

Daily Insight

Hryvnia retreats

Key messages of the today's comments

MONDAY, 28 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 23 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 23 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.60	+10bp	+100bp
Banks reserves (UAHm)	48,092	+8.99	-3.30
Deposit certificates* (UAHm)	36,728	-3.44	-40.99
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.5550	+0.37	-5.70
Total trade volume (US\$m)	187.76	+0.65	+10.70
UAH index CPI-based	109.373	-0.57	+1.27
UAH index PPI-based	168.570	-0.57	+0.12

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	527bp	+7bp	-126bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,443.05	+0.17	+9.12
MSCI EM	1,075.60	+0.29	+24.74
US dollar index (DXY)	93.147	-0.43	-8.87
EUR / USD	1.1807	+0.38	+12.27
Crude oil WTI (US\$/bbl)	48.41	+1.21	-9.88
Crude oil BRENT (US\$/bbl)	52.57	+1.35	-7.48
CRB, commodities index	177.58	+0.48	-7.75
Gold (US\$/ounce)	1,290.95	+0.45	+12.04

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

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Liquidity up on VAT refund

The Treasury paid a UAH7.22bn VAT refund on Tuesday, increasing the total amount of refunds to UAH9.54 this month, which is close to the historical monthly average. Tuesday's net positive impact on liquidity from the Treasury amounted to UAH3.35bn. However, after two days of exchanging cash into reserves, on Tuesday banks exchanged UAH0.69bn of reserves into cash. The impact of non-monetary operations was UAH2.66bn.

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Foreign exchange markets

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Hryvnia retreats

Over the last several weeks, the hryvnia was supported by a weak US dollar and second quarter tax payments which caused a significant appreciation of the Ukrainian currency. However, on Wednesday the hryvnia dropped 0.4% to 25.5456 USD/UAH due to some correction in USD/UAH as the US dollar stabilized and domestic tax payments concluded. In addition, liquidity in the banking sector increased as bank reserves added UAH3.97bn up to UAH48.09bn. The UAH sold for 25.36 USD/UAH versus 25.57 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.57% to 109.37; in year-on-year terms, it is up 11.62% from 97.99 last year. In our view, the hryvnia will remain near 25.6 USD/UAH in the beginning of the week as the August tax payments start on Monday. However, the hryvnia's CPI-based real trade-weighted index shows that the Ukrainian currency is overvalued, thus we expect the UAH to depreciate in the mid-term.

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Appendix #1: Domestic liquidity

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Domestic liquidity

Liquidity up on VAT refund

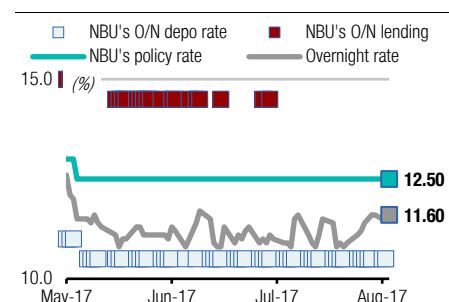
The Treasury paid a UAH7.22bn VAT refund on Tuesday, increasing the total amount of refunds to UAH9.54 this month, which is close to the historical monthly average. Tuesday's net positive impact on liquidity from the Treasury amounted to UAH3.35bn. However, after two days of exchanging cash into reserves, on Tuesday banks exchanged UAH0.69bn of reserves into cash. The impact of non-monetary operations was UAH2.66bn.

Banking sector liquidity rose by the same amount, with reallocations of funds into reserves, as demand for funds rose during the recent tax payments. Banks' correspondent accounts with the NBU rose UAH3.97bn to UAH48.09bn while total CDs outstanding declined UAH1.31bn to UAH36.73bn. Banks decreased the number of 14-day CDs, purchasing these instruments UAH1.1bn less than were redeemed.

ICU view: We anticipate an additional UAH1.0bn of payments and/or VAT refunds, but these should have no significant impact on liquidity. This week, the pressure of month-end tax payments continues, so total liquidity will be volatile at about UAH80bn. The Treasury could increase its budget expenditures with minor inflows from the budget.

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Interest rates in the banks' reserves market (three months through 23 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 23 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	11.60	+10bp	+20bp	+60bp	+100bp
ON \$ swap	12.48	+6bp	+55bp	+88bp	+101bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	48,092	+8.99	-0.72	+2.46	-3.3
DepCerts ³	36,728	-3.44	-20.52	-26.96	-40.9
Total	84,820	+3.23	-10.38	-12.75	-24.2
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	364,685	+0.00	-0.28	-0.88	+2.4
Banks	304,430	-0.04	+2.91	+3.96	+76.6
Residents	22,994	+0.69	+2.54	+5.99	+46.6
Non-res ⁴	471	-0.01	+4,147.9	+38,200.0	-92.5
Total	692,580	+0.00	+1.26	+1.49	+25.8
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.82	+45bp	-59bp	-326bp	-10pp
3 months	11.74	+4bp	-11bp	+62bp	-10pp
6 months	11.74	-4bp	-11bp	-122bp	-631bp
1 year	11.62	-4bp	-6bp	-16bp	-437bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	527	+7bp	-23bp	-58bp	-126bp

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 retreats

Over the last several weeks, the hryvnia was supported by a weak US dollar and second quarter tax payments which caused a significant appreciation of the Ukrainian currency. However, on Wednesday the hryvnia dropped 0.4% to 25.5456 USD/UAH due to some correction in USD/UAH as the US dollar stabilized and domestic tax payments concluded. In addition, liquidity in the banking sector increased as bank reserves added UAH3.97bn up to UAH48.09bn. The UAH sold for 25.36 USD/UAH versus 25.57 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.57% to 109.37; in year-on-year terms, it is up 11.62% from 97.99 last year. In our view, the hryvnia will remain near 25.6 USD/UAH in the beginning of the week as the August tax payments start on Monday. However, the hryvnia's CPI-based real trade-weighted index shows that the Ukrainian currency is overvalued, thus we expect the UAH to depreciate in the mid-term.

The USD dropped against other major currencies to near 3-week lows on Friday after Janet Yellen avoided talking about future monetary policy and gave no indication of when the central bank will start unwinding its balance sheet. In addition, the US orders for durable goods fell 6.8% in July versus expectations of only a 6% decrease. On the back of macroeconomic data and Yellen's speech, the DXY index fell 0.6% to 92.74.

The euro hit the highest level since January 2015 on Friday after Mario Draghi's speech. He said that a global economic recovery was visible in the USA over last several years, but the recovery is only in its early stages in Europe in Japan. The head of the ECB avoided talking about the strengthening of the euro and low inflation. As a result of the plunge of the US dollar and Draghi's speech, the euro closed up 1% to 1.1924 EUR/USD on Friday.

The greenback's weakness was supportive for EM currencies. The CNY appreciated to a 1-year high, having closed up 0.2% to 6.6465 USD/CNY. At the same time, the Russian ruble hit a 2-month high from the USD's weakness as well as from high oil prices hitting highs above \$52.5 per barrel. Thus, the ruble strengthened 1% to 58.575 USD/RUB.

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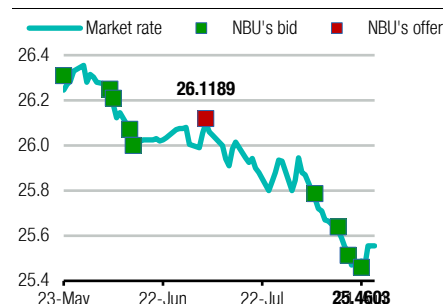
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 23 August 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.5550	+0.37	+0.02	-1.26	-5.70
USD ¹	93.147	-0.43	-0.42	-0.76	-8.87
EUR	1.1807	+0.38	+0.34	+1.23	+12.27
JPY	109.0400	-0.48	-1.04	-1.88	-6.77
GBP ²	1.2800	-0.19	-0.71	-1.52	+3.73
CNY	6.6590	-0.05	-0.49	-1.59	-4.12
RUB	59.0616	-0.02	-0.54	-0.50	-4.02

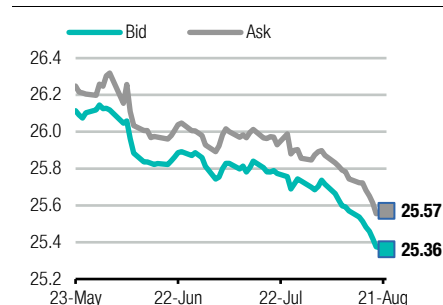
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 23 August 2017)



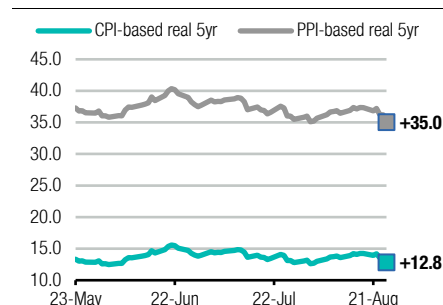
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 23 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 23 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)

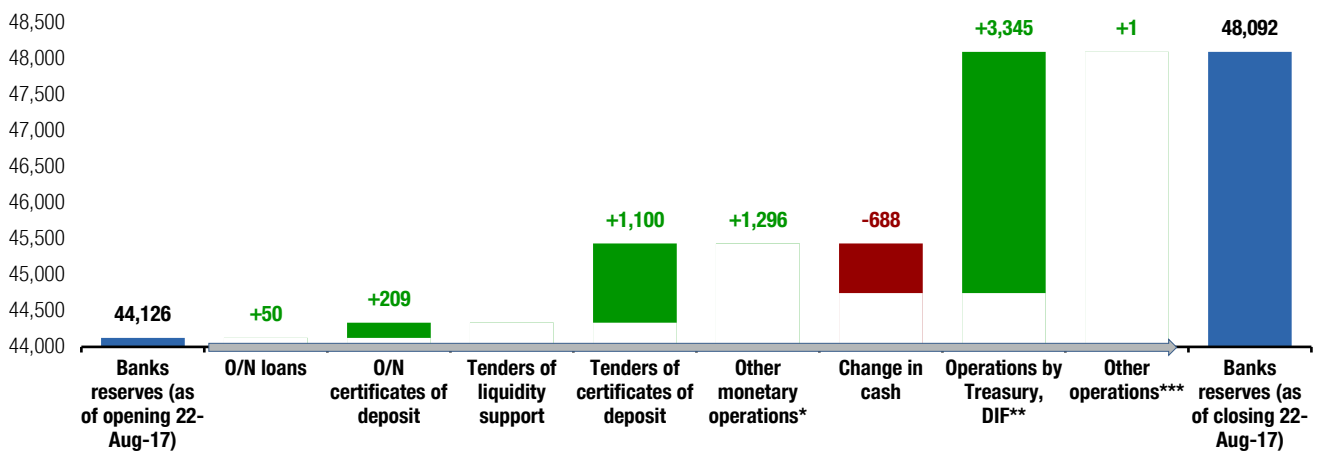
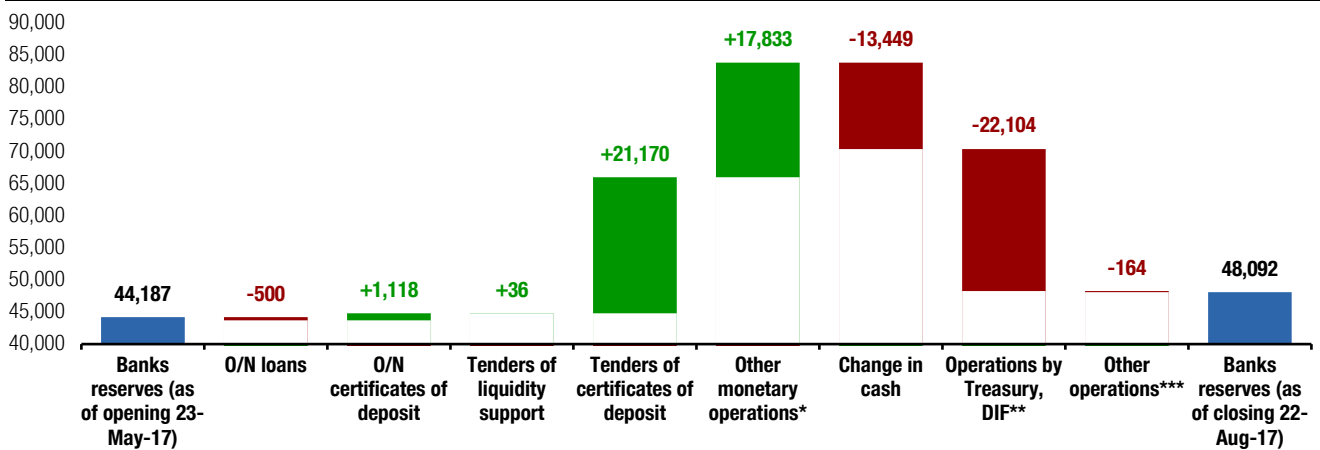
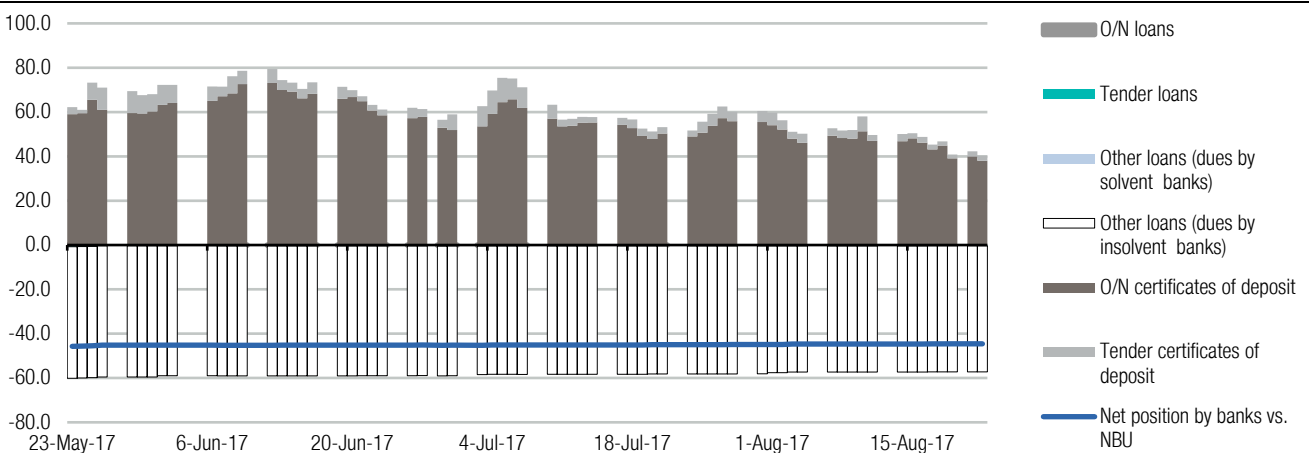


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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