

Daily Insight

Liquidity close to UAH80bn

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During a volatile September, liquidity declined mildly to UAH80.18bn. Under the pressure of month-end tax payments, banking sector liquidity declined UAH1.20bn last Friday with a slight reallocation of funds. Total CDs outstanding fell UAH2.25bn while a portion of funds were reallocated to banks' accounts. Banks' correspondent accounts balance with the NBU rose UAH1.05bn. Banks received UAH4.28bn in 14-day CD redemptions while only UAH2.03bn was invested in ON CDs. **2**

Foreign exchange markets **3**

UAH extends losses3

At the beginning of the week, the hryvnia closed down another 0.3% to 26.6546 USD/UAH, declining against the US dollar for the ninth consecutive session. The ongoing weakness of the Ukrainian currency is explained mostly by seasonal factors, as oil traders traditionally increase their demand for foreign currency in September, which, combined with rising oil prices, fed into the UAH's depreciation. At the same time, in addition to seasonal factors, the hryvnia is under pressure from the rallying US dollar. In the Ukrainian cash market, hryvnia sold for 26.38 USD/UAH versus 26.53 to buy. Its CPI-based real trade-weighted index rose 0.45% to 105.53; in year-on-year terms, it is up 8.1% from 97.60 last year. **3**

Appendix #1: Domestic liquidity **4**

TUESDAY, 3 OCTOBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 2 October 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 2 October 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.00	+0bp	+40bp
Banks reserves (UAHm)	43,424	+2.47	-12.68
Deposit certificates* (UAHm)	36,757	-5.76	-40.94
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.6250	-0.06	-1.75
Total trade volume (US\$m)	199.29	-9.74	+17.49
UAH index CPI-based	105.531	+0.45	-2.29
UAH index PPI-based	162.648	+0.45	-3.40
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	457bp	-5bp	-196bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,529.12	+0.39	+12.97
MSCI EM	1,082.97	+0.12	+25.60
US dollar index (DXY)	93.559	+0.52	-8.46
EUR / USD	1.1733	-0.69	+11.56
Crude oil WTI (US\$/bbl)	50.58	-2.11	-5.85
Crude oil BRENT (US\$/bbl)	56.12	-1.18	-1.23
CRB, commodities index	180.91	-1.19	-6.03
Gold (US\$/ounce)	1,270.93	-0.72	+10.30

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity close to UAH80bn

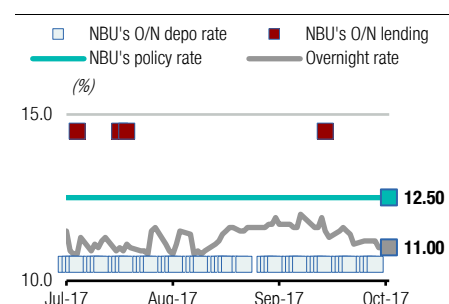
During a volatile September, liquidity declined mildly to UAH80.18bn. Under the pressure of month-end tax payments, banking sector liquidity declined UAH1.20bn last Friday with a slight reallocation of funds. Total CDs outstanding fell UAH2.25bn while a portion of funds were reallocated to banks' accounts. Banks' correspondent accounts balance with the NBU rose UAH1.05bn. Banks received UAH4.28bn in 14-day CD redemptions while only UAH2.03bn was invested in ON CDs.

The key impact on liquidity was non-monetary operations which caused a UAH1.18bn outflow, including UAH1.39bn of absorption by the Treasury and UAH0.18bn by other operations, most likely interest payments on NBU loans, while cash exchanged into reserves was only a UAH0.39bn offset. The NBU also absorbed UAH0.02bn via its non-classified monetary operations, likely FX sales outside of auctions that required advantageous exchange rates.

ICU view: As expected, liquidity did not fall below UAH80bn, but it was dangerously close to doing so. As month-end tax payments are complete, further declines are less likely and depend upon budget expenditures. With only three months remaining in 2017, budget expenditures should accelerate, having a positive impact on liquidity.

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Interest rates in the banks' reserves market (three months through 2 October 2017)



Source: Bloomberg, ICU.

Key indicators (as of 2 October 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	11.00	+0bp	-20bp	-70bp	+40bp
ON \$ swap	11.68	-11bp	-15bp	+0bp	+21bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	43,424	+2.47	-11.57	-4.15	-12.68
DepCerts ³	36,757	-5.76	+5.78	+1.76	-40.94
Total	80,181	-1.47	-4.38	-1.53	-28.39
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
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 ⁴	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.80	+69bp	+80bp	+2bp	-11ppt
3 months	12.28	+56bp	+30bp	+27bp	-979bp
6 months	12.13	+17bp	+7bp	+11bp	-592bp
1 year	11.59	+8bp	+2bp	-12bp	-440bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	457	-5bp	-12bp	-48bp	-196bp

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

At the beginning of the week, the hryvnia closed down another 0.3% to 26.6546 USD/UAH, declining against the US dollar for the ninth consecutive session. The ongoing weakness of the Ukrainian currency is explained mostly by seasonal factors, as oil traders traditionally increase their demand for foreign currency in September, which, combined with rising oil prices, fed into the UAH's depreciation. At the same time, in addition to seasonal factors, the hryvnia is under pressure from the rallying US dollar. In the Ukrainian cash market, hryvnia sold for 26.38 USD/UAH versus 26.53 to buy. Its CPI-based real trade-weighted index rose 0.45% to 105.53; in year-on-year terms, it is up 8.1% from 97.60 last year.

The USD traded higher against other major currencies, boosted by strong macroeconomic statistics. The ISM manufacturing index rose more than expected in September -- to 60.8, the highest level since May 2004. The greenback's rally was driven also by a rising probability that the Fed will raise interest rates one more time this year as well as by anticipations of US tax reform announced by Trump last Wednesday. Yesterday, the DXY index rose 0.5%, to 93.56.

The US dollar's strength had a negative impact on other major currencies, including EM currencies. The euro dropped 0.7% to 1.1733 EUR/USD, also under pressure of the looming constitutional crisis in Spain over Catalonia which puts pressure on the Spain's state debt and increases its political risks within the European Union.

The Russian ruble weakened 0.5% against the greenback to 57.8642 USD/RUB, under the influence of oil prices which started declining on the back of increased oil output by OPEC countries in September.

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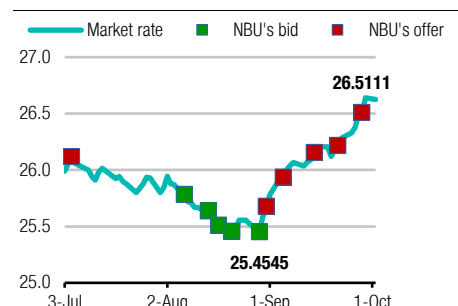
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 2 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.6250	-0.06	+1.12	+3.28	-1.75
USD ¹	93.559	+0.52	+0.98	+0.80	-8.46
EUR	1.1733	-0.69	-0.97	-1.07	+11.56
JPY	112.7700	+0.23	+0.93	+2.29	-3.58
GBP ²	1.3276	-0.91	-1.41	+2.51	+7.59
CNY	N/A	N/A	N/A	N/A	N/A
RUB	57.8642	+0.54	+0.55	+0.67	-5.97

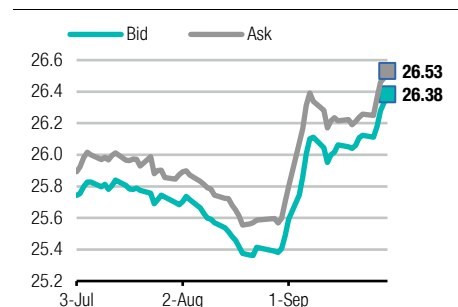
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 2 October 2017)



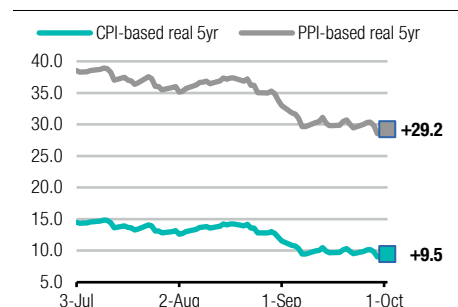
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 2 October 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 2 October 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)

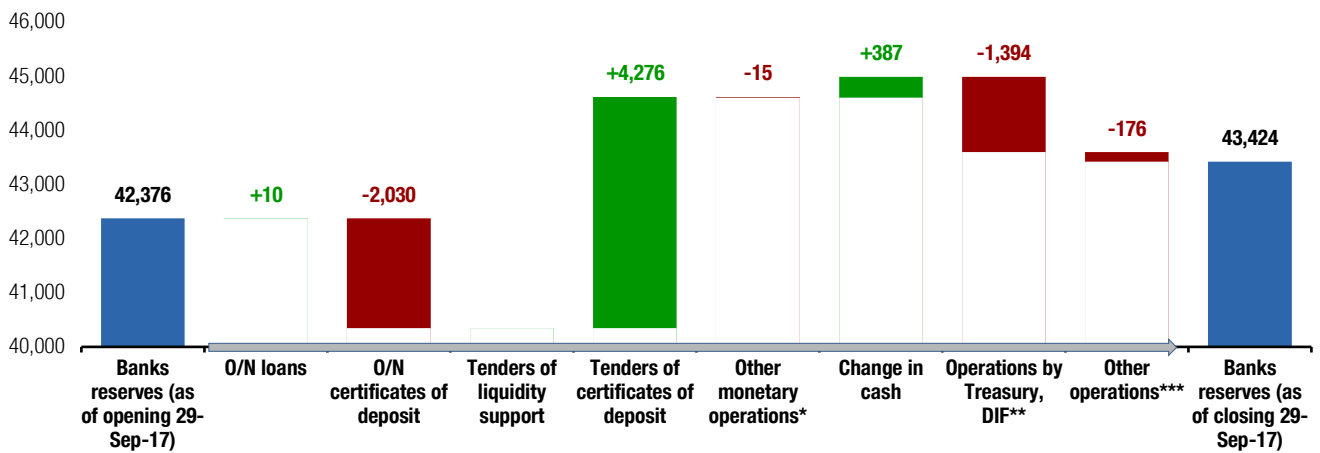
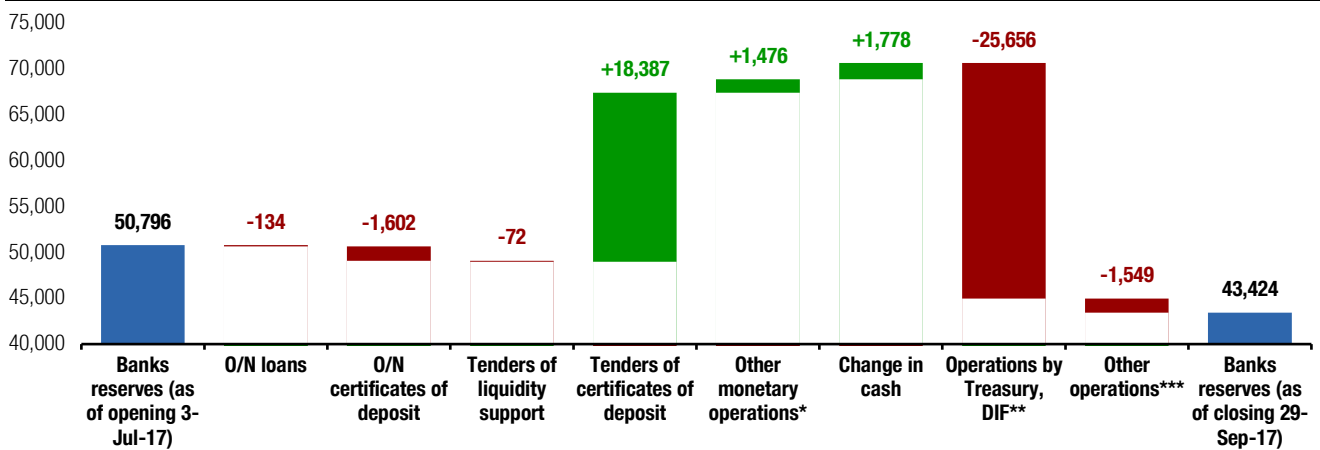
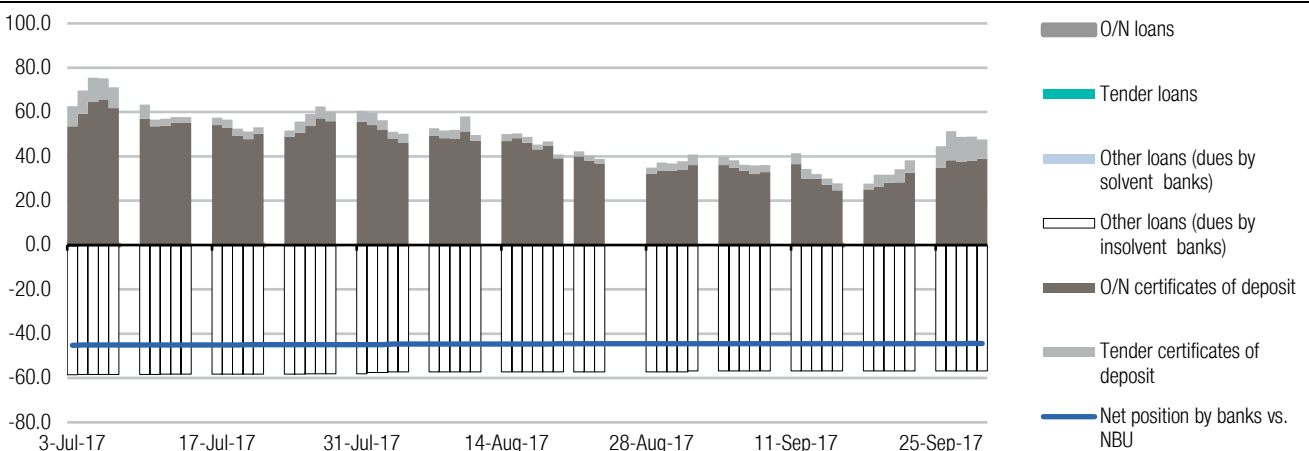


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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