

Daily Insight

UAH continues to decline

Key messages of the today's comments

Domestic liquidity **2**

Liquidity decline due outflows to budget2

This Tuesday outflows via Treasury operations continues, causing additional decline in liquidity. Total amount of banking sector liquidity (except govt. bonds) declined UAH1.10bn to UAH83.19bn, and was divided between reserves and CDs. Banks' correspondent accounts with the NBU declined UAH0.60bn while total CDs outstanding slid UAH0.50bn. At the same time banks increased outstanding of 14-days CDs by UAH1.70bn. **2**

Foreign exchange markets **3**

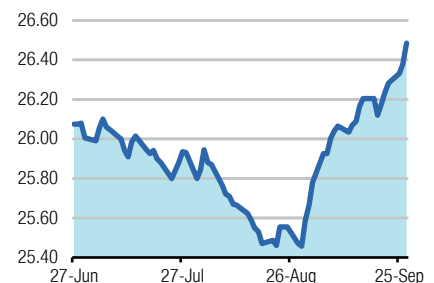
UAH continues to decline3

The hryvnia extended losses on Wednesday, having weakened another 0.3% to 26.4728 USD/UAH. This was already the sixth consecutive session, when the Ukrainian currency declined against US dollar. The reason for the hryvnia's weakening is mostly the USD's global rally, which pushes domestic demand for the USD higher and puts pressure on the Ukrainian currency. In the Ukrainian cash market, the hryvnia sold for 26.18 USD/UAH versus 26.36 to buy. Its CPI-based real trade-weighted index rose 0.05% to 106.20; in year-on-year terms, it is up 8% from 98.33 last year. At the same time the CPI- and PPI-based indices show that the hryvnia is still overvalued. **3**

Appendix #1: Domestic liquidity **4**

THURSDAY, 28 SEPTEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 27 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 27 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)	45,518	-1.29	-8.47
Deposit certificates* (UAHm)	18,367	-51.89	-70.49
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.4850	+0.40	-2.27
Total trade volume (US\$m)	239.20	+0.45	+41.03
UAH index CPI-based	106.206	+0.05	-1.66
UAH index PPI-based	163.689	+0.05	-2.78
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	468bp	+2bp	-185bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,507.04	+0.41	+11.98
MSCI EM	1,078.57	-0.14	+25.08
US dollar index (DXY)	93.361	+0.42	-8.66
EUR / USD	1.1745	-0.41	+11.68
Crude oil WTI (US\$/bbl)	52.14	+0.50	-2.94
Crude oil BRENT (US\$/bbl)	57.90	-0.92	+1.90
CRB, commodities index	183.86	+0.25	-4.49
Gold (US\$/ounce)	1,282.81	-0.88	+11.33

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity decline due outflows to budget

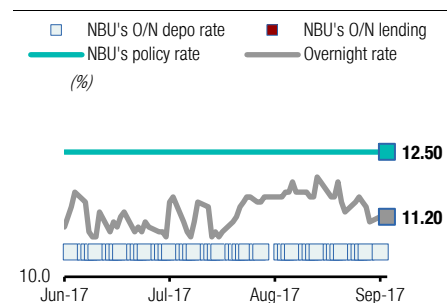
This Tuesday outflows via Treasury operations continues, causing additional decline in liquidity. Total amount of banking sector liquidity (except govt. bonds) declined UAH1.10bn to UAH83.19bn, and was divided between reserves and CDs. Banks' correspondent accounts with the NBU declined UAH0.60bn while total CDs outstanding slid UAH0.50bn. At the same time banks increased outstanding of 14-days CDs by UAH1.70bn.

Treasury absorbed UAH1.78bn via its operations, collected only UAH4.0bn of revenues. Outflow was partially compensated by exchange of cash into reserves at UAH0.77bn which allows to decrease negative impact of other autonomous operations to minus UAH1.05bn. Additionally the NBU absorbed UAH0.05bn of funds likely via FX selling.

ICU view: Currently we see not pressure from tax payments, as treasury collected usual amount of funds, but we see low level of expenditures, created lack of balance and its negative side. If this will continue, with increase in revenues but low expenditures, we could see significant decline in liquidity very soon, till the end of this week.

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Interest rates in the banks' reserves market (three months through 27 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 27 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	-30bp	-40bp	+60bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	45,518	-1.29	-16.35	-5.35	-8.47
DepCerts ³	18,367	-51.89	-34.60	-49.99	-70.49
Total	63,885	-24.21	-22.56	-24.68	-42.94
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	362,235	+0.00	+0.00	-0.67	+1.71
Banks	308,024	+0.06	+0.34	+1.18	+78.73
Residents	23,266	+0.06	-0.54	+1.18	+48.40
Non-res ⁴	2,678	+0.00	+19.69	+468.5	-57.84
Total	696,203	+0.03	+0.19	+0.52	+26.46
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.27	+27bp	-57bp	+7bp	-11ppt
3 months	11.97	+9bp	-18bp	+10bp	-10ppt
6 months	12.03	+5bp	-10bp	+26bp	-601bp
1 year	11.56	+1bp	-8bp	-11bp	-443bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	468	+2bp	+63bp	-52bp	-185bp

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 continues to decline

The hryvnia extended losses on Wednesday, having weakened another 0.3% to 26.4728 USD/UAH. This was already the sixth consecutive session, when the Ukrainian currency declined against US dollar. The reason for the hryvnia's weakening is mostly the USD's global rally, which pushes domestic demand for the USD higher and puts pressure on the Ukrainian currency. In the Ukrainian cash market, the hryvnia sold for 26.18 USD/UAH versus 26.36 to buy. Its CPI-based real trade-weighted index rose 0.05% to 106.20; in year-on-year terms, it is up 8% from 98.33 last year. At the same time the CPI- and PPI-based indices show that the hryvnia is still overvalued.

The USD traded higher against other major currencies being boosted to increased possibility of one more interest rate this year. On Tuesday Janet Yellen said that the Fed needs to continue to gradually increase interest rate, even if inflation will not reach the target level of 2% YoY. The greenback was also supported by strong domestic data -- orders of durable goods rose more than expected in August. On Wednesday the DXY index rose 0.4% to 93.36.

Being under influence of the greenback's strength, the euro and the Chinese renminbi extended losses. Both currencies hit 1-month low -- the euro closed down 0.4% to 1.1745 EUR/USD, while the CNY weakened 0.04% to 6.6425 USD/CNY. It should be mentioned that the central bank of China set the reference rate at 6.6192, while the market participants expected weaker level. With these actions the Chinese regulator showed that further weakening of the renminbi will be excessive.

The Russian ruble weakened against the greenback for the fourth consecutive trading session, closing down 0.6% to 58.2025 USD/RUB. The Russian currency was negatively affected by stronger US dollar and declining oil prices. Additional pressure on the ruble put higher demand for the foreign currency on the domestic FX market, while supply was muted.

It is worth noting that the increased possibility of one more interest rate hike by Federal Reserve this year set EM currencies under fire. JPMorgan EM currencies index fell for the third consecutive day, decreasing 0.6% to 69.41, which is the weakest level since mid-July. Anticipation the interest rate increase in December, investors started shifting their capital back to US dollar denominated assets. However, it is unlikely that the sell-off will be long-lasting, as the Fed stated many times that the monetary policy tightening will be gradual.

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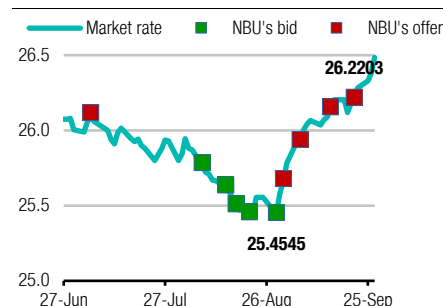
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 27 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.4850	+0.40	+1.17	+3.64	-2.27
USD ¹	93.361	+0.42	+0.92	+0.67	-8.66
EUR	1.1745	-0.41	-1.24	-1.50	+11.68
JPY	112.8400	+0.53	+0.55	+3.18	-3.52
GBP ²	1.3387	-0.53	-0.80	+3.92	+8.48
CNY	6.6425	+0.04	+1.03	-0.06	-4.36
RUB	58.2025	+0.63	+0.01	-0.67	-5.42

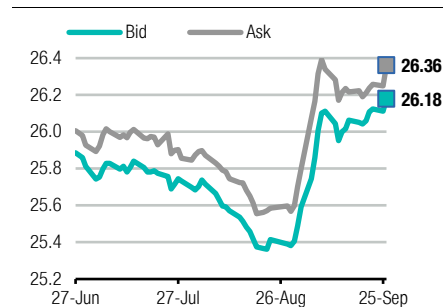
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 27 September 2017)



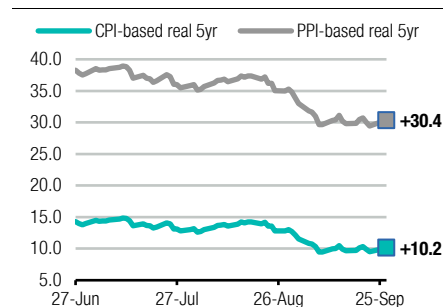
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 27 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 27 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)

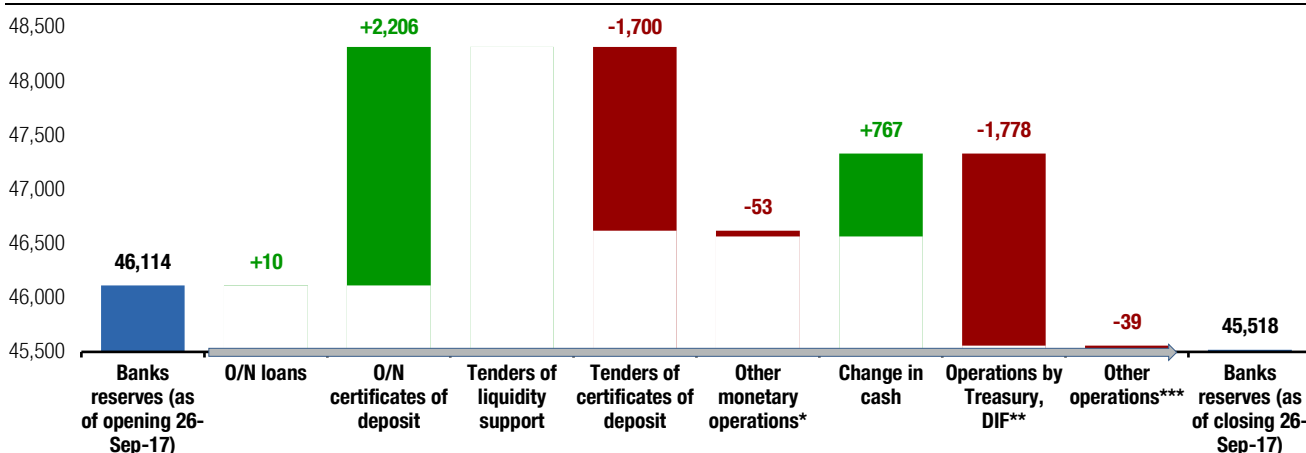
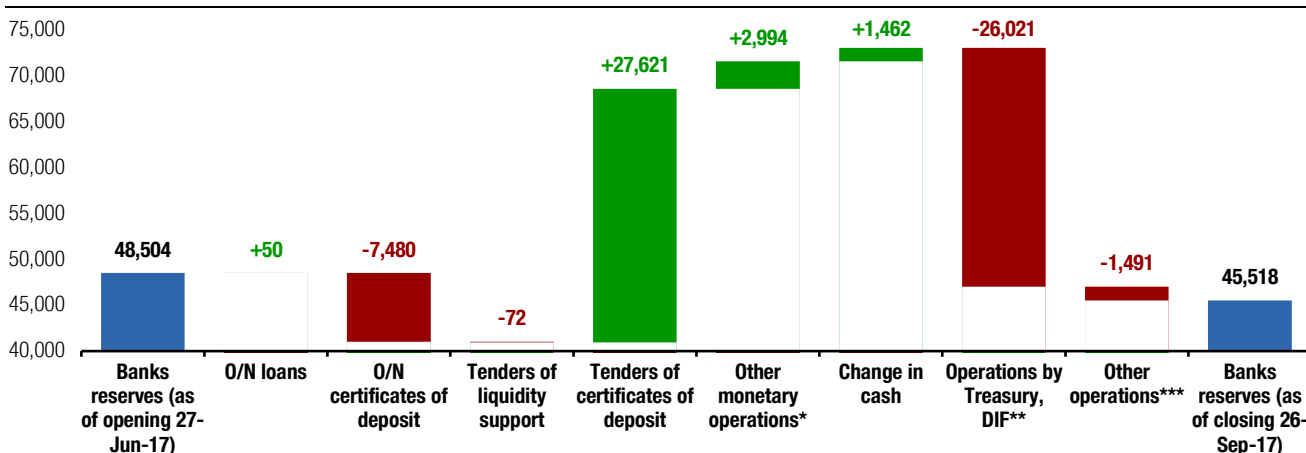
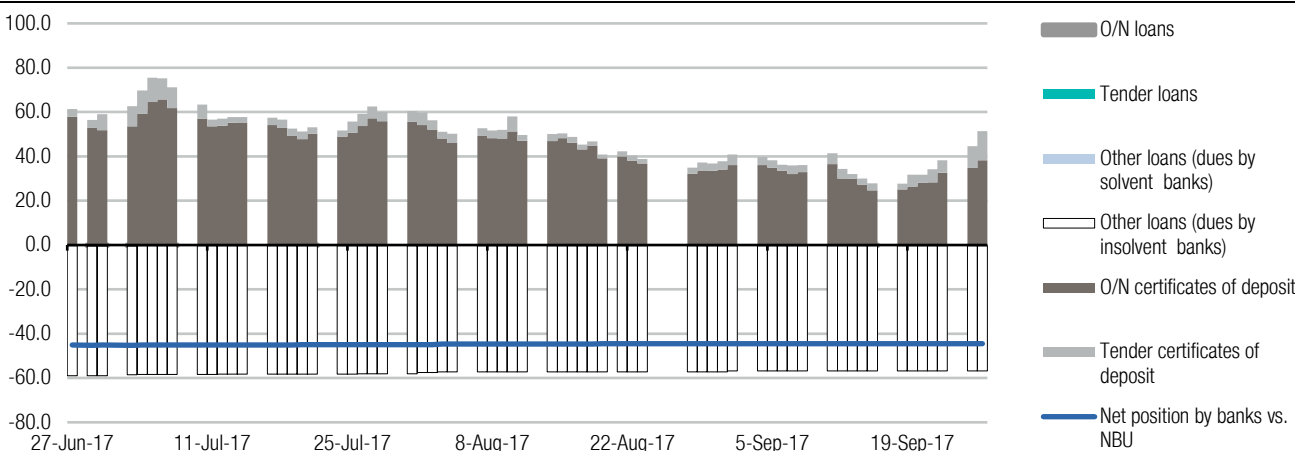


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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