

# Daily Insight

## Hryvnia below 26.2 USD/UAH

### Key messages of the today's comments

MONDAY, 18 SEPTEMBER 2017

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#### Liquidity hits year's low 2

Total banking sector liquidity (excluding the government's bond portfolio) fell to this year's low. Last Thursday, liquidity fell UAH0.95bn to UAH74.89bn, the new low since last November when liquidity fell due to pressure from tax payments. In addition, because of the new mechanism for CD tenders and offerings, total CDs outstanding fell UAH2.59bn to UAH24.64bn while banks' correspondent accounts with the NBU rose UAH1.64bn to UAH50.28bn. 2

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#### Hryvnia below 26.2 USD/UAH 3

At the end of the week, the hryvna declined below 26.2 USD/UAH; its decline continued from Tuesday. Another liquidity decline in the banking sector and the globally weak USD did not support the hryvnia. Moreover, high demand for foreign currency in the local FX market also pushes the hryvnia lower, the national currency depreciated 0.2% to 26.2244 USD/UAH on Friday. It sold for 26.02 USD/UAH versus 26.23 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.22% to 105.65; in year-on-year terms, it is up 7.61% from 97.61 last year. 3

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**Ukraine's hryvnia exchange rate per US dollar (three months through 15 September 2017)**



Source: Bloomberg.

**Selected indicators of the financial markets (three months through 15 September 2017)**

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.30	-20bp	+70bp
Banks reserves (UAHm)	50,257	+3.37	+1.06
Deposit certificates* (UAHm)	24,636	-9.50	-60.42
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.2050	+0.15	-3.30
Total trade volume (US\$m)	201.34	-15.05	+18.71
UAH index CPI-based	105.648	-0.22	-2.18
UAH index PPI-based	162.828	-0.22	-3.29
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	445bp	+0bp	-208bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,500.23	+0.18	+11.68
MSCI EM	1,102.16	+0.21	+27.82
US dollar index (DXY)	91.872	-0.27	-10.11
EUR / USD	1.1945	+0.22	+13.58
Crude oil WTI (US\$/bbl)	49.89	+0.00	-7.13
Crude oil BRENT (US\$/bbl)	55.62	+0.27	-2.11
CRB, commodities index	184.05	+0.40	-4.39
Gold (US\$/ounce)	1,320.16	-0.72	+14.57

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity hits year's low

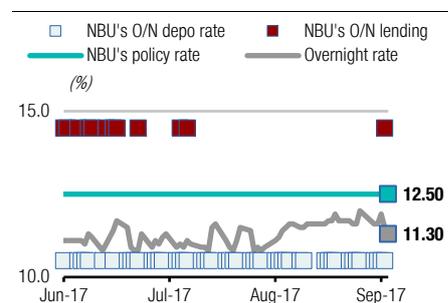
Total banking sector liquidity (excluding the government's bond portfolio) fell to this year's low. Last Thursday, liquidity fell UAH0.95bn to UAH74.89bn, the new low since last November when liquidity fell due to pressure from tax payments. In addition, because of the new mechanism for CD tenders and offerings, total CDs outstanding fell UAH2.59bn to UAH24.64bn while banks' correspondent accounts with the NBU rose UAH1.64bn to UAH50.28bn.

Last Thursday's outflow was caused by NBU rather than the Treasury. Although the impact of non-monetary operations was positive, it was only UAH0.16bn. Inflows from the Treasury amounted to UAH0.39bn while outflows via exchanging reserves into cash were UAH0.21bn and other operations was an additional UAH0.02bn. The main outflow last Thursday was caused by the NBU as it absorbed UAH1.12bn via other monetary operations, including UAH0.33bn via FX auctions.

**ICU view:** *The Treasury appears to have attempted to maintain its balance of operations close to zero, supported by the stabilization of UAH/USD exchange rate. However, the NBU absorbed additional funds to support the hryvnia, which tightened liquidity. At the same time, interest rates at the money market moved very little. The Ukrainian index of interbank rates for ON loans slid 3 bp to 111.46% last Thursday while for SWAP ON operations interest rates increased 12bp to 12.70%. Some banks could need short-term funds, as interest rates for these maturities are normally 11%.*

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

## Interest rates in the banks' reserves market (three months through 15 September 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 15 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.30	-20bp	-60bp	+10bp	+70bp
ON \$ swap	12.50	-18bp	+40bp	+64bp	+103bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	50,257	+3.37	+7.98	+7.76	+1.06
DepCerts <sup>3</sup>	24,636	-9.50	-24.98	-48.85	-60.42
<b>Total</b>	<b>74,893</b>	<b>-1.25</b>	<b>-5.65</b>	<b>-21.00</b>	<b>-33.11</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	362,235	+0.00	-0.34	-0.95	+1.71
Banks	307,065	+0.05	+0.28	+3.75	+78.18
Residents	23,415	+0.47	+0.39	+4.40	+49.34
Non-res <sup>4</sup>	2,233	+0.00	+28.83	+20.04k	-64.84
<b>Total</b>	<b>694,949</b>	<b>+0.04</b>	<b>+0.03</b>	<b>+1.59</b>	<b>+26.24</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	12.20	-35bp	+1bp	+95bp	-10ppt
3 months	12.04	-274bp	+1bp	+37bp	-10ppt
6 months	12.07	-1bp	-8bp	+32bp	-597bp
1 year	11.68	+5bp	-1bp	+10bp	-430bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	445	+0bp	+0bp	-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

## Hryvnia below 26.2 USD/UAH

At the end of the week, the hryvnia declined below 26.2 USD/UAH; its decline continued from Tuesday. Another liquidity decline in the banking sector and the globally weak USD did not support the hryvnia. Moreover, high demand for foreign currency in the local FX market also pushes the hryvnia lower, the national currency depreciated 0.2% to 26.2244 USD/UAH on Friday. It sold for 26.02 USD/UAH versus 26.23 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.22% to 105.65; in year-on-year terms, it is up 7.61% from 97.61 last year.

In the first half of the day on Friday, the US dollar was almost flat and traded in the narrow range before more macroeconomic data which, upon release later in the day, the DXY dollar index rapidly declined. Retail sales unexpectedly declined in August by 0.2% instead of forecasted growth of 0.1%. Also, the Empire State manufacturing index decreased to 24.4 from 25.2 previously, and industrial production fell 0.9% versus forecasted growth of 0.1%. On Friday, the DXY index traded at 91.577 - 92.166, closing down 0.3% to 91.872.

The euro moved inversely to the weakened US dollar on Friday as it traded at 1.1901 - 1.1987 EUR/USD and appreciated 0.2% to 1.1945. The British pound continued the trend from the previous day and traded at 1.3382 - 1.3616 GBP/USD, up 1.5% to 1.3594.

The Russian ruble traded lower from the previous day in the wake of the Russian central bank's decision to decrease the key policy rate by 0.5% to 8.5%. Thus, the ruble traded at 57.3876-57.7709 USD/RUB and declined 0.1% to 57.5334. The Chinese yuan appreciated against the dollar by 0.1% to 6.5526 USD/CNY on Friday and traded at 6.5389 - 6.5546 during the day.

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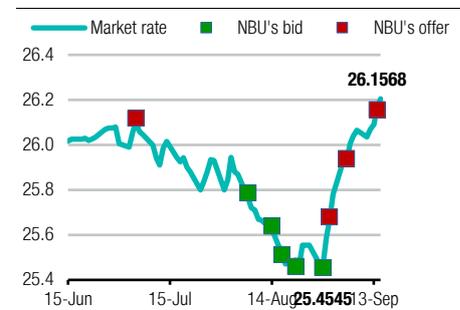
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 15 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.2050	+0.15	+0.54	+2.40	-3.30
USD <sup>1</sup>	91.872	-0.27	+0.57	-2.11	-10.11
EUR	1.1945	+0.22	-0.76	+1.79	+13.58
JPY	110.8300	+0.54	+2.77	+0.14	-5.24
GBP <sup>2</sup>	1.3594	+1.46	+2.98	+5.63	+10.16
CNY	6.5526	-0.05	+0.90	-1.99	-5.65
RUB	57.5334	+0.05	+0.29	-3.64	-6.51

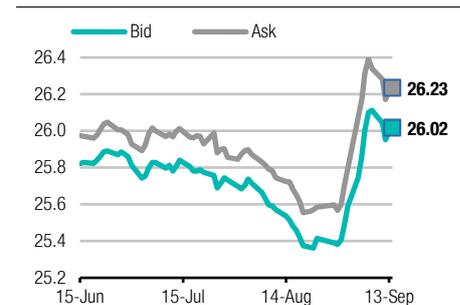
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 15 September 2017)



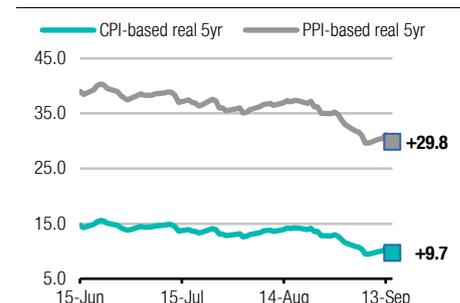
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 15 September 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 15 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)

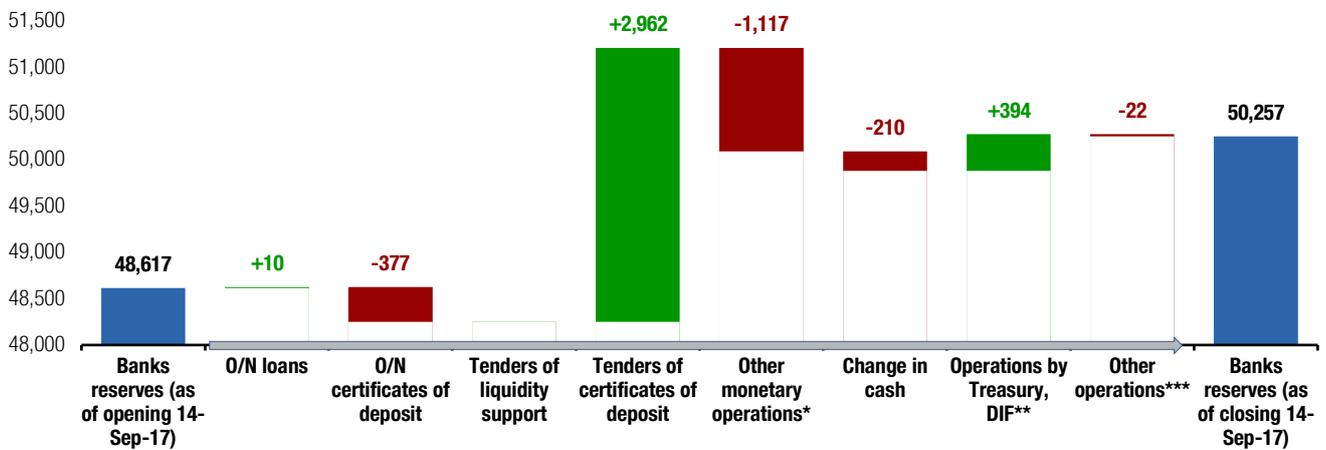
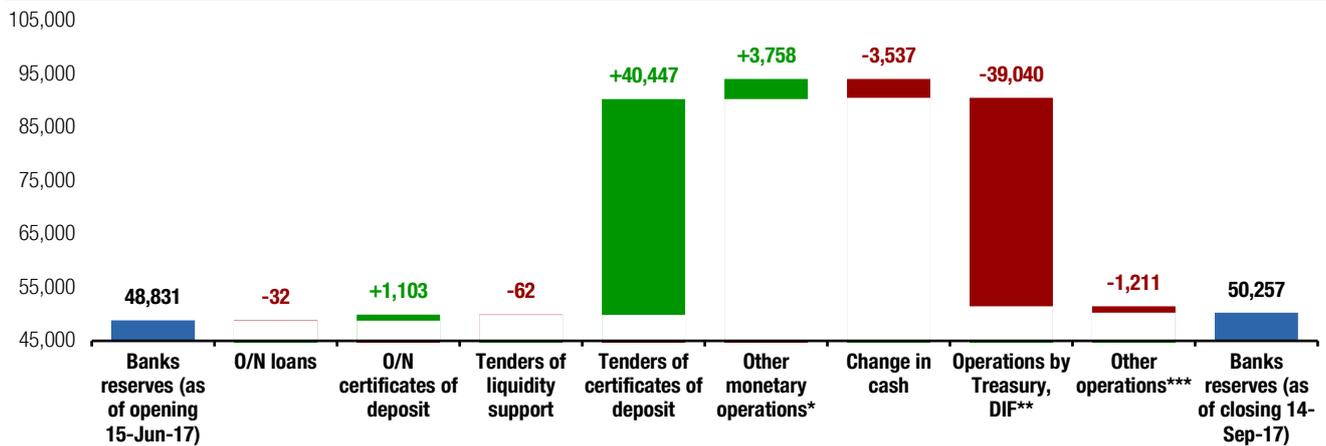
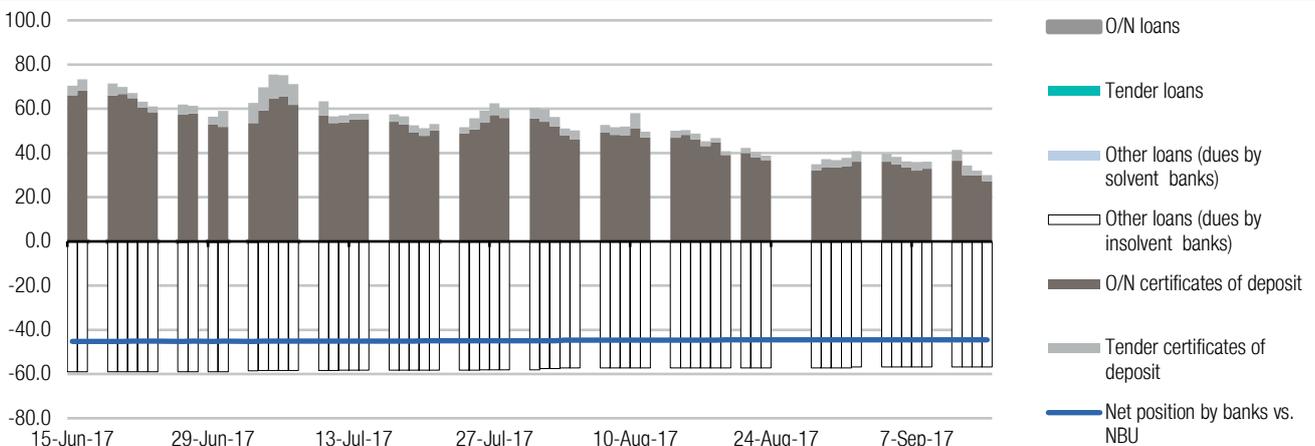


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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