

Daily Insight

Liquidity under pressure from FX

Key messages of the today's comments

MONDAY, 25 SEPTEMBER 2017

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Last Thursday, the NBU held its usual FX auction: it sold US\$21.1m and absorbed about UAH0.71bn of local currency fund, causing a mild UAH0.22bn decline in liquidity to 81.43bn. Non-monetary operations injecting a net UAH0.49bn partially offset outflows. Most of the inflow came from the Treasury, but an exchange of reserves in cash and other operations decreased any positive impact. 2

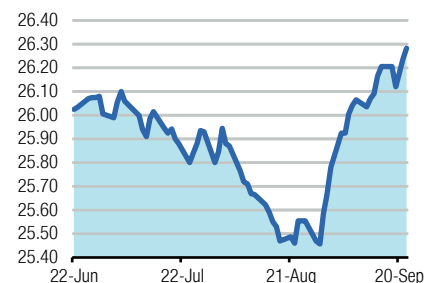
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On Friday, the hryvnia continued to depreciate against the US dollar. The diminishing value of the USD, combined with demand in the Ukrainian domestic FX market, moved the hryvnia lower, down 0.1% on Friday to 26.2616 USD/UAH. It sold for 26.11 USD/UAH versus 26.24 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.37% to 105.52; in year-on-year terms, it is up 8% from 97.7 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 22 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 22 September 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.10	-30bp	+50bp
Banks reserves (UAHm)	48,864	-8.45	-1.75
Deposit certificates* (UAHm)	32,562	+15.18	-47.68
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.2825	+0.18	-3.02
Total trade volume (US\$m)	186.37	-22.74	+9.88
UAH index CPI-based	105.520	-0.37	-2.30
UAH index PPI-based	162.631	-0.37	-3.41
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	440bp	+4bp	-213bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,502.22	+0.06	+11.76
MSCI EM	1,102.25	-0.54	+27.83
US dollar index (DXY)	92.171	-0.10	-9.82
EUR / USD	1.1951	+0.08	+13.64
Crude oil WTI (US\$/bbl)	50.66	+0.22	-5.70
Crude oil BRENT (US\$/bbl)	56.86	+0.76	+0.07
CRB, commodities index	183.57	+0.09	-4.65
Gold (US\$/ounce)	1,297.40	+0.48	+12.60

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity under pressure from FX

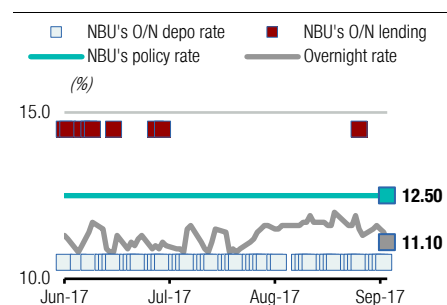
Last Thursday, the NBU held its usual FX auction: it sold US\$21.1m and absorbed about UAH0.71bn of local currency fund, causing a mild UAH0.22bn decline in liquidity to 81.43bn. Non-monetary operations injecting a net UAH0.49bn partially offset outflows. Most of the inflow came from the Treasury, but an exchange of reserves in cash and other operations decreased any positive impact.

Funds were also reallocated from reserves to CDs. Total CDs outstanding rose UAH4.29bn to UAH32.56bn, including a significant UAH4.48bn increase in 14-day CDs and a slight UAH0.19bn decline in ON CDs. Banks' correspondent accounts balance fell UAH4.51bn, provided funds for CDs and liquidity outflows.

ICU view: *Month-end tax payments brought no significant decline in liquidity ye; however, with fund reallocations from reserves to CDs, total CDs outstanding seem to remain steady. The main pressure from tax payments should occur this week, and total liquidity could fall below UAH80bn but avoid reaching new lows.*

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Interest rates in the banks' reserves market (three months through 22 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 22 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	11.10	-30bp	-20bp	-40bp	+50bp
ON \$ swap	11.72	-21bp	-78bp	-71bp	+25bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	48,864	-8.45	-2.77	+10.74	-1.75
DepCerts ³	32,562	+15.18	+32.17	-14.39	-47.68
Total	81,426	-0.27	+8.72	-0.90	-27.28
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	362,235	+0.00	+0.00	-0.67	+1.71
Banks	307,434	+0.02	+0.14	+0.97	+78.43
Residents	23,371	+0.18	-0.01	+2.52	+49.33
Non-res ⁴	2,679	+0.00	+19.96	+468.7	-57.82
Total	695,720	+0.02	+0.13	+0.47	+26.40
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.95	-27bp	-24bp	+58bp	-10ppt
3 months	14.43	+239bp	+239bp	+273bp	-763bp
6 months	12.10	+1bp	+3bp	+32bp	-595bp
1 year	11.67	+7bp	-1bp	+1bp	-432bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	440	+4bp	-5bp	-80bp	-213bp

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 declines again

On Friday, the hryvnia continued to depreciate against the US dollar. The diminishing value of the USD, combined with demand in the Ukrainian domestic FX market, moved the hryvnia lower, down 0.1% on Friday to 26.2616 USD/UAH. It sold for 26.11 USD/UAH versus 26.24 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.37% to 105.52; in year-on-year terms, it is up 8% from 97.7 last year.

On Friday, the US dollar slightly decreased for the second day after rising 0.8% on Wednesday. Positive statistical data had no impact, namely when initial jobless claims declined to 259,000 (versus an expected 300,000) and the manufacturing activity index rising to 23.8. The DXY index traded at 91.577 - 92.221, closing down 0.1% to 92.171.

The euro again moved inversely to the US dollar on Friday. After its previous appreciation on Thursday, the EUR/USD pair traded within 1.1937 - 1.2004 EUR/USD, having appreciated 0.1% to 1.1951 EUR/USD. The Chinese yuan remained unchanged against the US dollar after the PBOC set the USD/CNY official parity higher from the previous day, closing at 6.5901 USD/CNY on Friday, after trading at 6.5736 - 6.5989 USD/CNY.

The Russian ruble by the end of the day appreciated against the dollar due to rising oil prices which exceeded US\$56 per barrel. The movement of the USD had little influence as the ruble traded at 57.4371-58.0093 USD/RUB, up 0.7% to 57.5029 USD/RUB.

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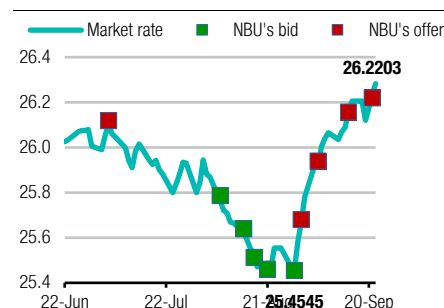
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 22 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.2825	+0.18	+0.30	+3.23	-3.02
USD ¹	92.171	-0.10	+0.33	-1.47	-9.82
EUR	1.1951	+0.08	+0.05	+1.61	+13.64
JPY	111.9900	-0.44	+1.05	+2.21	-4.25
GBP ²	1.3504	-0.56	-0.66	+5.30	+9.43
CNY	6.5901	+0.00	+0.57	-1.09	-5.11
RUB	57.5029	-0.72	-0.05	-2.66	-6.56

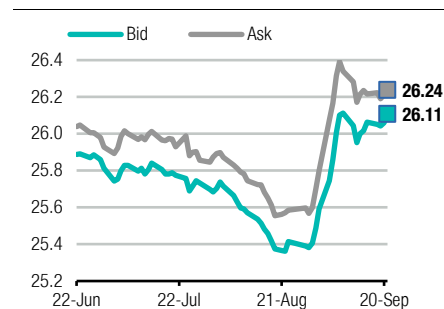
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 22 September 2017)



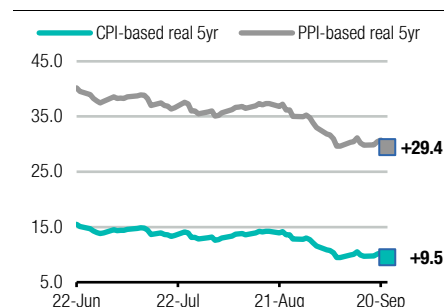
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 22 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 22 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)

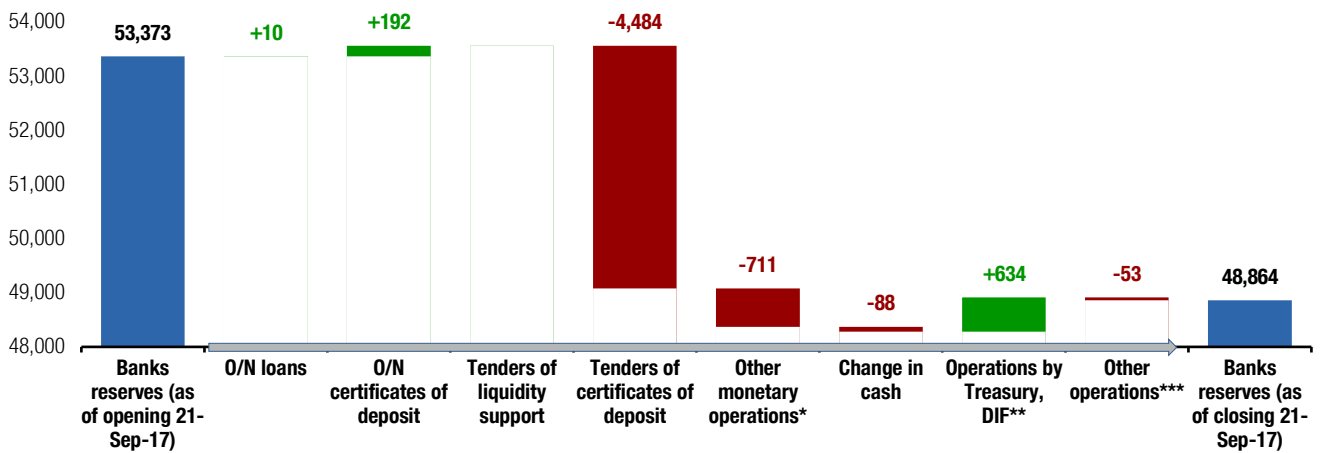
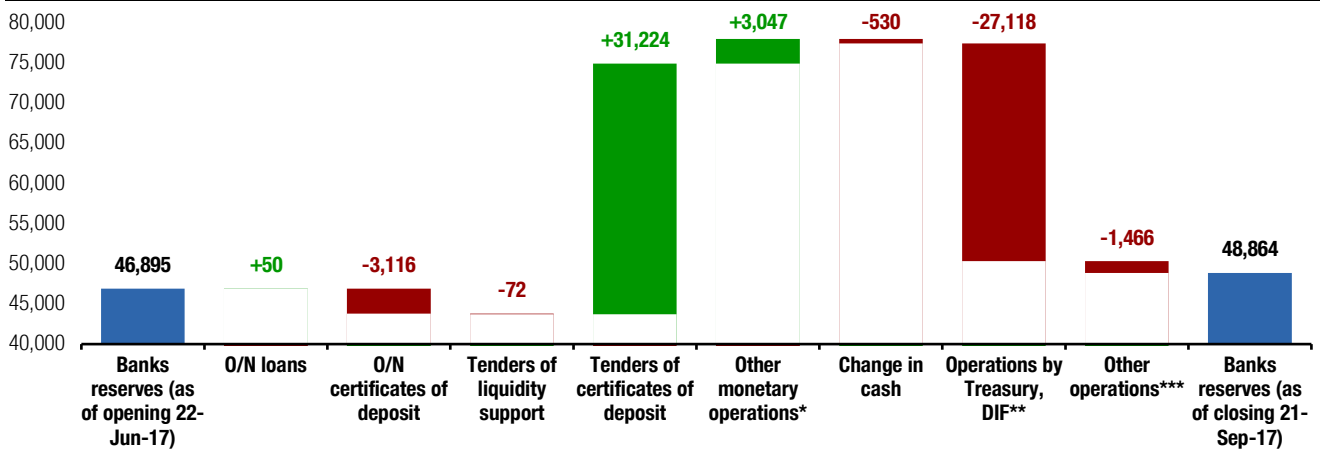
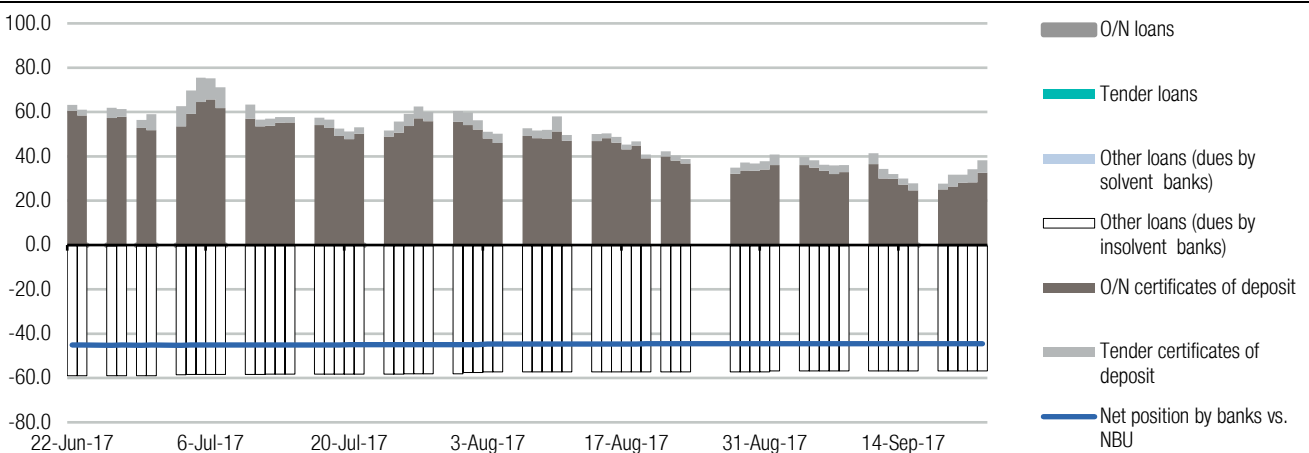


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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