

Daily Insight

Liquidity falls

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Last Thursday, non-monetary autonomous operations once more caused liquidity to decline UAH1.29bn, including UAH0.20bn of outflows in cash, UAH0.99bn of outflows to Treasury accounts, and UAH0.10bn via other operations. The NBU provided banks with 0.11bn of additional funds. 2

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UAH continues to decline3

The hryvnia extended losses at the end of last week, having weakened another 0.1% to 26.5389 USD/UAH, mostly as a result of the USD's global strengthening which pushes domestic demand for USD higher. At the same time, declining liquidity in the banking sector (see comment on liquidity) did not support the hryvnia. In the Ukrainian cash market, it sold for 26.48 USD/UAH versus 26.67 to buy. Its CPI-based real trade-weighted index rose 0.29% to 105.38; in year-on-year terms, it is up 1.69% from 103.63 last year. Our in-house calculations of the CPI- and PPI-based indices show that the hryvnia is still overvalued. 3

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MONDAY, 23 OCTOBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 20 October 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 20 October 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.70	+30bp	+110bp
Banks reserves (UAHm)	51,311	-0.69	+3.17
Deposit certificates* (UAHm)	23,877	-3.34	-61.64
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.5400	+0.11	-2.07
Total trade volume (US\$m)	274.01	+21.50	+61.55
UAH index CPI-based	105.379	+0.29	-2.43
UAH index PPI-based	162.415	+0.29	-3.54
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	478bp	+0bp	-175bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,575.21	+0.51	+15.02
MSCI EM	1,119.69	+0.25	+29.85
US dollar index (DXY)	93.701	+0.47	-8.33
EUR / USD	1.1784	-0.57	+12.05
Crude oil WTI (US\$/bbl)	51.84	+1.07	-3.50
Crude oil BRENT (US\$/bbl)	57.75	+0.91	+1.64
CRB, commodities index	184.12	+0.02	-4.36
Gold (US\$/ounce)	1,280.50	-0.74	+11.13

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity falls

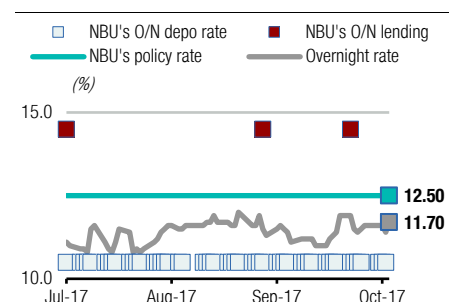
Last Thursday, non-monetary autonomous operations once more caused liquidity to decline UAH1.29bn, including UAH0.20bn of outflows in cash, UAH0.99bn of outflows to Treasury accounts, and UAH0.10bn via other operations. The NBU provided banks with 0.11bn of additional funds.

Total banking sector liquidity declined UAH1.18bn to UAH75.19bn. Banks' correspondent accounts with the NBU fell UAH0.36bn to UAH51.31bn and total CDs outstanding were down UAH0.82bn to UAH23.88bn. Banks mostly decreased ON CDs, purchasing UAH0.64bn less than the previous day.

ICU view: Prior to month-end tax payments, liquidity remained close to this year's low last week and now could decline further. Only a large VAT refund and higher budget expenditures could support the current level of liquidity or cause a slight increase during the upcoming tax payment period. Currently, liquidity is close to the lowest level over the last three years, possibly having a negative impact on interest rates which could cause them to increase soon.

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Interest rates in the banks' reserves market (three months through 20 October 2017)



Source: Bloomberg, ICU.

Key indicators (as of 20 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	11.70	+30bp	+10bp	+20bp	+110bp
ON \$ swap	11.60	+19bp	+0bp	-66bp	+13bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	51,311	-0.69	+5.47	-5.70	+3.17
DepCerts ³	23,877	-3.34	-6.65	-14.98	-61.64
Total	75,188	-1.55	+1.30	-8.86	-32.85
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	308,342	+0.11	-0.05	+0.44	+78.92
Residents	23,407	-0.21	-0.33	+0.06	+49.29
Non-res ⁴	3,226	+0.00	+6.04	+44.18	-49.21
Total	695,547	+0.04	-0.01	+0.10	+26.35
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.85	-35bp	+1bp	+1bp	-10ppt
3 months	12.39	+22bp	-10bp	+24bp	-968bp
6 months	12.16	+0bp	+0bp	+3bp	-589bp
1 year	11.69	+3bp	-5bp	+5bp	-430bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	478	+0bp	+24bp	+74bp	-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

UAH continues to decline

The hryvnia extended losses at the end of last week, having weakened another 0.1% to 26.5389 USD/UAH, mostly as a result of the USD's global strengthening which pushes domestic demand for USD higher. At the same time, declining liquidity in the banking sector (see comment on liquidity) did not support the hryvnia. In the Ukrainian cash market, it sold for 26.48 USD/UAH versus 26.67 to buy. Its CPI-based real trade-weighted index rose 0.29% to 105.38; in year-on-year terms, it is up 1.69% from 103.63 last year. Our in-house calculations of the CPI- and PPI-based indices show that the hryvnia is still overvalued.

The US dollar traded higher against other major currencies, being boosted by revived hopes for tax reform in the USA as the US Senate approved a budget blueprint for the next fiscal year. The budget approval will allow Republicans to move ahead with tax cuts even without support from the Democrats. The USD was also bolstered by housing data as sales of existing homes rose more than expected in October. On Friday, the DXY index rose 0.5% to 93.70.

The euro declined 0.6% to 1.1784 EUR/USD as the US dollar strengthened and Spain's constitutional crisis took its toll. Investors anticipate this week's ECB policy meeting in which officials might announce a reduction of its monthly asset purchase target.

Despite rising oil prices and monthly tax payments which traditionally increase demand for the ruble among exporters, the Russian ruble weakened 0.4% to 57.4943 USD/RUB, mostly because the US dollar strengthened in world FX markets.

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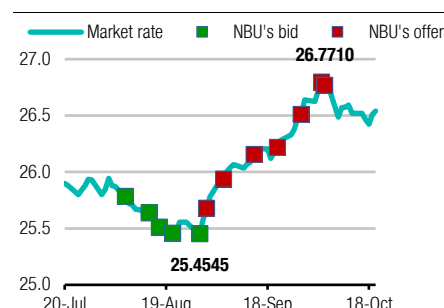
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 20 October 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.5400	+0.11	+0.08	+1.38	-2.07
USD ¹	93.701	+0.47	+0.66	+1.29	-8.33
EUR	1.1784	-0.57	-0.30	-0.91	+12.05
JPY	113.5200	+0.87	+1.52	+1.16	-2.94
GBP ²	1.3190	+0.24	-0.72	-2.26	+6.89
CNY	6.6205	+0.10	+0.62	+0.69	-4.67
RUB	57.4943	+0.37	+0.27	-1.21	-6.57

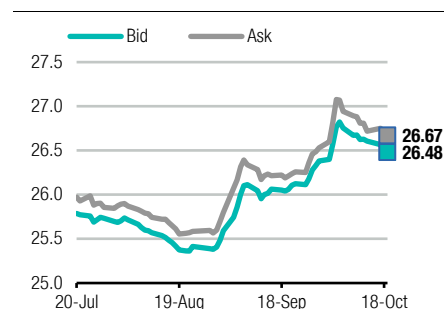
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 20 October 2017)



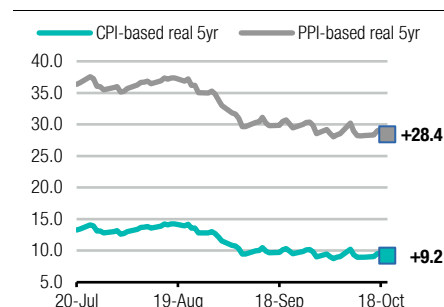
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 20 October 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 20 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)

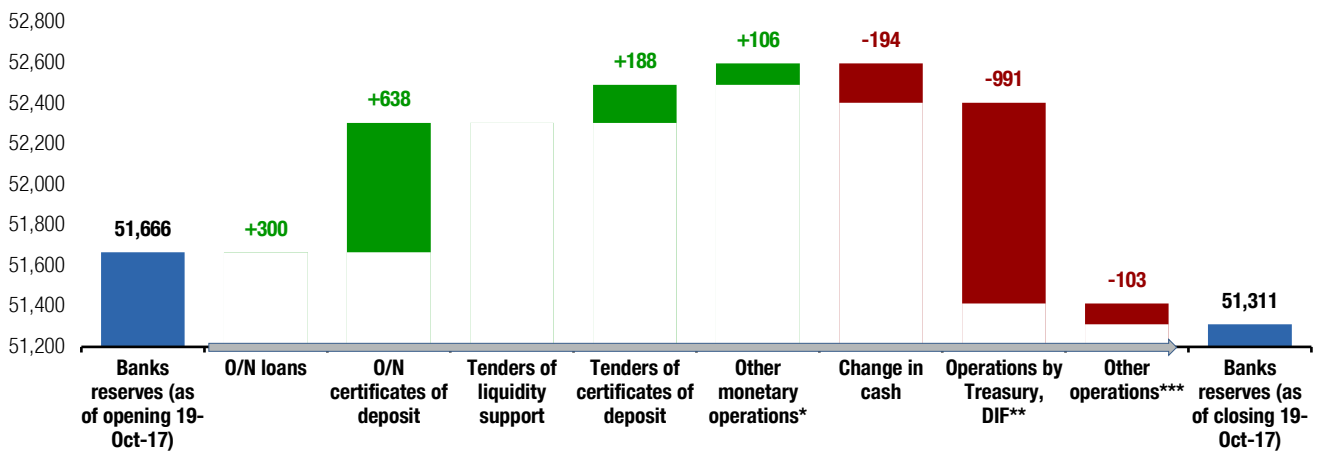
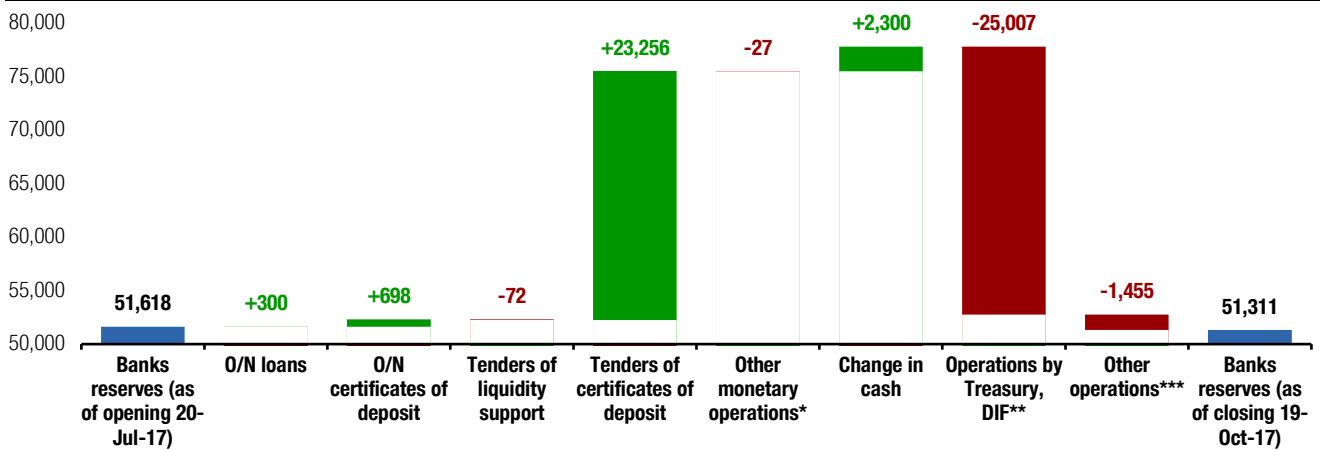
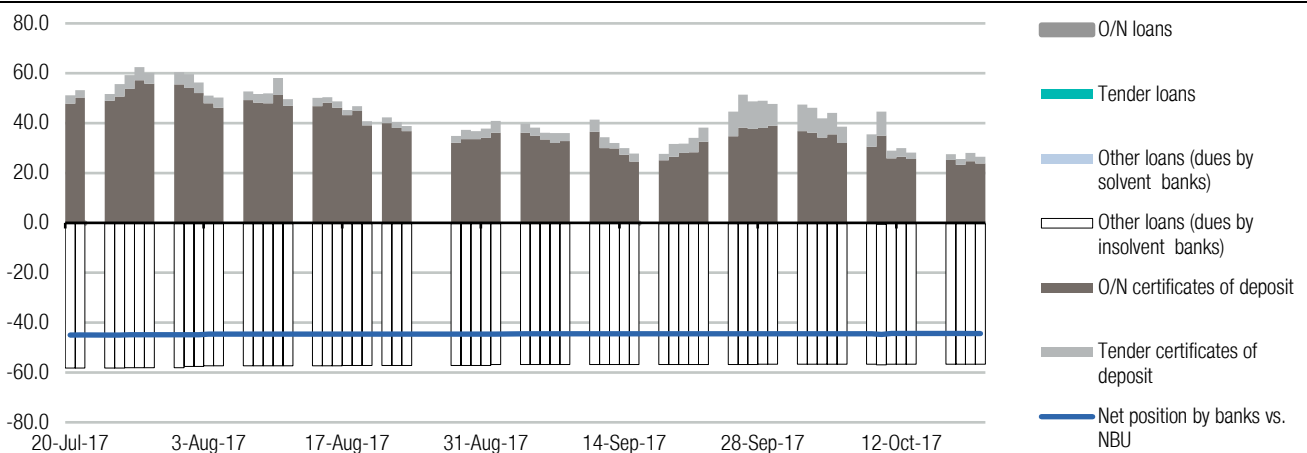


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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