

Daily Insight

Liquidity slightly volatile

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Liquidity slightly volatile.....2

Liquidity has continued to be slightly volatile at UAH 83-84bn as a result of non-monetary operations. This Wednesday, non-monetary operations caused it to rise a slight UAH0.36bn. The Treasury operational balance remained negative, but significantly tightened to minus UAH0.38bn on Wednesday and was fully offset by an exchange of cash into reserves with additional funds for liquidity. 2

Foreign exchange markets 3

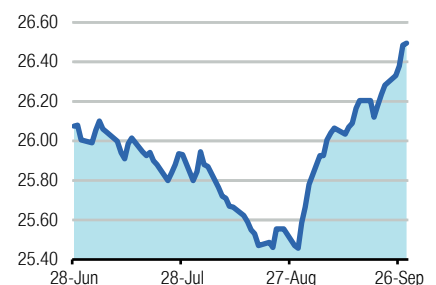
Hryvnia continues to decline.....3

For the seventh straight trading session, the hryvnia continued to decline as a result of higher demand for foreign currency in the local FX market combined with the recent appreciation of the USD in global markets. To meet the increasing demand in the local FX market, the NBU received submitted bids of US\$38m for USD on Thursday and accepted US\$36.4m at a weighted-average rate of 26.5111 USD/UAH. At Thursday's close, the hryvnia depreciated 0.2% to 26.5211 USD/UAH. The hryvnia sold for 26.28 USD/UAH versus 26.46 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.29% to 105.9; in year-on-year terms, it is up 8.18% from 97.89 last year. 3

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FRIDAY, 29 SEPTEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 28 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 28 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)	45,502	-0.04	-8.51
Deposit certificates* (UAHm)	38,044	+0.99	-38.87
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.4950	+0.04	-2.23
Total trade volume (US\$m)	301.29	+25.96	+77.63
UAH index CPI-based	105.896	-0.29	-1.95
UAH index PPI-based	163.211	-0.29	-3.07
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	468bp	+1bp	-185bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,510.06	+0.12	+12.11
MSCI EM	1,072.38	-0.57	+24.37
US dollar index (DXY)	93.085	-0.30	-8.93
EUR / USD	1.1786	+0.35	+12.07
Crude oil WTI (US\$/bbl)	51.56	-1.11	-4.02
Crude oil BRENT (US\$/bbl)	57.41	-0.85	+1.04
CRB, commodities index	182.99	-0.47	-4.95
Gold (US\$/ounce)	1,287.33	+0.35	+11.72

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity slightly volatile

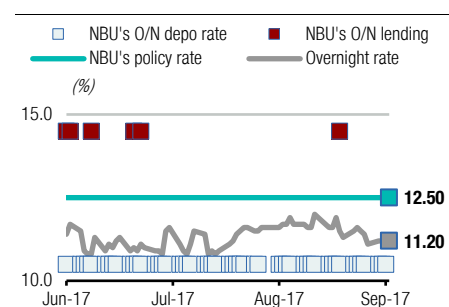
Liquidity has continued to be slightly volatile at UAH 83-84bn as a result of non-monetary operations. This Wednesday, non-monetary operations caused it to rise a slight UAH0.36bn. The Treasury operational balance remained negative, but significantly tightened to minus UAH0.38bn on Wednesday and was fully offset by an exchange of cash into reserves with additional funds for liquidity.

Banks' correspondent accounts with the NBU remained steady with an insignificant decline of UAH0.02bn to UAH45.50bn while funds injected into liquidity were absorbed by the NBU via CDs. Total CDs outstanding rose UAH0.37bn to UAH38.04bn with maturities not changing significantly. The NBU sold UAH0.50bn of 3-month CDs with maturity on 13 December, and slightly decreased the amount of ON CDs.

ICU view: The Treasury decreased the difference between revenues and expenditures, but revenues continue to exceed expenditures. Outflows were offset by an increase in reserves from exchanging cash into reserves, which is routinely seen at the end of the month. Yesterday, however, the NBU sold US\$36.4m of FX, absorbing about UAH0.97bn, which could increase outflows and cause liquidity to decline.

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Interest rates in the banks' reserves market (three months through 28 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 28 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	-20bp	-40bp	+60bp
ON \$ swap	11.84	-2bp	-57bp	-95bp	+37bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	45,502	-0.04	-14.75	-11.10	-8.51
DepCerts ³	38,044	+0.99	+34.57	+18.19	-38.87
Total	83,546	+0.43	+2.33	+0.21	-25.39
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	362,235	+0.00	+0.00	-0.34	+1.71
Banks	308,256	+0.08	+0.30	+1.18	+78.87
Residents	23,368	+0.43	+0.12	+1.25	+49.04
Non-res ⁴	2,775	+3.62	+3.62	+373.4	-56.31
Total	696,633	+0.06	+0.15	+0.70	+26.54
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.89	+162bp	+67bp	+59bp	-942bp
3 months	12.30	+32bp	+25bp	+27bp	-977bp
6 months	12.21	+18bp	+12bp	+31bp	-584bp
1 year	11.67	+11bp	+7bp	-6bp	-432bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	468	+1bp	+33bp	-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

Hryvnia continues to decline

For the seventh straight trading session, the hryvnia continued to decline as a result of higher demand for foreign currency in the local FX market combined with the recent appreciation of the USD in global markets. To meet the increasing demand in the local FX market, the NBU received submitted bids of US\$38m for USD on Thursday and accepted US\$36.4m at a weighted-average rate of 26.5111 USD/UAH. At Thursday's close, the hryvnia depreciated 0.2% to 26.5211 USD/UAH. The hryvnia sold for 26.28 USD/UAH versus 26.46 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.29% to 105.9; in year-on-year terms, it is up 8.18% from 97.89 last year.

After some appreciation of the US dollar during previous trading sessions due to the revival of positive anticipations of a possible key policy rate hike by the end of this year, on Thursday the dollar index fell against other major currencies after touching an one-month high earlier in the day. The greenback depreciated despite the fact that the US's economy grew 3.1% annualized in the second quarter versus the previous estimation of 3%. There was a noteworthy negative effect coming from the increase of jobless claims to 272,000, more than expected. Thus, the DXY index traded at 93.073 - 93.666, closing down 0.3% to 93.085.

Following the weakening of the US dollar, the euro appreciated on Thursday, as it was also supported by rising Eurozone economic sentiment which hit a 10-year high of 113 from 111.9 previously. Thus, the EUR/USD pair traded within 1.1721 - 1.1804 EUR/USD, up 0.4% to 1.1786 EUR/USD. On the other hand, the Chinese yuan depreciated against the USD after the PBOC set the official exchange rate at 6.6425 USD/CNY, down for the fourth consecutive day. The renminbi declined against the USD by 0.3% to 6.6608 USD/CNY on Thursday and traded at 6.6429 - 6.6749 USD/CNY.

The weakening of the American dollar on Thursday, along with increase of the oil prices, supported the Russian ruble, which inversely to the previous day appreciated by 0.5% to 57.9202 USD/RUB. While there is increased demand for foreign currency on the Russian local FX market, the Russian Treasury's auction on currency placement to deposit accounts in banks must normalize the current situation.

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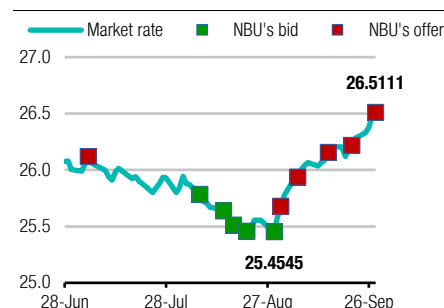
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 28 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.4950	+0.04	+0.99	+4.02	-2.23
USD ¹	93.085	-0.30	+0.90	+0.95	-8.93
EUR	1.1786	+0.35	-1.30	-1.61	+12.07
JPY	112.3400	-0.44	-0.12	+2.83	-3.95
GBP ²	1.3442	+0.41	-1.02	+3.94	+8.93
CNY	6.6608	+0.28	+1.07	+0.70	-4.09
RUB	57.9202	-0.49	+0.00	-0.90	-5.88

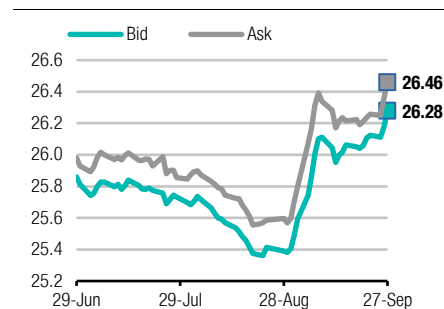
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 28 September 2017)



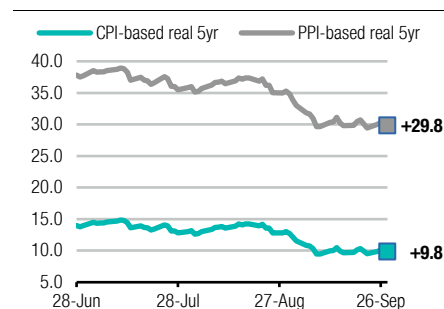
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 28 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 28 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)

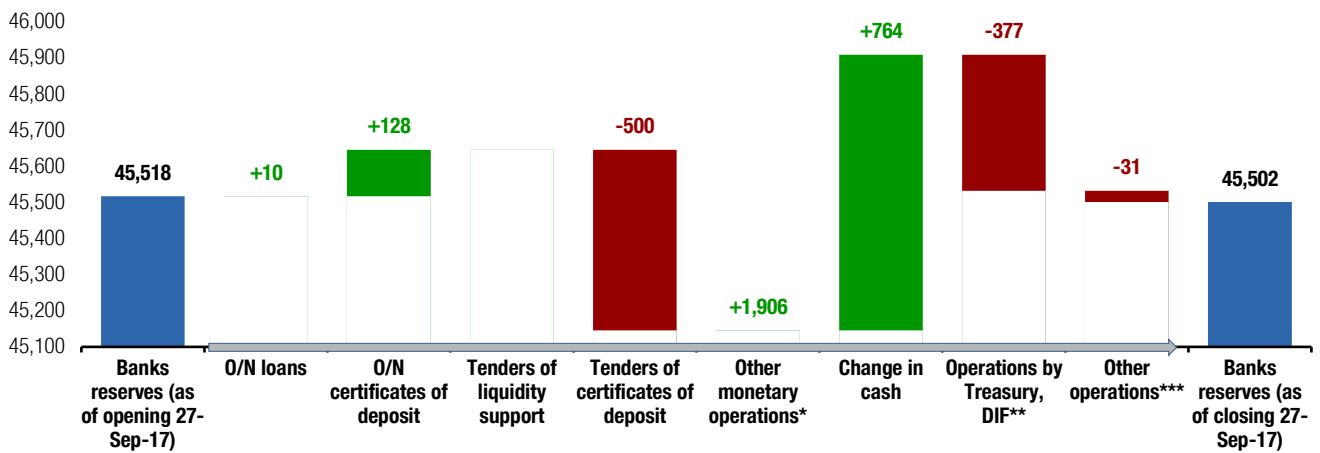
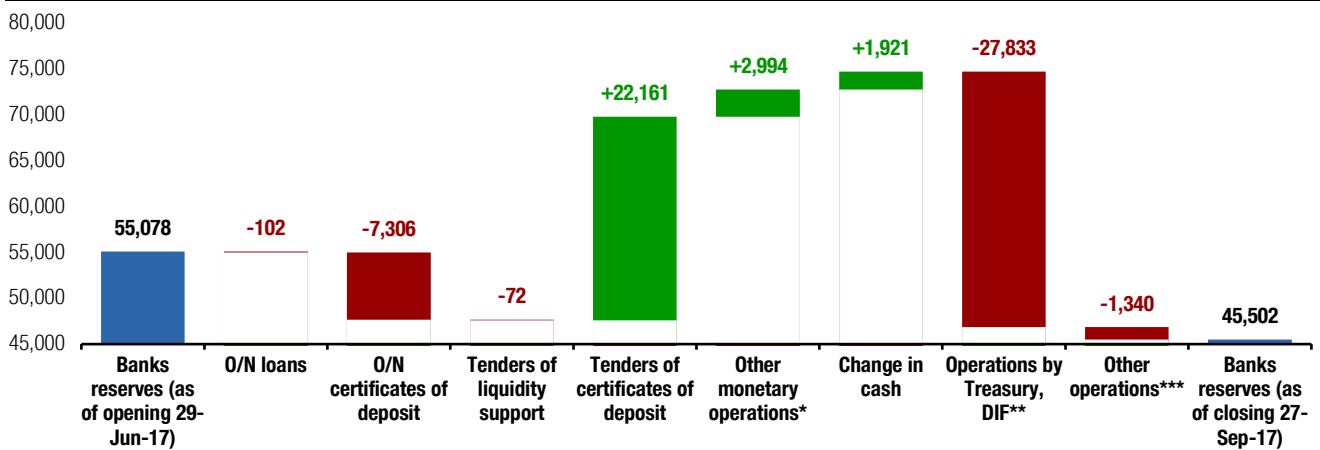
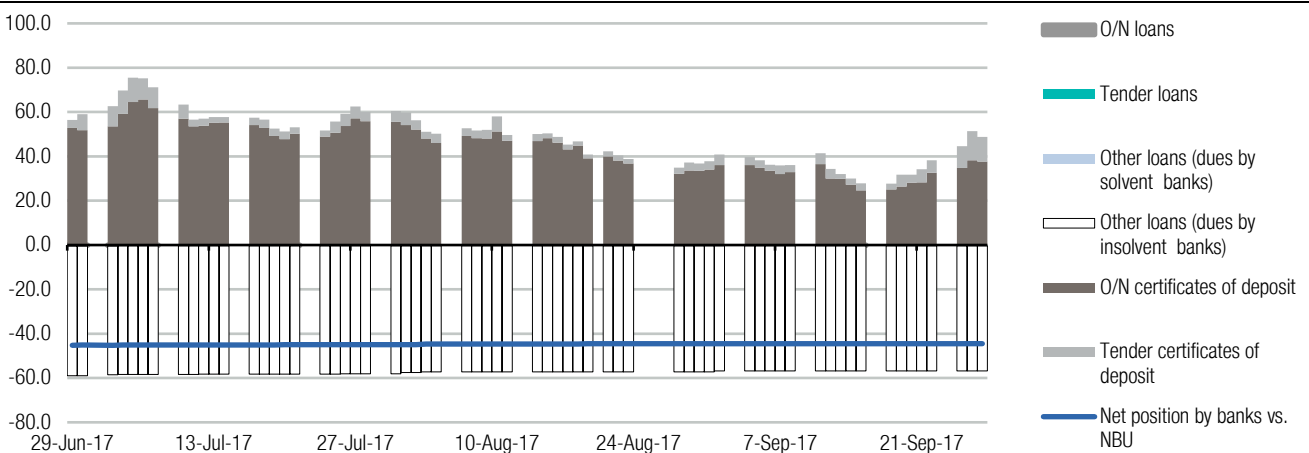


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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