

# Daily Insight

## Liquidity continues to decline

### Key messages of the today's comments

WEDNESDAY, 13 SEPTEMBER 2017

### Domestic liquidity **2**

#### Liquidity continues to decline.....2

Liquidity declined this Monday and the structure also changed as some funds were reallocated to banks' accounts from CDs due to a change in the schedule of 14-day CD tenders. The decline was caused by the NBU via its monetary operations. Total liquidity fell UAH1.90bn to UAH77.22bn, the lowest level of this year. Total CDs outstanding also fell to this year's low, down UAH6.47bn to UAH30.04bn, while banks' correspondent balance with the NBU rose UAH4.56bn to UAH47.19bn. 2

### Foreign exchange markets **3**

#### UAH holds steady.....3

The hryvnia slipped lower against the USD on Tuesday, following a slight rebound at the beginning of the week as demand for the US currency in the domestic FX market was muted. As of Tuesday, the UAH closed down 0.04% to 26.019 USD/UAH amid some strengthening of the USD in the world FX market. The hryvnia sold for 26.04 USD/UAH versus 26.28 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.08% to 105.97; in year-on-year terms, it is up 10.6% from 95.81 last year. The hryvnia aims to stabilize to near 26 USD/UAH this week, being supported by the US dollar's prolonged weakness. For the rest of 2017, however, the rising trade balance deficit and peaking inflation may create pressure on the Ukrainian currency. 3

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

### Ukraine's hryvnia exchange rate per US dollar (three months through 12 September 2017)



Source: Bloomberg.

### Selected indicators of the financial markets (three months through 12 September 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.60	+0bp	+100bp
Banks reserves (UAHm)	47,187	+10.70	-5.12
Deposit certificates* (UAHm)	25,730	-29.51	-58.66
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.0700	+0.13	-3.80
Total trade volume (US\$m)	183.60	+16.00	+8.24
UAH index CPI-based	105.965	+0.08	-1.89
UAH index PPI-based	163.317	+0.08	-3.00

### UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	445bp	+0bp	-208bp
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### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,496.48	+0.34	+11.51
MSCI EM	1,102.26	+0.28	+27.83
US dollar index (DXY)	91.882	+0.01	-10.10
EUR / USD	1.1967	+0.12	+13.79
Crude oil WTI (US\$/bbl)	48.23	+0.33	-10.22
Crude oil BRENT (US\$/bbl)	54.27	+0.80	-4.49
CRB, commodities index	181.41	-0.14	-5.77
Gold (US\$/ounce)	1,331.81	+0.33	+15.58

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity continues to decline

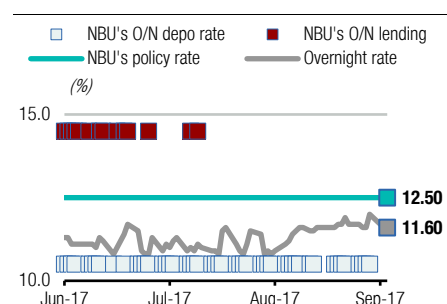
Liquidity declined this Monday and the structure also changed as some funds were reallocated to banks' accounts from CDs due to a change in the schedule of 14-day CD tenders. The decline was caused by the NBU via its monetary operations. Total liquidity fell UAH1.90bn to UAH77.22bn, the lowest level of this year. Total CDs outstanding also fell to this year's low, down UAH6.47bn to UAH30.04bn, while banks' correspondent balance with the NBU rose UAH4.56bn to UAH47.19bn.

For the second consecutive day, non-monetary operations had a positive impact, with UAH0.54bn injected into the banking system, including UAH0.27bn from the Treasury. However, this amount was insufficient to offset outflows to the NBU. This Monday, one bank repaid UAH2.44bn to the NBU via a FX SWAP issued last week, causing liquidity to decline.

**ICU view:** *This outflow should be the last reason for liquidity to decline this week, and banking sector liquidity should slightly recover to above UAH80bn. Total CDs probably rose yesterday as the NBU tendered 2-week CDs and the purchase of 3-month CDs (offered for the first time) should cause liquidity to rebound. This new instrument's rate should be set at the tender based on accepted bids.*

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## Interest rates in the banks' reserves market (three months through 12 September 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 12 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	11.60	+0bp	+0bp	+70bp	+100bp
ON \$ swap	12.44	+7bp	+3bp	+85bp	+97bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	47,187	+10.70	+3.92	-3.02	-5.12
DepCerts <sup>3</sup>	25,730	-29.51	-26.38	-45.24	-58.66
<b>Total</b>	<b>72,917</b>	<b>-7.85</b>	<b>-9.26</b>	<b>-23.76</b>	<b>-34.88</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	363,485	+0.00	+0.00	-0.61	+2.06
Banks	306,240	-0.07	+0.13	+3.44	+77.70
Residents	23,312	-0.16	+0.25	+3.62	+48.69
Non-res <sup>4</sup>	1,734	+0.00	+196.4	+16,168.9	-72.70
<b>Total</b>	<b>694,772</b>	<b>-0.04</b>	<b>+0.23</b>	<b>+1.53</b>	<b>+26.20</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	9.35	-211bp	-330bp	-185bp	-13pp
3 months	11.30	-73bp	-108bp	-7bp	-11pp
6 months	11.72	-41bp	-50bp	-9bp	-633bp
1 year	11.42	-20bp	-33bp	-24bp	-457bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	445	+0bp	-54bp	-105bp	-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 holds steady

The hryvnia slipped lower against the USD on Tuesday, following a slight rebound at the beginning of the week as demand for the US currency in the domestic FX market was muted. As of Tuesday, the UAH closed down 0.04% to 26.019 USD/UAH amid some strengthening of the USD in the world FX market. The hryvnia sold for 26.04 USD/UAH versus 26.28 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.08% to 105.97; in year-on-year terms, it is up 10.6% from 95.81 last year. The hryvnia aims to stabilize to near 26 USD/UAH this week, being supported by the US dollar's prolonged weakness. For the rest of 2017, however, the rising trade balance deficit and peaking inflation may create pressure on the Ukrainian currency.

The US dollar extended gains against other major currencies for the second straight day as the cost of Hurricane Irma will probably be lower than expected. At the same time, the USD was boosted by easing tensions between Washington and Pyongyang as North Korea did not conduct another nuclear test over the weekend. The DXY index rose 0.01% to 91.88, being in 91.77 – 92.08 range over the trading session.

Slightly up against the USD despite some strengthening of it, the euro remained under pressure due to several ECB officials' declaring that an overly strong euro negatively affects inflation in the Eurozone. On Tuesday, the euro inched up after two trading days of weakening and closed up 0.12% to 1.1967 EUR/USD.

China aims to keep the renminbi stable before a Communist Party Congress next month, so the central bank of China removed a 20% reserve requirement on the trading of foreign-exchange forwards as the answer to a significant strengthening of the renminbi over the last several months. The renminbi weakened for the third consecutive trading session and closed down 0.1% to 6.5354 USD/CNY.

The Russian ruble traded lower against the USD despite rising oil prices, and closed down 0.8% to 57.6675 USD/RUB. The weakening of the ruble is due to a decrease of investors' appetite for high risk assets. In our view, the Russian currency will remain stronger than 58 USD/RUB this week thanks to external factors such as a weak US dollar and higher oil prices.

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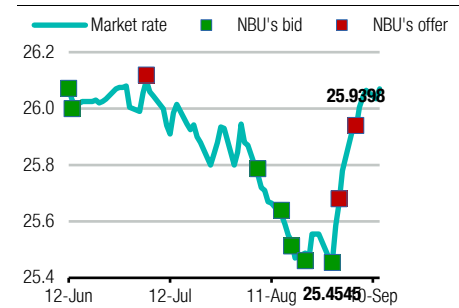
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 12 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.0700	+0.13	+0.56	+1.58	-3.80
USD <sup>1</sup>	91.882	+0.01	-0.40	-1.28	-10.10
EUR	1.1967	+0.12	+0.44	+1.24	+13.79
JPY	110.1700	+0.71	+1.25	+0.90	-5.81
GBP <sup>2</sup>	1.3283	+0.91	+1.92	+2.07	+7.64
CNY	6.5354	+0.09	-0.05	-1.92	-5.90
RUB	57.6675	+0.78	+0.24	-3.63	-6.29

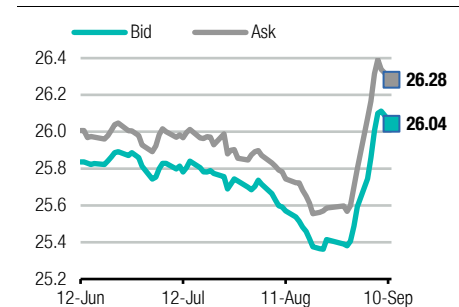
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 12 September 2017)



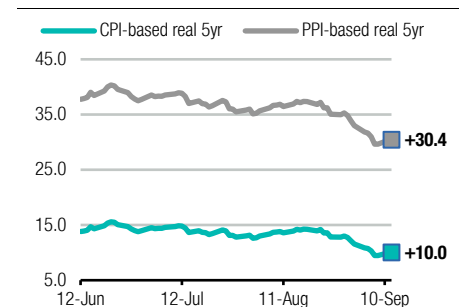
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 12 September 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 12 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)

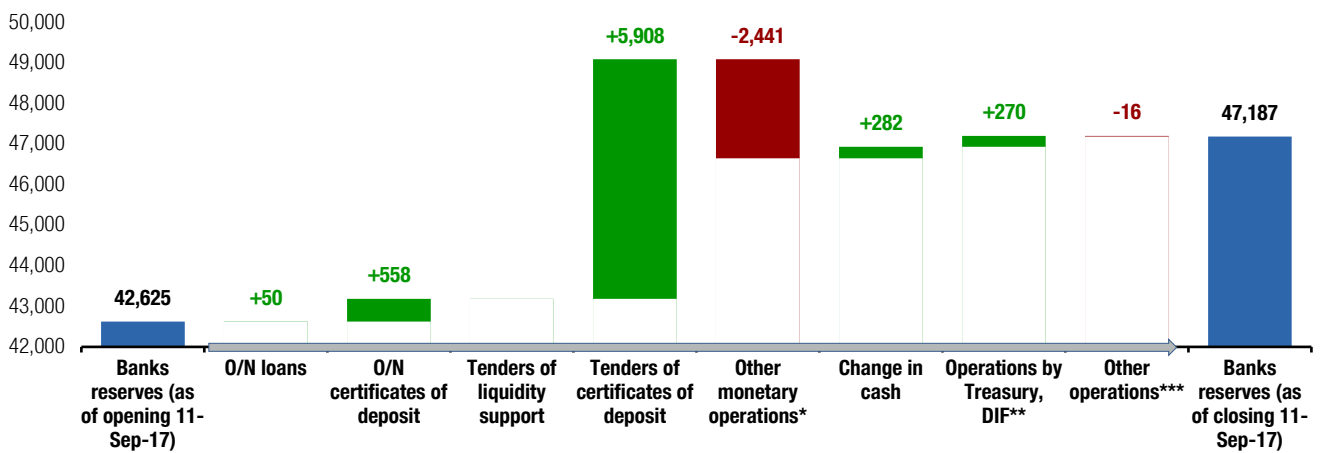
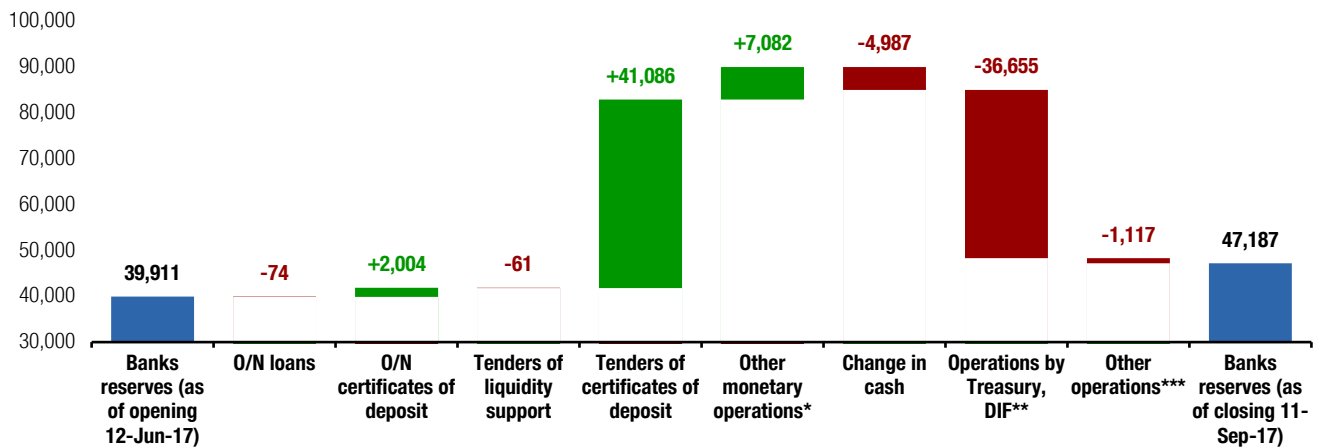
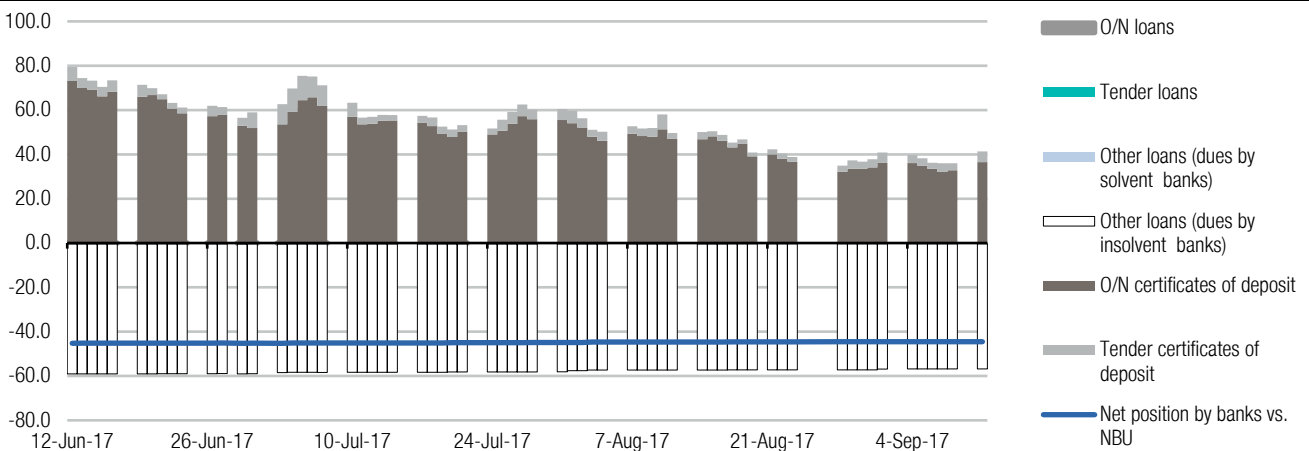


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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