

# Daily Insight

## Liquidity up on VAT refund

### Key messages of the today's comments

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##### Liquidity up on VAT refund 2

Last Friday, the Treasury paid UAH3.36bn in VAT refunds, pushing liquidity up UAH2.43bn to UAH83.85bn, bolstering non-monetary operations by UAH2.43bn after UAH2.53bn of inflows from the Treasury and small outflows via other segments. The NBU held no monetary operations. 2

#### Foreign exchange markets 3

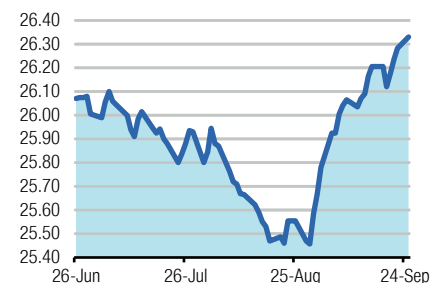
##### UAH weakens 3

The hryvnia declined at the beginning of the week, down 0.2% to 26.3166 USD/UAH, caused by excess demand for the US dollar at the local FX market amid the USD's strengthening globally. At the same time, additional pressure on the hryvnia created higher liquidity in the banking sector (see above comment on liquidity). In the Ukrainian cash market, it sold for 26.12 USD/UAH versus 26.26 to buy. Its CPI-based real trade-weighted index rose 0.38% to 105.92; in year-on-year terms, it is up 8.4% from 97.72 last year. 3

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TUESDAY, 26 SEPTEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 25 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 25 September 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.20	+10bp	+60bp
Banks reserves (UAHm)	49,105	+0.49	-1.26
Deposit certificates* (UAHm)	34,748	+6.71	-44.17
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.3300	+0.18	-2.84
Total trade volume (US\$m)	148.90	-20.10	-12.21
UAH index CPI-based	105.919	+0.38	-1.93
UAH index PPI-based	163.246	+0.38	-3.04
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	469bp	+29bp	-184bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,496.66	-0.22	+11.52
MSCI EM	1,088.26	-1.27	+26.21
US dollar index (DXY)	92.648	+0.52	-9.36
EUR / USD	1.1848	-0.86	+12.66
Crude oil WTI (US\$/bbl)	52.22	+3.08	-2.79
Crude oil BRENT (US\$/bbl)	59.02	+3.80	+3.87
CRB, commodities index	184.61	+0.57	-4.10
Gold (US\$/ounce)	1,310.83	+1.04	+13.76

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity up on VAT refund

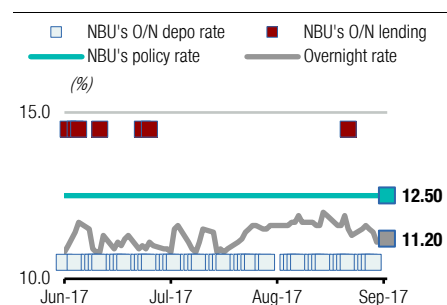
Last Friday, the Treasury paid UAH3.36bn in VAT refunds, pushing liquidity up UAH2.43bn to UAH83.85bn, bolstering non-monetary operations by UAH2.43bn after UAH2.53bn of inflows from the Treasury and small outflows via other segments. The NBU held no monetary operations.

Banks significantly increased investments in CDs, purchasing UAH9.82bn of ON CDs last Friday, including a UAH1.97bn reallocation from 2-week CD redemptions and UAH2.19bn of new CDs. Banks' correspondent accounts with the NBU were up a mere UAH0.24bn to UAH49.10bn.

**ICU view: The Treasury forced liquidity to increase by VAT refunds, but taking into account the volume of collected revenues and net inflows, regular expenditures for the day were low. Banks temporarily invest funds into CDs anticipating outflows with the intention to reinvest them into 2-week or 3-month CDs.**

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## Interest rates in the banks' reserves market (three months through 25 September 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 25 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	11.20	+10bp	-30bp	-40bp	+60bp
ON \$ swap	11.83	+2bp	-51bp	-65bp	+35bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	49,105	+0.49	-5.91	+2.11	-1.26
DepCerts <sup>3</sup>	34,748	+6.71	+38.67	-5.39	-44.17
<b>Total</b>	<b>83,853</b>	<b>+2.98</b>	<b>+8.55</b>	<b>-1.14</b>	<b>-25.11</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	362,235	+0.00	+0.00	-0.67	+1.71
Banks	307,501	+0.02	+0.08	+1.01	+78.43
Residents	23,413	+0.18	-0.25	+1.82	+49.33
Non-res <sup>4</sup>	2,679	+0.00	+19.78	+468.7	-57.82
<b>Total</b>	<b>695,828</b>	<b>+0.02</b>	<b>+0.09</b>	<b>+0.47</b>	<b>+26.40</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	11.01	-95bp	-528bp	-19bp	-11ppt
3 months	11.98	-246bp	-52bp	+11bp	-10ppt
6 months	12.05	-5bp	-32bp	+28bp	-599bp
1 year	11.57	-11bp	-32bp	-11bp	-442bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	469	+29bp	+58bp	-51bp	-184bp

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 weakens

The hryvnia declined at the beginning of the week, down 0.2% to 26.3166 USD/UAH, caused by excess demand for the US dollar at the local FX market amid the USD's strengthening globally. At the same time, additional pressure on the hryvnia created higher liquidity in the banking sector (see above comment on liquidity). In the Ukrainian cash market, it sold for 26.12 USD/UAH versus 26.26 to buy. Its CPI-based real trade-weighted index rose 0.38% to 105.92; in year-on-year terms, it is up 8.4% from 97.72 last year.

The USD traded higher against other major currencies on Monday following comments from the New York Federal Reserve that the Fed is on track to gradually raise interest rates as macroeconomic fundamentals are sound and factors that depress inflation are fading. On the back of this statement, the DXY index closed up 0.5% to 92.65 on Monday.

The euro was affected by several factors at the beginning of the week. Mario Draghi said that although the current recovery in the Eurozone is firm and broad-based and will likely continue, the ECB will delay deciding on the future of the QE program. This pushed the euro down. Additional pressure came from the outcome of the elections in Germany as Merkel's political party received fewer votes than expected. These factors, combined with the USD's strength, caused the euro to weaken by 0.9% to 1.1848 EUR/USD.

The USD's strength negatively affected not only the hryvnia but also other EM currencies. The Russian ruble was volatile on Monday as it was influenced by opposing factors. While it received support from higher oil prices and greater domestic demand for ruble as Monday marked the peak of September tax payments. However, the stronger USD restricted the ruble's appreciation, pushing the ruble down 0.1% to 57.5488 USD/RUB.

The Chinese renminbi weakened in response to the central bank of China's decision to decrease the reference rate to 6.6076 USD/CNY. Combined with the stronger US dollar, the renminbi declined 0.5% to 6.6215 USD/CNY, the lowest rate this month.

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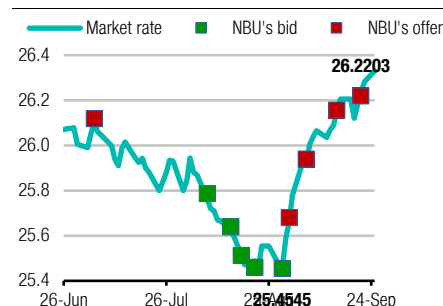
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 25 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.3300	+0.18	+0.48	+3.03	-2.84
USD <sup>1</sup>	92.648	+0.52	+0.83	-0.10	-9.36
EUR	1.1848	-0.86	-0.79	-0.64	+12.66
JPY	111.7300	-0.23	+0.43	+2.17	-4.47
GBP <sup>2</sup>	1.3466	-0.28	-0.91	+4.53	+9.12
CNY	6.6215	+0.48	+1.02	-0.38	-4.66
RUB	57.5488	+0.08	-0.26	-1.79	-6.48

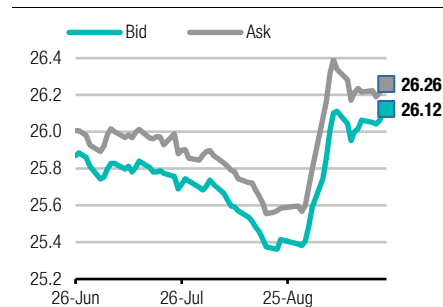
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 25 September 2017)



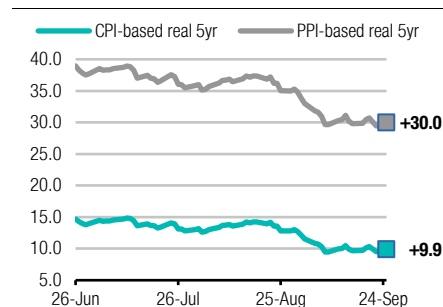
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 25 September 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 25 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)

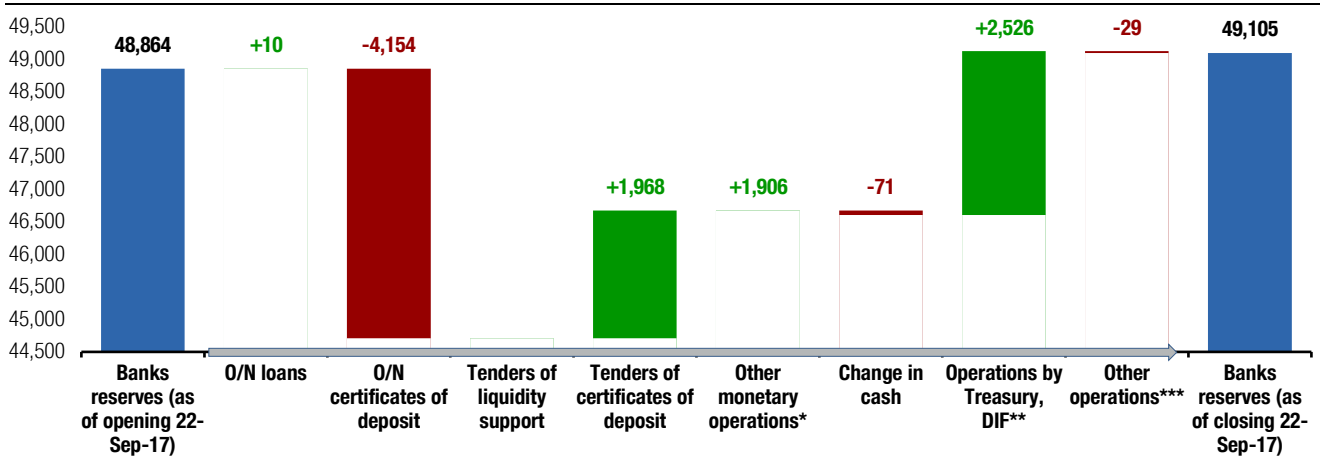
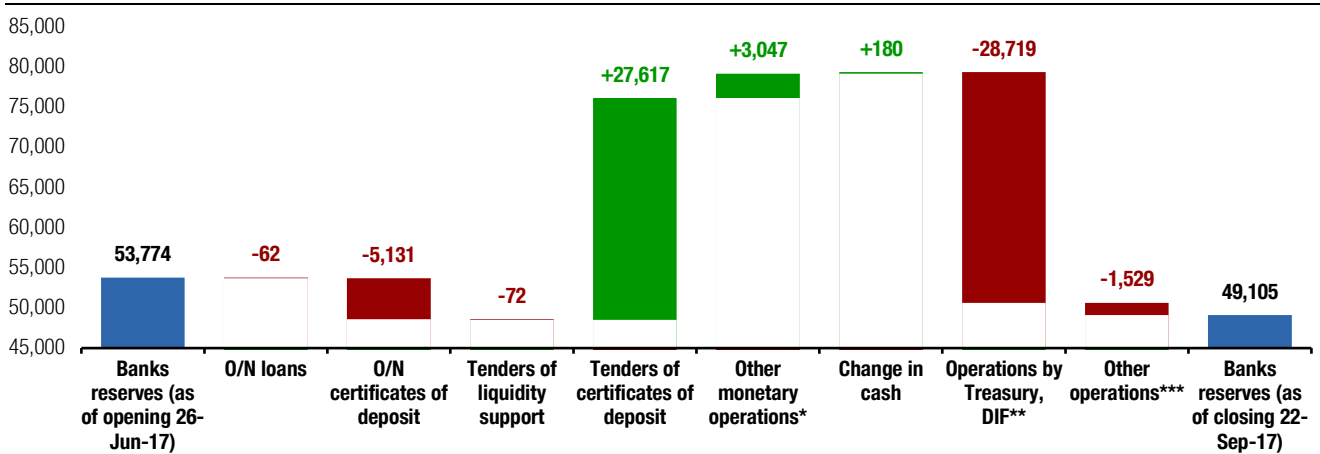
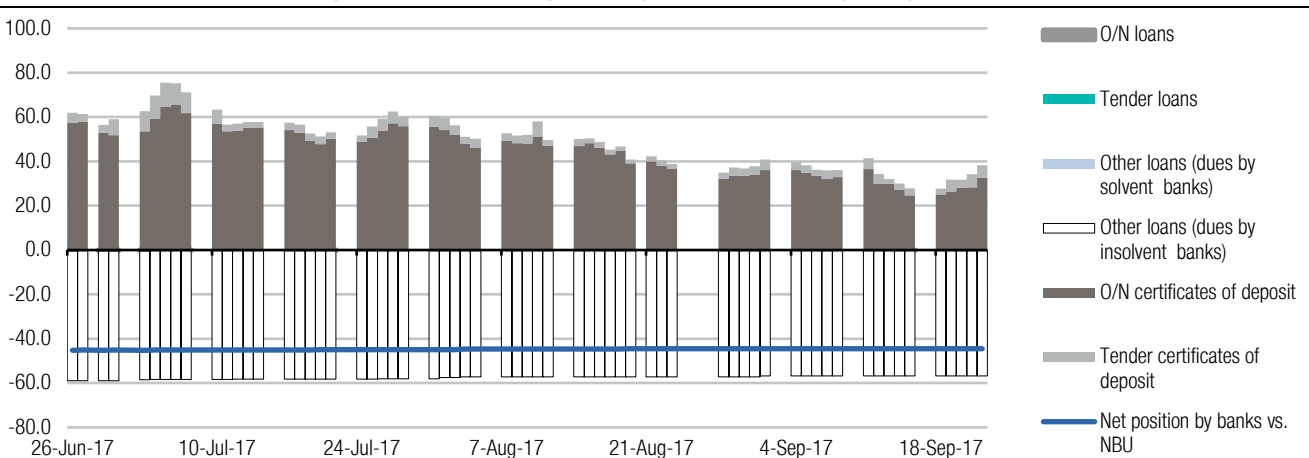


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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