

Daily Insight

Hryvna falls below 25.9

Key messages of the today's comments

TUESDAY, 5 SEPTEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 4 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 4 September 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.70	+0bp	+110bp
Banks reserves (UAHm)	44,549	-1.67	-10.42
Deposit certificates* (UAHm)	36,097	-0.07	-42.00
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9250	+0.56	-4.34
Total trade volume (US\$m)	167.31	-20.47	-1.36
UAH index CPI-based	106.743	-0.66	-1.16
UAH index PPI-based	164.516	-0.66	-2.29
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	505bp	+0bp	-148bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,476.55	+0.20	+10.62
MSCI EM	1,083.34	-0.73	+25.64
US dollar index (DXY)	92.635	-0.19	-9.37
EUR / USD	1.1896	+0.30	+13.11
Crude oil WTI (US\$/bbl)	N/A	-100.00	-100.00
Crude oil BRENT (US\$/bbl)	52.34	-0.78	-7.88
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,332.35	+0.56	+15.63

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity 2

MoF will offer only mid-term bonds.....2

Following a short hiatus from holding auctions, the MoF will offer only two mid-term coupon-bearing bonds at a scheduled primary auction, including a 2-year re-issuance maturing in July 2019 and a new 3-year bond maturing in August 2020. The 2-year bond was originally issued in 2014 and re-opened last month. 2

Liquidity down slightly.....2

On the first day of September, banking sector liquidity slid UAH0.78bn to UAH80/65bn, due to the negative impact of monetary and non-monetary operations. The negative impact from autonomous operations was UAH0.62bn, including UAH1.07bn of outflows to the Treasury and an UAH0.49bn inflow from the exchange of cash into reserves. The NBU's monetary operations caused a UAH0.16bn outflow, most likely through selling of FX. 2

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Hryvna falls below 25.9.....3

The hryvnia continued to weaken against the US dollar on Monday. Despite the USD's depreciation on global markets, it didn't help the hryvnia. Following North Korean news on recent nuclear missile tests, pressure on emerging market currencies increased. The UAH finished the day at 25.9062 UAH/USD, having depreciated 0.6%. Therefore, stimulus which helped the UAH to appreciate previously have been dismantled; the hryvnia continues to depreciate for a fifth trading session in a row. As of the end of Monday, the UAH sold for 25.59 USD/UAH versus 25.80 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.66% to 106.74; in year-on-year terms, it is up 11.09% from 96.08 last year. 3

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Domestic liquidity

MoF will offer only mid-term bonds

Following a short hiatus from holding auctions, the MoF will offer only two mid-term coupon-bearing bonds at a scheduled primary auction, including a 2-year re-issuance maturing in July 2019 and a new 3-year bond maturing in August 2020. The 2-year bond was originally issued in 2014 and re-opened last month.

The MoF recently sold the 2-year bond at the beginning of August 2017 at 14.46% and a YTM of 15.03%. 3-year bonds have sold often - three times in August, all at 14.54% with a YTM of 15.11%.

ICU view: Today, demand could rise slightly compared with the last auction on 22 August, 2017, but not significantly. If non-residents make no bids, local demand could be below UAH500m. Interest rates should remain the same, especially for the 3-year bond which will be two months longer than before.

Liquidity down slightly

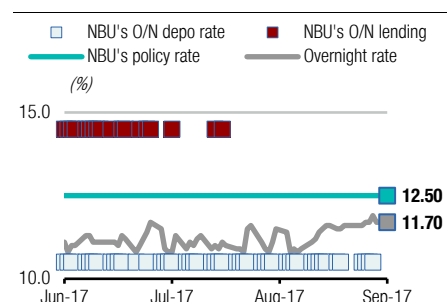
On the first day of September, banking sector liquidity slid UAH0.78bn to UAH80/65bn, due to the negative impact of monetary and non-monetary operations. The negative impact from autonomous operations was UAH0.62bn, including UAH1.07bn of outflows to the Treasury and an UAH0.49bn inflow from the exchange of cash into reserves. The NBU's monetary operations caused a UAH0.16bn outflow, most likely through selling of FX.

The decline in liquidity was happening mostly via depleting reserves. Banks' correspondent accounts balance with the NBU slid UAH0.75bn while total CDs outstanding slid a mere UAH0.03bn that day. At the same time, banks slightly changed their CD portfolios, decreased investments in ON CDs by UAH1.16bn and increased a portion of 14-day CDs by UAH1.13bn.

ICU view: The decline in liquidity via Treasury operations could be the result of lower expenditures and higher revenues to local budgets and special funds which usually rose at the month's beginning due salary payments. With higher investments in 14-day CDs, which could be the message that banks do not anticipate liquidity to decline very soon. But the main source for additional liquidity will be the Treasury, and liquidity depends on the future amount of expenditures and how rapidly the Treasury provides them, using a large amount of funds collected at accounts in August.

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Interest rates in the banks' reserves market (three months through 4 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 4 September 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	11.70	+0bp	+10bp	+20bp	+110bp
ON \$ swap	13.22	+4bp	+44bp	+143bp	+175bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	44,549	-1.67	-12.96	-11.83	-10.42
DepCerts ³	36,097	-0.07	+12.14	-21.70	-42.00
Total	80,646	-0.96	-3.27	-16.53	-27.98
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	363,485	+0.00	+0.00	-0.72	+2.06
Banks	305,320	+0.06	+0.21	+3.08	+77.16
Residents	23,211	+0.17	+0.56	+2.50	+48.04
Non-res ⁴	585	+0.00	-0.19	+5,460.9	-90.79
Total	692,601	+0.03	+0.11	+1.11	+25.81
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	10.08	-171bp	-223bp	+214bp	-12ppt
3 months	11.53	-47bp	-50bp	+127bp	-11ppt
6 months	11.84	-18bp	-6bp	+79bp	-621bp
1 year	11.52	-19bp	-21bp	+22bp	-447bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	505	+0bp	-15bp	-35bp	-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

Hryvna falls below 25.9

The hryvnia continued to weaken against the US dollar on Monday. Despite the USD's depreciation on global markets, it didn't help the hryvnia. Following North Korean news on recent nuclear missile tests, pressure on emerging market currencies increased. The UAH finished the day at 25.9062 UAH/USD, having depreciated 0.6%. Therefore, stimulus which helped the UAH to appreciate previously have been dismantled; the hryvnia continues to depreciate for a fifth trading session in a row. As of the end of Monday, the UAH sold for 25.59 USD/UAH versus 25.80 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.66% to 106.74; in year-on-year terms, it is up 11.09% from 96.08 last year.

The USD depreciated on Monday against other major currencies, which was due to weak data on the labor market published on Friday, as well as rising tension around North Korea. Following the above-mentioned event, demand for safe harbor assets increased. Thus, on Monday, the DXY index was in the 92.445 - 92.711 range, having closed down 0.2% to 92.635.

The only force pushing the EUR higher on Monday was the appropriate depreciation of the USD. During the day, the euro traded in the 1.1852 - 1.1922 range and closed at 1.1896 EUR/USD, up 0.3%. The Chinese renminbi significantly increased against the dollar, but not only due to the dollar's weakness but also to the Chinese central bank's decision to set a reference rate at 6.5668 CNY/USD, the highest rate from June 2016. Thus, the renminbi was in the 6.5194 - 6.5885 range and appreciated 0.4% to 6.5309 USD/CNY.

The Russian ruble was under the influence of oil prices on Monday, which decreased slightly, and the North Korea news. Also, after strengthening from the previous week, the exchange rate depreciated. Thus, on Monday, the ruble was in 57.6575 – 57.96 RUB/USD range and closed down 0.6% to 57.8475 RUB/USD.

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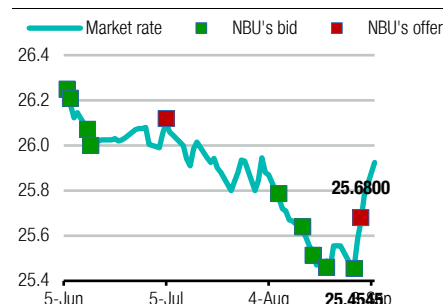
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 4 September 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9250	+0.56	+1.79	+0.21	-4.34
USD ¹	92.635	-0.19	+0.46	-0.97	-9.37
EUR	1.1896	+0.30	-0.69	+1.04	+13.11
JPY	109.7200	-0.48	+0.43	-0.88	-6.19
GBP ²	1.2931	-0.15	-0.02	-0.84	+4.79
CNY	6.5309	-0.42	-1.26	-2.94	-5.96
RUB	57.8302	+0.61	-1.05	-3.57	-6.02

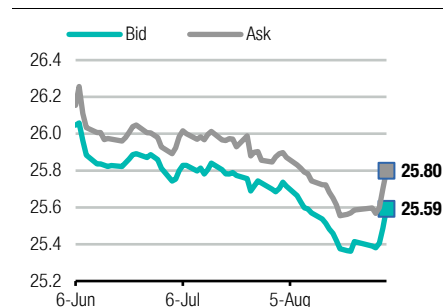
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 4 September 2017)



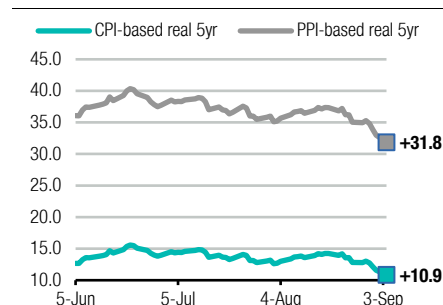
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 4 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 4 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)

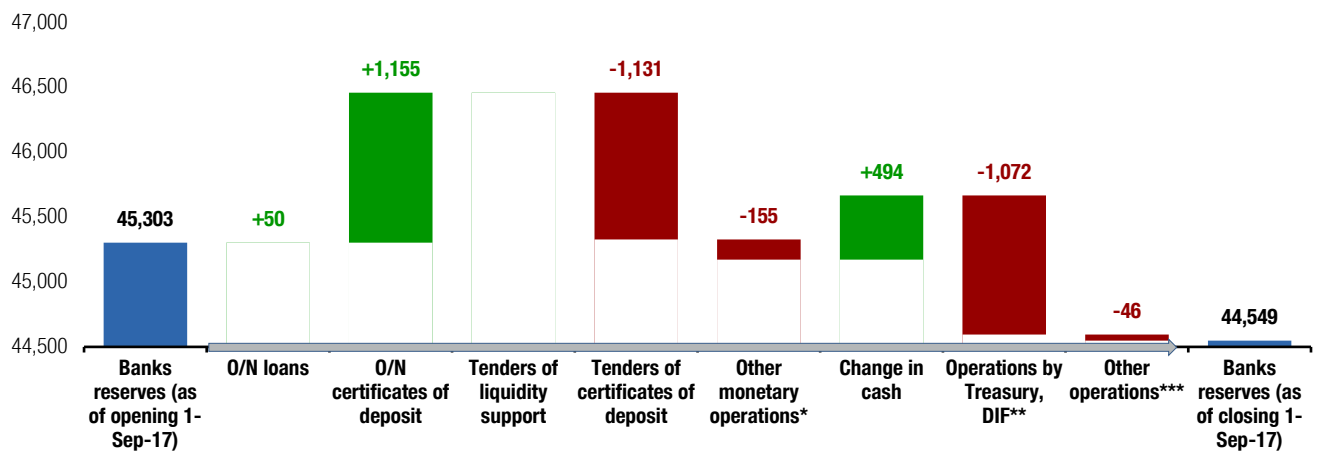
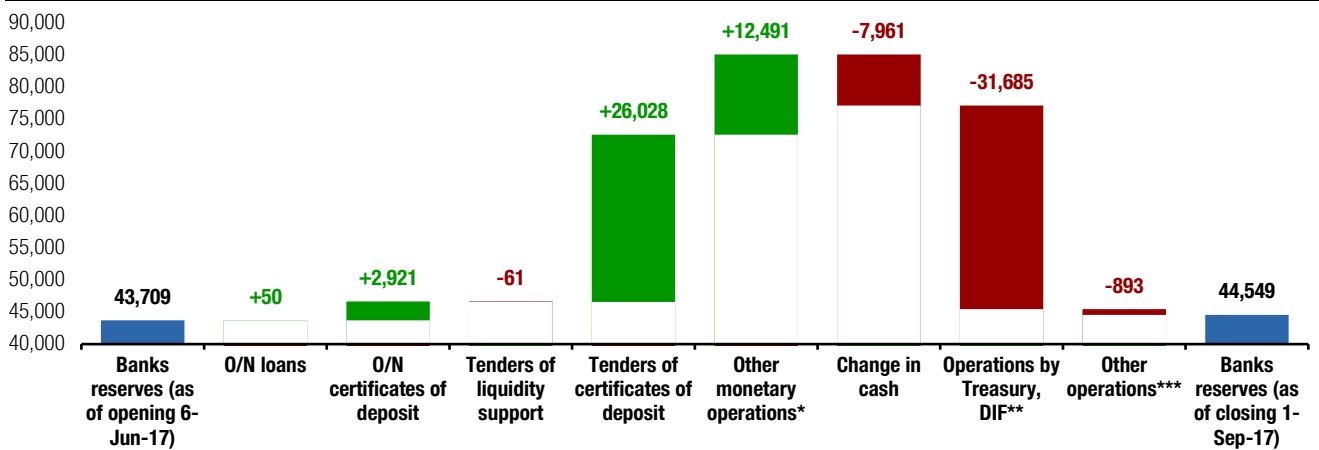
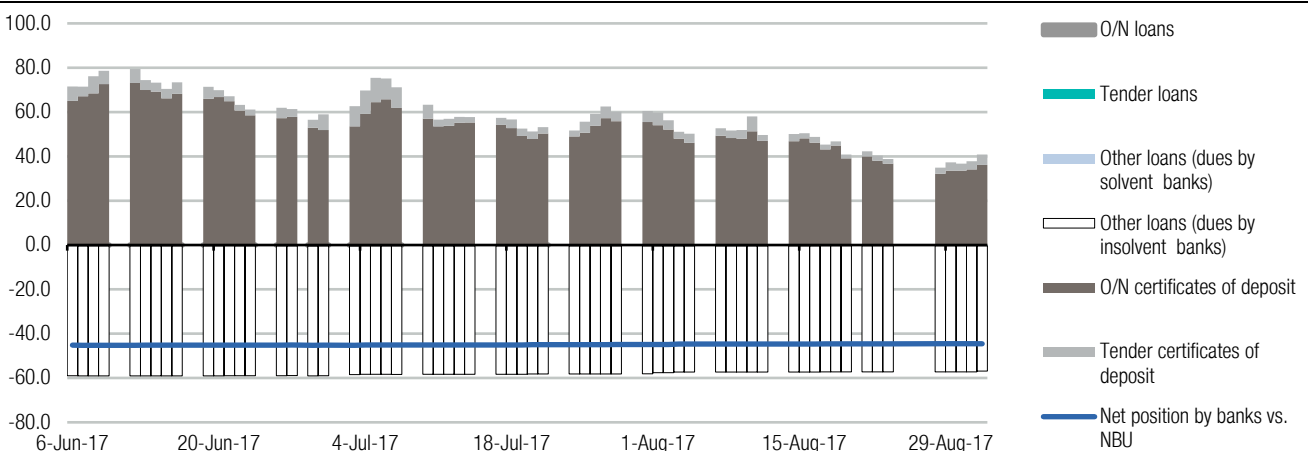


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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