

# Daily Insight

## Non-residents return to bond market

### Key messages of the today's comments

MONDAY, 11 SEPTEMBER 2017

#### Domestic liquidity **2**

##### Liquidity down to this year's low .....2

Last Thursday, liquidity continued to decline, hitting this year's low at UAH79.38bn, once more from the Treasury's operational imbalance. Last Thursday, revenues were UAH1.81 larger than the day before, but as expenditures were lower, liquidity declined. Meanwhile, banks increased CDs outstanding, preferring 2-week maturities. **2**

##### Non-residents return to bond market.....2

During recent weeks, non-residents significantly increased their government bond portfolio from UAH0.01bn before 16 August to UAH1.73bn on 7 September. Their share at the market rose from zero to 0.25%. This increase in the portfolio was from new bond purchases rather than from buying bonds from other portfolios. Non-residents purchased bonds at all three most recent auctions, causing interest rates at last week's auction to decline. **2**

#### Foreign exchange markets **3**

##### UAH down again .....3

The UAH continues to decline against the USD. Demand for foreign currency pushed the exchange rate above 26 UAH/USD while the dollar depreciated against other major currencies. With no supporting factors to Ukrainian currency in internal FX market at the time, as of Friday, the hryvna depreciated 0.3% and reached 26.073 UAH/USD. It sold for 26.1 USD/UAH versus 26.39 to buy in the Ukrainian cash market and its CPI-based real trade-weighted index rose 0.01% to 105.4; in year-on-year terms, it is up 10.67% from 95.24 last year. At the same time, there are some factors on external FX market that will support the hryvna in the next few month: declining of the dollar and increasing of the euro and yuan. **3**

#### Appendix #1: Domestic liquidity **4**

#### Ukraine's hryvnia exchange rate per US dollar (three months through 8 September 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 8 September 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.90	-10bp	+130bp
Banks reserves (UAHm)	46,544	-6.83	-6.41
Deposit certificates* (UAHm)	32,838	+2.38	-47.24
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.0650	+0.10	-3.82
Total trade volume (US\$m)	199.38	+7.00	+17.55
UAH index CPI-based	105.397	+0.01	-2.41
UAH index PPI-based	162.441	+0.01	-3.52
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	445bp	-30bp	-208bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,461.43	-0.15	+9.94
MSCI EM	1,091.17	+0.10	+26.55
US dollar index (DXY)	91.352	-0.34	-10.62
EUR / USD	1.2036	+0.11	+14.44
Crude oil WTI (US\$/bbl)	47.48	-3.28	-11.62
Crude oil BRENT (US\$/bbl)	53.78	-1.30	-5.35
CRB, commodities index	181.17	-0.93	-5.89
Gold (US\$/ounce)	1,346.45	-0.21	+16.85

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity down to this year's low

Last Thursday, liquidity continued to decline, hitting this year's low at UAH79.38bn, once more from the Treasury's operational imbalance. Last Thursday, revenues were UAH1.81 larger than the day before, but as expenditures were lower, liquidity declined. Meanwhile, banks increased CDs outstanding, preferring 2-week maturities.

The impact from non-monetary operations was negative, at UAH2.65bn, mostly from the Treasury's absorption of UAH1.96bn and there remainder from the exchange of reserves into cash. Although banks' correspondent accounts with the NBU fell UAH3.41bn, UAH0.76 bn was invested in new CDs. Banks purchased UAH1.51bn of new 14-day CDs and decreased ON CDs by UAH0.75bn.

**ICU view: The impact from Treasury operations remains significant due to the lack of balance in its operations. Low expenditures and insufficient VAT refunds resulted in fund outflows to the budget and banking sector liquidity declines. If this becomes a trend, the negative impact could continue and liquidity could decline further, causing market rates to rise. The NBU sold US\$21m last Friday, which should put pressure on liquidity.**

## Non-residents return to bond market

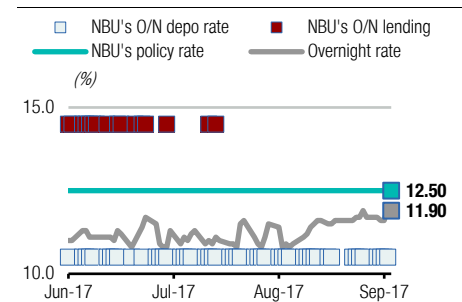
During recent weeks, non-residents significantly increased their government bond portfolio from UAH0.01bn before 16 August to UAH1.73bn on 7 September. Their share at the market rose from zero to 0.25%. This increase in the portfolio was from new bond purchases rather than from buying bonds from other portfolios. Non-residents purchased bonds at all three most recent auctions, causing interest rates at last week's auction to decline.

According to Bloomberg and ISE, Citigroup used these bonds to issue CLN for investors interested in this hryvnia risk. Issues were made with lower interest rates than purchased bonds, but with higher than NDF on hryvnia. Last Friday, the 12-month NDF was at 11.7%, allowing investors to have higher interest at about 3% vs. non-risk US Treasuries at 1.5%.

**ICU view: Currently, market conditions are very attractive to buy local currency instruments. Investing in CLN issues by Citigroup, investors have easier access to these bonds than they do to direct investments. As a result, we could see an increase in non-resident investments in government bonds as the hryvnia's devaluation brings NDF. As a result, non-residents profit will be larger.**

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## Interest rates in the banks' reserves market (three months through 8 September 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 8 September 2017)

	Last	Daily	Weekly	Monthly	YT
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.90	-10bp	+20bp	+110bp	+130bp
ON \$ swap	12.10	-14bp	+0bp	+41bp	+63bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	46,544	-6.83	+2.74	+2.71	-6.41
DepCerts <sup>3</sup>	32,838	+2.38	-9.09	-31.98	-47.24
<b>Total</b>	<b>79,382</b>	<b>-3.23</b>	<b>-2.51</b>	<b>-15.18</b>	<b>-29.11</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	363,485	+0.00	+0.00	-0.72	+2.06
Banks	306,200	+0.03	+0.35	+3.42	+77.67
Residents	23,323	+0.03	+0.65	+3.41	+48.76
Non-res <sup>4</sup>	1,734	+0.00	+196.3	+16,633.8	-72.71
<b>Total</b>	<b>694,742</b>	<b>+0.01</b>	<b>+0.34</b>	<b>+1.46</b>	<b>+26.20</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	12.18	-43bp	+40bp	+125bp	-10pp
3 months	12.03	-1bp	+3bp	+61bp	-10pp
6 months	12.16	+6bp	+14bp	+43bp	-589bp
1 year	11.70	+3bp	-1bp	+13bp	-429bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	445	-30bp	-60bp	-95bp	-208bp

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 down again

The UAH continues to decline against the USD. Demand for foreign currency pushed the exchange rate above 26 UAH/USD while the dollar depreciated against other major currencies. With no supporting factors to Ukrainian currency in internal FX market at the time, as of Friday, the hryvna depreciated 0.3% and reached 26.073 UAH/USD. It sold for 26.1 USD/UAH versus 26.39 to buy in the Ukrainian cash market and its CPI-based real trade-weighted index rose 0.01% to 105.4; in year-on-year terms, it is up 10.67% from 95.24 last year. At the same time, there are some factors on external FX market that will support the hryvna in the next few month: declining of the dollar and increasing of the euro and yuan.

The US dollar touched its 32-month low on Friday and was under pressure from the situation in North Korea. Concern over the destructiveness of Hurricane Irma was projected to peak on weekend. Weak labor market data supported this trend. On Friday, the DXY index traded within 91.011 - 91.513, closing down 0.3% to 91.352.

On Friday, the euro appreciated against the dollar, mostly due to weakness of the latter, but also after Thursday's ECB meeting which left the key policy rate unchanged and delayed changes to the QE program to October. The euro traded within 1.2015 - 1.2092 and closed at 1.2036 EUR/USD, up 0.1%.

The weakness of the USD helped the Chinese currency appreciate to a 21-month high on Friday, but this effect had vanished by the end of the day, so the renminbi declined 0.1% to 6.4944CNY/USD. Meanwhile, the ruble was pretty volatile as it traded with oil prices. The weak USA didn't help the ruble as it fell 0.8% to 57.3692 RUB/USD.

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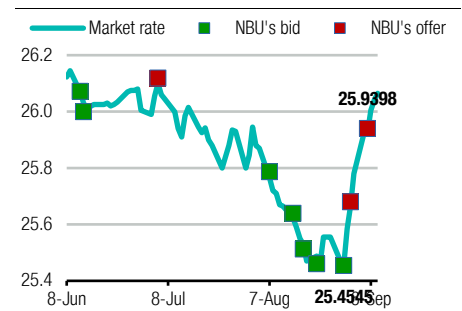
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 8 September 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.0650	+0.10	+1.11	+1.34	-3.82
USD <sup>1</sup>	91.352	-0.34	-1.58	-2.45	-10.62
EUR	1.2036	+0.11	+1.48	+2.42	+14.44
JPY	107.8400	-0.56	-2.19	-2.25	-7.80
GBP <sup>2</sup>	1.3200	+0.76	+1.92	+1.60	+6.97
CNY	6.4944	+0.11	-0.98	-3.16	-6.49
RUB	57.3692	+0.84	-0.19	-4.17	-6.77

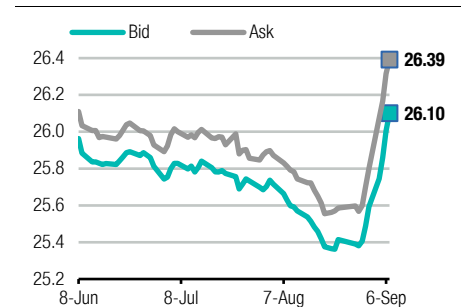
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 8 September 2017)



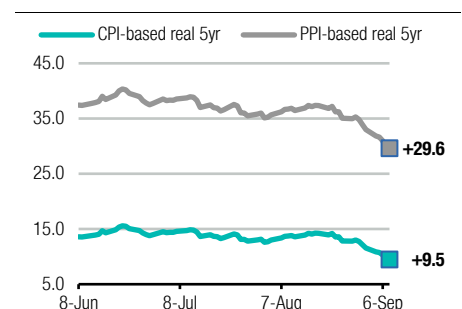
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 8 September 2017)



Source: NBU.

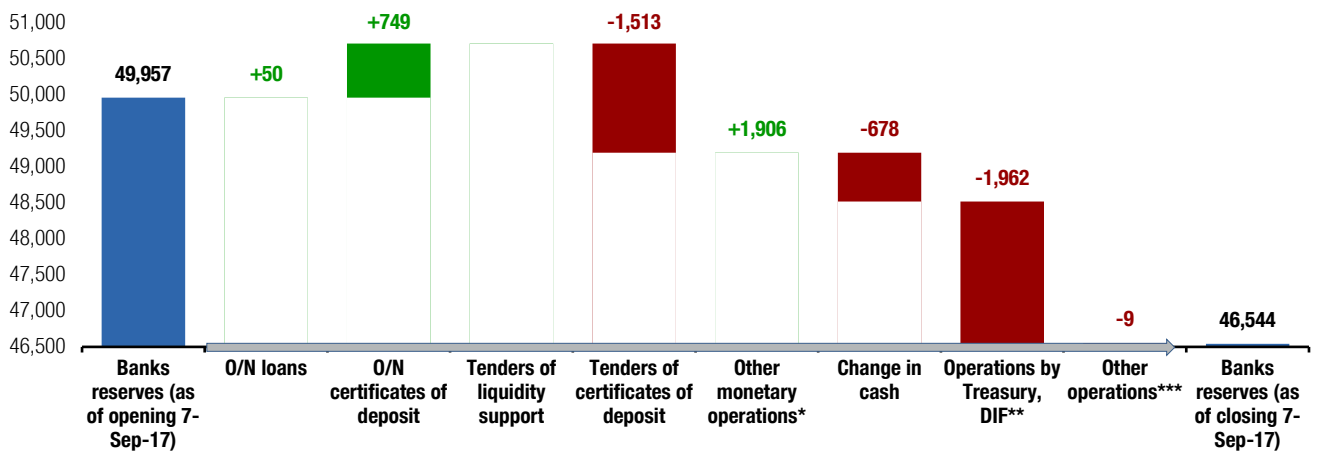
## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 8 September 2017)



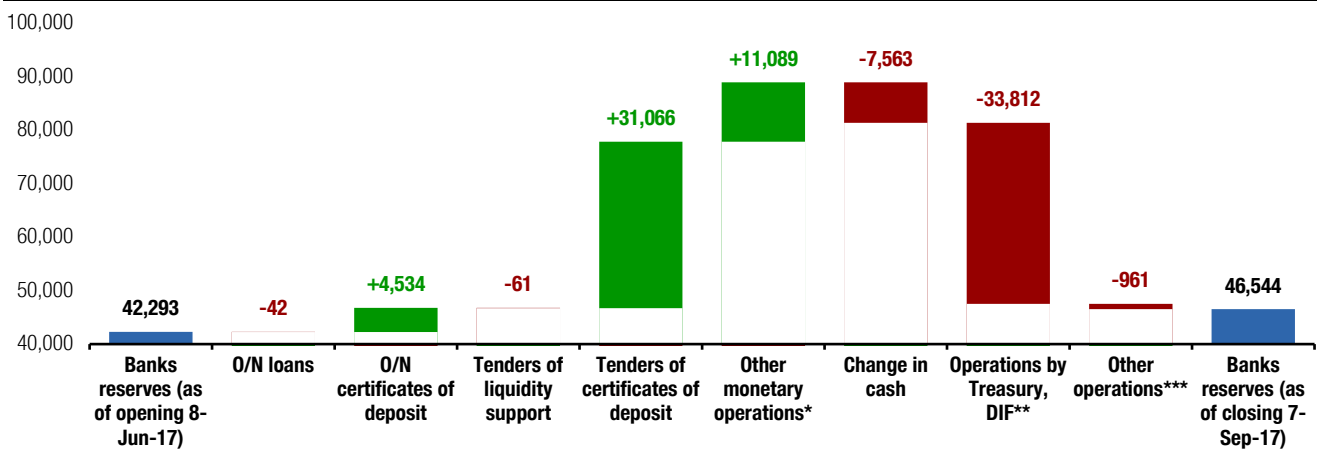
Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

# Appendix #1: Domestic liquidity

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

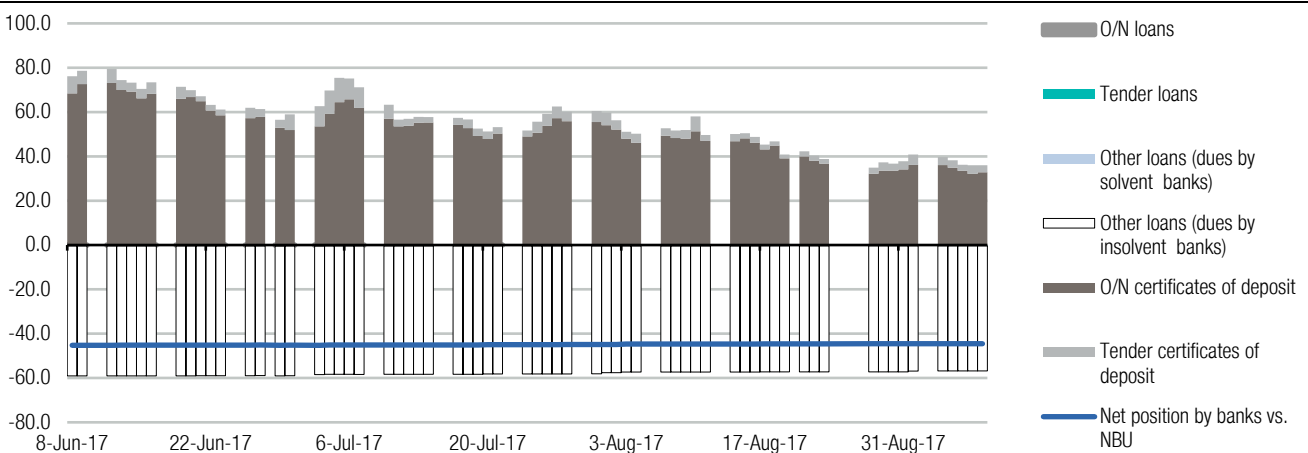


**Chart 2. Banks reserves usages over last 90-day period (UAHm)**



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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