

# Daily Insight

## Hryvnia continues to decline

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This Monday, banking sector liquidity (excluding the government bond portfolio) fell UAH1.91bn to UAH78.27bn, only UAH3.37bn above the record low on 15 September. Banks' correspondent accounts with the NBU declined UAH1.25bn to UAH42.17bn and total CDs outstanding were down UAH0.66bn to UAH36.10bn. 2

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##### Hryvnia continues to decline 3

The hryvnia weakened for the tenth consecutive trading session as it closed down 0.2% to 26.7042 USD/UAH on Tuesday. The UAH's recent depreciation was caused by seasonal factors as well as the US dollar's strengthening. With no domestic factors supporting the hryvnia, the weakening of the UAH is in line with the CPI- and PPI-based real trade-weighted indices which show that the hryvnia is still overvalued. Yesterday, in the Ukrainian cash market, the hryvnia sold for 26.40 USD/UAH versus 26.60 to buy. Its CPI-based real trade-weighted index fell 0.35% to 105.16; in year-on-year terms, it is up 4.1% from 101.02 last year. 3

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WEDNESDAY, 4 OCTOBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 3 October 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 3 October 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.20	+20bp	+60bp
Banks reserves (UAHm)	42,170	-2.89	-15.21
Deposit certificates* (UAHm)	36,096	-1.80	-42.00
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.7200	+0.36	-1.40
Total trade volume (US\$m)	218.58	+9.68	+28.87
UAH index CPI-based	105.164	-0.35	-2.63
UAH index PPI-based	162.083	-0.35	-3.74
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	467bp	+10bp	-186bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,534.58	+0.22	+13.21
MSCI EM	1,097.03	+1.30	+27.23
US dollar index (DXY)	93.569	+0.01	-8.45
EUR / USD	1.1744	+0.09	+11.67
Crude oil WTI (US\$/bbl)	50.42	-0.32	-6.14
Crude oil BRENT (US\$/bbl)	56.00	-0.21	-1.44
CRB, commodities index	180.90	-0.01	-6.03
Gold (US\$/ounce)	1,271.65	+0.06	+10.36

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity hits year low

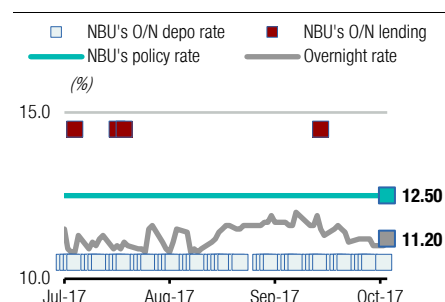
This Monday, banking sector liquidity (excluding the government bond portfolio) fell UAH1.91bn to UAH78.27bn, only UAH3.37bn above the record low on 15 September. Banks' correspondent accounts with the NBU declined UAH1.25bn to UAH42.17bn and total CDs outstanding were down UAH0.66bn to UAH36.10bn.

The Treasury and NBU split the losses, absorbing UAH1.74bn and UAH0.80bn, respectively, which were offset by exchanging UAH0.63bn of cash into reserves. The NBU did not hold FX auctions this Monday.

**ICU view:** *The Treasury significantly decreased budget expenditures, and this day they did not offset half of the UAH3.0bn of collected revenues. This out of balance in operations caused most of the outflows from liquidity. The NBU likely did not receive any payments from either refinancing loans or FX auctions.*

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## Interest rates in the banks' reserves market (three months through 3 October 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 3 October 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	11.20	+20bp	+0bp	-50bp	+60bp
ON \$ swap	11.76	+12bp	-14bp	+0bp	+29bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	42,170	-2.89	-8.55	-6.92	-15.21
DepCerts <sup>3</sup>	36,096	-1.80	-5.45	-0.07	-42.00
<b>Total</b>	<b>78,266</b>	<b>-2.39</b>	<b>-7.15</b>	<b>-3.88</b>	<b>-30.10</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	-69bp	+11bp	-68bp	-11ppt
3 months	11.92	-36bp	+3bp	-8bp	-10ppt
6 months	15.76	+363bp	+378bp	+374bp	-229bp
1 year	11.51	-7bp	-3bp	-20bp	-448bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	467	+10bp	+1bp	-38bp	-186bp

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

The hryvnia weakened for the tenth consecutive trading session as it closed down 0.2% to 26.7042 USD/UAH on Tuesday. The UAH's recent depreciation was caused by seasonal factors as well as the US dollar's strengthening. With no domestic factors supporting the hryvnia, the weakening of the UAH is in line with the CPI- and PPI-based real trade-weighted indices which show that the hryvnia is still overvalued. Yesterday, in the Ukrainian cash market, the hryvnia sold for 26.40 USD/UAH versus 26.60 to buy. Its CPI-based real trade-weighted index fell 0.35% to 105.16; in year-on-year terms, it is up 4.1% from 101.02 last year.

The greenback started the trading session up, being boosted by a growing expectation of one more interest rate hike in December, thanks to strong recent economic performance, namely that the ISM manufacturing index hit a 13-year high in September. Supportive for the US dollar was also the announced tax reform plan. However, the greenback trimmed gains by the end of trading session as a Republican senator raised concerns that the tax reform could cause an increase in the budget deficit. The DXY index closed slightly up to 93.57.

The euro remained under the influence of the Catalan independence crisis which sparked the euro's 0.7% drop against the greenback at the beginning of the week. Even so, the euro managed to recover losses by the end of the trading session due to a correction in the EUR/USD pair and better-than-expected PPI data -- the producer prices growth in Eurozone accelerated to 2.5% YoY in August from 2% YoY the previous month. Consequently, the euro closed up 0.1% to 1.1744 EUR/USD.

The Russian ruble weakened 0.1% against the greenback to 57.9413 USD/RUB, under the influence of oil prices which started to decline on the back of higher oil output by OPEC countries in September. It should be noted that oil prices are declining for the sixth consecutive trading session.

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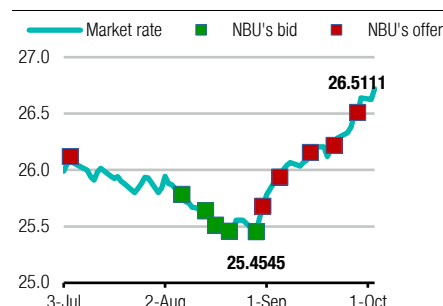
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 3 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.7200	+0.36	+1.29	+3.65	-1.40
USD <sup>1</sup>	93.569	+0.01	+0.65	+0.81	-8.45
EUR	1.1744	+0.09	-0.42	-0.98	+11.67
JPY	112.8500	+0.07	+0.54	+2.36	-3.51
GBP <sup>2</sup>	1.3237	-0.29	-1.64	+2.21	+7.27
CNY	N/A	N/A	N/A	N/A	N/A
RUB	57.9413	+0.13	+0.18	+0.80	-5.84

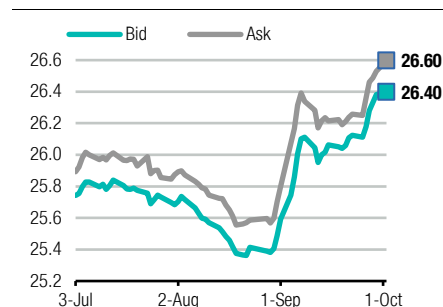
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 3 October 2017)



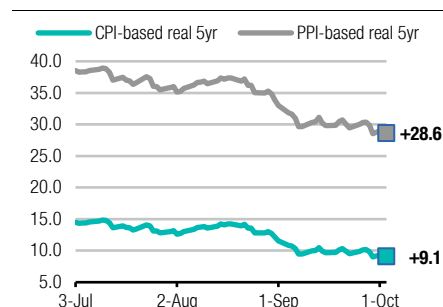
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 3 October 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 3 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)

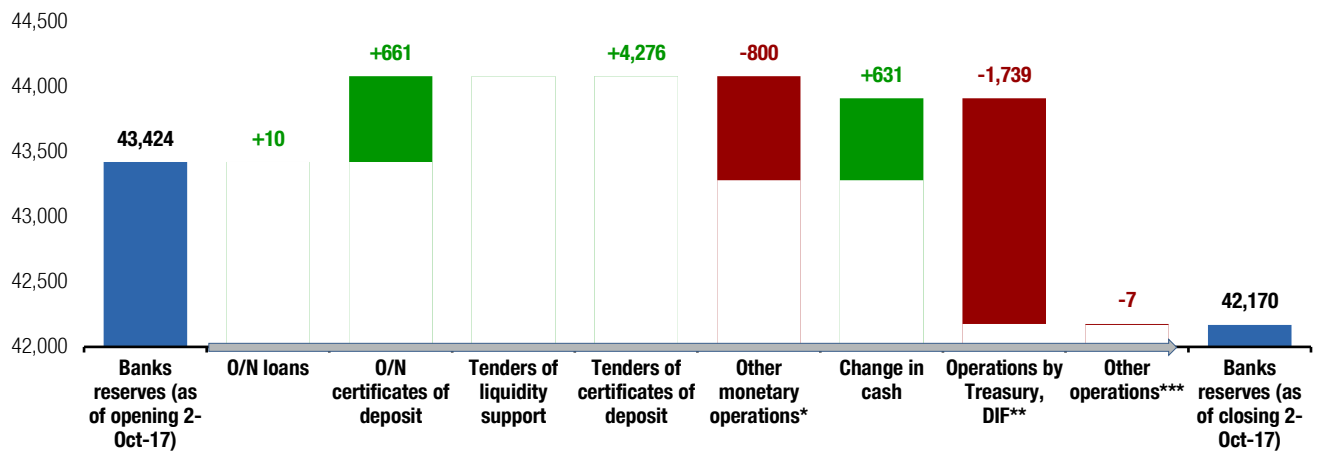
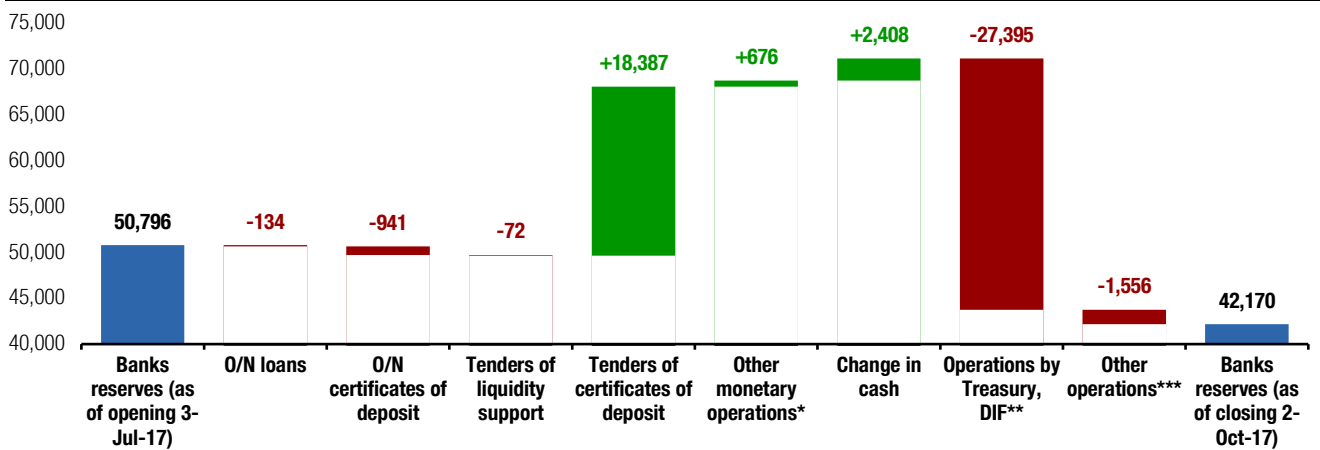
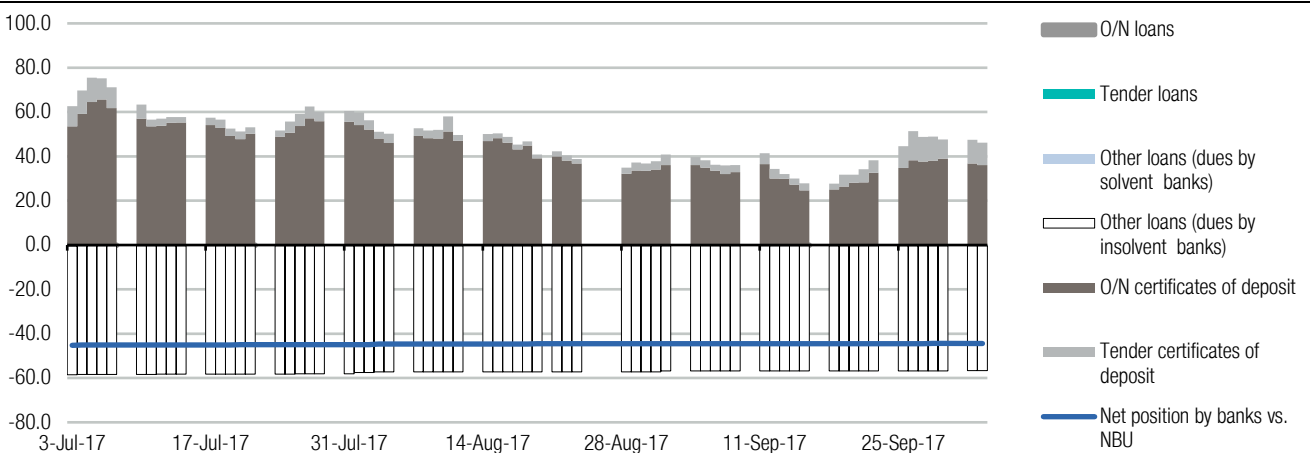


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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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