

# Daily Insight

## Hryvnia close to 26.6

### Key messages of the today's comments

#### Domestic liquidity **2**

##### Liquidity down ..... 2

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#### Foreign exchange markets **3**

##### Hryvnia close to 26.6 ..... 3

On the last day of the week, the hryvnia continued to depreciate against the US dollar. Demand for foreign currency at the local FX market remains high, which weighs on the UAH. The NBU's foreign currency auction on Thursday did not help support the current position, and on Friday the regulator stayed away from the market and the currency fell another 0.2% to 26.5785 USD/UAH as it sold for 26.33 USD/UAH versus 26.49 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.79% to 105.06; in year-on-year terms, it is up 7.07% from 98.12 last year. By our estimates, the hryvnia remains overvalued. **3**

#### Appendix #1: Domestic liquidity **4**

MONDAY, 2 OCTOBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 29 September 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 29 September 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.00	-20bp	+40bp
Banks reserves (UAHm)	42,376	-6.87	-14.79
Deposit certificates* (UAHm)	39,003	+2.52	-37.33
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.6400	+0.55	-1.70
Total trade volume (US\$m)	220.78	-26.72	+30.17
UAH index CPI-based	105.062	-0.79	-2.72
UAH index PPI-based	161.925	-0.79	-3.83

#### UKRAINE SOVEREIGN EUROBOOND MARKET

CDS 5yr	462bp	-6bp	-191bp
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#### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,519.36	+0.37	+12.53
MSCI EM	1,081.72	+0.87	+25.45
US dollar index (DXY)	93.076	-0.01	-8.94
EUR / USD	1.1814	+0.24	+12.33
Crude oil WTI (US\$/bbl)	51.67	+0.21	-3.82
Crude oil BRENT (US\$/bbl)	56.79	-1.08	-0.05
CRB, commodities index	183.09	+0.05	-4.89
Gold (US\$/ounce)	1,280.15	-0.56	+11.10

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity down

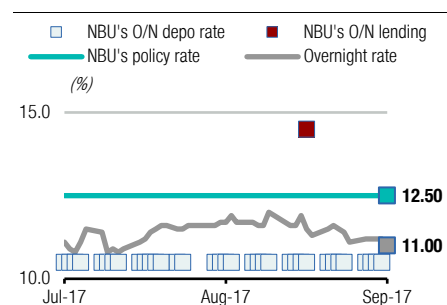
At the end of last Thursday, liquidity declined as expected as the pressure from tax payments matched the NBU's operations to support the FX market. At last Thursday's FX auction, the NBU sold US\$36.4m of FX and absorbed UAH0.97bn with this operation. The NBU's auction increased negative pressure caused by the Treasury as it absorbed tax payments of UAH1.48bn of which only UAH0.28bn was offset by an exchange cash into reserves. As a result, banking sector liquidity fell a significant UAH2.17bn to UAH81.38bn.

Banks' correspondent accounts with the NBU declined UAH3.13bn to UAH42.38bn while total CDs outstanding rose a slight UAH0.96bn to UAH39.00bn. Last Thursday, banks decreased the amount of ON CDs by UAH2.27bn, investing these funds into 14-day CDs and reserves.

**ICU view: Liquidity remains quite steady, as it fell slightly but remained above UAH80bn. It should remain at this level as the month ends. In addition to providing payments to the budget, banks continued to increase investments in CDs, indicating that some banks may have extra liquidity currently.**

**Taras Kotovych, Kyiv, (044) 377-7040 ext.724**

## Interest rates in the banks' reserves market (three months through 29 September 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 29 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	11.00	-20bp	-10bp	-70bp	+40bp
ON \$ swap	12.32	-14bp	+60bp	-16bp	+85bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	42,376	-6.87	-13.28	-12.42	-14.79
DepCerts <sup>3</sup>	39,003	+2.52	+19.78	+16.19	-37.33
<b>Total</b>	<b>81,379</b>	<b>-2.59</b>	<b>-0.06</b>	<b>-0.70</b>	<b>-27.32</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	N/A	N/A	N/A	N/A	N/A
Banks	N/A	N/A	N/A	N/A	N/A
Residents	N/A	N/A	N/A	N/A	N/A
Non-res <sup>4</sup>	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	11.11	-178bp	-84bp	-3bp	-11ppt
3 months	11.71	-59bp	-272bp	+9bp	-10ppt
6 months	11.96	-25bp	-14bp	+31bp	-609bp
1 year	11.50	-17bp	-17bp	-23bp	-449bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	462	-6bp	+22bp	-58bp	-191bp

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 close to 26.6

On the last day of the week, the hryvnia continued to depreciate against the US dollar. Demand for foreign currency at the local FX market remains high, which weighs on the UAH. The NBU's foreign currency auction on Thursday did not help support the current position, and on Friday the regulator stayed away from the market and the currency fell another 0.2% to 26.5785 USD/UAH as it sold for 26.33 USD/UAH versus 26.49 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.79% to 105.06; in year-on-year terms, it is up 7.07% from 98.12 last year. By our estimates, the hryvnia remains overvalued.

During the first half of the day, the US dollar traded higher compared to the previous day, but declined at the end of the trading session. The positive reactions to possible tax reform stopped the dollar's decline on the back of decelerating core inflation. However, at Friday's close, the DXY index declined 0.01% to 93.076. Consumer expenditures grew 0.1%, meeting expectations, when the consumer sentiment index inched down to 95.1 from previous estimate of 95.3. The USD remains near its one-month high.

The euro, moving inversely to the American dollar, rose on Friday as the Eurozone's CPI remained stable at 1.5% against the slight increase that was expected. Thus, the EUR/USD pair traded within 1.1773 - 1.1833 EUR/USD, up 0.2% to 1.1814 EUR/USD. The Chinese yuan appreciated against the US dollar after the PBOC set the official exchange rate at 6.6369 USD/CNY from the prior 6.6570. The renminbi inched up against the dollar by 0.1% to 6.6528 USD/CNY on Friday and traded at 6.6394 - 6.6832/CNY.

The slight weakening of the American dollar on Friday, along with high oil prices, supported the Russian currency, which rose 0.6% to 57.5545 USD/RUB and traded at 57.4753 - 58.0992. The foreign currency liquidity deficit on the Russian FX market somehow diminished, this supporting the Russian ruble.

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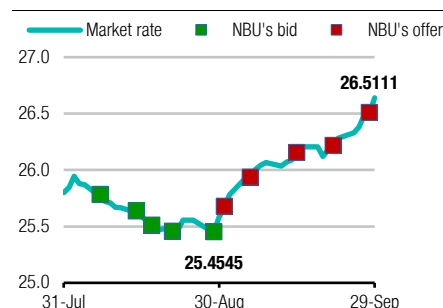
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 29 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.6400	+0.55	+1.36	+4.65	-1.70
USD <sup>1</sup>	93.076	-0.01	+0.98	+0.90	-8.94
EUR	1.1814	+0.24	-1.15	-1.32	+12.33
JPY	112.5100	+0.15	+0.46	+2.55	-3.80
GBP <sup>2</sup>	1.3398	-0.33	-0.78	+3.72	+8.57
CNY	6.6528	-0.12	+0.95	+0.86	-4.21
RUB	57.5545	-0.63	+0.09	-2.16	-6.47

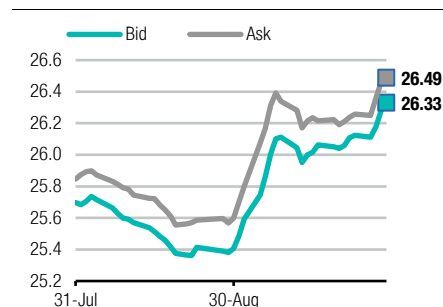
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 29 September 2017)



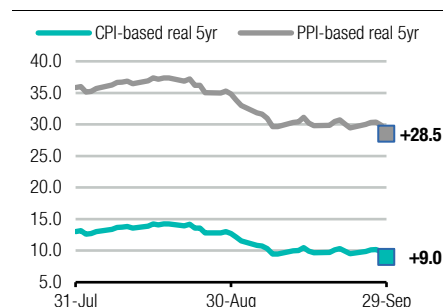
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 29 September 2017)



Source: NBU.

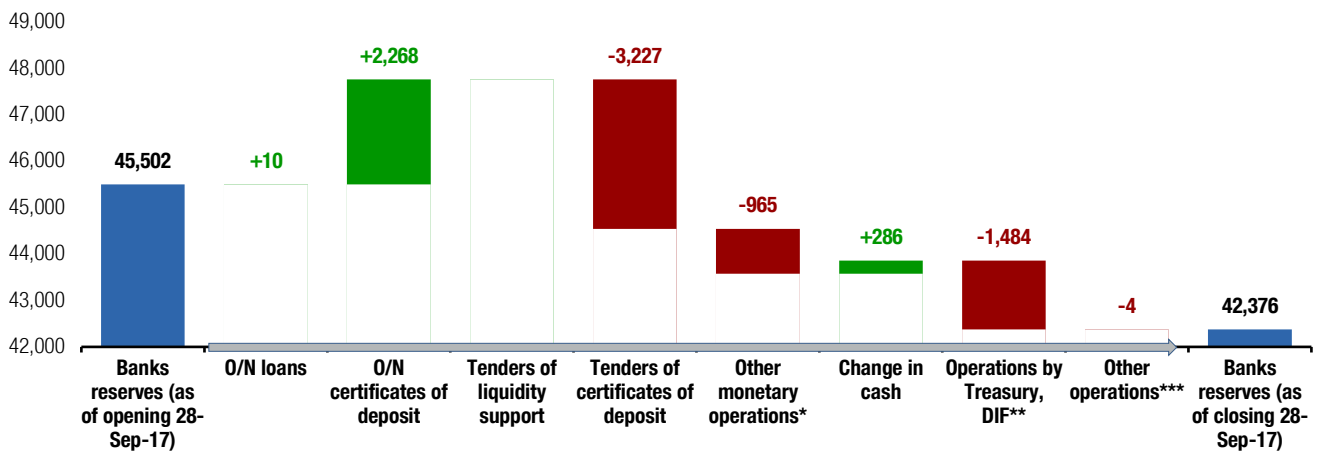
## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 29 September 2017)



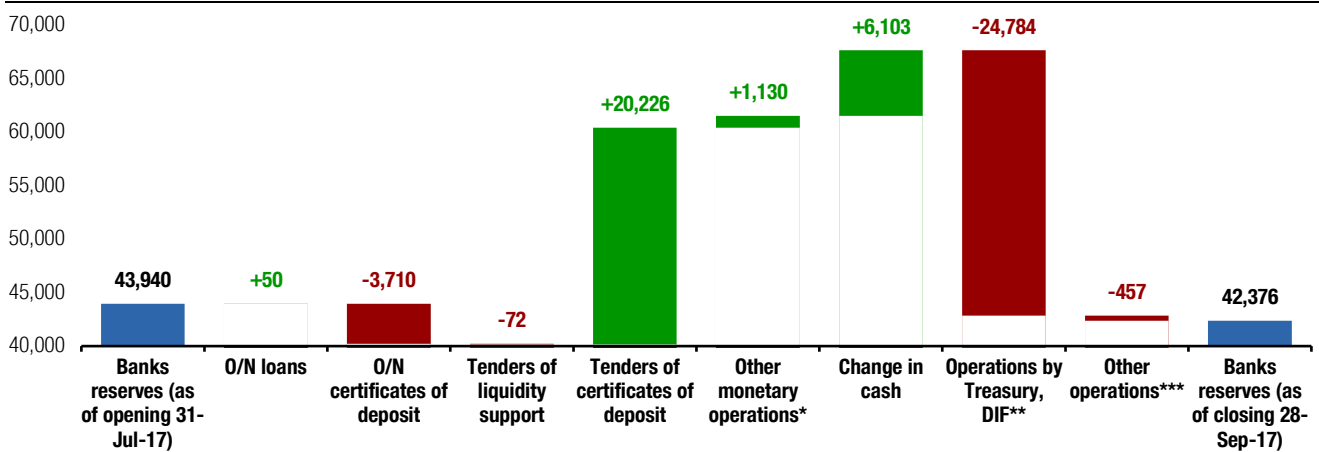
Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

# Appendix #1: Domestic liquidity

**Chart 1. Banks reserves usages over last reporting date (UAHm)**

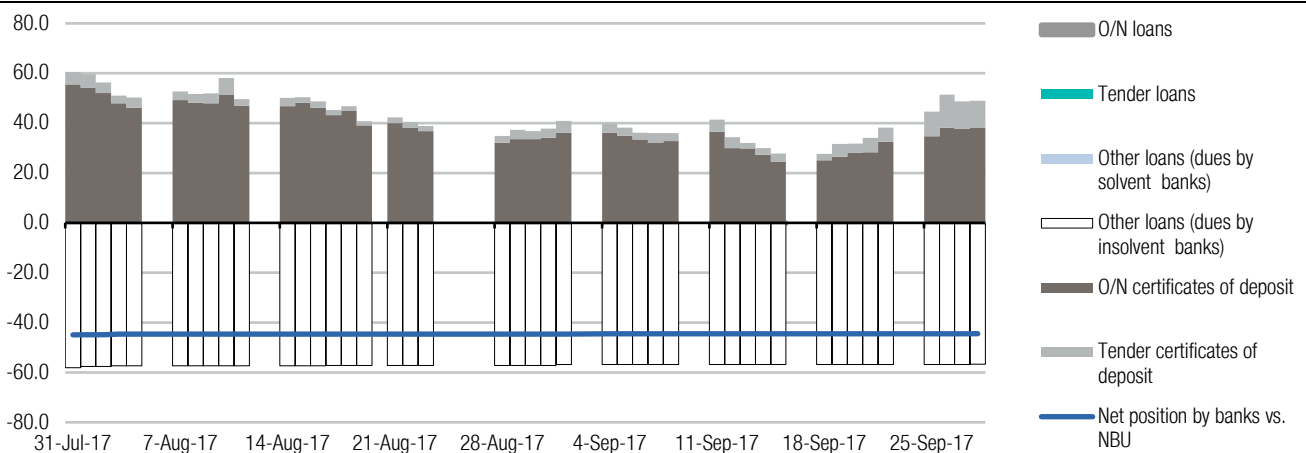


**Chart 2. Banks reserves usages over last 90-day period (UAHm)**



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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