

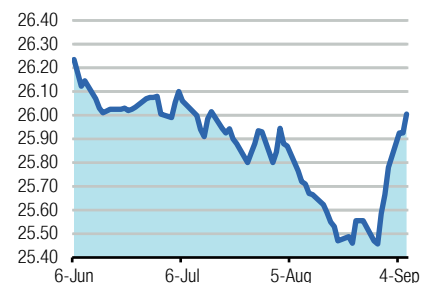
# Daily Insight

## Liquidity up significantly

### Key messages of the today's comments

THURSDAY, 7 SEPTEMBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 6 September 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 6 September 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	50,001	+10.12	+0.54
Deposit certificates* (UAHm)	33,504	-4.14	-46.17
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.0050	+0.31	-4.04
Total trade volume (US\$m)	233.73	-3.51	+37.80
UAH index CPI-based	106.224	-0.38	-1.65
UAH index PPI-based	163.716	-0.38	-2.77
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	475bp	-24bp	-178bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,465.54	+0.31	+10.13
MSCI EM	1,083.18	-0.16	+25.62
US dollar index (DXY)	92.290	+0.04	-9.71
EUR / USD	1.1917	+0.03	+13.31
Crude oil WTI (US\$/bbl)	49.16	+1.03	-8.49
Crude oil BRENT (US\$/bbl)	54.20	+1.54	-4.61
CRB, commodities index	183.00	+0.36	-4.94
Gold (US\$/ounce)	1,334.19	-0.41	+15.79

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

Source: Bloomberg, ICU.

#### Domestic liquidity

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##### Liquidity up significantly

This Tuesday, liquidity was up a significant UAH3.15bn to UAH83.50bn as the result of UAH1.24bn in non-monetary operations (including UAH0.95bn from Treasury, UAH0.27bn from cash exchange into reserves and UAH0.02bn from other non-monetary operations) and UAH1.91bn from the NBU via other monetary operations (absorption at a FX auction and a UAH2.22bn inflow via a SWAP).

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#### Foreign exchange markets

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##### The Hryvnia near 26 UAH/USD

The UAH slightly weakened against the USD, having closed down 0.1% to 25.9822 UAH/USD on Wednesday. After some appreciation of UAH versus the USD over the last several months, the USD has stabilized and demand for it exceeds supply in the domestic FX market. On Wednesday, the UAH sold for 25.86 UAH/USD versus 26.17 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.38% to 106.22; in year-on-year terms, it is up 12.11% from 94.75 last year.

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#### Appendix #1: Domestic liquidity

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# Domestic liquidity

## Liquidity up significantly

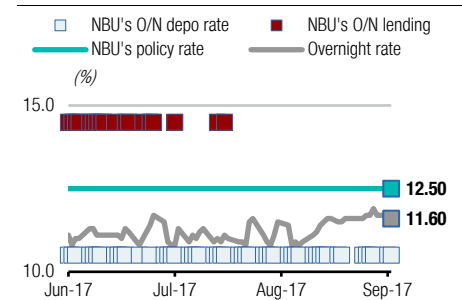
This Tuesday, liquidity was up a significant UAH3.15bn to UAH83.50bn as the result of UAH1.24bn in non-monetary operations (including UAH0.95bn from Treasury, UAH0.27bn from cash exchange into reserves and UAH0.02bn from other non-monetary operations) and UAH1.91bn from the NBU via other monetary operations (absorption at a FX auction and a UAH2.22bn inflow via a SWAP).

Banks' correspondent accounts with the NBU rose UAH4.59bn to UAH50bn, the largest amount this month, but investments in CDs declined UAH1.45bn to UAH33.50bn. Banks decreased investments in both ON and 14-day CDs. There were no other monetary operations this day.

**ICU view: Liquidity recovered slightly, but funds were provided mostly by the NBU for only six days, enabling them to cover outflows and support an increase in liquidity. The Treasury started to provide higher expenditures over revenues, also supporting the increase in liquidity. This week, we do not anticipate a significant decline in liquidity and it should remain above UAH80bn. Yesterday's bond settlements could decrease liquidity, but not significantly.**

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

## Interest rates in the banks' reserves market (three months through 6 September 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 6 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	N/A	N/A	N/A	N/A	N/A
ON rate	N/A	N/A	N/A	N/A	N/A
ON \$ swap	12.62	-7bp	+35bp	+83bp	+115bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	50,001	+10.12	+6.89	-1.04	+0.54
DepCerts <sup>3</sup>	33,504	-4.14	-0.04	-27.32	-46.17
<b>Total</b>	<b>83,505</b>	<b>+3.92</b>	<b>+4.00</b>	<b>-13.58</b>	<b>-25.42</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	363,485	+0.00	+0.00	-0.72	+2.06
Banks	306,079	+0.08	+0.57	+3.33	+77.60
Residents	23,183	-0.31	+0.24	+2.37	+47.86
Non-res <sup>4</sup>	585	+0.00	-0.17	+5,462.5	-90.79
<b>Total</b>	<b>693,332</b>	<b>+0.02</b>	<b>+0.26</b>	<b>+1.22</b>	<b>+25.94</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	11.97	-68bp	+47bp	+403bp	-10ppt
3 months	12.09	-29bp	-3bp	+182bp	-997bp
6 months	12.12	-10bp	+1bp	+107bp	-593bp
1 year	11.64	-11bp	+1bp	+34bp	-435bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	475	-24bp	-45bp	-65bp	-178bp

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

## The Hryvnia near 26 UAH/USD

The UAH slightly weakened against the USD, having closed down 0.1% to 25.9822 UAH/USD on Wednesday. After some appreciation of UAH versus the USD over the last several months, the USD has stabilized and demand for it exceeds supply in the domestic FX market. On Wednesday, the UAH sold for 25.86 UAH/USD versus 26.17 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.38% to 106.22; in year-on-year terms, it is up 12.11% from 94.75 last year.

The USD was negatively affected by rising tensions between the USA and the North Korea earlier this week and extended losses on Wednesday due to weak services sector statistics when the ISM services PMI rose slightly less than expected in August. At the same time, the USD was already under pressure as a Fed official said the Federal Reserve should delay raising interest rates until inflation approaches its target. However, by the end of the trading session the greenback recovered losses -- the DXY index rose 0.04% to 92.29, while it was in 91.988 – 92.375 range over the trading session.

The renminbi continues to trade near its 15-month high as the central bank of China raised the reference rate for the eighth consecutive day, the longest run since October 2015. Such actions of the Chinese regulator and prolonged weakness of the USD helped the renminbi to strengthen by another 0.22% to 6.5242 CNY/USD.

The euro also strengthened against the USD as investors await today's scheduled ECB meeting. Market players believe that the European central bank will taper its QE program in a market-friendly way, thus pushing the euro higher. On Wednesday, it strengthened 0.03% to 1.1917 USD/EUR.

At the beginning of the week, the Russian ruble was under pressure as investors turned to safe assets amid rising tensions between Washington and Pyongyang. However, the combination of oil prices, which surged above \$54 per barrel, and the high probability that Russia's central bank will cut the key policy rate at its next meeting, pushed the ruble up 0.3% to 57.3745 RUB/USD.

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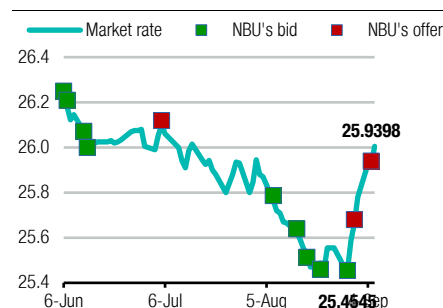
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 6 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.0050	+0.31	+1.64	+0.52	-4.04
USD <sup>1</sup>	92.290	+0.04	-0.64	-1.34	-9.71
EUR	1.1917	+0.03	+0.28	+1.22	+13.31
JPY	109.2200	+0.38	-0.93	-1.33	-6.62
GBP <sup>2</sup>	1.3043	+0.08	+0.91	+0.02	+5.70
CNY	6.5242	-0.22	-1.06	-3.04	-6.06
RUB	57.3745	-0.27	-1.95	-4.33	-6.76

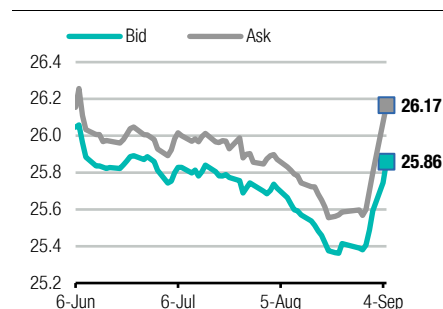
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 6 September 2017)



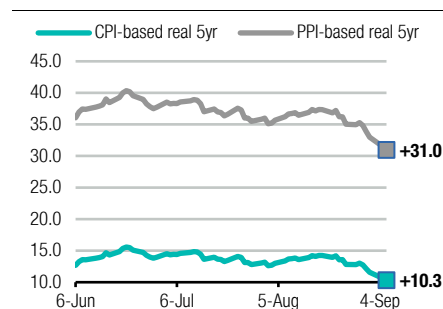
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 6 September 2017)



Source: NBU.

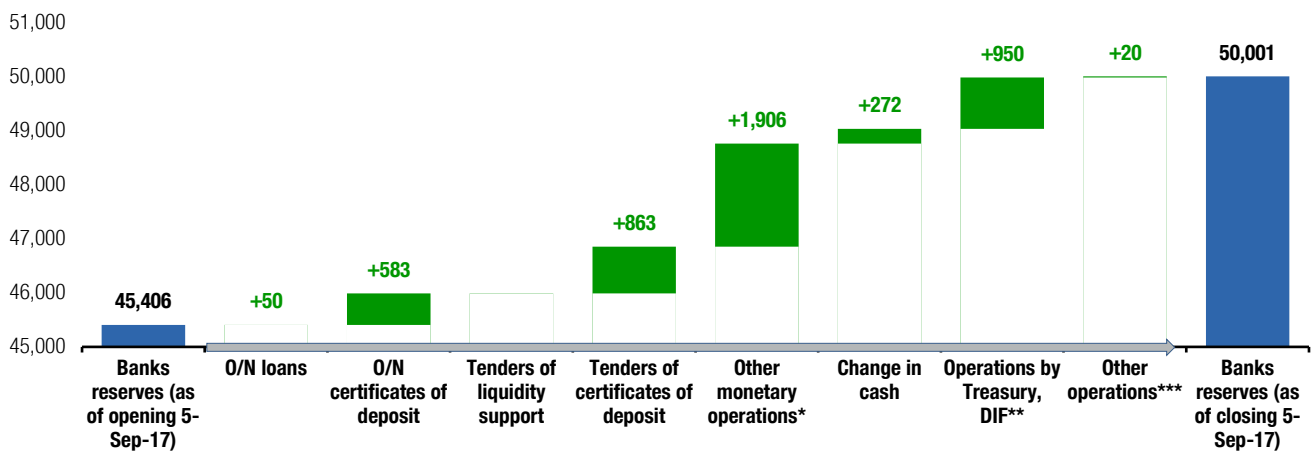
## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 6 September 2017)



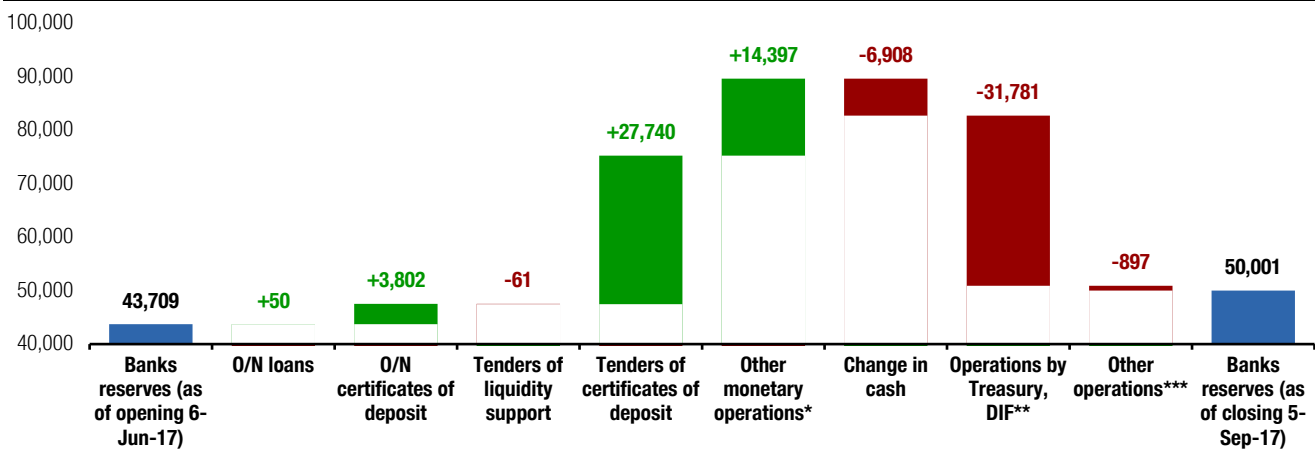
Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

# Appendix #1: Domestic liquidity

**Chart 1. Banks reserves usages over last reporting date (UAHm)**

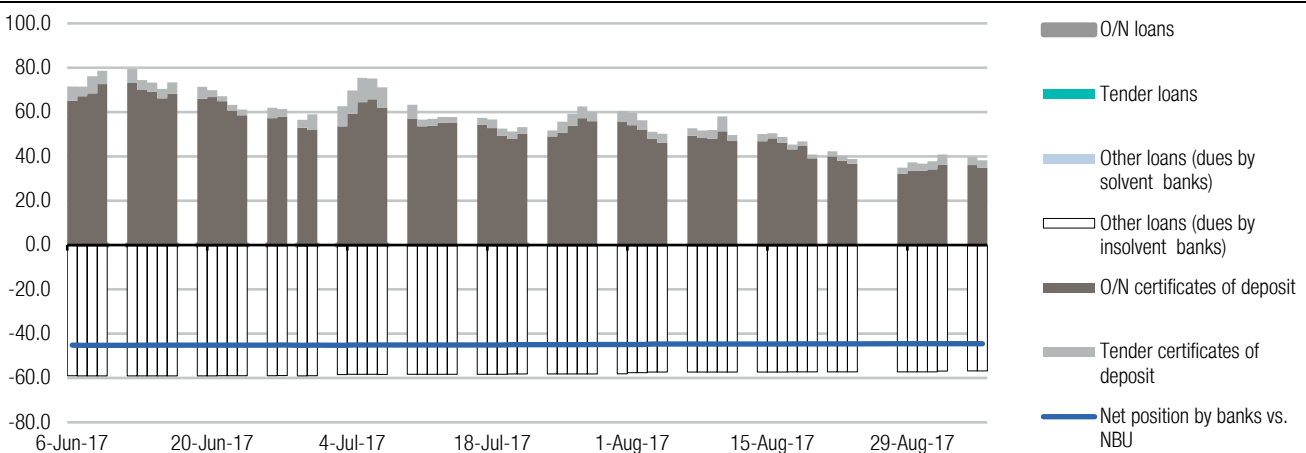


**Chart 2. Banks reserves usages over last 90-day period (UAHm)**



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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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