

Daily Insight

Hryvnia continues to rise

Key messages of the today's comments

Domestic liquidity **2**

Liquidity recovers slightly2

Following the prolonged decrease of liquidity, fund flows with the Treasury reversed direction on Saturday as it collected nearly UAH3bn of revenues, causing liquidity to rise UAH1.31bn. Banks also converted cash into reserves, increasing the impact of non-monetary operations to UAH1.67bn, causing banking sector liquidity to go up UAH1.67bn to UAH81.20bn. **2**

11-month bond to be offered2

After consulting with primary dealers, the MoF today will offer only an 11-month bond with redemption in July 2018. This issue is a re-opening of a previously offered and quite popular bond, possibly because of its coupon payments which attracts more investors. **2**

Foreign exchange markets **3**

Hryvnia continues to rise3

As the US dollar continues to weaken globally, the hryvnia, along with higher domestic demand due to tax payments and decreased liquidity, continues to strengthen. However, growing cash reserves and greater CDs outstanding (with the NBU buying US\$51m) have increased liquidity. Following the trade day on Monday, the hryvnia rose 0.2% to 25.4432 UAH/USD and 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, up 12.27% from 97.99 last year. **3**

Appendix #1: Domestic liquidity **4**

TUESDAY, 22 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 21 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 21 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)	41,191	+1.97	-17.17
Deposit certificates* (UAHm)	40,007	+2.24	-35.72
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.4875	+0.07	-5.95
Total trade volume (US\$m)	N/A		
UAH index CPI-based	109.721	-0.27	+1.59
UAH index PPI-based	169.107	-0.27	+0.44
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	550bp	+2bp	-103bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,428.37	+0.12	+8.47
MSCI EM	1,063.66	+0.39	+23.36
US dollar index (DXY)	93.095	-0.36	-8.92
EUR / USD	1.1815	+0.46	+12.34
Crude oil WTI (US\$/bbl)	47.37	-2.35	-11.82
Crude oil BRENT (US\$/bbl)	51.66	-2.01	-9.08
CRB, commodities index	176.55	-0.53	-8.29
Gold (US\$/ounce)	1,291.88	+0.62	+12.12

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity recovers slightly

Following the prolonged decrease of liquidity, fund flows with the Treasury reversed direction on Saturday as it collected nearly UAH3bn of revenues, causing liquidity to rise UAH1.31bn. Banks also converted cash into reserves, increasing the impact of non-monetary operations to UAH1.67bn, causing banking sector liquidity to go up UAH1.67bn to UAH81.20bn.

Banks divided these funds between reserves and investments in CDs, leaving UAH0.79bn of funds at banks' correspondent accounts with the NBU and investing UAH0.88bn of additional funds into CDs, preferring ON instruments, at UAH0.60bn. Banks' correspondent accounts with the NBU rose to UAH41.19bn while total CDs outstanding increased to UAH40.01bn.

ICU view: After falling over such a prolonged period, Saturday's liquidity recovery was minor at best and most likely will be short-lived. Yesterday the NBU supported liquidity via a FX auction, purchasing more than US\$50m. However, the most important source for liquidity recovery could be VAT refunds, which usually amount to around UAH10bn every month, but in August it has amounted to less than UAH2bn until yesterday. Although month-end tax payments begin this week, we anticipate neither a fast nor significant recovery in liquidity.

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11-month bond to be offered

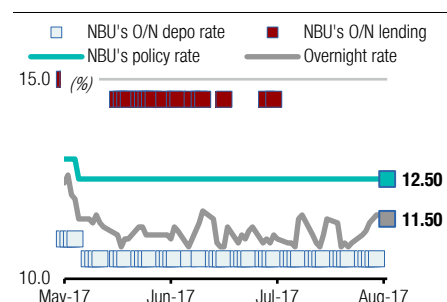
After consulting with primary dealers, the MoF today will offer only an 11-month bond with redemption in July 2018. This issue is a re-opening of a previously offered and quite popular bond, possibly because of its coupon payments which attracts more investors.

This bond was sold last week, placing UAH600m par value, at 14.40% (provided YTM at 14.96%). This is only 15bp less than the 2-year bond and 111bp more than the 6-month bond.

ICU view: We do not expect significant demand due to low liquidity, significant budget outflows last week, and minimal debt repayments to the market tomorrow. We project about UAH200m could be invested in the new bond from debt repayments, and possibly some new funds.

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Interest rates in the banks' reserves market (three months through 21 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 21 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.50	-10bp	+40bp	+50bp	+90bp
ON \$ swap	12.88	-15bp	+127bp	+128bp	+141bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	41,191	+1.97	-13.59	-12.24	-17.17
DepCerts ³	40,007	+2.24	-14.59	-20.44	-35.72
Total	81,198	+2.10	-14.09	-16.48	-27.48
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	364,685	+0.00	-0.28	-0.88	+2.40
Banks	304,966	+0.01	+3.00	+4.15	+76.96
Residents	22,587	-0.09	+0.32	+4.11	+44.06
Non-res ⁴	471	+0.00	+4.1k	+38.2k	-92.58
Total	692,708	+0.00	+1.23	+1.51	+25.83
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.02	-14bp	-42bp	-407bp	-11ppt
3 months	11.59	-28bp	-16bp	+46bp	-10ppt
6 months	11.69	-15bp	-8bp	-126bp	-635bp
1 year	11.60	-7bp	+1bp	-18bp	-439bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	550	+2bp	+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 rise

As the US dollar continues to weaken globally, the hryvnia, along with higher domestic demand due to tax payments and decreased liquidity, continues to strengthen. However, growing cash reserves and greater CDs outstanding (with the NBU buying US\$51m) have increased liquidity. Following the trade day on Monday, the hryvnia rose 0.2% to 25.4432 UAH/USD and sold for 25.38 USD/UAH versus 25.55 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index decreased 0.27% to 109.72; in year-on-year terms, up 11.97% from 97.99 last year.

On Monday, the USD continues to fall against other major currencies on the back of political unease. Terrorists attacks in Europe fuel concerns about geopolitical stability. Rising doubts about the Fed's decision on the third rate hike this year amid weak inflation also weighs on the dollar. By the end of Monday, the DXY traded within 93 - 93.58 and finished the day at 93.095, having depreciated 0.4%. The euro traded within 1.1731 - 1.1828 and appreciated 0.5%, finishing the day at 1.1815.

On Monday, the ruble was pretty volatile and traded within 58.93-59.22. After increasing on Friday, it fell slightly. However, although oil prices fell precipitously, the ruble declined far less dramatically, appearing to hold its own. On Monday, the USD/RUB pair finished the day at 59.15, down 0.2%.

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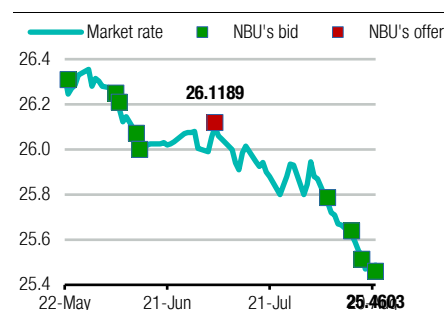
Key indicators (as of 21 August 2017)

	Last	Daily	Weekly	Monthly	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.4875	+0.07	-0.53	-1.52	-5.95
USD ¹	93.095	-0.36	-0.34	-0.81	-8.92
EUR	1.1815	+0.46	+0.30	+1.30	+12.34
JPY	108.9800	-0.18	-0.59	-1.93	-6.82
GBP ²	1.2900	+0.23	-0.49	-0.75	+4.54
CNY	6.6660	-0.07	-0.08	-1.49	-4.02
RUB	59.1453	+0.33	-1.25	-0.36	-3.89

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

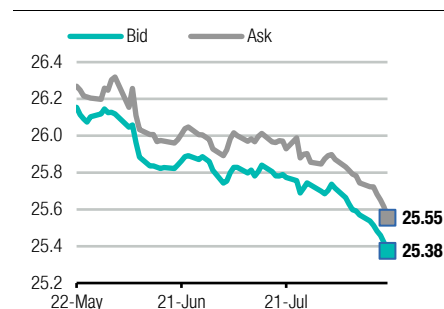
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 21 August 2017)



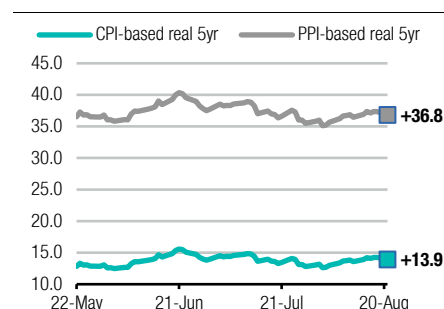
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 21 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 21 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)

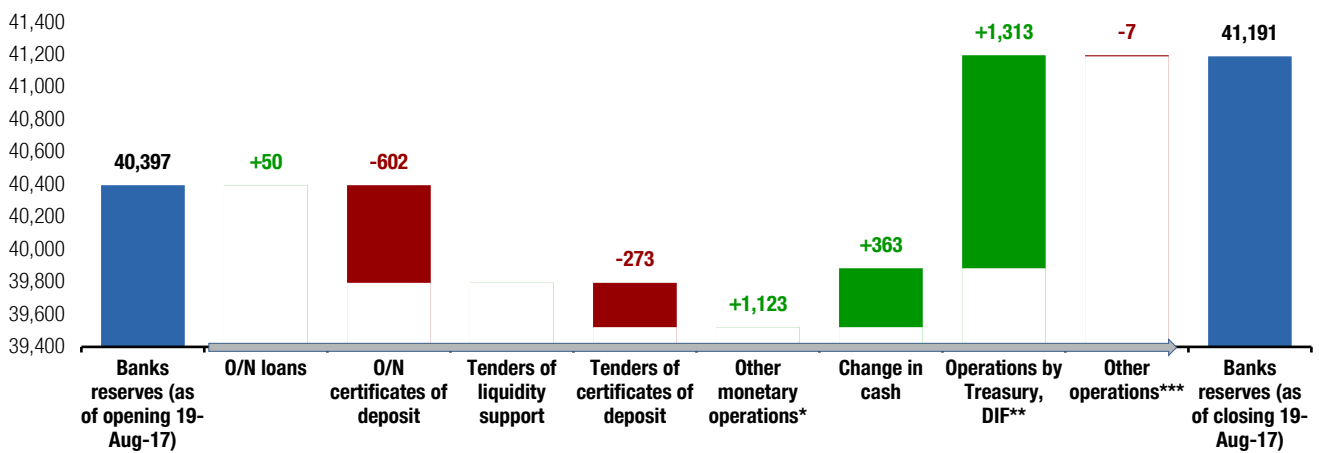
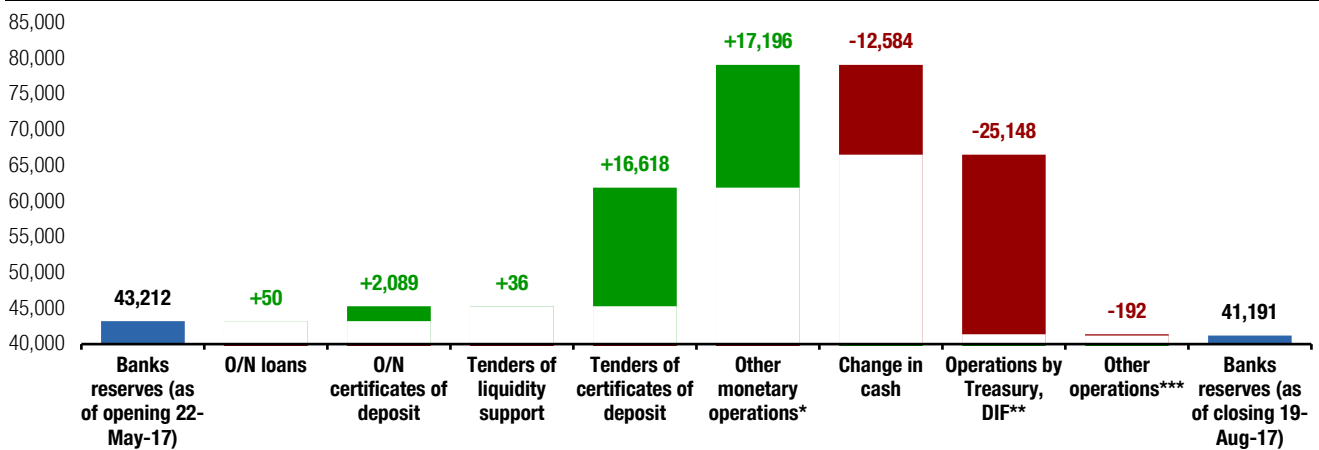
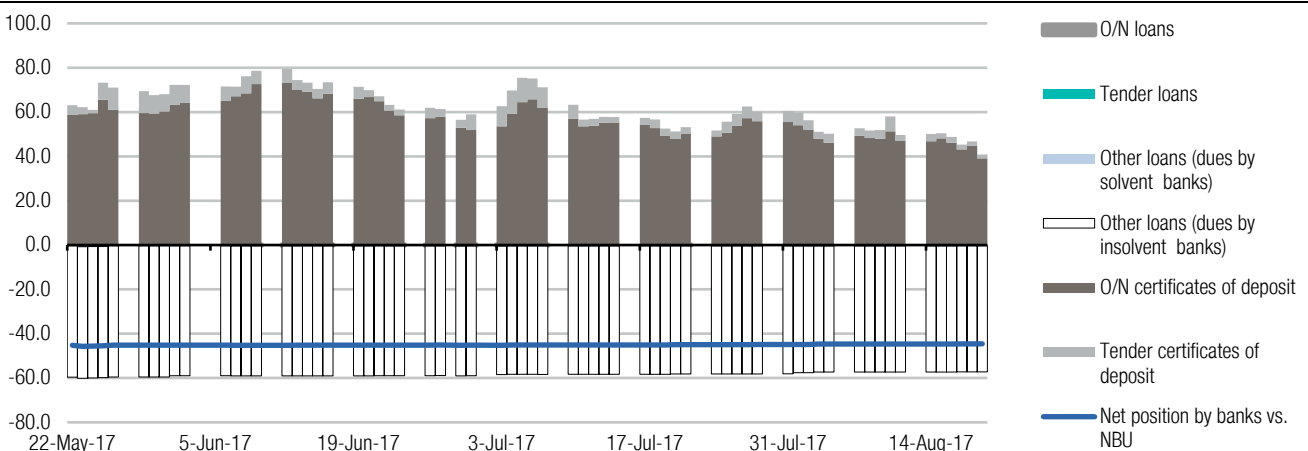


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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