

# Daily Insight

## Liquidity corrects downward

### Key messages of the today's comments

FRIDAY, 13 OCTOBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 12 October 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 12 October 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.50	+10bp	+90bp
Banks reserves (UAHm)	49,505	-3.31	-0.46
Deposit certificates* (UAHm)	26,528	+2.50	-57.38
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.5950	+0.08	-1.86
Total trade volume (US\$m)	218.15	+28.39	+28.62
UAH index CPI-based	105.086	+0.01	-2.70
UAH index PPI-based	161.962	+0.01	-3.81

#### UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	450bp	+0bp	-203bp
---------	-------	------	--------

#### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,550.93	-0.17	+13.94
MSCI EM	1,121.62	+0.38	+30.08
US dollar index (DXY)	93.057	+0.05	-8.96
EUR / USD	1.1830	-0.24	+12.48
Crude oil WTI (US\$/bbl)	50.60	-1.36	-5.81
Crude oil BRENT (US\$/bbl)	56.25	-1.21	-1.00
CRB, commodities index	183.28	-0.12	-4.80
Gold (US\$/ounce)	1,293.70	+0.16	+12.27

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

Source: Bloomberg, ICU.

### Domestic liquidity

2

#### Liquidity corrects downward.....2

This Wednesday, liquidity fell UAH1.05bn with a slight reallocation of funds to CDs. Banks' correspondent accounts with the NBU fell UAH1.70bn to UAH49.50bn while total CDs outstanding rose UAH0.65bn to UAH26.53bn as ON CDs outstanding were up UAH0.35bn and several banks purchased 3-month CDs at UAH0.30bn par value. The NBU once more increased the interest rate for 3-month CDs by 50bp this week to 14.00% as it rejected three bids for a total of UAH0.06bn which had interest rates ranging up to 14.50%.

2

### Foreign exchange markets

3

#### The hryvnia is volatile .....3

Struggling to find a direction this week after strengthening 0.2% on Wednesday, the hryvnia weakened 0.4% to 26.6347 USD/UAH on Thursday following increased demand for the USD in the local FX market when the US dollar strengthened globally on Thursday. In our view, the hryvnia is near its short-term equilibrium. With no external shocks foreseen, it should remain near 26.5 USD/UAH this month. On Thursday, in the Ukrainian cash market, the hryvnia sold for 26.63 USD/UAH versus 26.81 to buy. Its CPI-based real trade-weighted index rose 0.01% to 105.09; in year-on-year terms, it is up 2.41% from 102.62 last year.

3

### Appendix #1: Domestic liquidity

4

# Domestic liquidity

## Liquidity corrects downward

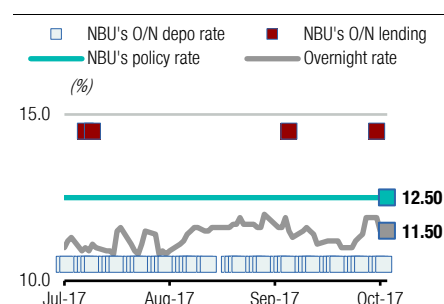
This Wednesday, liquidity fell UAH1.05bn with a slight reallocation of funds to CDs. Banks' correspondent accounts with the NBU fell UAH1.70bn to UAH49.50bn while total CDs outstanding rose UAH0.65bn to UAH26.53bn as ON CDs outstanding were up UAH0.35bn and several banks purchased 3-month CDs at UAH0.30bn par value. The NBU once more increased the interest rate for 3-month CDs by 50bp this week to 14.00% as it rejected three bids for a total of UAH0.06bn which had interest rates ranging up to 14.50%.

The negative impact on liquidity involved only non-monetary operations. The Treasury injected UAH0.32bn while banks had to satisfy demand for cash and exchanged net UAH1.34bn of reserves into cash. Also, other non-monetary operations decreased liquidity by an additional UAH0.03bn which increased the negative impact of autonomous operations to UAH1.05bn.

**ICU view: The Treasury decreased budget expenditures significantly by a larger amount than the decline in collected revenues, causing an insufficient impact on liquidity, but just covering a portion of outflows. Demand for cash rose, forcing banks to decrease reserves in favor of cash. The current liquidity level and partial decline should be short-lived and we expect liquidity to rise next week.**

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

## Interest rates in the banks' reserves market (three months through 12 October 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 12 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	11.50	+10bp	+10bp	-10bp	+90bp
ON \$ swap	11.57	+12bp	+3bp	-87bp	+10bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	49,505	-3.31	+19.52	+4.91	-0.46
DepCerts <sup>3</sup>	26,528	+2.50	-25.31	-11.68	-57.38
<b>Total</b>	<b>76,033</b>	<b>-1.36</b>	<b>-1.18</b>	<b>-1.54</b>	<b>-32.10</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	-0.80	+1.24
Banks	308,357	+0.04	-0.29	+0.74	+79.00
Residents	23,475	+0.03	+0.22	+0.73	+49.78
Non-res <sup>4</sup>	2,809	+8.29	+8.66	+75.41	-52.10
<b>Total</b>	<b>695,214</b>	<b>+0.05</b>	<b>-0.09</b>	<b>+0.12</b>	<b>+26.35</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	12.23	-39bp	-159bp	+287bp	-10ppt
3 months	12.16	-1bp	-58bp	+86bp	-990bp
6 months	12.15	+0bp	-28bp	+43bp	-589bp
1 year	11.65	+0bp	-9bp	+23bp	-434bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	450	+0bp	-7bp	+5bp	-203bp

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

## The hryvnia is volatile

Struggling to find a direction this week after strengthening 0.2% on Wednesday, the hryvnia weakened 0.4% to 26.6347 USD/UAH on Thursday following increased demand for the USD in the local FX market when the US dollar strengthened globally on Thursday. In our view, the hryvnia is near its short-term equilibrium. With no external shocks foreseen, it should remain near 26.5 USD/UAH this month. On Thursday, in the Ukrainian cash market, the hryvnia sold for 26.63 USD/UAH versus 26.81 to buy. Its CPI-based real trade-weighted index rose 0.01% to 105.09; in year-on-year terms, it is up 2.41% from 102.62 last year.

The greenback appreciated against other major currencies, being boosted by solid macroeconomic statistics. The number of Americans filing for unemployment benefits fell to a 44-year-low in the week ended September 30, pointing to further tightening in the labor market. Moreover, September's Fed minutes showed that the majority of Federal Reserve members consider the third interest rate this year as "warranted". On the back of this news, the DXY index rose 0.1 % to 93.057.

On Thursday, the ECB chief economist Peter Praet said that the European Central Bank has not yet achieved sufficient progress in moving towards the target inflation rate. Hence, monetary policy accommodation is still needed. His statement fed into the euro's weakness, which declined against the US dollar 0.2 % to 1.1830 EUR/USD. Chinese renminbi strengthened against the greenback 0.1% to 6.5875 USD/CNY as the central bank of China set the renminbi parity rate at 6.5869 USD/CNY, 0.1% stronger compared to the previous day.

Despite falling oil prices, the Russian ruble strengthened against the greenback by 0.2 % to 57.7151 USD/RUB. The Russian currency was boosted thanks to an increase of investors' interest in carry trade operations as inflation in Russia hit an all-time low of 3% YoY in September.. The central bank of Russia is expected to cut the key policy rate further from its current 8.5% YoY.

**Alexander Valchyshen, Kyiv, (044) 377-7040 ext.721**

**Dmytro Dyachenko, Kyiv, (044) 377-7040 ext.738**

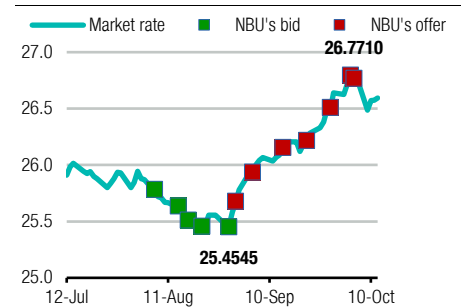
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 12 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.5950	+0.08	-0.60	+2.01	-1.86
USD <sup>1</sup>	93.057	+0.05	-0.96	+1.28	-8.96
EUR	1.1830	-0.24	+1.02	-1.14	+12.48
JPY	112.2800	-0.20	-0.48	+1.92	-4.00
GBP <sup>2</sup>	1.3262	+0.29	+1.09	-0.16	+7.47
CNY	6.5875	-0.04	-0.98	+0.80	-5.15
RUB	57.7151	-0.17	-0.02	+0.08	-6.21

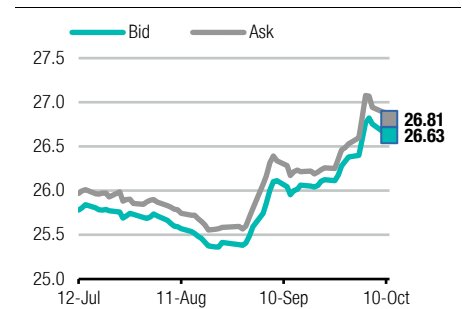
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 12 October 2017)



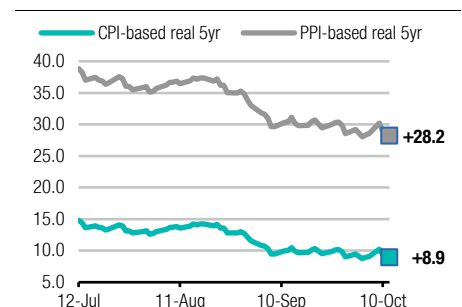
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 12 October 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 12 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)

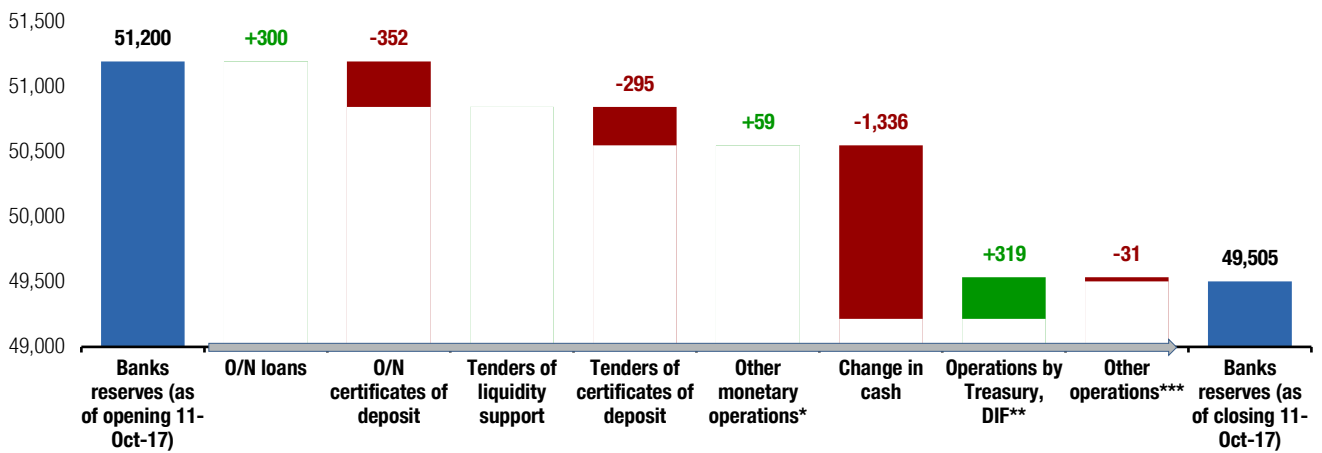
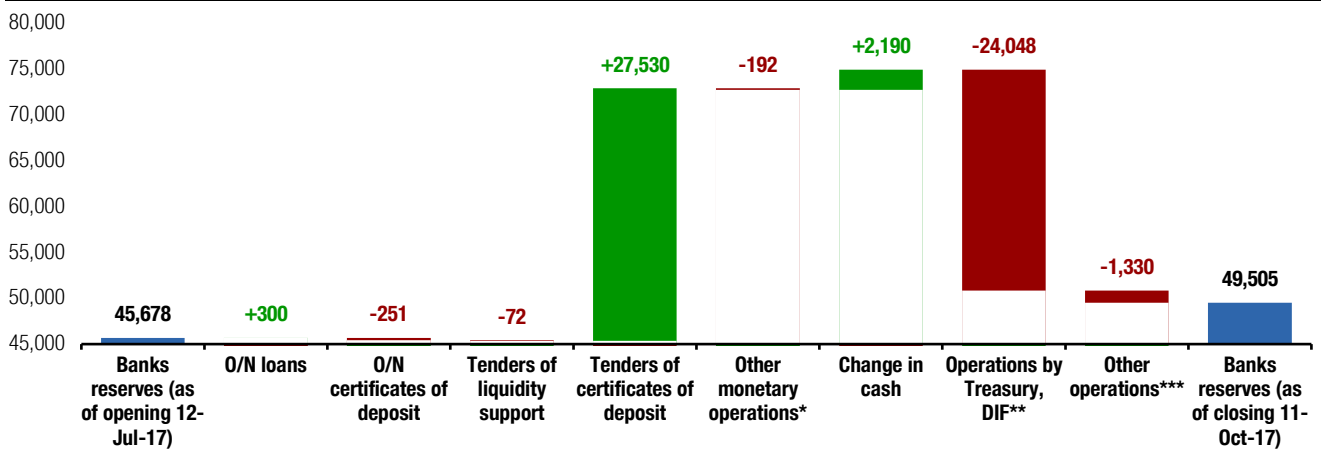
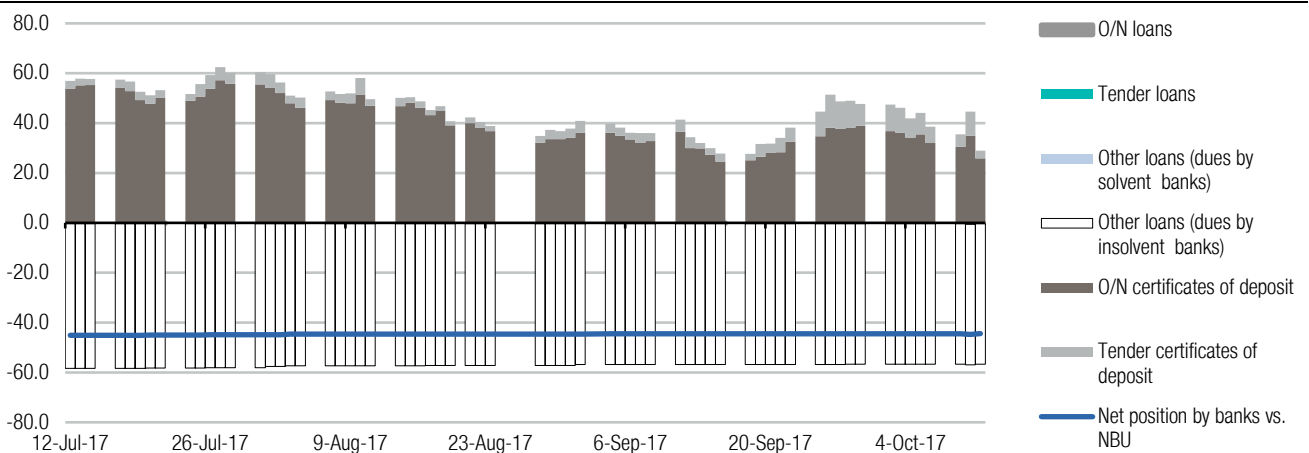


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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.

This page is intentionally left blank



11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kiev, 01030 Ukraine  
Phone/Fax +38 044 2200120

**WEB** [www.icu.ua](http://www.icu.ua)



@ICU\_UA

## CORPORATE FINANCE

**Makar Paseniuk, CFA**, Managing Director  
[makar.paseniuk@icu.ua](mailto:makar.paseniuk@icu.ua)

**Ivan Shvydanenko**, Director  
[ivan.shvydanenko@icu.ua](mailto:ivan.shvydanenko@icu.ua)

**Roman Nikitov, ACCA** Director  
[roman.nikitov@icu.ua](mailto:roman.nikitov@icu.ua)

**Yuriy Kamarytskyi**, Vice President  
[yuriy.kamarytskyi@icu.ua](mailto:yuriy.kamarytskyi@icu.ua)

**Ruslan Kilmukhametov**, Director  
[ruslan.kilmukhametov@icu.ua](mailto:ruslan.kilmukhametov@icu.ua)

**Ruslan Patlavsky**, Director  
[ruslan.patlavsky@icu.ua](mailto:ruslan.patlavsky@icu.ua)

## STRATEGY AND CORPORATE DEVELOPMENT

**Vlad Sinani**, Director  
[vlad.sinani@icu.ua](mailto:vlad.sinani@icu.ua)

## SALES AND TRADING

**Konstantin Stetsenko**   
Managing Director  
[konstantin.stetsenko@icu.ua](mailto:konstantin.stetsenko@icu.ua)

**Liliya Kubytyovych**   
Asset Management Product Sales  
[liliya.kubytyovych@icu.ua](mailto:liliya.kubytyovych@icu.ua)

**Sergiy Byelyayev**  
Fixed-Income Trading  
[sergiy.byelyayev@icu.ua](mailto:sergiy.byelyayev@icu.ua)

**Yevgeniya Gryshchenko**  
Fixed-Income Sales  
[yevgeniya.gryshchenko@icu.ua](mailto:yevgeniya.gryshchenko@icu.ua)

**Vitaliy Sivach**   
Fixed-Income & FX Trading  
[vitaliy.sivach@icu.ua](mailto:vitaliy.sivach@icu.ua)

**Bogdan Vorotilin**   
Financial analyst (Food & Agribusiness)  
[bogdan.vorotilin@icu.ua](mailto:bogdan.vorotilin@icu.ua)

## RESEARCH

**Alexander Valchyshen**   
Head of Research  
[alexander.valchyshen@icu.ua](mailto:alexander.valchyshen@icu.ua)

**Alexander Martynenko**   
Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Taras Kotovych**   
Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Mykhaylo Demkiv**   
Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Lee Daniels, Rolfe Haas**  
Editors

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

## DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.

**Additional information is available upon request.**

