

# Daily Insight

## Liquidity begins to recover

### Key messages of the today's comments

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##### Liquidity begins to recover.....2

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##### Primary auction announcement.....2

Today, the MoF will offer only two bonds, namely 1-year and 3-year maturities. The 3-year bond will be the same as at recent auctions, which were largely purchased by non-residents. The 1-year bond will be a re-opening of a 2013 issue of UAH1.25bn. 2

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

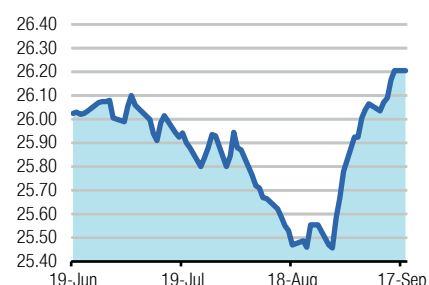
##### UAH slightly up.....3

The hryvnia strengthened 0.2% to 26.1806 USD/UAH at the beginning of the week as the domestic market reacted to Friday's decline of the US dollar in global FX markets. However, the hryvnia's further strengthening on Monday was constrained by an increase in liquidity in the banking sector as banks' reserves added UAH1.9bn to UAH52.19bn. In the Ukrainian cash market, the hryvnia sold for 26.06 USD/UAH versus 26.22 to buy. Its CPI-based real trade-weighted index rose 0.06% to 105.71; in year-on-year terms, up 8.9% from 97.08 last year. 3

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

TUESDAY, 19 SEPTEMBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 18 September 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 18 September 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.50	+20bp	+90bp
Banks reserves (UAHm)	52,189	+3.84	+4.94
Deposit certificates* (UAHm)	25,058	+1.71	-59.74
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.2050	+0.00	-3.30
Total trade volume (US\$m)	150.07	-25.47	-11.52
UAH index CPI-based	105.713	+0.06	-2.12
UAH index PPI-based	162.929	+0.06	-3.23
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	411bp	-34bp	-242bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,500.23	+0.18	+11.68
MSCI EM	N/A		
US dollar index (DXY)	91.887	+0.02	-10.10
EUR / USD	1.1942	-0.03	+13.55
Crude oil WTI (US\$/bbl)	49.98	+0.18	-6.96
Crude oil BRENT (US\$/bbl)	55.69	+0.13	-1.99
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,316.31	-0.29	+14.24

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity begins to recover

At the end of last Friday, banking sector liquidity recovered to last Tuesday's level, up UAH2.35bn, as a result of an increase in budget expenditures. The Treasury's net injections in liquidity last Friday amounted to UAH2.68bn which banks mostly allocated to reserves. At the same time, banks exchanged more reserves into cash than back and the net flow was negative UAH0.33bn, decreasing the net impact of non-monetary operations to UAH2.36bn. An additional small outflow was caused by the NBU as one bank repaid its UAH0.01bn loan.

Banks' correspondent accounts at the NBU was up UAH1.93bn, while total CDs outstanding was up only UAH0.42bn. Banks decreased ON CDs by UAH0.47bn, reallocating them into 2-week CDs. The increase in 14-day CDs outstanding was UAH0.89bn.

**ICU view: The Treasury significantly increased expenditures last Friday, according to its data, as the collection of revenues was up by about UAH1bn, meaning that the increase in expenditures was UAH3bn compared with last Thursday. VAT refunds also rose UAH0.52bn last Friday, up UAH0.91bn since the beginning of the month. If budget expenditures remain high (while VAT refunds yesterday was only UAH0.27bn), liquidity could continue to increase this week and banks likely will continue to accumulate funds in reserves and ON CDs prior to month-end tax payments.**

## Primary auction announcement

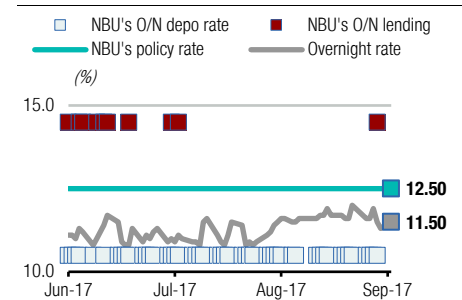
Today, the MoF will offer only two bonds, namely 1-year and 3-year maturities. The 3-year bond will be the same as at recent auctions, which were largely purchased by non-residents. The 1-year bond will be a re-opening of a 2013 issue of UAH1.25bn.

While the 3-year bond is well-known, the 12-month bond will be new to the market, most of which (about UAH1.2bn) is in the NBU portfolio. This offering seems like a primary placement. At the same time, this issue has semi-annual coupon payments which will provide better YTM than zero-coupon bonds.

**ICU view: As seen at the recent auction, today we could see a new portion of demand from non-residents and some bids from domestic investors as well. Total demand is unlikely to exceed UAH1bn and interest rates should be unchanged. This level of interest rates was also supported by the NBU which kept the key monetary rate unchanged at 12.50%.**

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## Interest rates in the banks' reserves market (three months through 18 September 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 18 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	11.50	+20bp	-10bp	-10bp	+90bp
ON \$ swap	12.33	-3bp	-43bp	-24bp	+86bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	52,189	+3.84	+22.44	+6.68	+4.94
DepCerts <sup>3</sup>	25,058	+1.71	-31.35	-44.21	-59.74
<b>Total</b>	<b>77,247</b>	<b>+3.14</b>	<b>-2.38</b>	<b>-17.68</b>	<b>-31.01</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	362,235	+0.00	-0.34	-0.67	+1.71
Banks	307,260	+0.06	+0.26	+0.74	+78.29
Residents	23,471	+0.24	+0.51	+3.93	+49.70
Non-res <sup>4</sup>	2,237	+0.15	+28.97	+374.8	-64.79
<b>Total</b>	<b>695,203</b>	<b>+0.04</b>	<b>+0.03</b>	<b>+0.35</b>	<b>+26.28</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	16.28	+409bp	+482bp	+512bp	-603bp
3 months	12.49	+45bp	+46bp	+63bp	-957bp
6 months	12.37	+30bp	+24bp	+53bp	-567bp
1 year	11.89	+20bp	+27bp	+22bp	-410bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	411	-34bp	-34bp	-137bp	-242bp

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 slightly up

The hryvnia strengthened 0.2% to 26.1806 USD/UAH at the beginning of the week as the domestic market reacted to Friday's decline of the US dollar in global FX markets. However, the hryvnia's further strengthening on Monday was constrained by an increase in liquidity in the banking sector as banks' reserves added UAH1.9bn to UAH52.19bn. In the Ukrainian cash market, the hryvnia sold for 26.06 USD/UAH versus 26.22 to buy. Its CPI-based real trade-weighted index rose 0.06% to 105.71; in year-on-year terms, up 8.9% from 97.08 last year.

The US dollar was almost flat against other major currencies on Monday, as there were no major US economic reports released over the day. Investors are looking forward to the Fed meeting scheduled on Tuesday. Market participants expect that the Federal Reserve will give indications on when it plans to start unwinding its balance sheet. On Monday, the DXY index traded in 91.58 – 92.21 range, closing up 0.2% to 92.05.

The EUR/USD pair struggled to find direction on the back of quiet trade as investors await the Fed meeting. The euro closed up 0.1% to 1.1954 EUR/USD. At the same time, the Chinese renminbi weakened 0.3% to 6.5752 USD/CNY. It should be noted that the renminbi has been weakening over the last week, because the central bank of China is concerned about its recent appreciation and eased the yuan hedging rules which require reserves for settling forward yuan positions and foreign banks to make reserves for offshore yuan deposits in China.

The Russian ruble was little changed on Friday after the central bank of Russia cut the key policy rate by 0.5ppt to 8.5%. In the first part of Monday's trading session, the ruble remained flat against the USD. However, by the end of Monday, the Russian currency reacted to the decrease in oil prices and declined, closing down 1% to 58.1035 USD/RUB.

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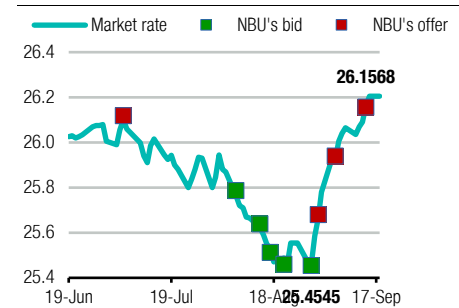
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 18 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.2050	+0.00	+0.65	+2.89	-3.30
USD <sup>1</sup>	91.887	+0.02	+0.01	-1.66	-10.10
EUR	1.1942	-0.03	-0.09	+1.54	+13.55
JPY	111.2500	+0.38	+1.70	+1.90	-4.88
GBP <sup>2</sup>	1.3590	-0.03	+3.24	+5.59	+10.13
CNY	6.5546	+0.03	+0.39	-1.74	-5.62
RUB	57.6987	+0.29	+0.84	-2.13	-6.24

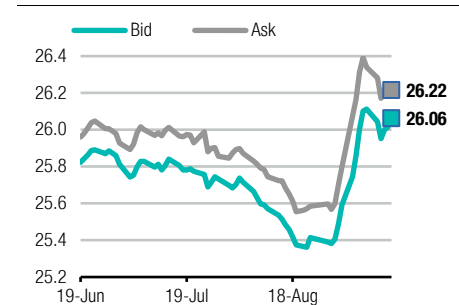
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 18 September 2017)



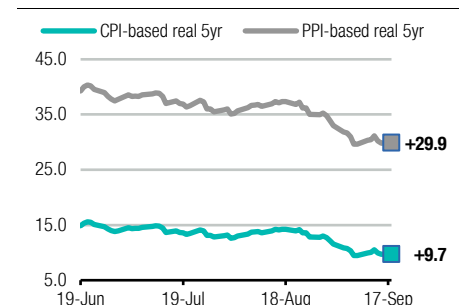
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 18 September 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 18 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)

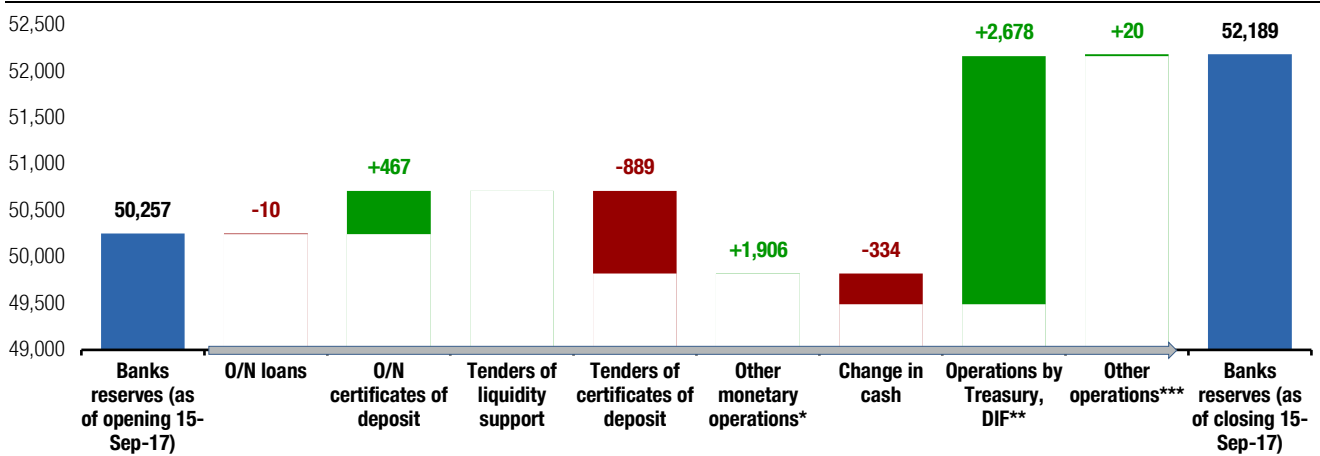
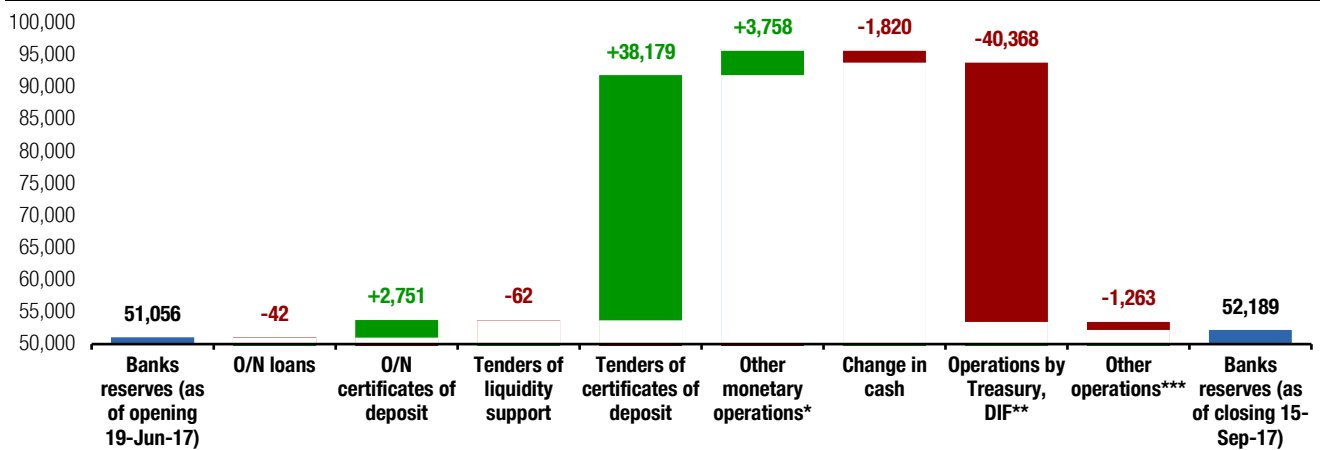
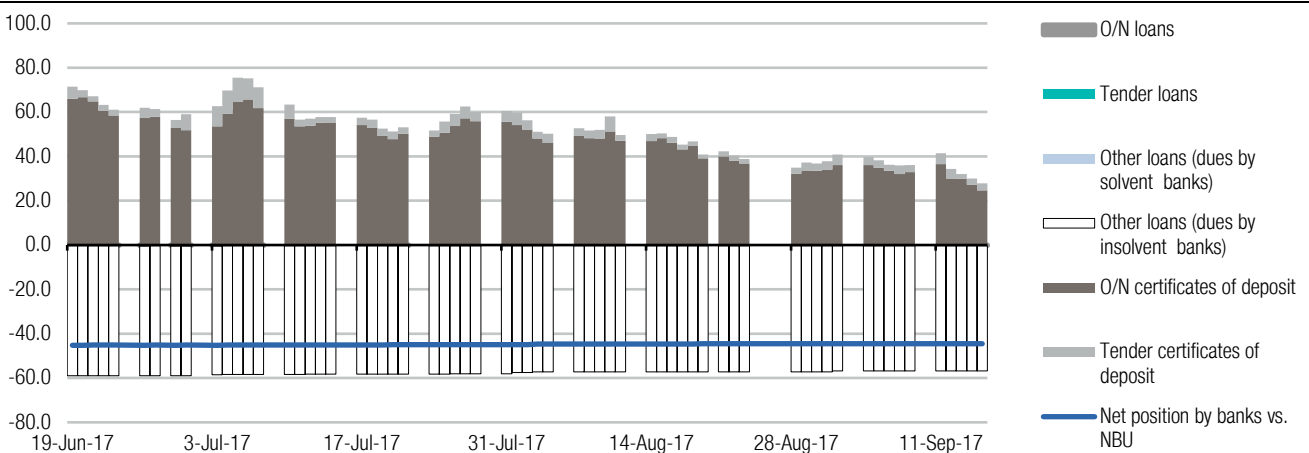


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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