

# Daily Insight

## Liquidity down significantly

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Last week, liquidity outflows to Treasury accounts rose significantly as budget revenues on Thursday and Friday amounted to nearly UAH20bn, which caused liquidity (excluding government bonds) to fall to this year's low of UAH79.53bn, not seen since the beginning of December 2016. According to the NBU, the net balance of Treasury's operations (revenues minus expenditures, including VAT refunds) was UAH13.83bn. 2

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##### Hryvnia hits new year's high ..... 3

Continuing its gradual climb versus the dollar, the hryvnia strengthened another 0.06% to UAH 25.4904 on Saturday, per data from the NBU, thanks to several factors. The current US dollar's weakness bolsters EM currencies, of which the hryvnia is one. It is bolstered thanks to domestic factors such as second quarter tax payments. As liquidity in the banking sector continues to decline and exporters need the hryvnia to make tax payments, demand for the hryvnia increases, pushing it higher. This week, we expect it to retreat slightly as 2Q17 tax payments conclude, while August monthly tax payments begin in a week. The UAH sold for 25.42 USD/UAH versus 25.61 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index remained at 110.02; in year-on-year terms, it is up 12.27% from 97.99 last year. 3

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MONDAY, 21 AUGUST 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 18 August 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 18 August 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.60	+10bp	+100bp
Banks reserves (UAHm)	48,923	+0.00	-1.63
Deposit certificates* (UAHm)	44,914	+4.03	-27.84
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	25.4700	-0.24	-6.01
Total trade volume (US\$m)	148.11	-36.33	-12.68
UAH index CPI-based	110.017	+0.00	+1.87
UAH index PPI-based	169.562	+0.00	+0.71
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	548bp	-2bp	-105bp

<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,425.55	-0.18	+8.34
MSCI EM	1,059.54	-0.36	+22.88
US dollar index (DXY)	93.434	-0.20	-8.59
EUR / USD	1.1761	+0.32	+11.83
Crude oil WTI (US\$/bbl)	48.51	+3.02	-9.70
Crude oil BRENT (US\$/bbl)	52.72	+3.31	-7.22
CRB, commodities index	177.50	+0.92	-7.80
Gold (US\$/ounce)	1,283.95	-0.32	+11.43

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity down significantly

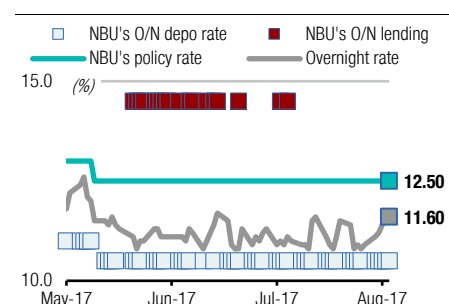
Last week, liquidity outflows to Treasury accounts rose significantly as budget revenues on Thursday and Friday amounted to nearly UAH20bn, which caused liquidity (excluding government bonds) to fall to this year's low of UAH79.53bn, not seen since the beginning of December 2016. According to the NBU, the net balance of Treasury's operations (revenues minus expenditures, including VAT refunds) was UAH13.83bn.

The significant absorption of funds caused reserves and CDs outstanding to decline last week. Banks' correspondent accounts with the NBU fell UAH8.53bn to UAH40.40bn on Friday evening, while total CDs outstanding declined UAH4.04bn. Inflows from the NBU were a paltry UAH1.3bn, including UAH1.12bn from last Thursday's FX auction. Banks did not raise additional funds from NBU bond auctions.

**ICU view:** Quarterly tax payments caused the significant liquidity decline last week, and we could see it sit at this level for at least the next two weeks, possibly going even lower soon. The situation could remain the same, regardless, as banks did not seek loans from the NBU. Moreover, month-end tax payments, which begin this week, should increase pressure on liquidity. The main source for support and a possible recovery could be a VAT refund which routinely occurs at the end of the month. Although the average monthly VAT refund is normally UAH10bn, this month it is currently about UAH1.6bn. Additional funds could be provided by the NBU via FX purchasing.

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## Interest rates in the banks' reserves market (three months through 18 August 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 18 August 2017)

	Last	Daily	Weekly	Monthly	Y'
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	12.50	+0bp	+0bp	+0bp	-150b
ON rate	11.60	+10bp	+70bp	+60bp	+100b
ON \$ swap	12.58	+13bp	+98bp	+118bp	+110b
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	48,923	+0.00	+0.55	+4.82	-1.6
DepCerts <sup>3</sup>	44,914	+4.03	-4.42	-14.91	-27.8
<b>Total</b>	<b>93,837</b>	<b>+1.89</b>	<b>-1.89</b>	<b>-5.65</b>	<b>-16.2</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	364,685	+0.00	-0.28	-1.70	+2.4
Banks	305,010	-0.02	+3.00	+4.04	+76.9
Residents	22,584	+0.10	+0.48	+4.80	+44.1
Non-res <sup>4</sup>	471	+0.00	+4,319.5	+33,077.5	-92.5
<b>Total</b>	<b>692,751</b>	<b>-0.01</b>	<b>+1.23</b>	<b>+1.02</b>	<b>+25.8</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	11.16	-34bp	-4bp	-362bp	-11pp
3 months	11.86	+21bp	+49bp	+155bp	-10pp
6 months	11.84	-6bp	+3bp	-104bp	-621b
1 year	11.67	+4bp	+1bp	-4bp	-432b
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	548	-2bp	-2bp	-37bp	-105b

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 new year's high

Continuing its gradual climb versus the dollar, the hryvnia strengthened another 0.06% to UAH 25.4904 on Saturday, per data from the NBU, thanks to several factors. The current US dollar's weakness bolsters EM currencies, of which the hryvnia is one. It is bolstered thanks to domestic factors such as second quarter tax payments. As liquidity in the banking sector continues to decline and exporters need the hryvnia to make tax payments, demand for the hryvnia increases, pushing it higher. This week, we expect it to retreat slightly as 2Q17 tax payments conclude, while August monthly tax payments begin in a week. The UAH sold for 25.42 USD/UAH versus 25.61 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index remained at 110.02; in year-on-year terms, it is up 12.27% from 97.99 last year.

The greenback traded lower against a basket of other major currencies on the back of political turmoil. On Friday, Donald Trump said he decided to remove Steve Bannon from his post as chief White house advisor. This decision followed the disbandment of two economic councils this week. The current political situation in the White House raises concerns about Trump's ability to conduct his pro-growth economic reforms, causing uncertainty which pushes sentiment and the US dollar down. The DXY index fell 0.2% to 93.43.

The Russian currency continued to fall against the dollar, but a turnaround in oil prices by the end of Friday trading provided relief. The ruble was also supported by peak tax payments and rising interest in carry trade operations by investors. The ruble closed up 0.45% to 58.295 USD/RUB.

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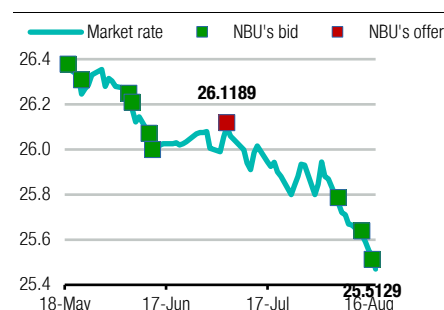
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 18 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.4700	-0.24	-0.76	-1.76	-6.01
USD <sup>1</sup>	93.434	-0.20	+0.39	-1.24	-8.59
EUR	1.1761	+0.32	-0.51	+1.79	+11.83
JPY	109.1800	-0.36	-0.01	-2.58	-6.65
GBP <sup>2</sup>	1.2870	+0.02	-1.11	-1.30	+4.29
CNY	6.6704	-0.08	+0.10	-1.13	-3.95
RUB	58.9523	-0.45	-1.48	-0.88	-4.20

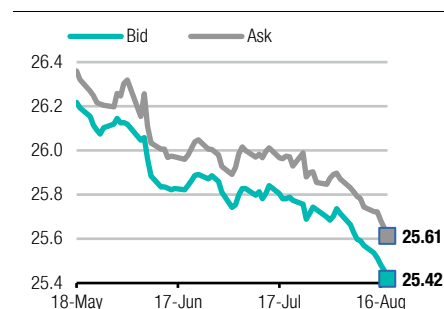
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 18 August 2017)



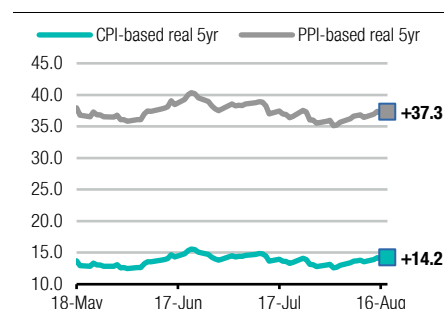
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 18 August 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 18 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)

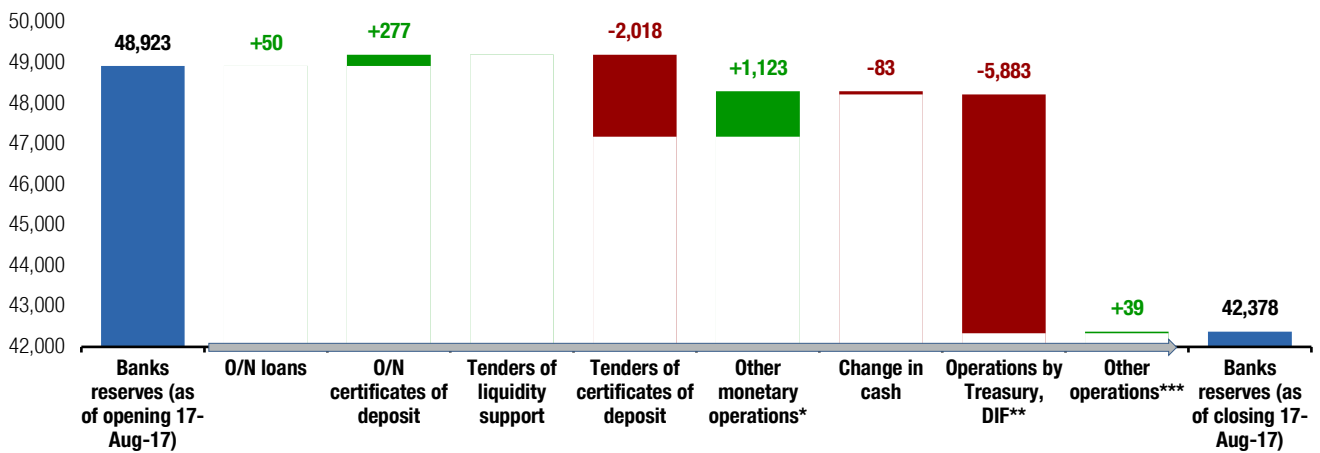
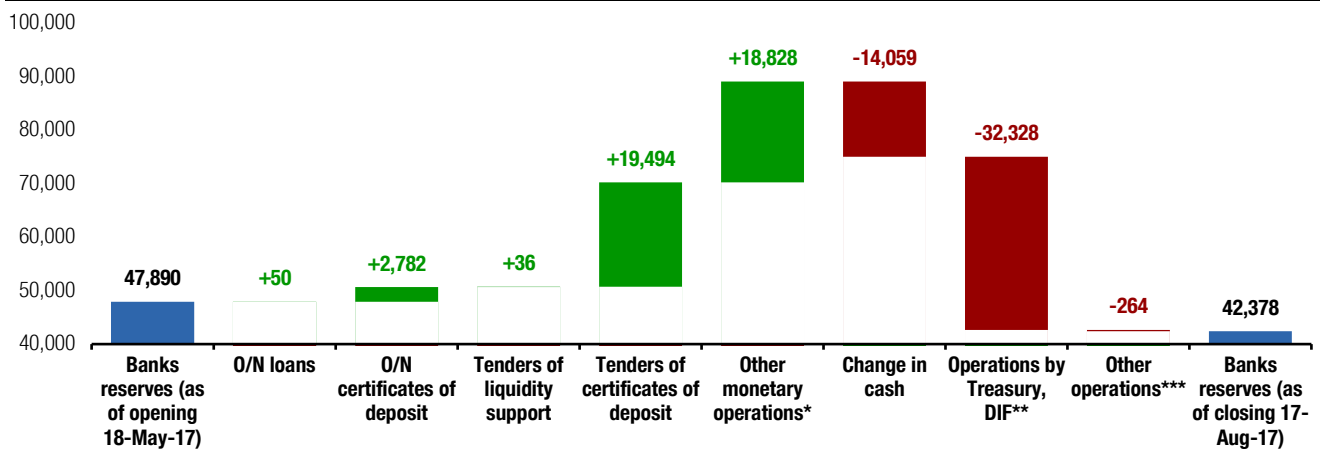
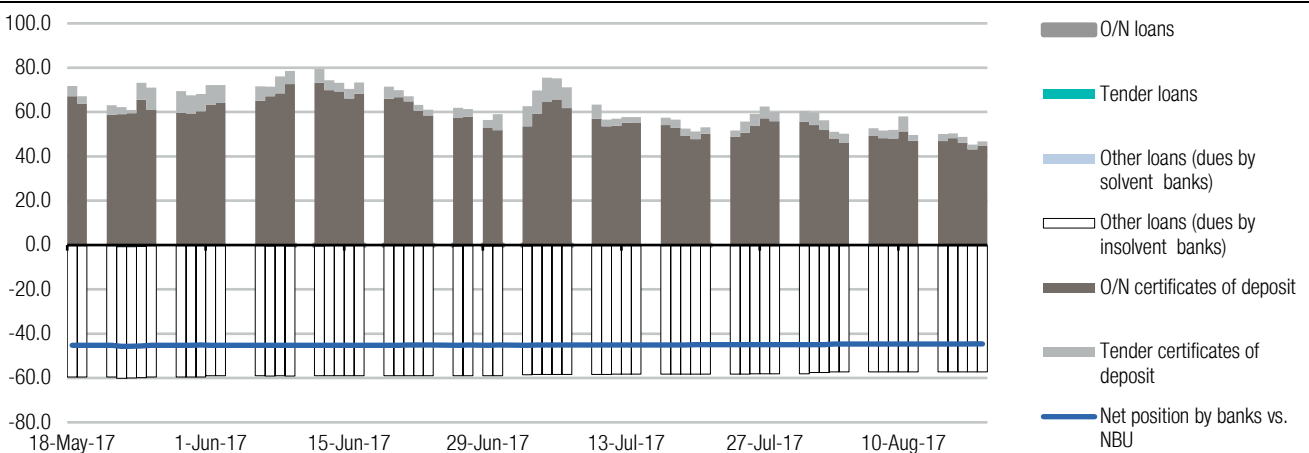


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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