

Daily Insight

Hryvnia declines

Key messages of the today's comments

THURSDAY, 31 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 30 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 30 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	46,778	-3.32	-5.94
Deposit certificates* (UAHm)	33,519	-0.15	-46.14
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.5850	+0.50	-5.59
Total trade volume (US\$m)	214.71	-3.06	+26.59
UAH index CPI-based	108.597	-0.25	+0.55
UAH index PPI-based	167.374	-0.25	-0.59
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	520bp	+0bp	-133bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,457.59	+0.46	+9.77
MSCI EM	1,088.00	+0.63	+26.18
US dollar index (DXY)	92.884	+0.69	-9.12
EUR / USD	1.1884	-0.74	+13.00
Crude oil WTI (US\$/bbl)	45.96	-1.03	-14.45
Crude oil BRENT (US\$/bbl)	50.86	-2.19	-10.49
CRB, commodities index	176.87	-0.37	-8.12
Gold (US\$/ounce)	1,308.64	-0.05	+13.57

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

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Liquidity close to year's low

The Treasury continued to absorb liquidity from the banking system as it increased net daily absorption to UAH4.23bn on Tuesday. The Treasury claimed that it raised nearly UAH16bn, including UAH12bn from tax payments. This outflow to the budget was compensated from two sources: UAH1.95 was cash exchanged into reserves and UAH0.82bn was injected by the NBU via a FX auction.

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Foreign exchange markets

3

Hryvnia declines

The hryvnia fell against the US dollar on Wednesday despite current tax collections and lower banking sector liquidity, down 0.5% to 25.5795 UAH/USD. The USD strengthened globally, and, by our estimates, this trend should continue. The UAH sold for 25.38 UAH/USD versus 25.57 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.25% to 108.6; in year-on-year terms, it is up 11.3% from 97.54 last year.

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Appendix #1: Domestic liquidity

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Domestic liquidity

Liquidity close to year's low

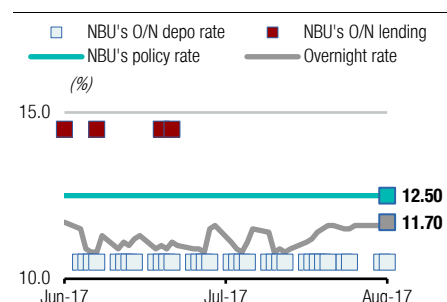
The Treasury continued to absorb liquidity from the banking system as it increased net daily absorption to UAH4.23bn on Tuesday. The Treasury claimed that it raised nearly UAH16bn, including UAH12bn from tax payments. This outflow to the budget was compensated from two sources: UAH1.95 was cash exchanged into reserves and UAH0.82bn was injected by the NBU via a FX auction.

Total CDs outstanding slid a mere UAH0.05bn to UAH33.52bn, but banks slightly changed their structure as ON CDs slid UAH0.47bn while 14-day CDs rose UAH0.42bn. Banks' correspondent accounts with the NBU fell UAH1.61bn to UAH46.78bn, very close to the required amount of reserves. Total banking sector liquidity (except for the government bond portfolio) fell UAH1.66bn to UAH80.30bn, less than 1.0bn above the lowest level of this year.

ICU view: The Treasury continued to collect revenues as it received funds in excess of expenditures. This caused additional pressure on liquidity in the banking system and increased the cost of funding. According to NBU data, the Ukrainian index of interbank rates for ON funds was 11.55% for unsecured loans and 12.49% for SWAP agreements with FX. As month-end tax payments are about to conclude, liquidity most likely will not hit a new year's low.

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Interest rates in the banks' reserves market (three months through 30 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 30 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	N/A	N/A	N/A	N/A	N/A
ON rate	N/A	N/A	N/A	N/A	N/A
ON \$ swap	12.27	+7bp	-21bp	+79bp	+80bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	46,778	-3.32	-2.73	+4.73	-5.94
DepCerts ³	33,519	-0.15	-8.74	-39.98	-46.14
Total	80,297	-2.02	-5.33	-20.11	-28.29
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	363,485	+0.00	-0.33	-1.20	+2.06
Banks	304,337	-0.08	-0.03	+2.61	+76.59
Residents	23,128	+0.12	+0.58	+5.49	+47.51
Non-res ⁴	586	-0.04	+24.42	+17.99k	-90.77
Total	691,536	-0.03	-0.15	+0.74	+25.62
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.50	+36bp	-32bp	+651bp	-11ppt
3 months	12.12	+50bp	+38bp	+136bp	-994bp
6 months	12.11	+46bp	+37bp	+165bp	-594bp
1 year	11.63	-11bp	+1bp	+58bp	-436bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	520	+0bp	-7bp	-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

Hryvnia declines

The hryvnia fell against the US dollar on Wednesday despite current tax collections and lower banking sector liquidity, down 0.5% to 25.5795 UAH/USD. The USD strengthened globally, and, by our estimates, this trend should continue. The UAH sold for 25.38 UAH/USD versus 25.57 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.25% to 108.6; in year-on-year terms, it is up 11.3% from 97.54 last year.

After hitting a 2.5-year low on Tuesday, the USD strengthened as US consumer confidence index unexpectedly grew to 122.9 versus 120 the previous month. Moreover, investor fear abated when the US president's reaction to North Korea's missile launch was less intense than anticipated. Finally, the second estimate of US GDP growth in 2Q17 was revised higher to 3.0% from the previous 2.6%. On Wednesday, the DXY index traded within 92.25 - 92.95 and closed up 0.7% to 92.88.

The euro depreciated against the USD on Wednesday after hitting its record high since the beginning of 2015 the previous day. It traded within 1.1881 - 1.1984 and closed at 1.1884 EUR/USD, down 0.7%. The renminbi traded within 6.5804 - 6.623 and appreciated 0.04% to 6.594 USD/CNY.

The Russian ruble trailed the USD for a second day. Despite a stronger USD and falling oil prices, ruble held steady and continued to appreciate. The currency is also supported by the MoF via bond auctions. On Wednesday, the ruble traded within 58.33 - 58.92 RUB/USD and closed up 0.5%.

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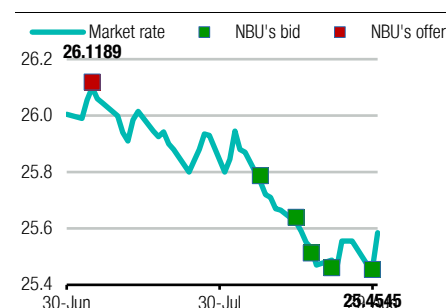
Key indicators (as of 30 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.5850	+0.50	+0.12	-1.33	-5.59
USD ¹	92.884	+0.69	-0.28	-0.40	-9.12
EUR	1.1884	-0.74	+0.65	+1.13	+13.00
JPY	110.2400	+0.48	+1.10	-0.40	-5.75
GBP ²	1.2925	+0.05	+0.98	-1.61	+4.74
CNY	6.5940	-0.03	-0.98	-2.12	-5.05
RUB	58.5157	-0.52	-0.92	-1.75	-4.91

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

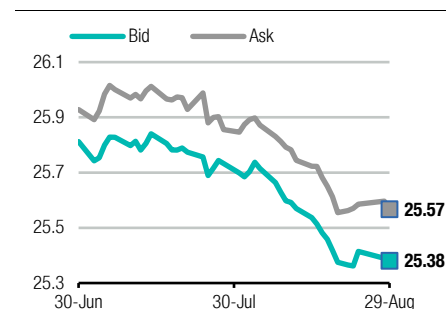
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 30 August 2017)



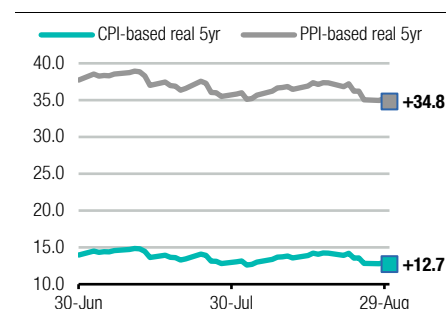
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 30 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 30 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)

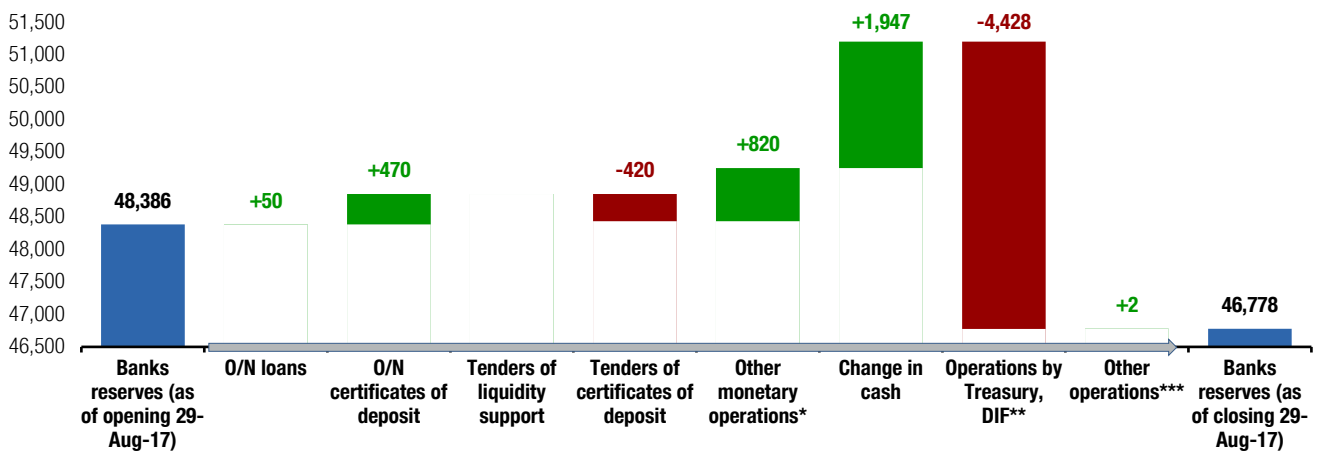
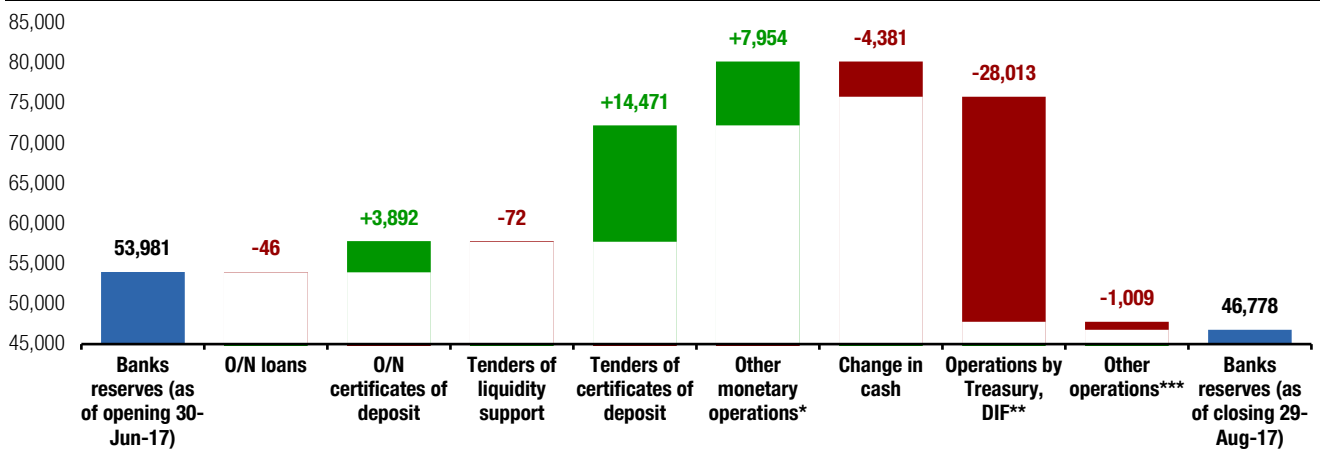
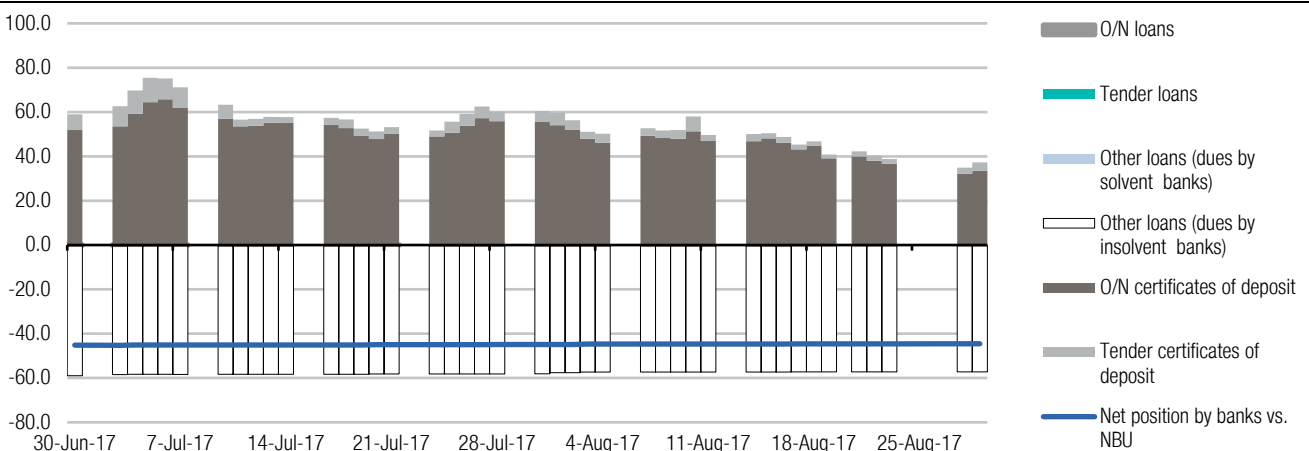


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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