

Daily Insight

UAH extends losses

Key messages of the today's comments

Domestic liquidity **2**

Liquidity up slightly.....2

This Monday, non-monetary operations once more supported liquidity and its UAH0.44bn increase to UAH84.29bn without help from the Treasury. After last Friday's VAT refund, the Treasury's operations balance this Monday was negative UAH0.78bn, despite insufficient revenues collected. Most of the funds came from the exchange of cash to reserves of net UAH1.16bn which, with other non-monetary operations, caused liquidity to increase UAH0.44bn. 2

Insufficient domestic demand.....2

The MoF offered only 12-month bonds yesterday and total demand was insufficient. While banking sector liquidity is low and could decline further as month-end tax payments continue through this week, non-residents have been purchasing 3-year or 2-year bonds more frequently recently. 2

Foreign exchange markets **3**

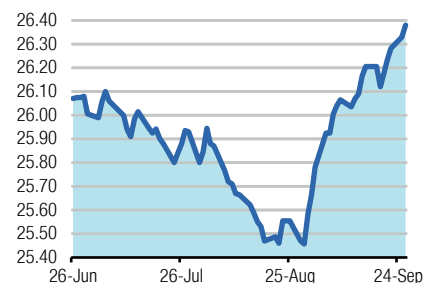
UAH extends losses3

The hryvnia extended losses on Tuesday, down 0.25% to 26.3835 USD/UAH. Although September tax payments, which started at the end of last week, provided support, the global rally of the US dollar outweighed this factor. In the Ukrainian cash market, the hryvnia sold for 26.11 USD/UAH versus 26.25 to buy. Its CPI-based real trade-weighted index rose 0.22% to 106.15; in year-on-year terms, it is up 8.4% from 97.89 last year. 3

Appendix #1: Domestic liquidity **4**

WEDNESDAY, 27 SEPTEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 26 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 26 September 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.20	+0bp	+60bp
Banks reserves (UAHm)	46,115	-6.09	-7.27
Deposit certificates* (UAHm)	38,178	+9.87	-38.66
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.3800	+0.19	-2.66
Total trade volume (US\$m)	238.12	+59.92	+40.39
UAH index CPI-based	106.154	+0.22	-1.71
UAH index PPI-based	163.609	+0.22	-2.83
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	466bp	-3bp	-187bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,496.84	+0.01	+11.52
MSCI EM	1,080.11	-0.75	+25.26
US dollar index (DXY)	92.966	+0.34	-9.04
EUR / USD	1.1793	-0.46	+12.13
Crude oil WTI (US\$/bbl)	51.88	-0.65	-3.43
Crude oil BRENT (US\$/bbl)	58.44	-0.98	+2.85
CRB, commodities index	183.40	-0.66	-4.73
Gold (US\$/ounce)	1,294.17	-1.27	+12.31

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity up slightly

This Monday, non-monetary operations once more supported liquidity and its UAH0.44bn increase to UAH84.29bn without help from the Treasury. After last Friday's VAT refund, the Treasury's operations balance this Monday was negative UAH0.78bn, despite insufficient revenues collected. Most of the funds came from the exchange of cash to reserves of net UAH1.16bn which, with other non-monetary operations, caused liquidity to increase UAH0.44bn.

Banks' correspondent accounts fell UAH2.99bn to UAH46.11bn while funds were reallocated to CDs. With additional inflows, total CDs outstanding rose UAH3.43bn to UAH38.18bn, including ON CDs outstanding increasing to UAH13.25bn.

ICU view: *At the midpoint of month-end tax payments, outflows via Treasury operations were insufficient while other sources provided funds. However, with more month-end tax payments ahead, liquidity could decline to UAH80bn or even lower this week.*

Insufficient domestic demand

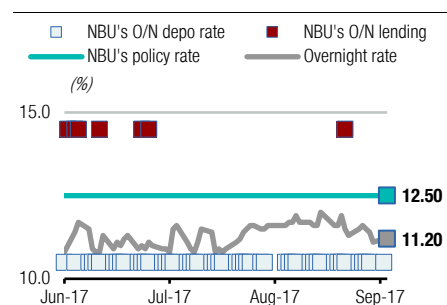
The MoF offered only 12-month bonds yesterday and total demand was insufficient. While banking sector liquidity is low and could decline further as month-end tax payments continue through this week, non-residents have been purchasing 3-year or 2-year bonds more frequently recently.

The MoF accepted the two bids for a total of UAH125m at 14.35%, a rate unchanged for the third auction, to collect UAH125.89m.

ICU view: *It appears that demand came only from domestic investors as non-residents likely took a break as they did at the end of August. This low auction participation also could have been a reaction to only one short maturity bond being offered. With a greater volume of debt repayments scheduled and the possibility of non-residents' participation, demand at next week's auction could be significantly larger.*

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Interest rates in the banks' reserves market (three months through 26 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 26 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	11.20	+0bp	-40bp	-40bp	+60bp
ON \$ swap	11.91	-6bp	-19bp	-57bp	+43bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	46,115	-6.09	-9.71	-4.11	-7.27
DepCerts ³	38,178	+9.87	+44.26	+3.95	-38.66
Total	84,293	+0.52	+8.71	-0.62	-24.72
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	362,235	+0.00	+0.00	-0.67	+1.71
Banks	307,828	+0.11	+0.24	+1.12	+78.62
Residents	23,252	-0.69	-0.92	+1.12	+48.30
Non-res ⁴	2,678	-0.04	+19.73	+468.5	-57.84
Total	695,992	+0.02	+0.14	+0.49	+26.43
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.00	+0bp	-45bp	-19bp	-11ppt
3 months	11.88	-9bp	-13bp	+2bp	-10ppt
6 months	11.98	-7bp	-11bp	+21bp	-606bp
1 year	11.55	-2bp	-9bp	-13bp	-444bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	466	-3bp	+61bp	-54bp	-187bp

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 extends losses

The hryvnia extended losses on Tuesday, down 0.25% to 26.3835 USD/UAH. Although September tax payments, which started at the end of last week, provided support, the global rally of the US dollar outweighed this factor. In the Ukrainian cash market, the hryvnia sold for 26.11 USD/UAH versus 26.25 to buy. Its CPI-based real trade-weighted index rose 0.22% to 106.15; in year-on-year terms, it is up 8.4% from 97.89 last year.

The USD rose for the second straight day despite weak domestic data released on Tuesday. According to reports, consumer confidence fell more than expected on Tuesday, while new home sales fell for a second straight month. However, the USD rallied thanks to improved expectations that the Fed will raise interest rates one more time this year. Last week, the Fed announced that it would begin to gradually trim assets on its balance sheet. The DXY index rose 0.3% to 92.966.

The US dollar's strength had a negative impact on other major currencies, including EM currencies. The euro declined 0.5% to 1.1793 EUR/USD, possibly exacerbated by the outcome of the German elections from which Merkel must negotiate to form a new coalition of supporters. Meanwhile, the CNY extended losses another 0.3% to 6.6398 USD/CNY.

The Russian ruble closed down 0.5%, 57.8388 USD/RUB. Traditionally supported by rising oil prices, the ruble weakened against the USD as oil prices declined yesterday after having risen for four consecutive sessions.

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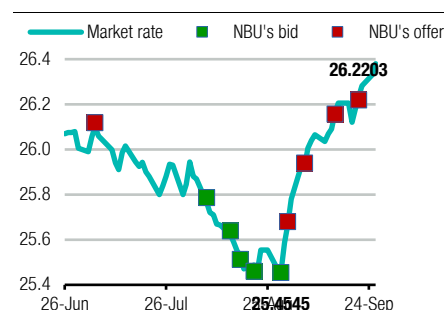
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 26 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.3800	+0.19	+1.00	+3.23	-2.66
USD ¹	92.966	+0.34	+1.28	+0.24	-9.04
EUR	1.1793	-0.46	-1.68	-1.10	+12.13
JPY	112.2400	+0.46	+0.58	+2.63	-4.04
GBP ²	1.3458	-0.06	-0.33	+4.47	+9.06
CNY	6.6398	+0.28	+0.86	-0.10	-4.39
RUB	57.8388	+0.50	-0.47	-1.29	-6.01

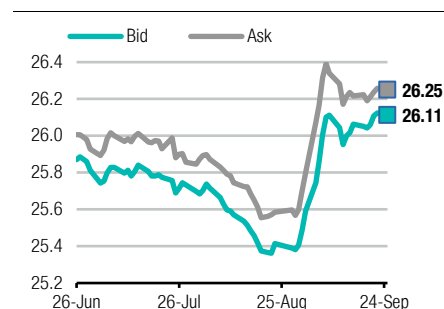
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 26 September 2017)



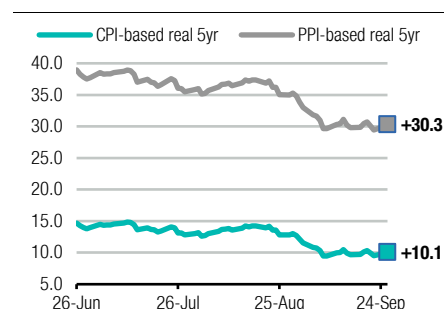
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 26 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 26 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)

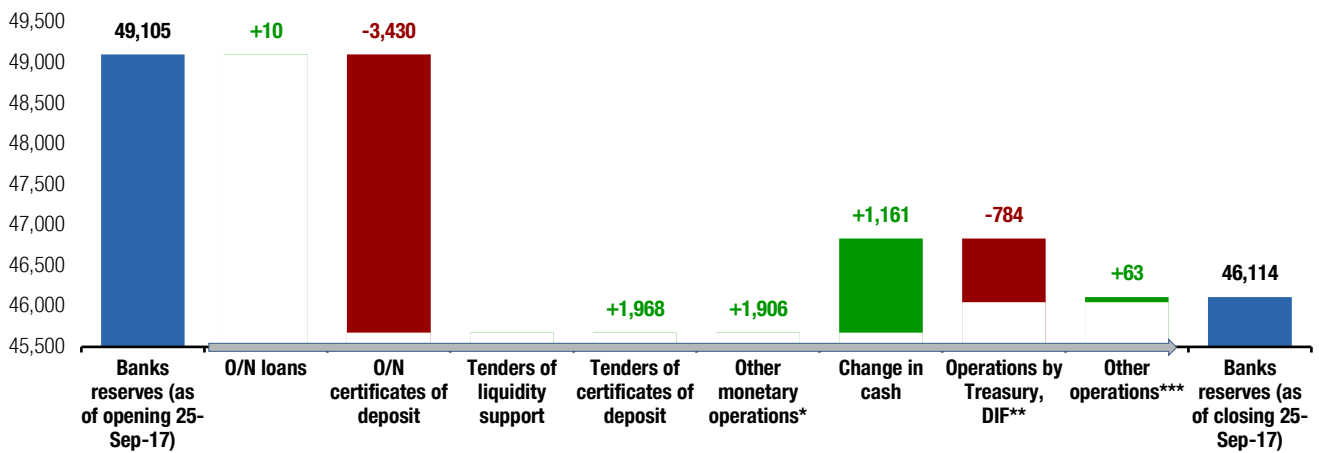
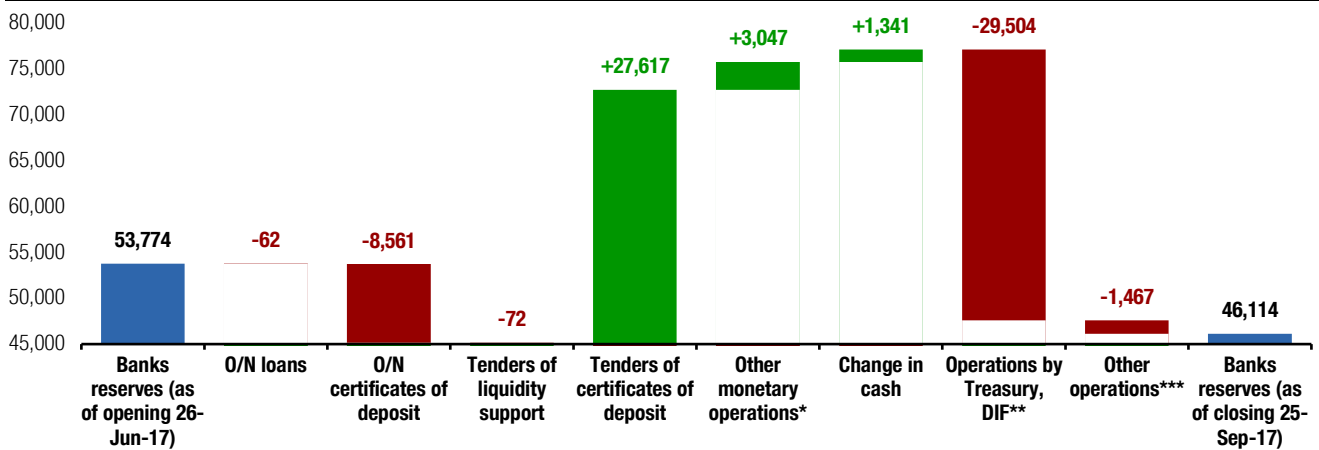
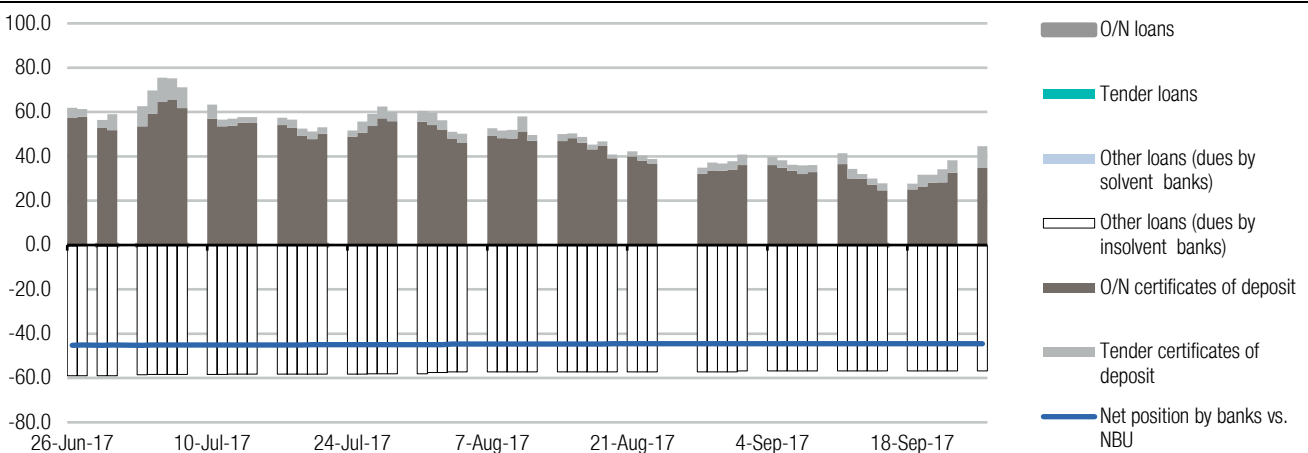


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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