

# Daily Insight

## Hryvna appreciates to below 25.5

### Key messages of the today's comments

WEDNESDAY, 30 AUGUST 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 29 August 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 29 August 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.70	+10bp	+110bp
Banks reserves (UAHm)	48,387	-5.47	-2.71
Deposit certificates* (UAHm)	33,569	+4.28	-46.06
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	25.4570	-0.05	-6.06
Total trade volume (US\$m)	221.50	+95.69	+30.59
UAH index CPI-based	108.868	+0.21	+0.80
UAH index PPI-based	167.792	+0.21	-0.34

#### UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	520bp	+0bp	-133bp
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#### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,446.30	+0.08	+9.27
MSCI EM	1,081.23	-0.35	+25.39
US dollar index (DXY)	92.249	+0.05	-9.75
EUR / USD	1.1972	-0.06	+13.83
Crude oil WTI (US\$/bbl)	46.44	-0.28	-13.55
Crude oil BRENT (US\$/bbl)	52.00	+0.21	-8.48
CRB, commodities index	177.53	-0.27	-7.78
Gold (US\$/ounce)	1,309.27	+0.07	+13.63

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

Source: Bloomberg, ICU.

### Domestic liquidity

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#### Liquidity continues to decline.....2

Higher tax collections on Monday caused total revenues received by the Treasury to rise to above UAH8bn. As expenditures were lower, net funds outflows to the Treasury were UAH3.92bn, being the main reason for liquidity to decline on Monday. The absorption of funds by the Treasury was offset by a significant exchange of cash into reserves, of UAH2.52bn by banks on Monday, causing total banking sector liquidity to decline UAH1.42bn to UAH81.96bn.

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### Foreign exchange markets

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#### Hryvna appreciates to below 25.5 UAH/USD .....3

The hryvna slightly appreciated against the US dollar on Tuesday as the weakness of the American currency continues to support developing countries' currencies. End of month demand for the currency for tax payments period and a second day of lower liquidity in the banking sector also pushed the hryvna higher, up 0.3% to 25.4406 UAH/USD. It sold for 25.39 UAH/USD versus 25.60 to buy in the Ukrainian cash market, and its CPI-based real trade-weighted index rose 0.21% to 108.86; in year-on-year terms, it is up 11.27% from 97.83 last year.

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### Appendix #1: Domestic liquidity

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# Domestic liquidity

## Liquidity continues to decline

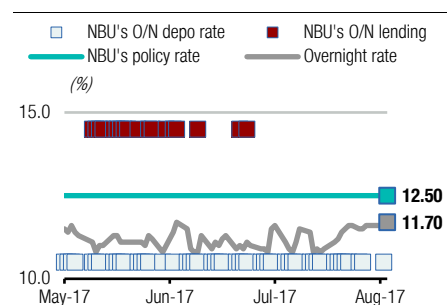
Higher tax collections on Monday caused total revenues received by the Treasury to rise to above UAH8bn. As expenditures were lower, net funds outflows to the Treasury were UAH3.92bn, being the main reason for liquidity to decline on Monday. The absorption of funds by the Treasury was offset by a significant exchange of cash into reserves, of UAH2.52bn by banks on Monday, causing total banking sector liquidity to decline UAH1.42bn to UAH81.96bn.

As banks had gathered a large amount of reserves last week, they invested additional funds into CDs on Monday, as expected. Total CDs outstanding rose UAH1.38bn as ON CDs increased UAH0.97bn and 14-day CDs increased UAH0.41bn. Due to outflows to the budget and investments in CDs, banks' correspondent accounts with the NBU fell UAH2.80bn to UAH48.39bn yesterday morning.

**ICU view: Most likely, a majority of taxes was paid on Monday, and liquidity should stabilize over the next few days. UAH0.82bn of inflows from the NBU at yesterday's FX auction should support this stabilization. The net balance of yesterday's Treasury operations could have a negative impact on liquidity, mostly due to an insignificant UAH0.02bn VAT refund that day. Most noteworthy, the rebalancing of cash exchanged from reserves back into cash could have the highest impact.**

**Taras Kotovych, Kyiv, (044) 377-7040 ext.724**

## Interest rates in the banks' reserves market (three months through 29 August 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 29 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.70	+10bp	+20bp	+10bp	+110bp
ON \$ swap	12.49	-2bp	+5bp	+100bp	+101bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	48,387	-5.47	+9.66	+8.34	-2.71
DepCerts <sup>3</sup>	33,569	+4.28	-11.75	-39.89	-46.06
<b>Total</b>	<b>81,956</b>	<b>-1.70</b>	<b>-0.25</b>	<b>-18.46</b>	<b>-26.81</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	363,485	+0.00	-0.33	-1.20	+2.06
Banks	304,592	-0.03	+0.01	+2.70	+76.74
Residents	23,100	+0.08	+1.15	+5.36	+47.33
Non-res <sup>4</sup>	586	+0.04	+24.47	+17.99k	-90.77
<b>Total</b>	<b>691,763</b>	<b>-0.01</b>	<b>-0.11</b>	<b>+0.78</b>	<b>+25.66</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	11.14	-116bp	-24bp	+616bp	-11ppt
3 months	11.62	-40bp	-8bp	+86bp	-10ppt
6 months	11.65	-26bp	-13bp	+119bp	-640bp
1 year	11.74	+1bp	+7bp	+69bp	-425bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	520	+0bp	+0bp	-65bp	-133bp

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

## Hryvna appreciates to below 25.5 UAH/USD

The hryvna slightly appreciated against the US dollar on Tuesday as the weakness of the American currency continues to support developing countries' currencies. End of month demand for the currency for tax payments period and a second day of lower liquidity in the banking sector also pushed the hryvna higher, up 0.3% to 25.4406 UAH/USD. It sold for 25.39 UAH/USD versus 25.60 to buy in the Ukrainian cash market, and its CPI-based real trade-weighted index rose 0.21% to 108.86; in year-on-year terms, it is up 11.27% from 97.83 last year.

The US dollar continues to decline in global FX markets, hitting a 2.5-year low on Tuesday. Influenced by US Fed chairwoman Janet Yellen's official comments which didn't outline further monetary policy direction, combined with the launch of a missile by North Korea, investors have little confidence about geopolitical stability as they seek safe haven assets. But, data on US consumer confidence supported dollar at the end of trading session. Thus, on Tuesday, the DXY index traded in the 91.62 - 92.48 range and closed up 0.05% to 92.25.

The depreciation of the USD has pushed other currencies higher on Tuesday, as follows: the euro hit a new high since 2015, having traded at 1.1947 - 1.2070, closing at 1.1972 EUR/USD, down 0.06%, and the renminbi reached a 14-month high, closing at 6.5963 CNY/USD, up 0.3%.

In contrast, the ruble depreciated 0.7% to 58.84 RUB/USD as oil prices declined during the day as tax payments, which had provided support days earlier, had concluded.

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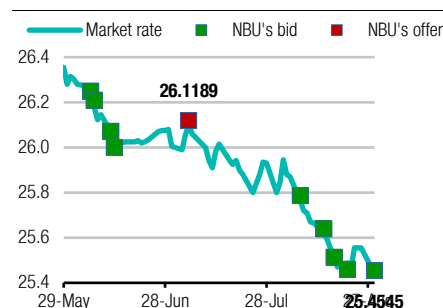
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

### Key indicators (as of 29 August 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	25.4570	-0.05	-0.01	-1.82	-6.06
USD <sup>1</sup>	92.249	+0.05	-1.39	-1.08	-9.75
EUR	1.1972	-0.06	+1.79	+1.88	+13.83
JPY	109.7100	+0.42	+0.13	-0.88	-6.20
GBP <sup>2</sup>	1.2918	-0.12	+0.73	-1.66	+4.68
CNY	6.5963	-0.27	-0.99	-2.09	-5.02
RUB	58.8238	+0.65	-0.43	-1.23	-4.41

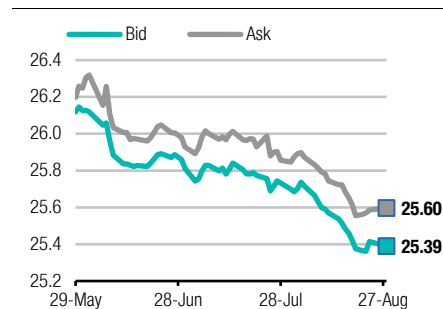
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

### Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 29 August 2017)



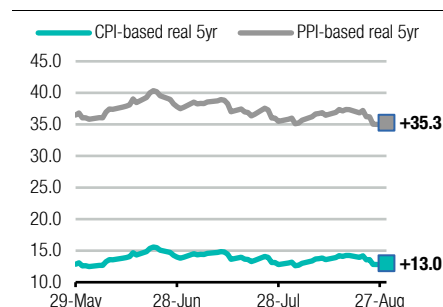
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

### Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 29 August 2017)



Source: NBU.

### UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 29 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)

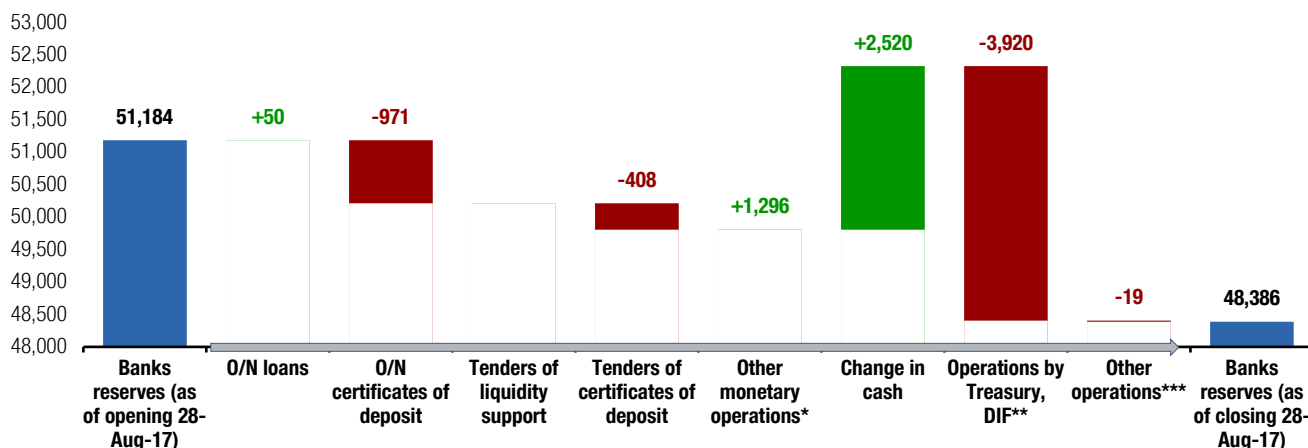
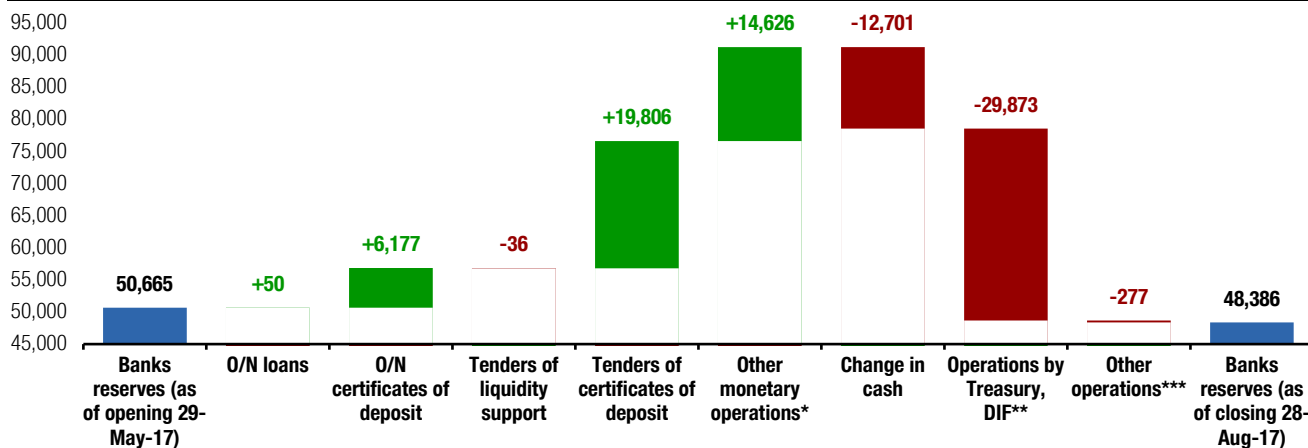
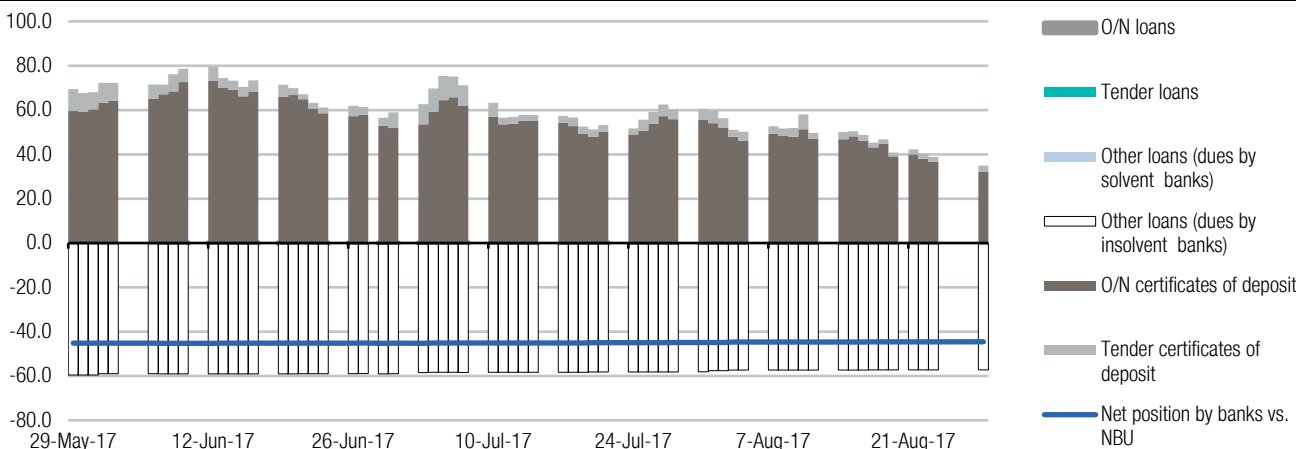


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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