

Daily Insight

Liquidity under pressure of tax payments

Key messages of the today's comments

TUESDAY, 31 OCTOBER 2017

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Last Friday, banking sector liquidity fell UAH5.63bn to UAH77.46bn, under the pressure of month-end tax payments, the NBU's supporting the hryvnia's exchange rate, and significant fund reallocations from reserves to CDs. Banks' correspondent accounts' balance with the NBU fell sharply, down UAH11.66bn to UAH43.54bn, while total CDs outstanding was up UAH6.03bn, including UAH3.82 of new two-week CDs. 2

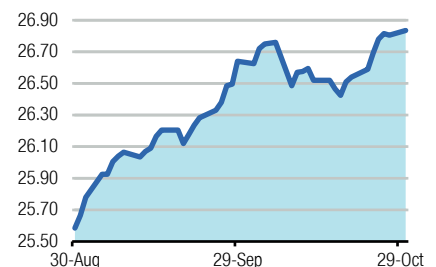
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The hryvnia strengthened against the US dollar on Monday as a result of a decrease in liquidity of more than UAH5.5bn, including the outflow of hryvnia for purchased currency from the NBU on Friday. Tax payments traditionally support the hryvnia, albeit temporarily. However, the general trend of the rising dollar in the global markets feeds into the UAH's weakness. The hryvnia increased on Monday by 0.2% to 26.8294 USD/UAH. It sold for 26.66 USD/UAH versus 26.77 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.34% to 105.195; in year-on-year terms, it is up 0.9% from 104.23 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 30 October 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 30 October 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.20	+10bp	+160bp
Banks reserves (UAHm)	43,542	-21.12	-12.45
Deposit certificates* (UAHm)	33,921	+21.63	-45.50
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.8350	+0.11	-0.98
Total trade volume (US\$m)	204.66	-40.01	+20.66
UAH index CPI-based	105.195	-0.34	-2.60
UAH index PPI-based	162.130	-0.34	-3.71

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	435bp	-12bp	-218bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,572.83	-0.32	+14.92
MSCI EM	1,115.53	+0.48	+29.37
US dollar index (DXY)	94.560	-0.38	-7.48
EUR / USD	1.1651	+0.37	+10.78
Crude oil WTI (US\$/bbl)	54.15	+0.46	+0.80
Crude oil BRENT (US\$/bbl)	60.90	+0.76	+7.18
CRB, commodities index	187.53	+0.34	-2.59
Gold (US\$/ounce)	1,276.35	+0.19	+10.77

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity under pressure of tax payments

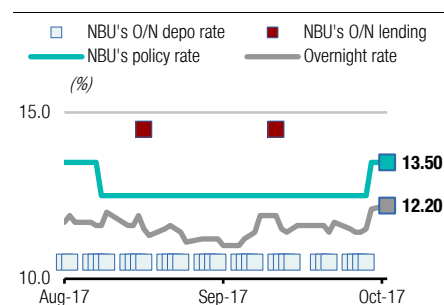
Last Friday, banking sector liquidity fell UAH5.63bn to UAH77.46bn, under the pressure of month-end tax payments, the NBU's supporting the hryvnia's exchange rate, and significant fund reallocations from reserves to CDs. Banks' correspondent accounts' balance with the NBU fell sharply, down UAH11.66bn to UAH43.54bn, while total CDs outstanding was up UAH6.03bn, including UAH3.82 of new two-week CDs.

The Treasury received over UAH14bn last Friday, but budget expenditures also rose significantly, resulting in a negative Treasury operations' balance of UAH3.70bn. The exchange of cash in reserves of UAH0.44bn offset only a small portion of this outflow, adjusting the negative impact on non-monetary operations to UAH3.32bn; UAH2.31bn was absorbed by the NBU via an FX auction, which as expected increased negative pressure on liquidity and accelerated the decline.

ICU view: Demand for 2-week CDs and the increase in CDs outstanding comes from postponed demand, as last Thursday the NBU offered only ON CDs while it repaid UAH3.02bn in 2-week CDs. The decline in liquidity was expected, and most likely continued yesterday, while month-end tax payments are paid during the last few days of the month after a significant VAT refund last week. This supports liquidity to stay above UAH70bn, where it looks to be at the end of the month.

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Interest rates in the banks' reserves market (three months through 30 October 2017)



Source: Bloomberg, ICU.

Key indicators (as of 30 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	13.50	+0bp	+100bp	+100bp	-50bp
ON rate	12.20	+10bp	+70bp	+120bp	+160bp
ON \$ swap	11.94	-1bp	+9bp	-38bp	+47bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	43,542	-21.12	-15.40	+2.75	-12.45
DepCerts ³	33,921	+21.63	+41.45	-13.03	-45.50
Total	77,463	-6.77	+2.67	-4.81	-30.82
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	-0.46	+1.24
Banks	314,339	-0.10	+1.80	+1.85	+82.21
Residents	23,080	+0.58	-0.87	-1.13	+48.06
Non-res ⁴	4,597	+0.37	+43.02	+64.88	-27.35
Total	702,589	-0.02	+0.97	+0.80	+27.59
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	15.76	-3bp	-4bp	+465bp	-655bp
3 months	14.87	-30bp	+17bp	+316bp	-719bp
6 months	12.66	-1bp	+9bp	+70bp	-539bp
1 year	11.65	-6bp	+3bp	+15bp	-434bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	435	-12bp	-35bp	-27bp	-218bp

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 correction

The hryvnia strengthened against the US dollar on Monday as a result of a decrease in liquidity of more than UAH5.5bn, including the outflow of hryvnia for purchased currency from the NBU on Friday. Tax payments traditionally support the hryvnia, albeit temporarily. However, the general trend of the rising dollar in the global markets feeds into the UAH's weakness. The hryvnia increased on Monday by 0.2% to 26.8294 USD/UAH. It sold for 26.66 USD/UAH versus 26.77 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.34% to 105.195; in year-on-year terms, it is up 0.9% from 104.23 last year.

The US dollar fell against other major currencies within the correction, after a significant increase last week. The Fed's meeting scheduled on Tuesday and Wednesday to appoint its new chairman, and the key policy rate decision (most likely to keep it unchanged) are the key focus. At the same time, individual consumer spending in September increased by 1%, more than the expected 0.8%. The DXY index traded at 94.44-95.93, closing down 0.4% to 94.56.

The euro strengthened against the USD's decline and lowering tension in Catalonia. Additionally, inflation in Germany was 1.5% YoY in October, less than the projected 2%, which may weaken the euro. The EUR/USD pair traded within 1.1594-1.1658 EUR/USD, having increased 0.4% to 1.1651 EUR/USD. Due to the dollar's depreciation on global markets, the Chinese yuan rose on Monday by 0.1% to 6.6465 USD/CNY.

The Russian ruble grew against the US dollar during the first half of Monday trading and later reversed slightly. The main factors behind the support were high oil prices, which held above US\$60 per barrel, and the weaker USD, as the ruble traded at 57.6617-58.4535 USD/RUB, up 0.2% to 57.9715.

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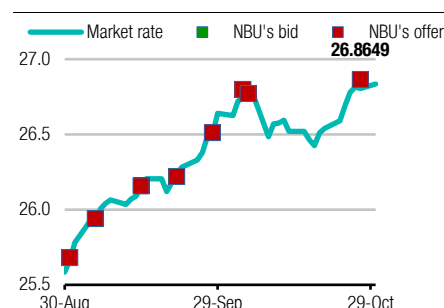
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 30 October 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8350	+0.11	+0.92	+0.73	-0.98
USD ¹	94.560	-0.38	+0.66	+1.59	-7.48
EUR	1.1651	+0.37	-0.83	-1.38	+10.78
JPY	113.1800	-0.43	-0.22	+0.60	-3.23
GBP ²	1.3208	+0.61	+0.08	-1.42	+7.03
CNY	6.6465	-0.06	+0.10	-0.09	-4.30
RUB	57.9715	-0.22	+0.75	+0.72	-5.79

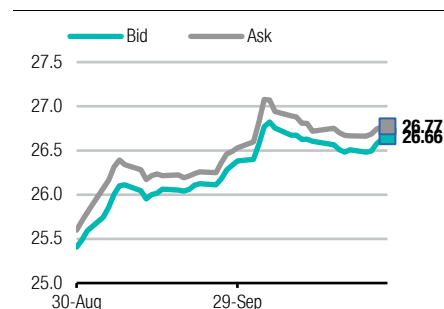
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 30 October 2017)



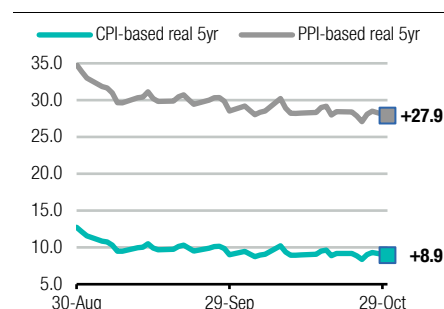
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 30 October 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 30 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)

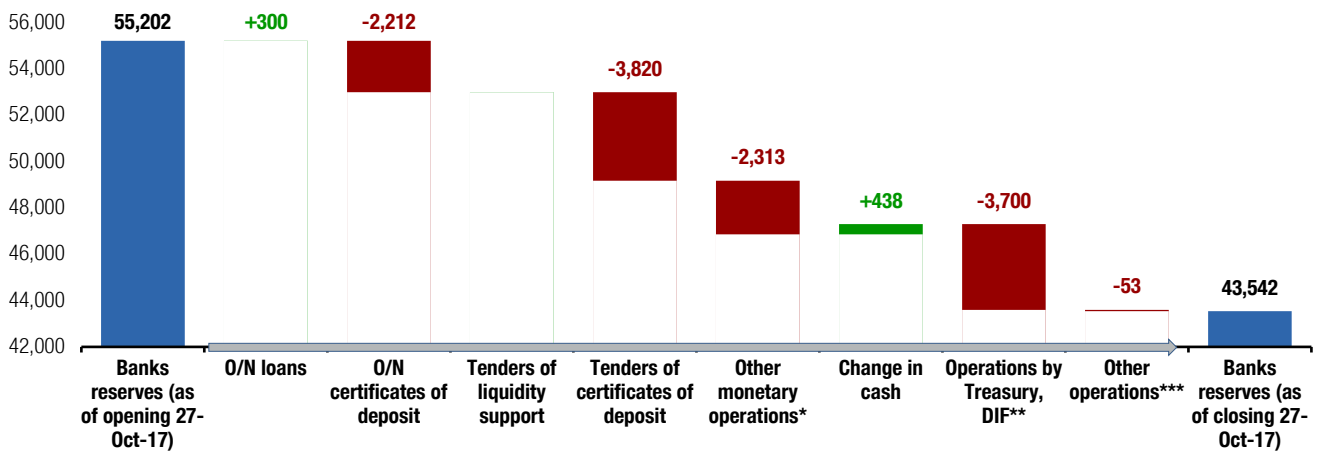
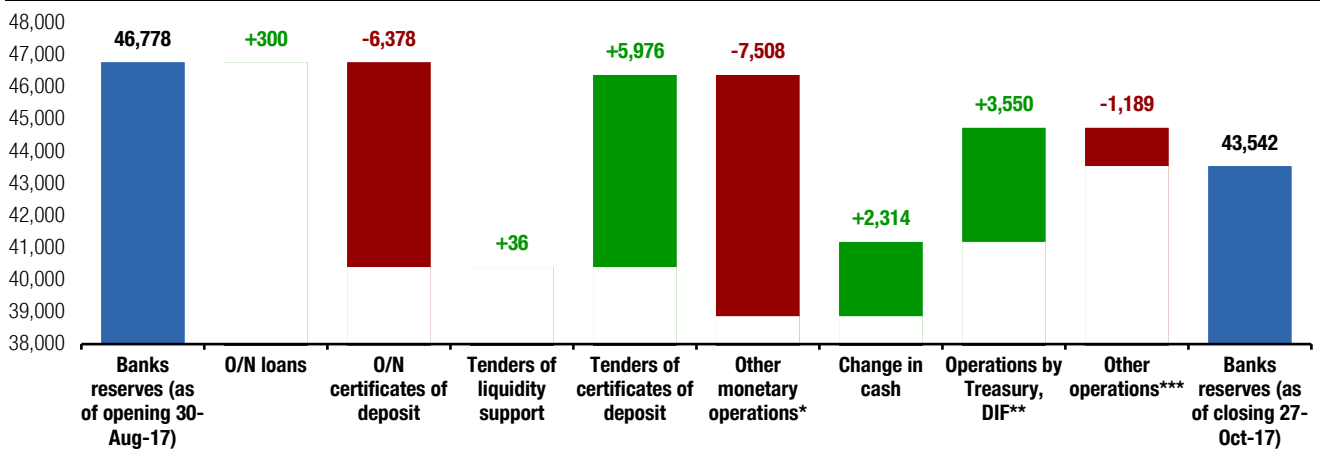
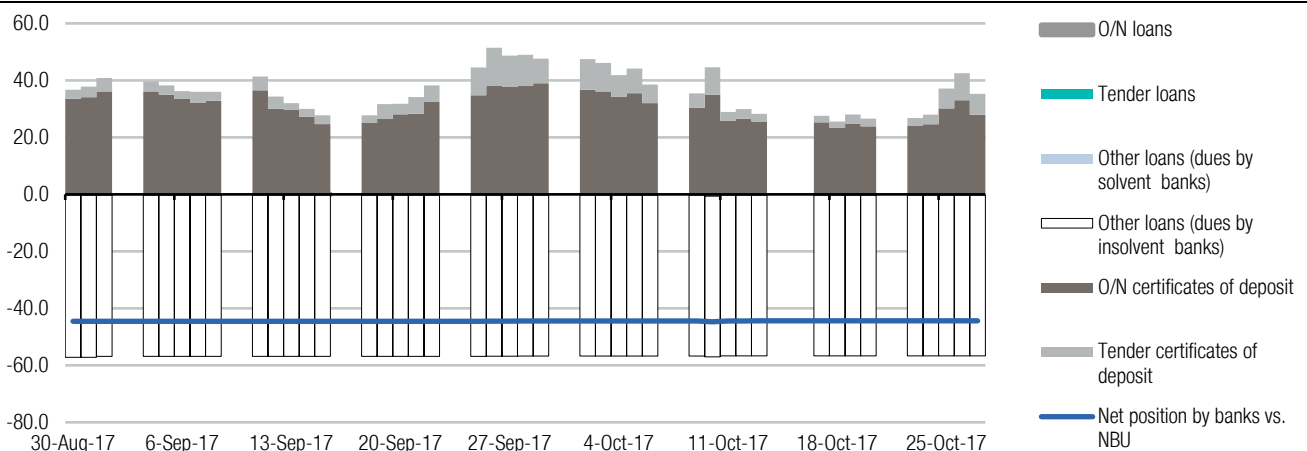


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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