

Daily Insight

UAH extends losses

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Liquidity steady on counter cash flows2

At the end of August, banking sector liquidity (excluding the government bonds' portfolio) slid a mere UAH0.15bn to UAH81.42bn as a result of fund reallocations to CDs. Bank reserves declined UAH2.16bn to UAH45.30bn, below the required level of reserves, as CDs outstanding rose UAH2.01bn to UAH36.12bn last Thursday. New investments in CDs were divided between ON CDs and 14-day CDs, up UAH1.06bn and UAH0.95bn, respectively. 2

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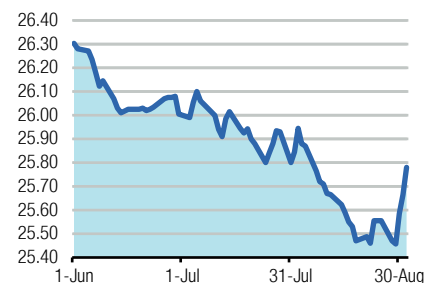
UAH extends losses3

Over the last several weeks, the hryvnia strengthened as a result of a weak US dollar as well as 2Q17 and August tax payments. However, after these factors diminished, the hryvnia weakened for the fourth consecutive trading session. Despite weakening 0.2% over the past trading session, with Friday's close at 25.7484 UAH/USD, it was still well below the weakest level of the last three months at 26.2825 UAH/USD. At the end of the week, the UAH sold for 25.49 UAH/USD versus 25.70 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.52% to 107.45; in year-on-year terms, it is up 11.71% from 96.19 last year. 3

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MONDAY, 4 SEPTEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 1 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 1 September 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.70	-20bp	+110bp
Banks reserves (UAHm)	45,303	-4.54	-8.91
Deposit certificates* (UAHm)	36,121	+5.88	-41.96
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.7800	+0.45	-4.87
Total trade volume (US\$m)	210.36	-22.07	+24.02
UAH index CPI-based	107.448	-0.52	-0.51
UAH index PPI-based	165.603	-0.52	-1.64

UKRAINE SOVEREIGN EUROBOOND MARKET

CDS 5yr	505bp	-1bp	-148bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,476.55	+0.20	+10.62
MSCI EM	1,091.36	+0.34	+26.57
US dollar index (DXY)	92.814	+0.16	-9.19
EUR / USD	1.1860	-0.42	+12.77
Crude oil WTI (US\$/bbl)	47.29	+0.13	-11.97
Crude oil BRENT (US\$/bbl)	52.75	-0.21	-7.16
CRB, commodities index	180.95	+0.05	-6.01
Gold (US\$/ounce)	1,324.90	+0.26	+14.98

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity steady on counter cash flows

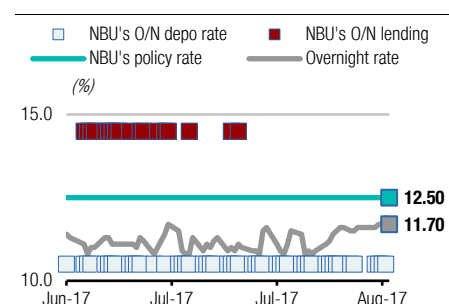
At the end of August, banking sector liquidity (excluding the government bonds' portfolio) slid a mere UAH0.15bn to UAH81.42bn as a result of fund reallocations to CDs. Bank reserves declined UAH2.16bn to UAH45.30bn, below the required level of reserves, as CDs outstanding rose UAH2.01bn to UAH36.12bn last Thursday. New investments in CDs were divided between ON CDs and 14-day CDs, up UAH1.06bn and UAH0.95bn, respectively.

Liquidity remained steady due to similar counter cash flows, but with a different impact. The Treasury had a UAH0.21bn inflow, the second consecutive day with a minor positive impact. For the fourth consecutive day, banks injected an additional UAH1.13bn into reserves last Thursday. As a result, the impact of non-monetary operations was UAH1.34bn in inflows; the NBU also held a FX auction that absorbed UAH1.49bn via selling FX.

ICU view: Providing hryvnia support and satisfying demand for FX caused fund outflows from the banking system to the NBU which were offset by autonomous operations. As these cash flows mostly offset each other, banking sector liquidity remained steady at around UAH81bn. September begins with the largest historical balance at Treasury accounts. This should support increases of both expenditures and liquidity.

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Interest rates in the banks' reserves market (three months through 1 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 1 September 2017)

	Last	Daily	Weekly	Monthly	YT
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.70	-20bp	+10bp	+80bp	+110bp
ON \$ swap	0.00	-21bp	-12ppt	-12ppt	-11ppt
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	45,303	-4.54	-5.80	+1.04	-8.91
DepCerts ³	36,121	+5.88	-1.65	-33.21	-41.96
Total	81,424	-0.18	-4.00	-17.69	-27.28
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	363,485	+0.00	-0.33	-1.20	+2.06
Banks	305,128	+0.11	+0.23	+3.14	+77.03
Residents	23,171	+0.13	+0.77	+2.64	+47.79
Non-res ⁴	585	+0.02	+24.18	+11,303.7	-90.79
Total	692,370	+0.05	-0.03	+0.88	+25.77
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.79	+43bp	+59bp	+266bp	-11pp
3 months	12.00	-9bp	+13bp	+115bp	-10pp
6 months	12.02	-7bp	+25bp	+85bp	-603bp
1 year	11.71	+5bp	+4bp	+30bp	-428bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	505	-1bp	-15bp	-55bp	-148bp

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

UAH extends losses

Over the last several weeks, the hryvnia strengthened as a result of a weak US dollar as well as 2Q17 and August tax payments. However, after these factors diminished, the hryvnia weakened for the fourth consecutive trading session. Despite weakening 0.2% over the past trading session, with Friday's close at 25.7484 UAH/USD, it was still well below the weakest level of the last three months at 26.2825 UAH/USD. At the end of the week, the UAH sold for 25.49 UAH/USD versus 25.70 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.52% to 107.45; in year-on-year terms, it is up 11.71% from 96.19 last year.

The USD slightly appreciated against other major currencies on Friday on the back strong manufacturing data: the ISM manufacturing index hit a new high since April 2011. Manufacturing data offset a nonfarm payrolls report which showed that the US economy added fewer jobs than expected in August. As of Friday, the DXY index rose 0.15% to 92.81.

Investors anticipate this week's ECB meeting where policymakers are expected to discuss the impact of the euro's strength. Several ECB officials earlier raised concerns about the euro's strengthening too much. At the same time, the ECB is unlikely to take any decision on the future of the QE program. On Friday, the euro fell 0.4% against the US dollar to 1.186 USD/EUR.

The renminbi extended gains and hit a 15-month high on Friday, bolstered by continued USD weakness and the Chinese central bank's decision to set a reference rate at 6.591 CNY/USD (the strongest level this year). On Friday, the renminbi strengthened 0.5% to 6.5584 CNY/USD. It should be mentioned that a stronger renminbi supports the UAH.

Traditionally, the Russian ruble is supported by rising oil prices, which traded near \$52.5 per barrel at the end of the week. At the same time, investors became interested in carry trade operations, as there is a high probability that the Russian central bank will cut its key policy rate on 15 September. Because of this, the ruble strengthened 0.9% to 57.52 RUB/USD, hitting a 2.5-month high on Friday.

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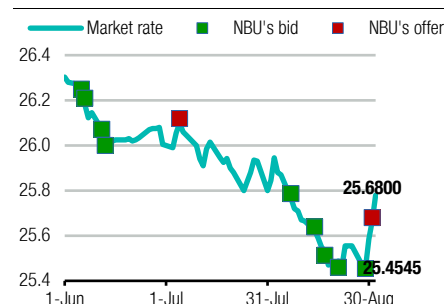
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 1 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.7800	+0.45	+0.88	-0.25	-4.87
USD ¹	92.814	+0.16	+0.08	-0.25	-9.19
EUR	1.1860	-0.42	-0.54	+0.49	+12.77
JPY	110.2500	+0.25	+0.81	-0.10	-5.74
GBP ²	1.2951	+0.16	+0.54	-1.91	+4.95
CNY	6.5584	-0.48	-1.33	-2.37	-5.57
RUB	57.4795	-0.96	-1.91	-4.75	-6.59

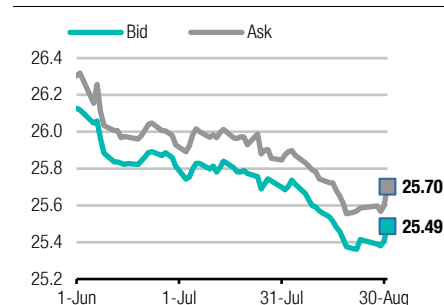
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 1 September 2017)



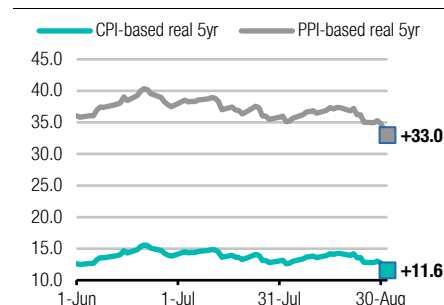
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 1 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 1 September 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)

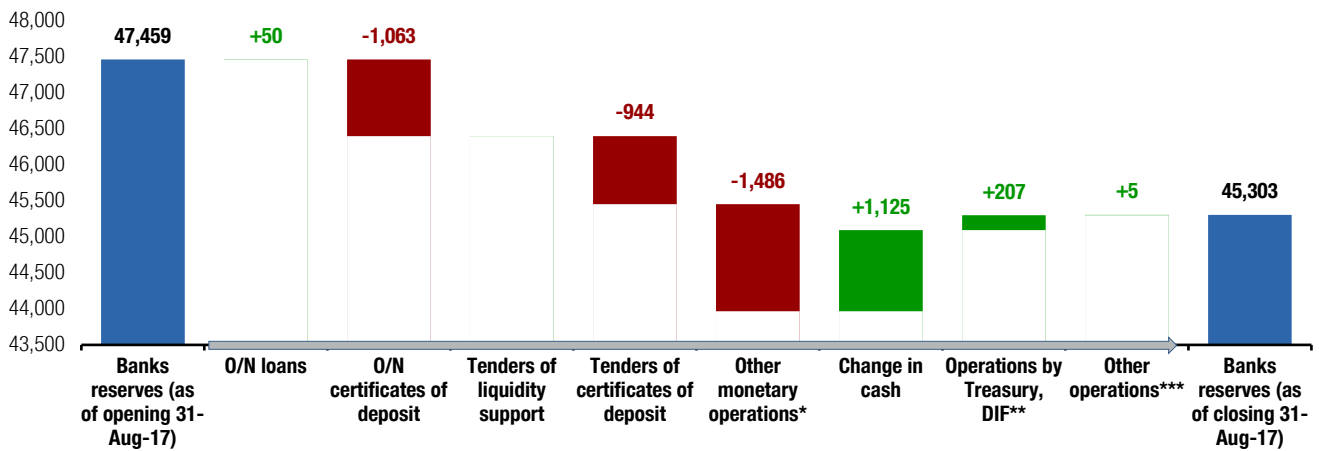
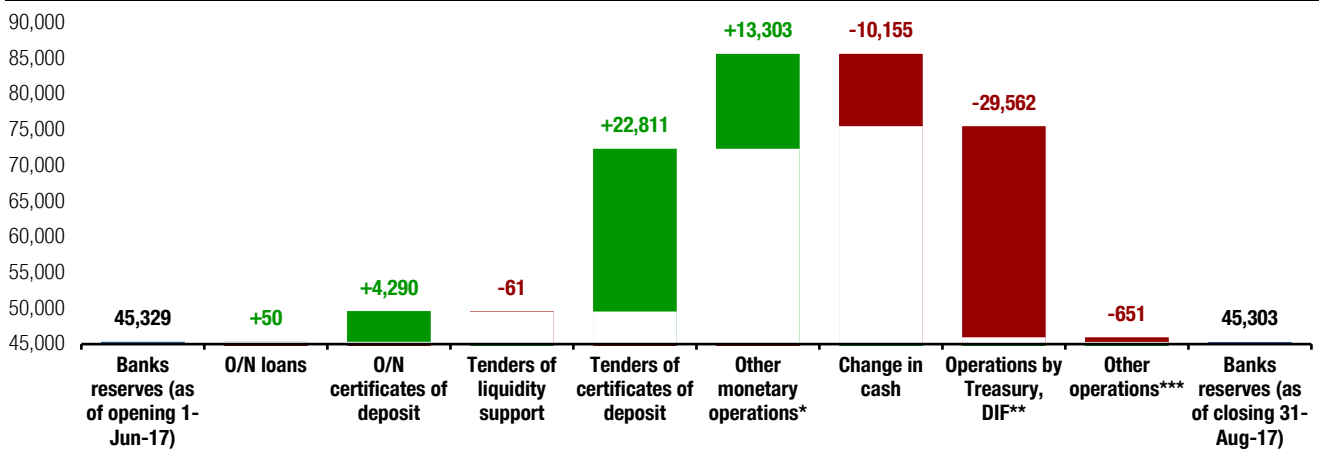
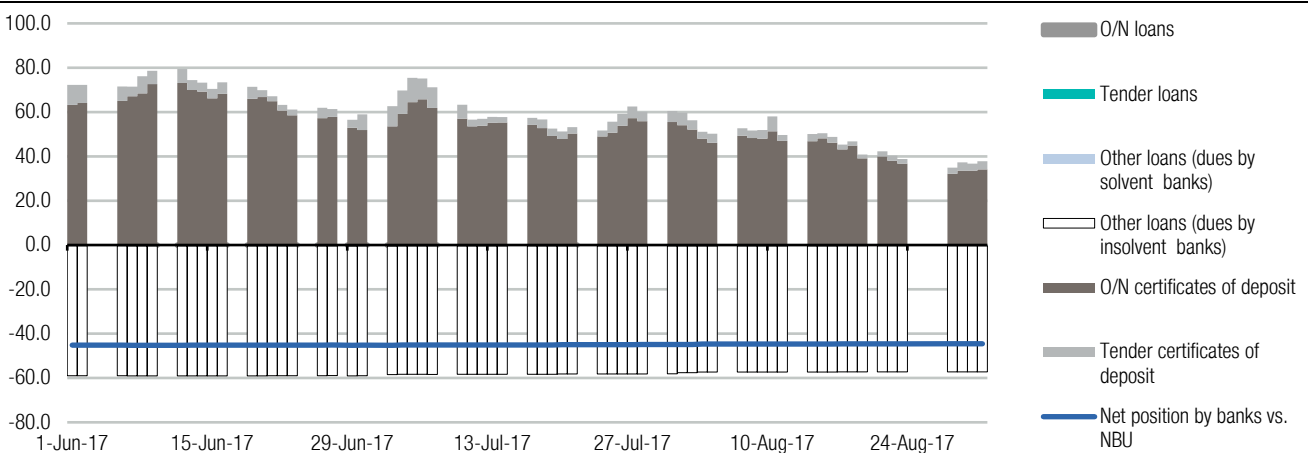


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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