

# Daily Insight

## Liquidity remains steady with reallocations

### Key messages of the today's comments

FRIDAY, 20 OCTOBER 2017

#### Domestic liquidity **2**

##### Liquidity remains steady with reallocations ..... 2

This Wednesday, liquidity remained steady at UAH76.37bn with a slight reallocation of funds from reserves to CDs. Total CDs outstanding rose UAH1.41bn to UAH24.70bn, including UAH0.37bn of 3-month CDs and additional UAH1.04bn of ON CDs. After this reallocation, banks' correspondent accounts with the NBU declined UAH1.41bn to UAH51.67bn. **2**

##### Update for bond auction schedule ..... 2

This Tuesday's auction was successful as it collected large demand, part of which the MoF accepted. As a follow up, the next day the MoF decided to alter the schedule and allow bidders to participate next week in a re-offering of the 5-year bond. **2**

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

##### USD/UAH correction ..... 3

The hryvnia declined 0.3% against the US dollar to 26.50 USD/UAH due to a correction of the USD/UAH pair after the hryvnia strengthened for three consecutive days. Next week's upcoming tax payments should increase demand for the hryvnia. On Thursday, it sold for 26.51 USD/UAH versus 26.70 to buy. Its CPI-based real trade-weighted index fell 0.71% to 105.07; in year-on-year terms, it is up 1.69% from 103.33 last year. **3**

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

#### Ukraine's hryvnia exchange rate per US dollar (three months through 19 October 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 19 October 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.40	-20bp	+80bp
Banks reserves (UAHm)	51,666	-2.67	+3.89
Deposit certificates* (UAHm)	24,703	+6.07	-60.31
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.5100	+0.32	-2.18
Total trade volume (US\$m)	225.52	-1.24	+32.96
UAH index CPI-based	105.072	-0.71	-2.71
UAH index PPI-based	161.941	-0.71	-3.82
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	478bp	+0bp	-175bp

#### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,562.10	+0.03	+14.44
MSCI EM	1,116.91	-0.89	+29.53
US dollar index (DXY)	93.266	-0.10	-8.75
EUR / USD	1.1852	+0.55	+12.69
Crude oil WTI (US\$/bbl)	51.29	-1.44	-4.52
Crude oil BRENT (US\$/bbl)	57.23	-1.58	+0.72
CRB, commodities index	184.07	+0.04	-4.38
Gold (US\$/ounce)	1,290.09	+0.70	+11.96

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity remains steady with reallocations

This Wednesday, liquidity remained steady at UAH76.37bn with a slight reallocation of funds from reserves to CDs. Total CDs outstanding rose UAH1.41bn to UAH24.70bn, including UAH0.37bn of 3-month CDs and additional UAH1.04bn of ON CDs. After this reallocation, banks' correspondent accounts with the NBU declined UAH1.41bn to UAH51.67bn.

Non-monetary operations already offset the impact of the reallocation, having little effect on liquidity. The net exchange of cash into reserves of UAH0.26bn offset outflows via Treasury operations and other non-monetary operations.

**ICU view:** According to Tuesday's auction, the amount of bonds purchased and payments for these bonds on Wednesday were barely larger than debt repayments from the state budget, having almost no impact on Treasury operations. VAT refunds amounted to UAH0.60bn had a positive impact and decreased outflows to the Treasury.

## Update for bond auction schedule

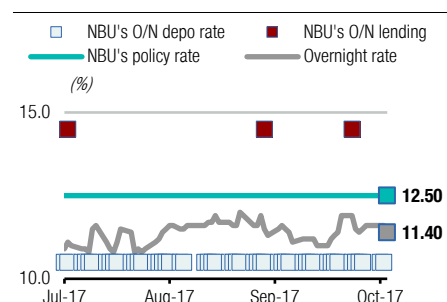
This Tuesday's auction was successful as it collected large demand, part of which the MoF accepted. As a follow up, the next day the MoF decided to alter the schedule and allow bidders to participate next week in a re-offering of the 5-year bond.

The MoF replaced the 2-year with the 5-year bond and added a 2-year FX-denominated bonds. Considering that the interest rate for 3-month CDs was up to 14.25% this week, it is unlikely that a majority of demand will come in below 15.00%, last cut-off rate. FX-denominated bonds could also see large demand next week.

**ICU view:** Higher interest rates for 3-month CDs and the probability of an increase in the NBU's key monetary rate next Thursday should not force bidders to compete for new bonds next week. Most likely, demand will be 14.91%-15.50%, mostly at 15.00%. We also could see non-competitive bids. FX-denominated bonds were last sold in July and August at a cut-off rate of 5.40%, possibly the benchmark rate, which could decline by 10-15bp, as the debt burden decreases prior to 2019. Following the recent buyback of Eurobonds, there was a decreased risk of FX availability in 2019 at the MoF's accounts.

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## Interest rates in the banks' reserves market (three months through 19 October 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 19 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	11.40	-20bp	-10bp	-20bp	+80bp
ON \$ swap	11.65	-14bp	+8bp	-44bp	+18bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	51,666	-2.67	+4.37	+1.16	+3.89
DepCerts <sup>3</sup>	24,703	+6.07	-6.88	-6.66	-60.31
<b>Total</b>	<b>76,369</b>	<b>+0.00</b>	<b>+0.44</b>	<b>-1.51</b>	<b>-31.80</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	307,993	+0.02	-0.12	+0.29	+78.71
Residents	23,455	-0.04	-0.09	-0.05	+49.60
Non-res <sup>4</sup>	3,226	+6.00	+14.83	+44.23	-49.21
<b>Total</b>	<b>695,247</b>	<b>+0.03</b>	<b>+0.00</b>	<b>+0.03</b>	<b>+26.29</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	12.20	-57bp	-2bp	+75bp	-10ppt
3 months	12.17	-7bp	+0bp	+15bp	-990bp
6 months	12.16	-4bp	+1bp	+8bp	-588bp
1 year	11.66	-1bp	+1bp	+3bp	-433bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	478	+0bp	+28bp	+73bp	-175bp

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

## USD/UAH correction

The hryvnia declined 0.3% against the US dollar to 26.50 USD/UAH due to a correction of the USD/UAH pair after the hryvnia strengthened for three consecutive days. Next week's upcoming tax payments should increase demand for the hryvnia. On Thursday, it sold for 26.51 USD/UAH versus 26.70 to buy. Its CPI-based real trade-weighted index fell 0.71% to 105.07; in year-on-year terms, it is up 1.69% from 103.33 last year.

US initial jobless claims fell to the lowest level since March 1973, while the Philadelphia Fed Manufacturing Index rose sharply to 27.9 in October, up from 23.8, the best reading in five months. However, the data provided little support to the US dollar -- the DXY index declined 0.1% to 93.27 yesterday.

The Spanish government stated yesterday that it could suspend Catalonia's autonomy after the Catalan leader threatened to declare independence. The euro reacted with decline on this news. However, it managed to trim losses and rebounded, closing up 0.6% to 1.1852 EUR/USD.

The Chinese renminbi strengthened 0.2% to 6.6138 USD/CNY after declining for three consecutive trading sessions. The real GDP rose 6.8% YoY in 3Q17, slowing from 6.9% YoY in the previous quarter. The real GDP growth was in line with expectations, supporting the Chinese currency.

The Russian ruble traded with 57.2549-57.7321 USD/RUB range, having closed up 0.3% to 57.2799 USD/RUB. Oil prices, which fell on Thursday, put pressure on the Russian currency. At the same time, scheduled monthly tax payments and high investor demand for Russian debt instruments should help the ruble remain relatively stable.

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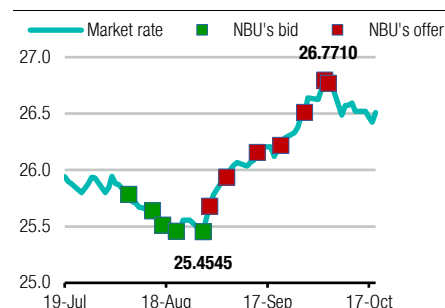
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 19 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.5100	+0.32	-0.32	+1.49	-2.18
USD <sup>1</sup>	93.266	-0.10	+0.22	+1.60	-8.75
EUR	1.1852	+0.55	+0.19	-1.18	+12.69
JPY	112.5400	-0.35	+0.23	+0.85	-3.78
GBP <sup>2</sup>	1.3159	-0.35	-0.78	-2.55	+6.64
CNY	6.6138	-0.21	+0.40	+0.46	-4.77
RUB	57.2799	-0.33	-0.75	-1.44	-6.92

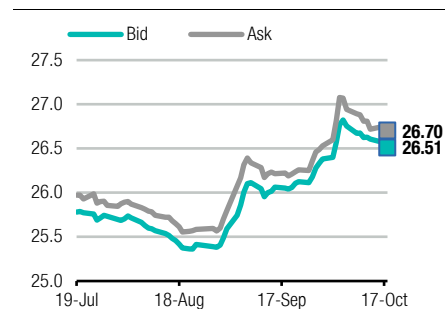
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 19 October 2017)



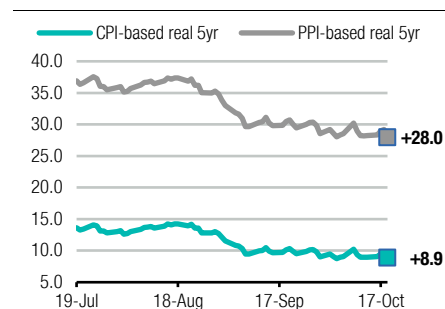
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 19 October 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 19 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)

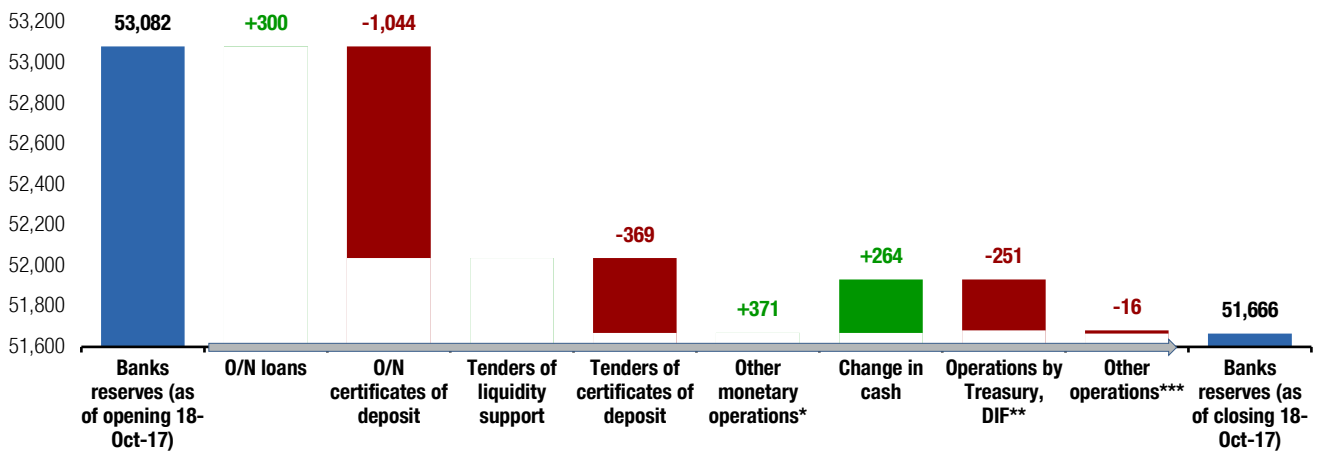
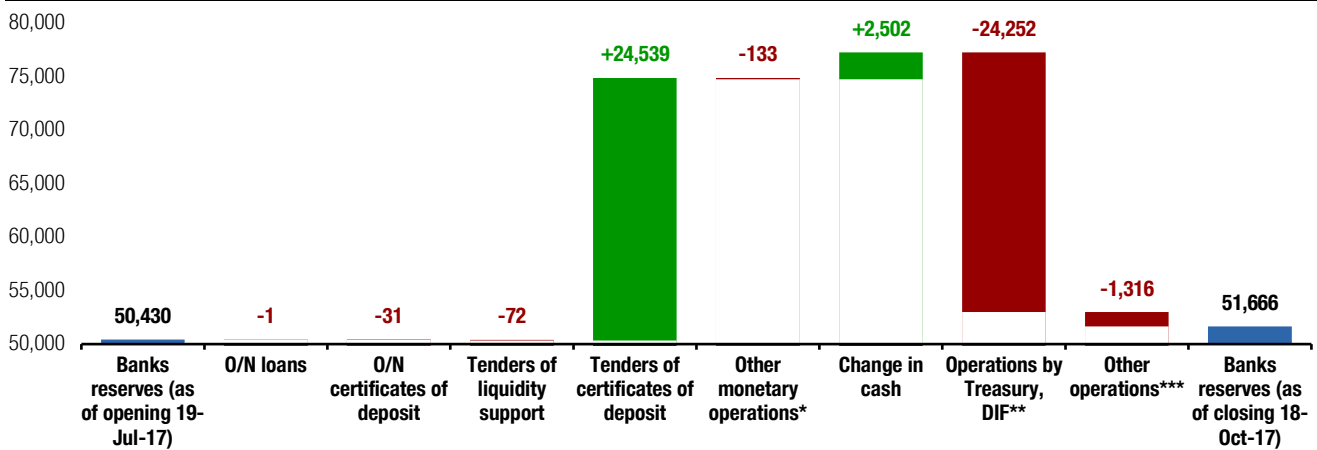
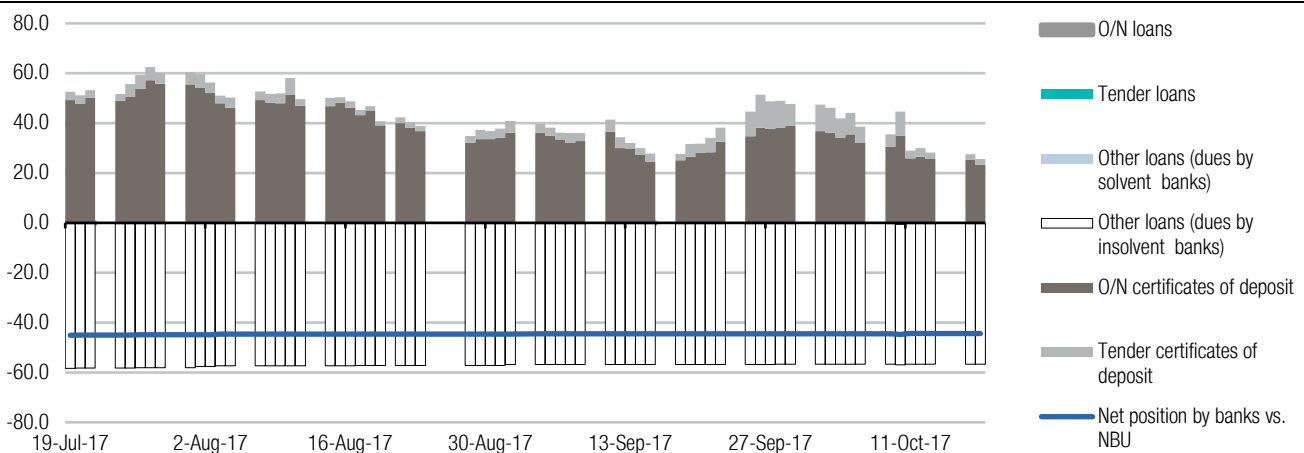


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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