



Focus
Ukraine

Markets
**Money & bond markets,
FX market, macroeconomics**

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Daily Insight

Liquidity hits year's low

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As of Thursday morning, banking sector liquidity fell a significant UAH2.55bn, or 2.7%, to the new year's low of UAH92.1bn. Banks investments in CDs significantly decreased as reserves with the NBU rose slightly, primarily as a result of Treasury operations. The NBU provided no other monetary operations.

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The hryvnia retained its upward trend, having strengthened for the eleventh straight trading session, closing up 0.26% to 25.5064 USD/UAH on Thursday. One of the reasons of such ongoing appreciation (together with the weak US dollar in the global FX markets) is second quarter tax payments which started at the end of last week. Considering the Treasury's relatively small UAH1.4bn in VAT refunds since the beginning of the month and exporters' needing hryvnia to make tax payments, foreign currency sales cause additional demand for hryvnia, thus pushing the currency higher. The NBU tried to dampen volatility via the auction and bought US\$44m, having prevented the hryvnia from appreciating further. The UAH sold for 25.48 USD/UAH versus 25.68 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.16% to 110, while in year-on-year terms, up 11.4% from 98.73 last year.

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THURSDAY, 18 AUGUST 2017

**Ukraine's hryvnia exchange rate per US dollar
(three months through 30 November 2016)**



Source: Bloomberg.

**Selected indicators of the financial markets
(three months through 17 August 2017)**

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.50	+10bp	+90bp
Banks reserves (UAHm)	48,923	+1.00	-1.63
Deposit certificates* (UAHm)	43,173	-6.57	-30.63

FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.5300	-0.08	-5.79
Total trade volume (US\$m)	232.62	-22.16	+37.15
UAH index CPI-based	110.016	+0.16	+1.87
UAH index PPI-based	169.561	+0.16	+0.71

UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	550bp	+0bp	-103bp

GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,430.01	-1.54	+8.54
MSCI EM	1,063.32	+0.29	+23.32
US dollar index (DXY)	93.622	+0.09	-8.40
EUR / USD	1.1723	-0.37	+11.47
Crude oil WTI (US\$/bbl)	47.09	+0.66	-12.34
Crude oil BRENT (US\$/bbl)	51.03	+1.51	-10.19
CRB, commodities index	175.89	+0.30	-8.64
Gold (US\$/ounce)	1,288.06	+0.37	+11.78

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity hits year's low

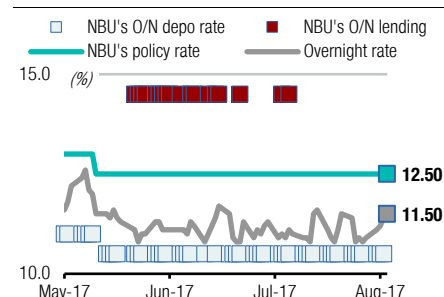
As of Thursday morning, banking sector liquidity fell a significant UAH2.55bn, or 2.7%, to the new year's low of UAH92.1bn. Banks investments in CDs significantly decreased as reserves with the NBU rose slightly, primarily as a result of Treasury operations. The NBU provided no other monetary operations.

Banks decreased investments in 14-day CDs by UAH2.6bn and by UAH0.42bn in ON CDs. The total effect of NBU monetary operations increasing reserves in bank's accounts was almost UAH3bn. The autonomous non-monetary operational deficit amounted to UAH2.5bn, including UAH2.49bn from the Treasury and UAH0.04bn from the conversion of reserves into cash currency. Commercial banks' correspondent accounts with the NBU increased UAH0.48bn. The interbank ON rate index increased 11bp to 11.2%, remaining within the NBU's target range of 10.5-12.5%.

ICU view: *The significant decrease of liquidity (excluding government bonds) was due to Treasury operations. This outflow also included UAH1.2bn in payments on government bond settlements against debt repayments of UAH0.2bn. Despite this, correspondent accounts with the NBU grew because of the reallocation of funds from CDs. Lately, the trend is for the Treasury to absorb funds replenished by the NBU and vice versa. Yesterday, liquidity remained under the pressure of quarterly tax payments, but received some compensation the UAH1.1bn raised at FX auctions and the UAH0.28bn VAT refund. This should slow the decline of liquidity.*

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Interest rates in the banks' reserves market (three months through 17 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 17 August 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTI chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.50	+10bp	+70bp	+60bp	+90bp
ON \$ swap	12.22	+21bp	+89bp	+85bp	+75bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	48,923	+1.00	+14.56	+9.56	-1.63
DepCerts ³	43,173	-6.57	-15.85	-20.30	-30.63
Total	92,096	-2.69	-2.03	-6.80	-17.75
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	364,685	-0.28	-0.28	-1.70	+2.40
Banks	296,429	+0.20	+0.12	+1.09	+72.00
Residents	22,459	+0.16	-0.59	+4.09	+43.25
Non-res ⁴	471	+4,148.2	+4,456.3	+35,058.2	-92.58
Total	684,044	+0.01	-0.05	-0.26	+24.26
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.50	-92bp	-50bp	-375bp	-11ppt
3 months	11.65	-20bp	-5bp	-11ppt	-10ppt
6 months	11.90	+6bp	-5bp	-308bp	-614bp
1 year	11.63	-5bp	+0bp	-221bp	-436bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	550	+0bp	+0bp	-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 continues to rally

The hryvnia retained its upward trend, having strengthened for the eleventh straight trading session, closing up 0.26% to 25.5064 USD/UAH on Thursday. One of the reasons of such ongoing appreciation (together with the weak US dollar in the global FX markets) is second quarter tax payments which started at the end of last week. Considering the Treasury's relatively small UAH1.4bn in VAT refunds since the beginning of the month and exporters' needing hryvnia to make tax payments, foreign currency sales cause additional demand for hryvnia, thus pushing the currency higher. The NBU tried to dampen volatility via the auction and bought US\$44m, having prevented the hryvnia from appreciating further. The UAH sold for 25.48 USD/UAH versus 25.68 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.16% to 110, while in year-on-year terms, up 11.4% from 98.73 last year.

The USD was under the influence of different data. Strong employment statistics fed into the US dollar's strength in the first part of the trading session. However, the USD trimmed gains against other major currencies on the back of political turmoil and the Federal Reserve minutes. According to the latest report, Fed members are divided in the need to raise the key policy rate further this year. The DXY index was in the 93.31 – 94.08 range, having closed up 0.1% to 93.62.

The Russian currency was fueled by rising oil prices. US oil inventories fell 8.9 million barrels last week, more than double the forecast. The ruble was also supported by tax payments and increasing interest in carry trade operations by investors. Thus, the Russian currency closed up 0.26% to 59.225 USD/RUB.

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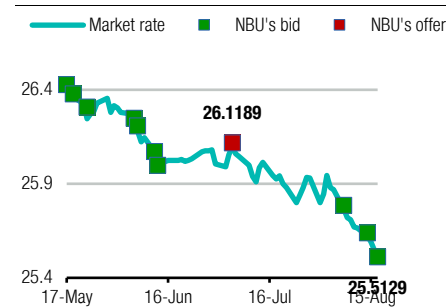
Key indicators (as of 17 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.5300	-0.08	-0.55	-1.60	-5.79
USD ¹	93.622	+0.09	+0.24	-1.58	-8.40
EUR	1.1723	-0.37	-0.42	+2.13	+11.47
JPY	109.5700	-0.56	+0.34	-2.72	-6.32
GBP ²	1.2868	-0.18	-0.84	-1.43	+4.28
CNY	6.6755	-0.24	+0.43	-1.40	-3.88
RUB	59.2184	-0.28	-1.51	-0.20	-3.77

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

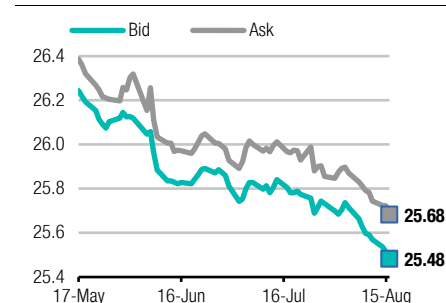
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 17 August 2017)



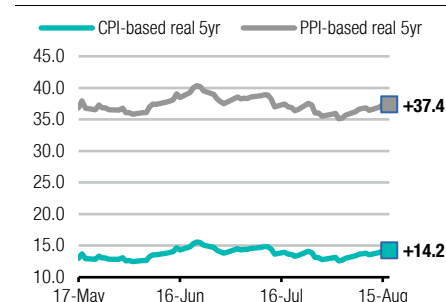
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 17 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 17 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)

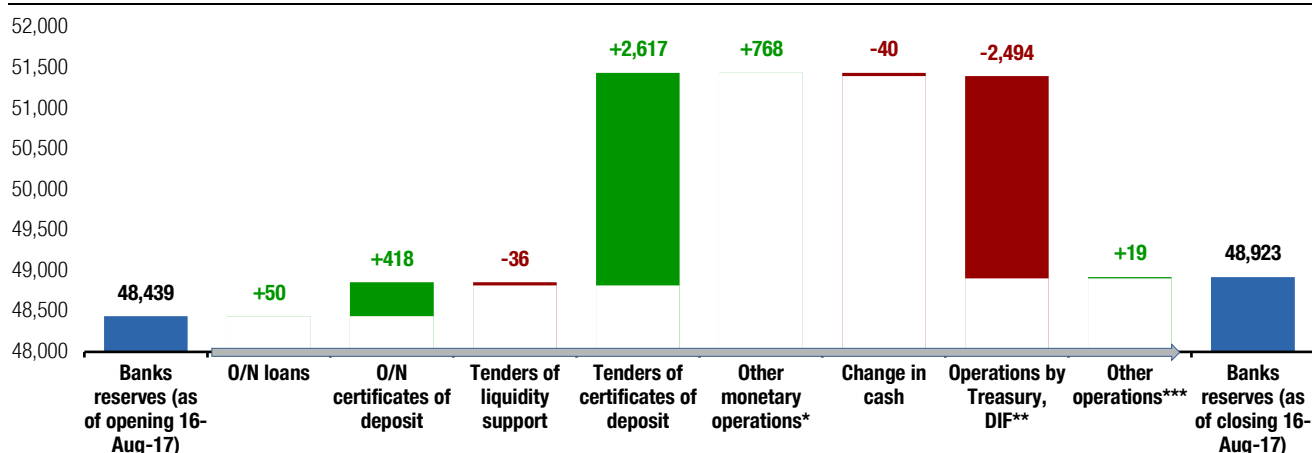
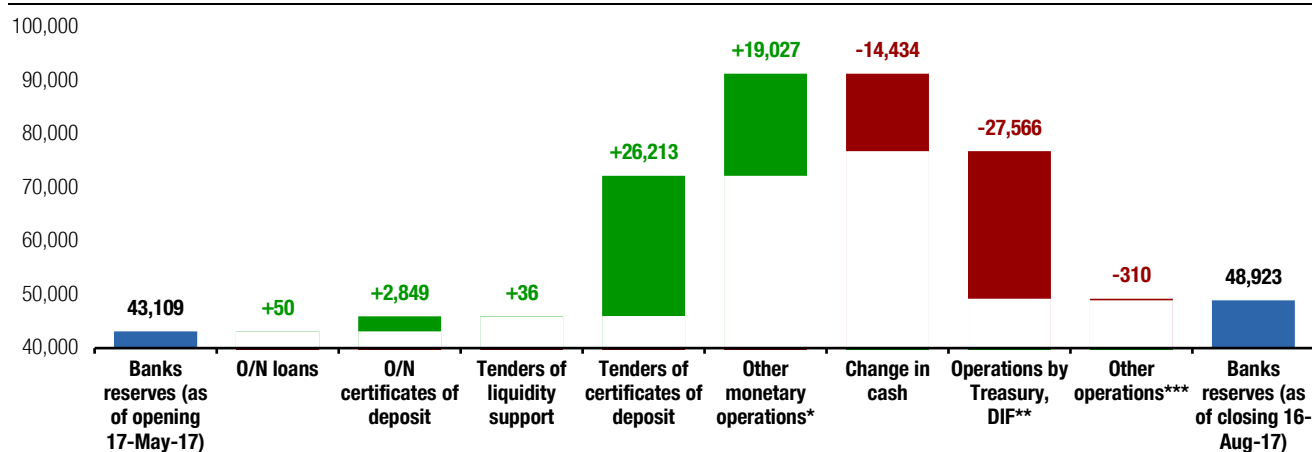


Chart 2. Banks reserves usages over last 90-day period (UAHm)

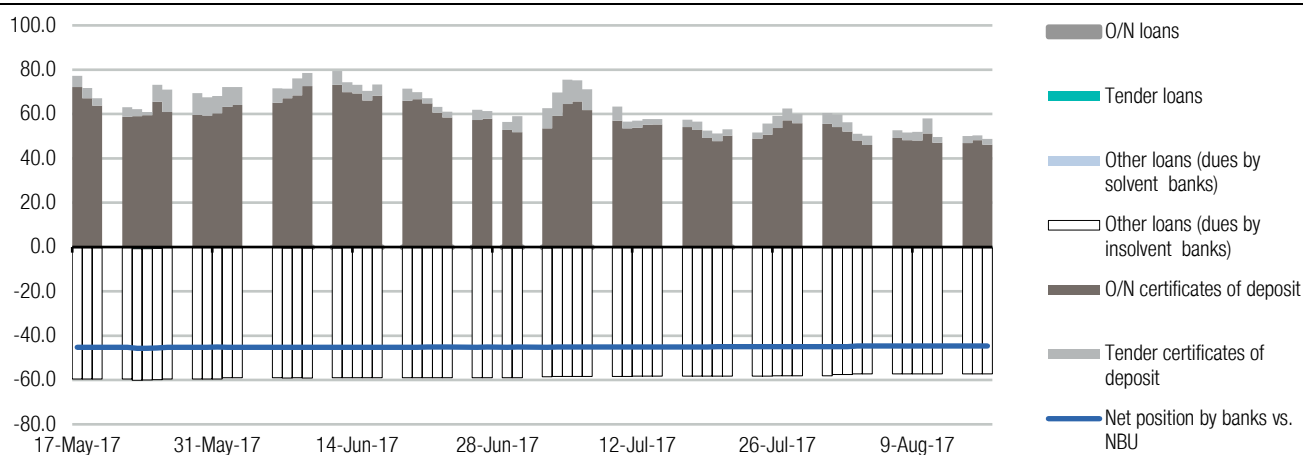


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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