

Daily Insight

Hryvnia under pressure

Key messages of the today's comments

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Liquidity up on VAT refund 2

This Tuesday, the Treasury paid UAH4.99bn in a VAT refund, the largest amount this month, increasing total payments since the month's beginning to about UAH6bn. This payment supported liquidity to rise above UAH80bn. Total liquidity was up UAH4.95bn to UAH82.48bn, including an increase in reserves and CDs outstanding. 2

Foreign exchange markets 3

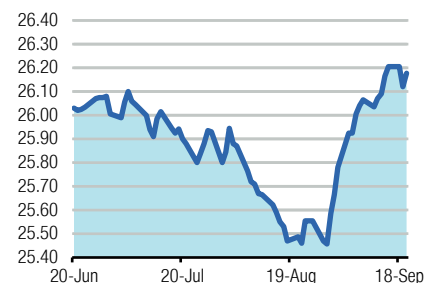
Hryvnia under pressure 3

On Wednesday, the Ukrainian hryvnia depreciated against the US dollar as it was under pressure over the increase in banking sector liquidity which amounted to almost UAH5bn. Demand for the foreign currency, which still exceeds supply, is pushing the hryvnia down. The first time it fell since the beginning of the week, the Ukrainian currency depreciated 0.2% to 26.1896 USD/UAH on Wednesday and sold for 26.04 USD/UAH versus 26.19 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.19% to 106.31; in year-on-year terms, it is up 7.91% from 98.52 last year. 3

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THURSDAY, 21 SEPTEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 20 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 20 September 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.50	-10bp	+90bp
Banks reserves (UAHm)	54,414	+6.54	+9.41
Deposit certificates* (UAHm)	28,084	+6.12	-54.88
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.1775	+0.22	-3.40
Total trade volume (US\$m)	208.40	+2.61	+22.87
UAH index CPI-based	106.313	+0.19	-1.56
UAH index PPI-based	163.854	+0.19	-2.68
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	404bp	-1bp	-249bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,508.24	+0.06	+12.03
MSCI EM	1,112.07	+0.22	+28.97
US dollar index (DXY)	92.508	+0.78	-9.49
EUR / USD	1.1892	-0.85	+13.07
Crude oil WTI (US\$/bbl)	50.69	+2.45	-5.64
Crude oil BRENT (US\$/bbl)	56.29	+2.09	-0.93
CRB, commodities index	184.63	+1.13	-4.09
Gold (US\$/ounce)	1,301.18	-0.76	+12.92

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity up on VAT refund

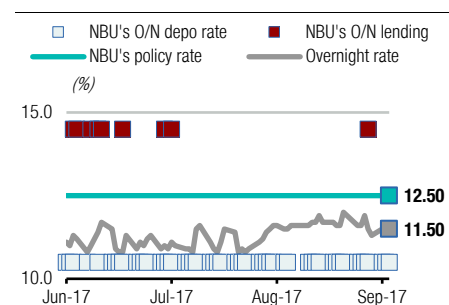
This Tuesday, the Treasury paid UAH4.99bn in a VAT refund, the largest amount this month, increasing total payments since the month's beginning to about UAH6bn. This payment supported liquidity to rise above UAH80bn. Total liquidity was up UAH4.95bn to UAH82.48bn, including an increase in reserves and CDs outstanding.

Banks increased total CDs outstanding by UAH1.62bn to UAH28.08bn while banks' correspondent accounts with the NBU rose UAH3.34bn to UAH54.41bn. Banks decreased total ON CDs, transferred funds into 2-week CDs and also purchased additional paying patients.

ICU view: The significant VAT refund prior to month-end tax payments should support liquidity to avoid it from declining further to about UAH70bn. We do the usual amount of refund to achieve what it takes each month - namely about UAH10bn, while currently were paid only UAH6bn. At the end of month, the Treasury could pay an additional UAH3-4bn in VAT refunds and provide additional support for liquidity.

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Interest rates in the banks' reserves market (three months through 20 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 20 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.50	-10bp	-40bp	-10bp	+90bp
ON \$ swap	12.26	-3bp	-31bp	+0bp	+79bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	54,414	+6.54	+15.94	+34.70	+9.41
DepCerts ³	28,084	+6.12	-5.73	-28.23	-54.88
Total	82,498	+6.39	+7.52	+3.73	-26.32
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	362,235	+0.00	-0.34	-0.67	+1.71
Banks	306,987	-0.04	+0.29	+0.67	+78.13
Residents	23,393	-0.31	+0.07	+3.48	+49.21
Non-res ⁴	2,237	+0.03	+22.01	+374.9	-64.77
Total	694,852	-0.03	+0.01	+0.31	+26.22
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.84	+39bp	+35bp	+68bp	-10ppt
3 months	12.15	+13bp	+12bp	+29bp	-992bp
6 months	12.13	+4bp	+5bp	+29bp	-591bp
1 year	11.64	+0bp	-1bp	-3bp	-435bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	404	-1bp	-41bp	-144bp	-249bp

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 under pressure

On Wednesday, the Ukrainian hryvnia depreciated against the US dollar as it was under pressure over the increase in banking sector liquidity which amounted to almost UAH5bn. Demand for the foreign currency, which still exceeds supply, is pushing the hryvnia down. The first time it fell since the beginning of the week, the Ukrainian currency depreciated 0.2% to 26.1896 USD/UAH on Wednesday and sold for 26.04 USD/UAH versus 26.19 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.19% to 106.31; in year-on-year terms, it is up 7.91% from 98.52 last year.

In the first half of the day on Wednesday, the US dollar was almost flat and traded in a narrow range before the publication of The Fed meeting results and its headline comments on inflation. As expected, the regulator decided to hold the key policy rate unchanged but indicated the possibility of raising it at the end of the year. Moreover, in October, the FRS will begin to taper its balance sheet assets. Thus, the US dollar exchange rate rose significantly through the end of the day. The DXY index traded at 91.577 - 92.697, closing up 0.8% to 92.508.

The euro moved inversely to the US dollar on Wednesday in anticipation of the Fed meeting results. Following the US Fed's publication, the euro started to weaken and by the end of Wednesday traded within 1.1862 - 1.2033 EUR/USD, having depreciated 0.9% to 1.1892 EUR/USD. The Chinese yuan, despite the appreciation of the American currency, grew against the dollar by 0.1% to 6.5749 USD/CNY on Wednesday and traded at 6.564 - 6.5785 USD/CNY.

The Russian ruble traded higher from the previous day due to higher oil prices which traditionally support the ruble. The Brent oil price holds above US\$55 per barrel and the increase of the inventories that didn't match the forecast pushed them higher. However, the appreciation of the dollar by the end of the day had a negative impact on the Russian currency, which traded at 57.7189-58.2975 USD/RUB and declined 0.1% to 58.1964 USD/RUB.

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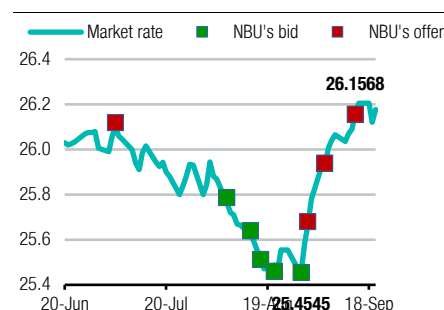
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 20 September 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.1775	+0.22	+0.34	+2.78	-3.40
USD ¹	92.508	+0.78	-0.01	-0.99	-9.49
EUR	1.1892	-0.85	+0.06	+1.11	+13.07
JPY	112.2200	+0.56	+1.57	+2.78	-4.05
GBP ²	1.3495	-0.06	+2.15	+4.86	+9.36
CNY	6.5749	-0.13	+0.51	-1.43	-5.33
RUB	58.1964	+0.14	+0.44	-1.28	-5.43

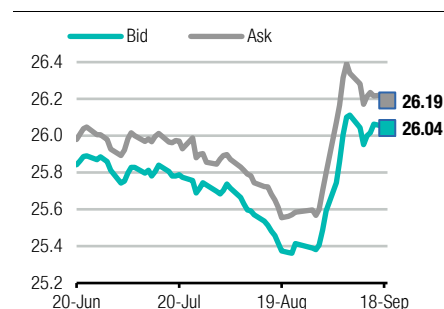
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 20 September 2017)



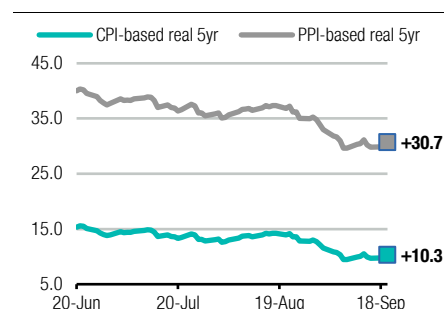
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 20 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 20 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)

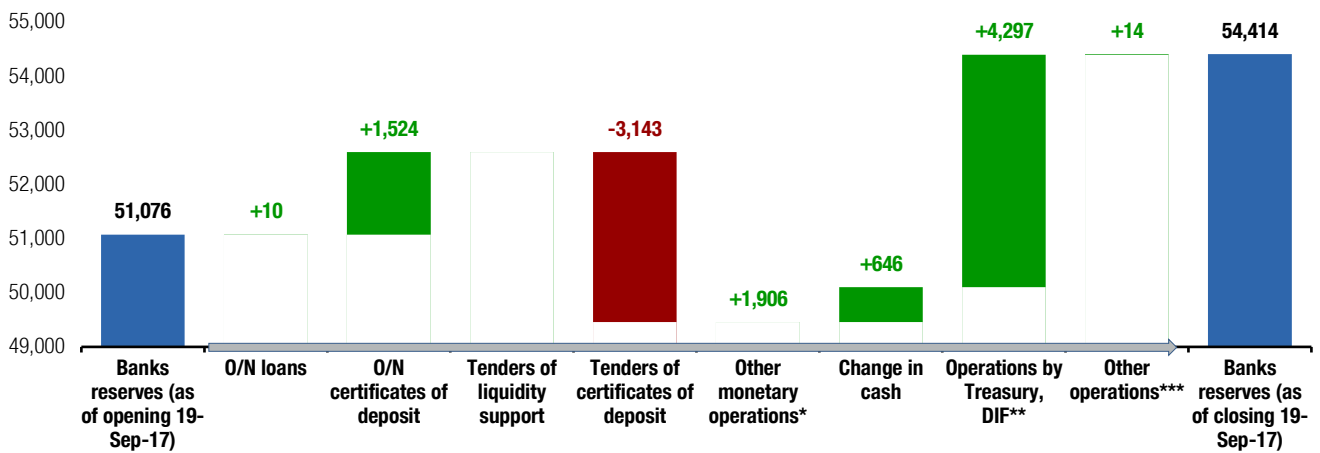
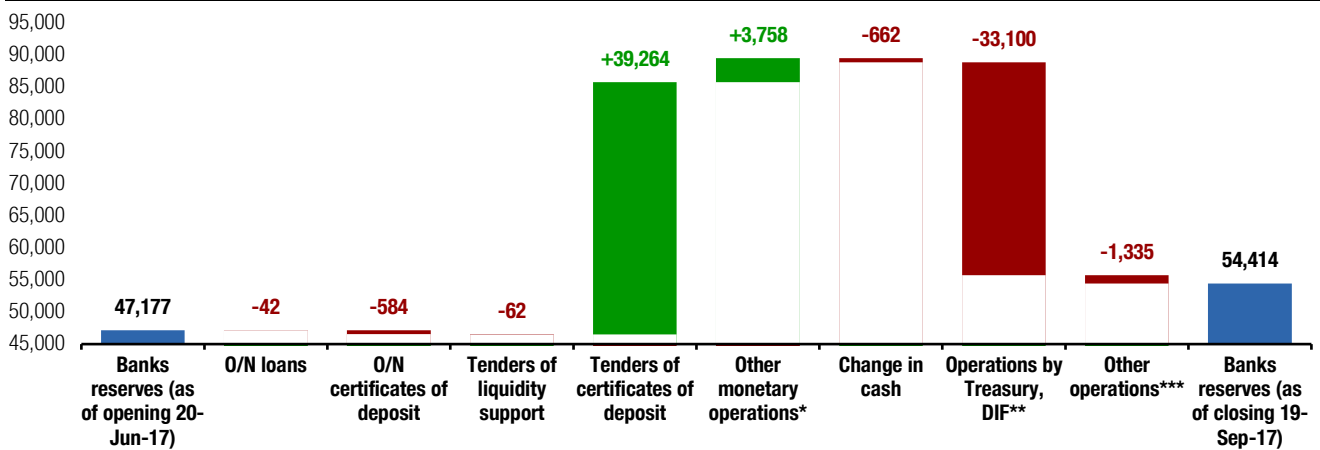
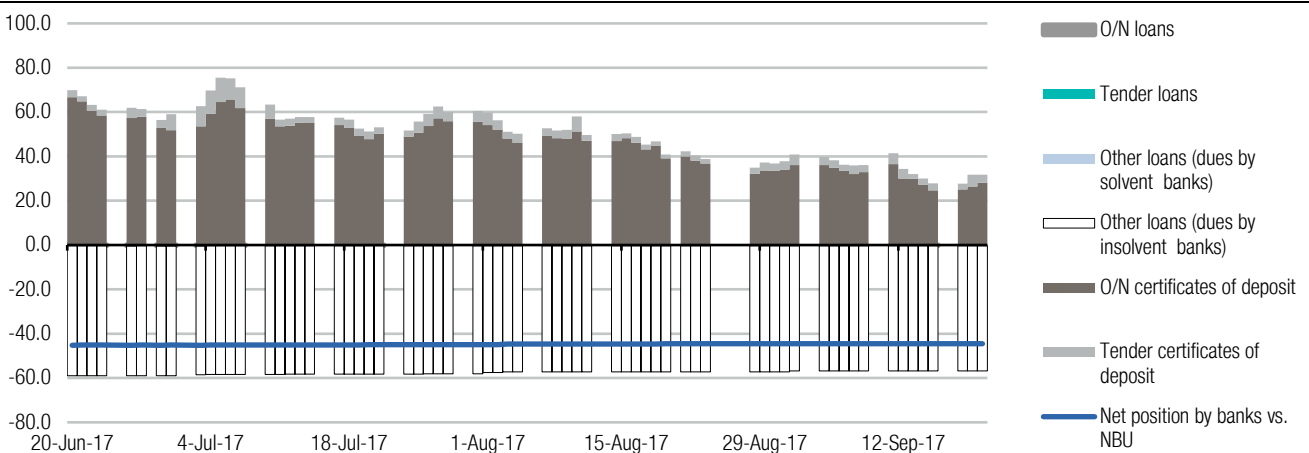


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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