

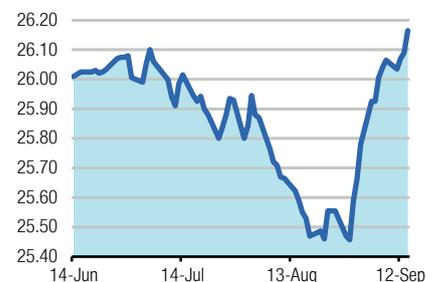
Daily Insight

Non-residents' portfolio increases

Key messages of the today's comments

FRIDAY, 15 SEPTEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 14 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 14 September 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.50	-40bp	+90bp
Banks reserves (UAHm)	48,617	+3.59	-2.24
Deposit certificates* (UAHm)	27,221	-8.63	-56.26
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.1650	+0.29	-3.45
Total trade volume (US\$m)	237.02	+23.18	+39.74
UAH index CPI-based	105.886	-0.53	-1.96
UAH index PPI-based	163.195	-0.53	-3.08

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr N/A

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,495.62	-0.11	+11.47
MSCI EM	1,099.89	+0.04	+27.56
US dollar index (DXY)	92.124	-0.43	-9.87
EUR / USD	1.1919	+0.29	+13.33
Crude oil WTI (US\$/bbl)	49.89	+1.20	-7.13
Crude oil BRENT (US\$/bbl)	55.47	+0.56	-2.38
CRB, commodities index	183.31	+0.23	-4.78
Gold (US\$/ounce)	1,329.69	+0.49	+15.40

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity 2

Liquidity continues to decline 2

On Wednesday, the Treasury once again withdrew funds from bank reserves by absorbing UAH0.85bn. Total collected budget revenues rose insufficiently, but Wednesday's settlement of government bonds after Tuesday's auction increased outflows to the state budget. Low expenditures remained the main reason for the decline in liquidity. According the NBU yesterday, Treasury accounts had UAH65bn, or about UAH4bn more than at the beginning of September. Cash exchanges into reserves slightly offset outflows to the budget. 2

Non-residents' portfolio increases 2

Over the last 30 days, non-residents increased their government bond portfolio by UAH2.22bn from a mere UAH 11m in mid-August, mostly on same-day settlements after primary auctions. However, this week they also purchased bonds and on an additional day. This Tuesday, they purchased about UAH0.10bn of bonds, increasing the portfolio to UAH1.83bn, and following an additional auction this week by UAH0.40bn to UAH2.23bn. 2

Foreign exchange markets 3

Hryvnia continues to decline..... 3

On Thursday, the hryvnia continued to decline against the USD. Higher demand for foreign currency at the local FX market continues to weigh on the hryvnia. Moreover, liquidity hit a new 2017 low on Thursday morning. To support the hryvnia, the NBU proposed to sell the USD at market. From US\$17m in total demand, US\$12.7m of bids was satisfied. Thus, as the end of Thursday, the hryvnia depreciated 0.3% to 26.1620 USD/UAH and sold for 26 USD/UAH versus 26.21 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.53% to 105.89; in year-on-year terms, it is up 9.35% from 96.84 last year. 3

Appendix #1: Domestic liquidity 4

Domestic liquidity

Liquidity continues to decline

On Wednesday, the Treasury once again withdrew funds from bank reserves by absorbing UAH0.85bn. Total collected budget revenues rose insufficiently, but Wednesday's settlement of government bonds after Tuesday's auction increased outflows to the state budget. Low expenditures remained the main reason for the decline in liquidity. According to the NBU yesterday, Treasury accounts had UAH65bn, or about UAH4bn more than at the beginning of September. Cash exchanges into reserves slightly offset outflows to the budget.

Notably, the liquidity structure changed as the NBU, for the first time since February 2016, offered 3-month CDs. However, this offer was limited to UAH0.50bn, causing the NBU to reject about UAH1.7bn of bids. As a result, total CDs fell UAH2.57bn to UAH27.22bn, and UAH1.68bn of funds were reallocated to reserves, increasing banks' correspondent accounts to UAH48.62bn.

ICU view: Liquidity and CDs outstanding continued to hit new record lows this year. If budget expenditures do not increase, liquidity will be unable to recover soon and could continue to decline. Under these conditions, month-end tax payments which begin next week could cause liquidity to not only decline further but also cause rates to rise. At the same time, debt repayments directed mostly to the NBU should have no impact on liquidity.

Non-residents' portfolio increases

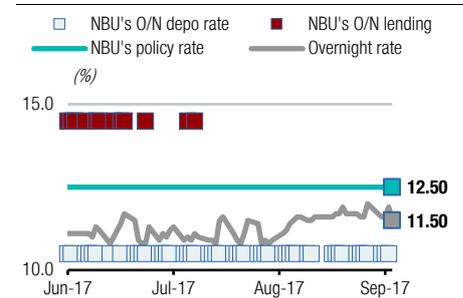
Over the last 30 days, non-residents increased their government bond portfolio by UAH2.22bn from a mere UAH 11m in mid-August, mostly on same-day settlements after primary auctions. However, this week they also purchased bonds on an additional day. This Tuesday, they purchased about UAH0.10bn of bonds, increasing the portfolio to UAH1.83bn, and following an additional auction this week by UAH0.40bn to UAH2.23bn.

This week, banks also increased their bond portfolio by UAH0.82bn, while the NBU portfolio declined UAH1.25bn after bond redemptions. Currently, the NBU's share slid to 52.14%, banks' share rose to 44.18%, and the other residents' share slid to 3.35%. The non-residents' share recently rose to 0.32% from almost zero a month ago.

ICU view: Non-residents are now investing in local currency bonds, and they were unable to purchase their full demand on Wednesday which primary dealers purchased for them at the auction. We should see an increase in the non-residents' portfolio later this week. If the hryvnia stabilizes, the non-residents' presence at the market should rise. The banks' portfolio rose also due to the recent change in the UAH/USD exchange rate, as the main portion of FX-denominated bonds is in its portfolio.

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Interest rates in the banks' reserves market (three months through 14 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 14 September 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YT chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.50	-40bp	-50bp	+40bp	+90bp
ON \$ swap	12.70	-3bp	-14bp	+109bp	+122bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	48,617	+3.59	-2.68	+1.99	-2.24
DepCerts ³	27,221	-8.63	-15.13	-41.89	-56.26
Total	75,838	-1.16	-7.55	-19.76	-32.27
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	362,235	-0.34	-0.34	-0.95	+1.71
Banks	306,913	+0.27	+0.26	+3.66	+78.09
Residents	23,305	-0.30	-0.05	+3.51	+48.64
Non-res ⁴	2,233	+21.79	+28.83	+20,020.2	-64.84
Total	694,686	-0.01	+0.00	+1.52	+26.19
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.55	+106bp	-6bp	+111bp	-976bp
3 months	14.79	+276bp	+274bp	+304bp	-728bp
6 months	12.08	+0bp	-2bp	+31bp	-597bp
1 year	11.63	-1bp	-4bp	+4bp	-436bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	N/A	N/A	N/A	N/A	N/A

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

Hryvnia continues to decline

On Thursday, the hryvnia continued to decline against the USD. Higher demand for foreign currency at the local FX market continues to weigh on the hryvnia. Moreover, liquidity hit a new 2017 low on Thursday morning. To support the hryvnia, the NBU proposed to sell the USD at market. From US\$17m in total demand, US\$12.7m of bids was satisfied. Thus, as the end of Thursday, the hryvna depreciated 0.3% to 26.1620 USD/UAH and sold for 26 USD/UAH versus 26.21 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.53% to 105.89; in year-on-year terms, it is up 9.35% from 96.84 last year.

The US dollar declined against major currencies during the trading session, but appreciated in the second half due to the macroeconomic news of a decline of applications for unemployment assistance by 14,000 to 284,000 along with inflation data which accelerated to 0.4% MoM in August and 1.9% YoY, mainly due to higher gasoline prices following the hurricanes. However, the dollar retreated to the previous level after the news was absorbed. Thus, on Thursday, the DXY index traded at 91.975 - 92.661, closing down 0.4% to 92.124.

The euro was abnormally volatile during the day on the dollar movements, trading at 1.1838 - 1.1922 EUR/USD. As of the end of the day, it rose 0.3% to 1.1919 EUR/USD. The British pound increased against the dollar after the Bank of England meeting left the key policy rate unchanged and strongly indicated that it will be raised in coming months. Thus, the pound traded at 1.3155 – 1.3406 GBP/USD and appreciated 1.4% to 1.3399 GBP/USD.

The Russian ruble was supported on Thursday due to higher oil prices, which were near US\$56 per barrel, and to the weak US dollar. However, investors remain cautious, anticipating a potential key rate cut at Friday's CB meeting. At the close, the ruble traded at 57.3913-58.0073 USD/RUB and rose 0.8% to 57.5052 USD/RUB. The Chinese yuan depreciated against the dollar by 0.2% to 6.556 USD/CNY on Thursday and traded at 6.544 - 6.561 USD/CNY.

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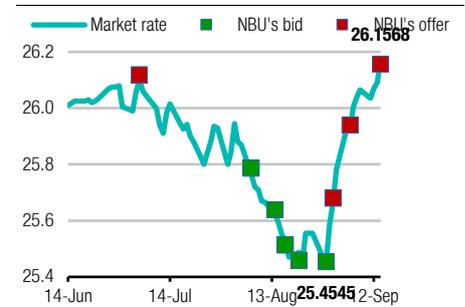
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 14 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.1650	+0.29	+0.48	+2.12	-3.45
USD ¹	92.124	-0.43	+0.50	-1.38	-9.87
EUR	1.1919	+0.29	-0.87	+1.18	+13.33
JPY	110.2400	-0.23	+1.65	+0.56	-5.75
GBP ²	1.3399	+1.42	+2.27	+3.36	+8.58
CNY	6.5560	+0.22	+1.06	-1.73	-5.60
RUB	57.5052	-0.75	+1.08	-3.99	-6.55

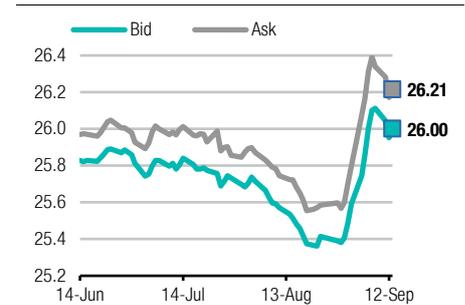
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 14 September 2017)



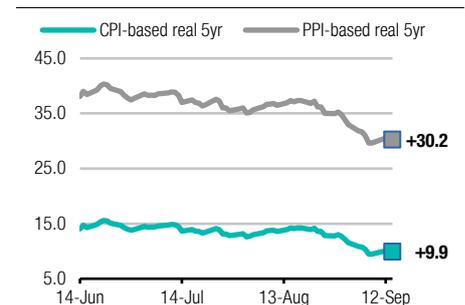
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 14 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 14 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)

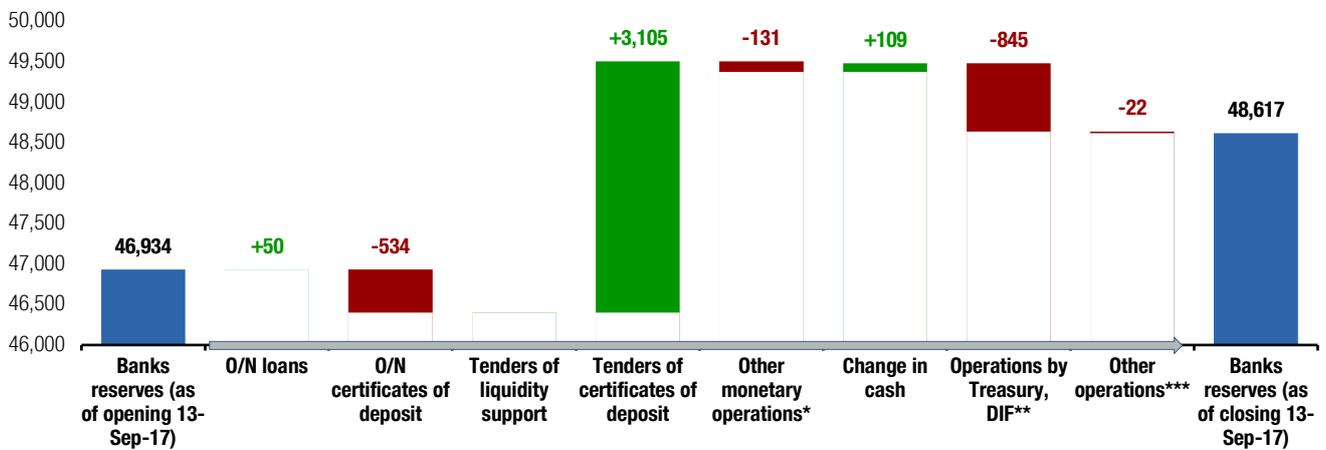
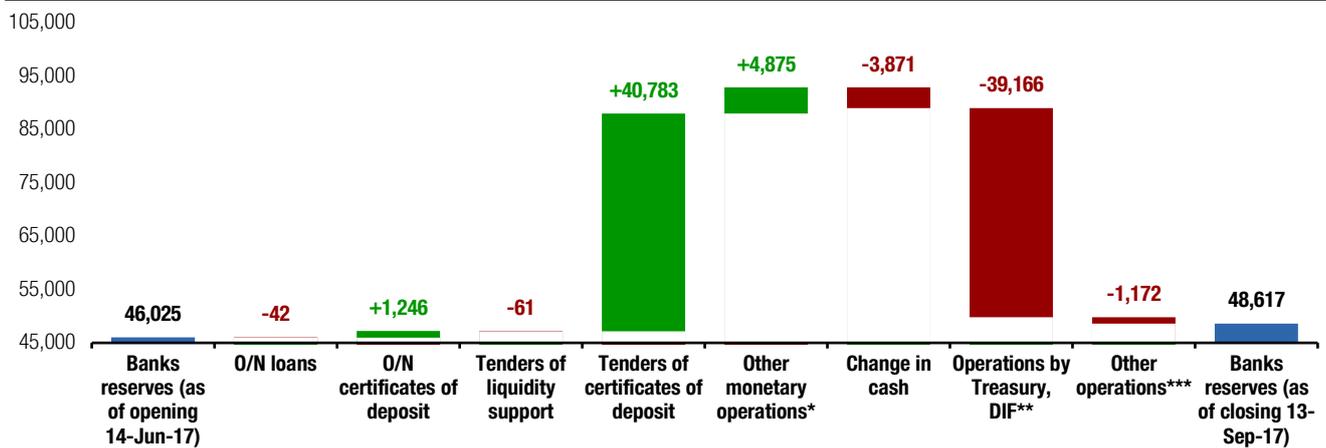
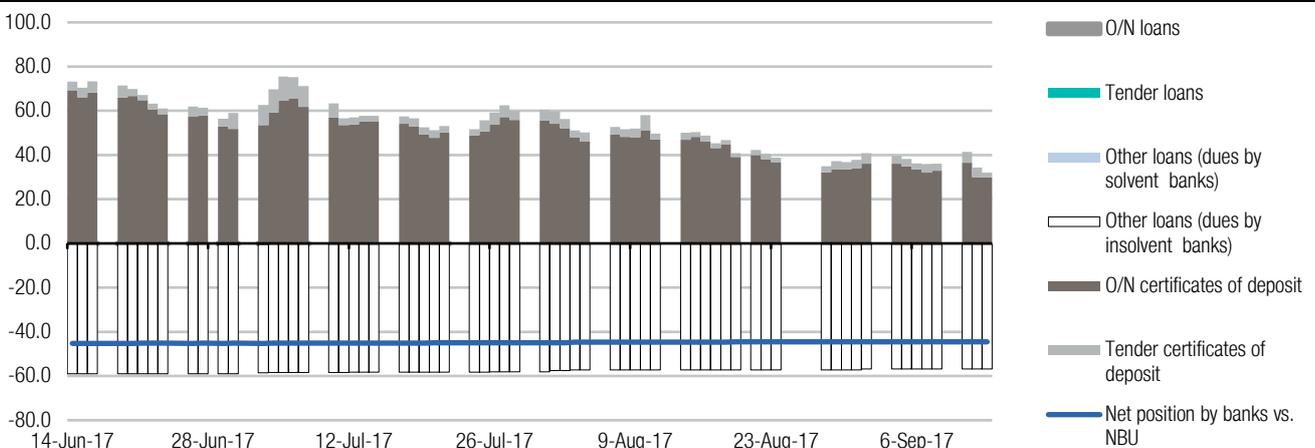


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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