

Daily Insight

Liquidity stabilisation short-lived

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Banks continued to increase cash, which has a negative impact on liquidity in the banking system. Last Thursday, outflow via cash amounted to UAH1.11bn. However, this outflow was compensation by additional expenditures from budget, resulting in an insufficient increase in liquidity. The net impact of non-monetary operations amounted to UAH0.05bn, which supported liquidity with an increase to UAH98.30bn.

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The greenback plunges on US retail sales data 3

The US dollar remained weak after Yellen's speech. Released on Thursday, US producer prices index data and slightly increased number of jobless claims did not have an impact on the US currency. However, the statistical data set released on Friday crashed the USD. In a report, the US Commerce Department said that retail sales declined 0.2% MoM, below the forecast of a 0.1% MoM growth. In addition, annualized consumer price inflation eased to 1.6% YoY in June from 1.9% YoY in May, below the forecast of 1.7% YoY. After these reports, the DXY index fell 0.43% to 95.22, compared with 95.63 ahead of the reports.

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MONDAY, 17 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 14 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 14 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.30	+10bp	+70bp
Banks reserves (UAHm)	43,044	-0.20	-13.45
Deposit certificates* (UAHm)	55,257	+0.25	-11.22
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.0150	+0.12	-4.00
Total trade volume (US\$m)	161.90	-21.44	-4.55
UAH index PCI-based	109.201	-0.73	+1.11
UAH index PPI-based	168.305	-0.73	-0.04
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	-68bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,459.27	+0.47	+9.85
MSCI EM	1,047.05	+0.61	+21.43
US dollar index (DXY)	95.153	-0.60	-6.90
EUR / USD	1.1470	+0.63	+9.06
Crude oil WTI (US\$/bbl)	46.54	+1.00	-13.37
Crude oil BRENT (US\$/bbl)	48.91	+1.01	-13.92
CRB, commodities index	176.28	+1.11	-8.43
Gold (US\$/ounce)	1,228.70	+0.91	+6.63

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity stabilisation short-lived

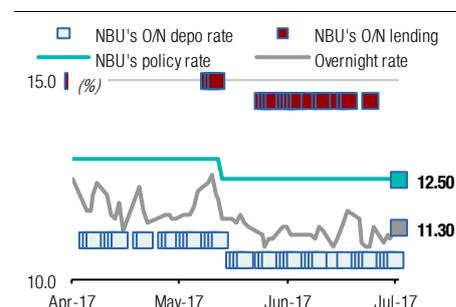
Banks continued to increase cash, which has a negative impact on liquidity in the banking system. Last Thursday, outflow via cash amounted to UAH1.11bn. However, this outflow was compensation by additional expenditures from budget, resulting in an insufficient increase in liquidity. The net impact of non-monetary operations amounted to UAH0.05bn, which supported liquidity with an increase to UAH98.30bn.

The total amount of CDs outstanding was up UAH0.14bn to UAH55.26bn with a slight preference to 14-day maturities. But funds invested in CDs came from banks' correspondent accounts, which slid UAH0.09bn to UAH43.04bn.

Investment implications: *Since the beginning of the year, liquidity declined 12.21%, but compared with July 2016, liquidity slid by a mere 0.5%. Last year, liquidity declined during the summer. During autumn, it remained at around UAH70-80bn until December, when the Treasury increased budget expenditures, and liquidity was up to above UAH100bn. So, now we could have a similar situation, with lower liquidity during 2H17. A new, month-end tax-payments period will start at the end of next week, which should have a negative impact on liquidity and increase the liquidity decline. Therefore, the current stabilisation of liquidity could be short-lived. At the same time, a decline in liquidity should not cause changes in the cost of funding.*

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Interest rates in the banks' reserves market (three months through 14 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 14 July 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	11.30	+10bp	+0bp	+20bp	+70bp
ON \$ swap	11.44	-4bp	+46bp	-1bp	-3bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	43,044	-0.20	+7.29	-6.48	-13.45
DepCerts ³	55,257	+0.25	-10.66	-20.21	-11.22
Total	98,301	+0.05	-3.60	-14.72	-12.21
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	371,007	+0.00	+0.00	-0.79	+4.17
Banks	293,108	+0.03	+8.35	+4.48	+70.08
Residents	21,565	+0.44	+0.32	-4.24	+37.54
Non-res ⁴	1	-79.80	-78.62	-98.09	-99.98
Total	685,681	+0.02	+3.42	+1.27	+24.55
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	14.97	-118bp	+1bp	+4bp	-734bp
3 months	9.64	+55bp	-490bp	-489bp	-12ppt
6 months	13.00	-24bp	-52bp	-52bp	-505bp
1 year	11.79	-3bp	-285bp	-321bp	-420bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	585	+0bp	+0bp	+25bp	-68bp

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 greenback plunges on US retail sales data

The US dollar remained weak after Yellen's speech. Released on Thursday, US producer prices index data and slightly increased number of jobless claims did not have an impact on the US currency. However, the statistical data set released on Friday crashed the USD. In a report, the US Commerce Department said that retail sales declined 0.2% MoM, below the forecast of a 0.1% MoM growth. In addition, annualized consumer price inflation eased to 1.6% YoY in June from 1.9% YoY in May, below the forecast of 1.7% YoY. After these reports, the DXY index fell 0.43% to 95.22, compared with 95.63 ahead of the reports.

The Federal Reserve subsequently released a report indicating that industrial production rose 0.4% MoM, beating forecasts of 0.3% MoM growth, which pushed the USD higher, but then the sell-off continued. According to Bloomberg, the DXY index plunged 0.6% to 95.15 on Friday, while as of 9:00 a.m. Monday, the DXY index was 95.18.

The hryvnia did not react to the greenback's drop, as the trading session closed prior to the release of US statistics. Although the UAH exchange rate weakened 0.18% over the past trading session, with Friday's close at 26.0177 UAH/USD, it was still well below the weakest level of the last three months at 26.8275 UAH/USD. Trading volume was US\$261.66m, per data from the NBU. The US dollar sold for 26 UAH/USD, while it could be bought for 25.81 UAH/USD in the Ukrainian cash market. The hryvnia's trade-weighted index declined 0.73% to 109.2, while in year-on-year terms, the TWI was up 10.19% from 99.1 last year.

The Russian ruble recorded the second straight day of appreciation. In addition to the US data, which pushed the USD down, the ruble gained support from rising oil prices. Friday's report of the International Energy Agency said that oil demand is expected to rise in the second half of this year. In response to the report, oil prices exceed US\$49 a barrel. On the back on this news, the Russian ruble rose 1.2% to 59.09 RUB/USD. Dollar weakness mentioned above also aided the EM FX in general and to RUB in particular.

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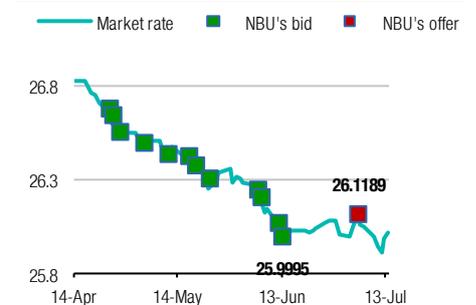
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 14 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.0150	+0.12	-0.12	+0.02	-4.00
USD ¹	95.153	-0.60	-0.89	-1.84	-6.90
EUR	1.1470	+0.63	+0.61	+2.25	+9.06
JPY	112.5300	-0.66	-1.22	+2.69	-3.79
GBP ²	1.3098	+1.23	+1.61	+2.72	+6.14
CNY	6.7753	-0.12	-0.45	-0.24	-2.44
RUB	59.0129	-1.31	-2.27	+2.82	-4.10

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 14 July 2017)



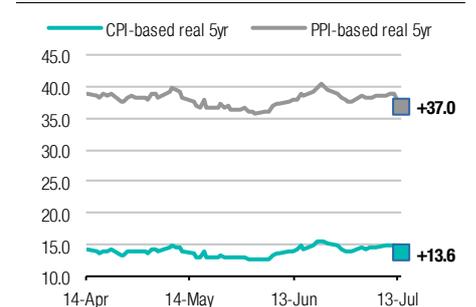
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 14 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 14 July 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)

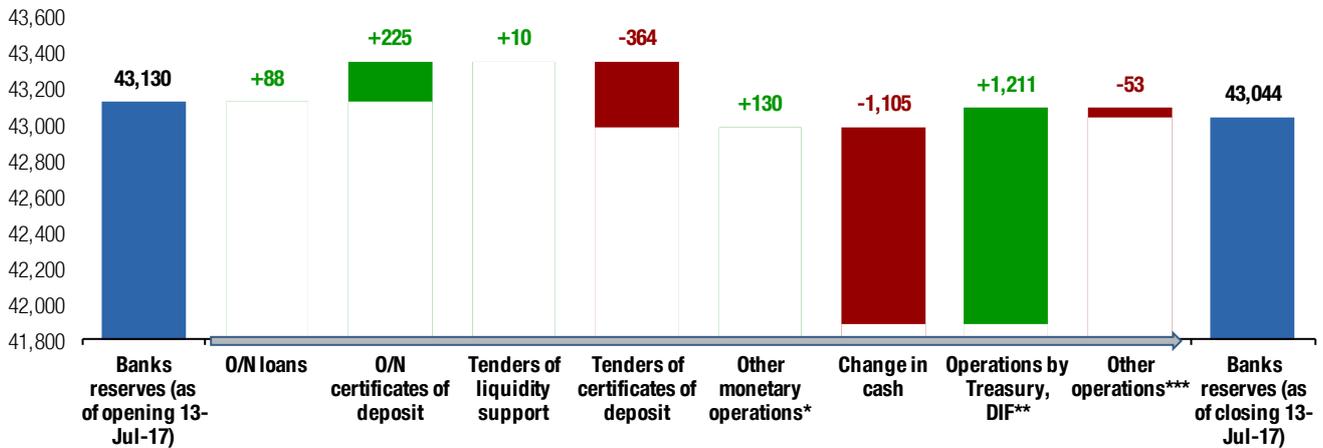
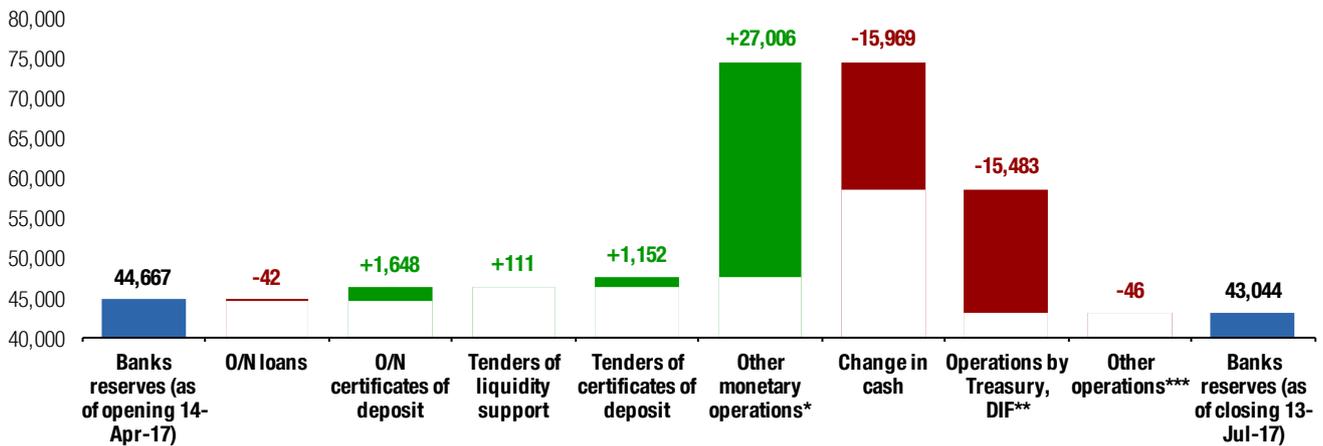
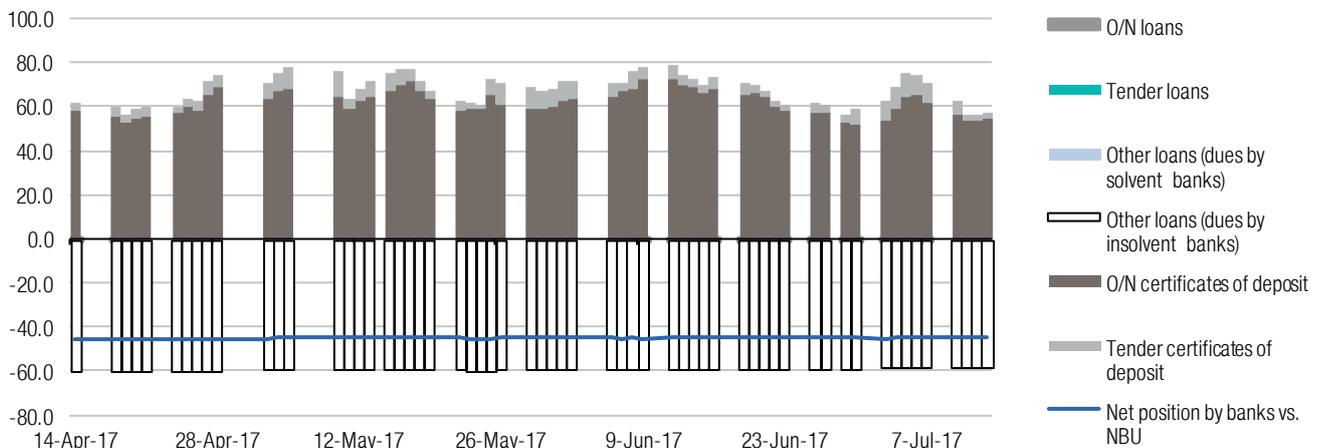


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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