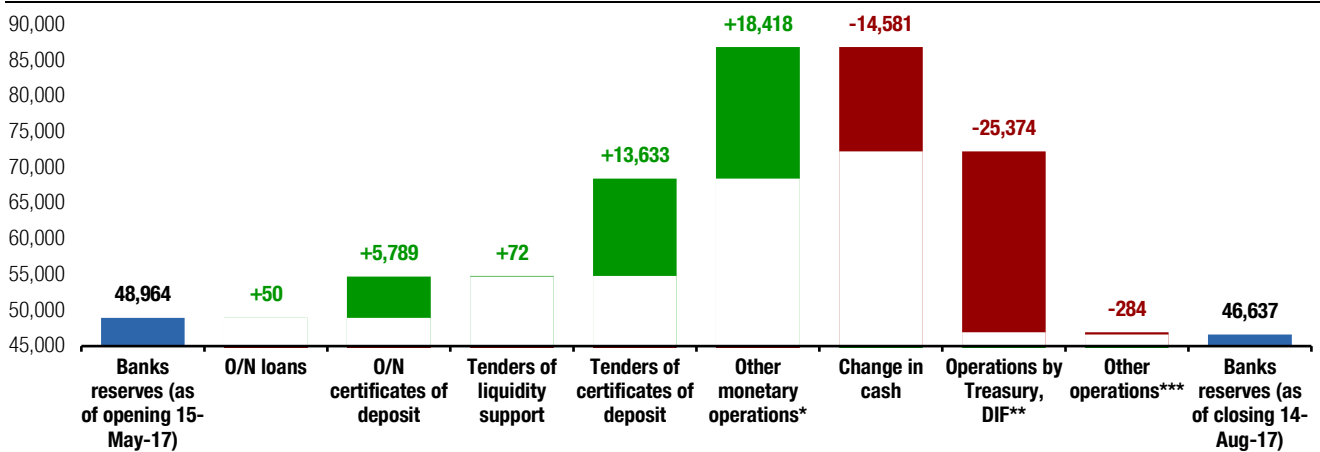
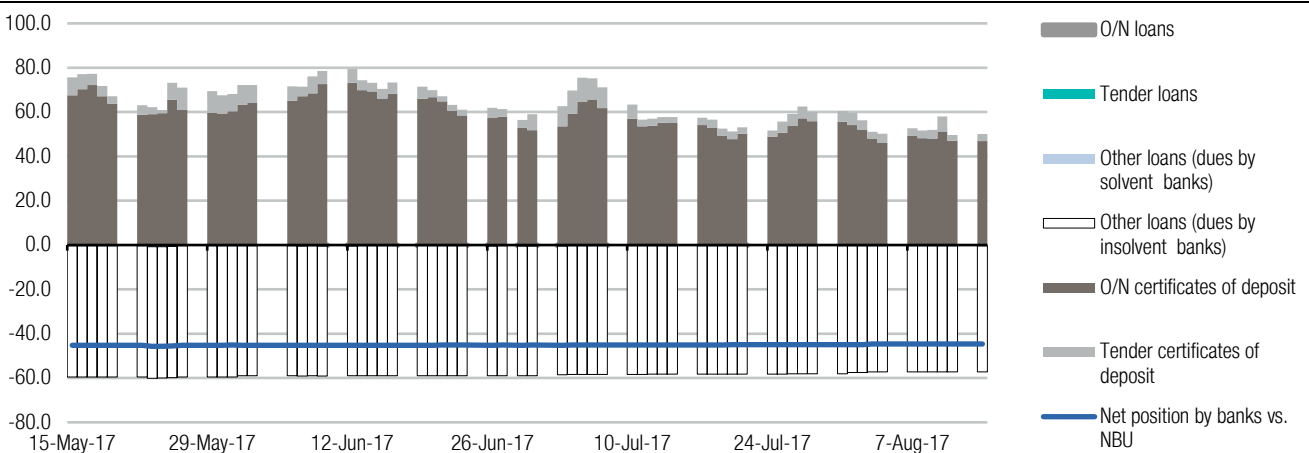


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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