

Daily Insight

Minor changes in the market

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August started with UAH98.92bn in banking sector liquidity, down UAH0.54bn from the previous day. The decline was caused by the Treasury and the NBU, while only cash inflows offset the majority of outflows. Funds were reallocated as banks decreased investments in CDs and accumulated additional funds at accounts with the NBU.

Bonds' yields unchanged 2

According to the MoF, yesterday's auction budget proceeds amounted to US\$483.9m. All types of bonds by maturity were proposed: half-year, 1-year, 2-year and 3-year. All bonds were denominated in local currency. The MoF satisfied all submitted demand and the biggest was for half-year bonds which amounted to UAH150m in one bid at 13.85%.

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The DXY on Tuesday traded in the 92.815-93.037 range. The DXY is holding near a 14-month low as macroeconomic data failed to meet expectations. Although the manufacturing PMI index declined to 56.3 after June's 57.8, overall the economy grew for the 98th consecutive month. Meanwhile, the core PCE price index rose 0.1% in June MoM and 1.5% YoY, exceeding expectations of 1.3%. Overall, political uncertainty continues to weigh on the dollar. By the end of Tuesday, the DXY declined 0.4% to 92.86.

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WEDNESDAY, 2 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 1 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 1 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	44,837	+2.04	-9.84
Deposit certificates* (UAHm)	54,082	-2.59	-13.11
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.8450	+0.17	-4.63
Total trade volume (US\$m)	N/A		
UAH index CPI-based	108.819	+0.12	+0.76
UAH index PPI-based	167.716	+0.12	-0.39
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	560bp	-2bp	-93bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,476.35	+0.24	+10.61
MSCI EM	1,069.00	+0.26	+23.98
US dollar index (DXY)	93.043	+0.19	-8.97
EUR / USD	1.1802	-0.34	+12.22
Crude oil WTI (US\$/bbl)	49.16	-2.01	-8.49
Crude oil BRENT (US\$/bbl)	51.78	-1.78	-8.87
CRB, commodities index	180.76	-1.03	-6.11
Gold (US\$/ounce)	1,268.85	-0.05	+10.12

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity declines as funds are reallocated

August started with UAH98.92bn in banking sector liquidity, down UAH0.54bn from the previous day. The decline was caused by the Treasury and the NBU, while only cash inflows offset the majority of outflows. Funds were reallocated as banks decreased investments in CDs and accumulated additional funds at accounts with the NBU.

Banks' correspondent accounts with the NBU rose UAH0.90bn to UAH44.84bn while total CDs outstanding declined UAH1.44bn to UAH54.08bn. Banks decreased investments in 14-day CDs by UAH2.11bn while ON CDs rose by UAH0.68bn. Outflows to the Treasury's accounts were UAH1.48bn as the NBU absorbed UAH0.37bn. Only cash inflows offset most outflows.

Investment implications: *The Treasury continued to accumulate funds at its accounts, decreasing total collected funds by only UAH1.08bn in July to UAH44.07bn. This Monday, the negative balance of Treasury operations rose slightly, being the main reason for the decline in liquidity decline combined with the NBU's absorption. At the same time, yesterday the Treasury paid UAH0.35bn in VAT refunds, which is unusual on the first day of the month, enabling liquidity to stabilize today.*

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Bonds' yields unchanged

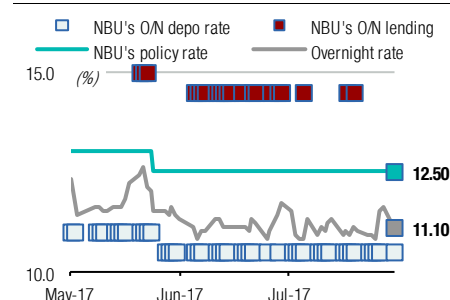
According to the MoF, yesterday's auction budget proceeds amounted to US\$483.9m. All types of bonds by maturity were proposed: half-year, 1-year, 2-year and 3-year. All bonds were denominated in local currency. The MoF satisfied all submitted demand and the biggest was for half-year bonds which amounted to UAH150m in one bid at 13.85%.

Demand for the 1-year and 2-year bonds amounted to UAH100m each with one bid each at 14.4% and 14.46%, respectively, while the 3-year bond received five bids, all of which were accepted at 14.54%.

Investment implications: *All rates remained unchanged, indicating that market participants are confident that on Thursday the NBU's board meeting will keep the key policy rate unchanged. Moreover, there was low demand as debt repayments to the market this week will be a paltry UAH100m.*

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Interest rates in the banks' reserves market (three months through 1 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 1 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	N/A	N/A	N/A	N/A	N/A
ON rate	N/A	N/A	N/A	N/A	N/A
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	44,837	+2.04	-9.50	-16.94	-9.84
DepCerts ³	54,082	-2.59	+6.80	+4.24	-13.11
Total	98,919	-0.54	-1.26	-6.56	-11.66
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	N/A	N/A	N/A	N/A	N/A
Banks	N/A	N/A	N/A	N/A	N/A
Residents	N/A	N/A	N/A	N/A	N/A
Non-res ⁴	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	9.13	-201bp	+24bp	-926bp	-13ppt
3 months	10.85	+276bp	+67bp	-52bp	-11ppt
6 months	11.16	-35bp	-1bp	-296bp	-688bp
1 year	11.41	-19bp	-3bp	-354bp	-458bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	560	-2bp	-25bp	-25bp	-93bp

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

Minor changes in the market

The DXY on Tuesday traded in the 92.815-93.037 range. The DXY is holding near a 14-month low as macroeconomic data failed to meet expectations. Although the manufacturing PMI index declined to 56.3 after June's 57.8, overall the economy grew for the 98th consecutive month. Meanwhile, the core PCE price index rose 0.1% in June MoM and 1.5% YoY, exceeding expectations of 1.3%. Overall, political uncertainty continues to weigh on the dollar. By the end of Tuesday, the DXY declined 0.4% to 92.86.

The hryvnia slightly declined on Tuesday, down 0.01% to 25.8571 USD/UAH, per data from the NBU. In our view, the USD/UAH corrected slightly on Tuesday following the hryvnia's gains over the last trading sessions. The UAH sold for 25.86 USD/UAH versus 25.73 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.12% to 108.82, while in year-on-year terms, this index was up 7.1% from 101.59 last year.

The downward trend continued on Tuesday for the ruble, as investors await the new set of sanctions to be implemented. The correction in oil prices, which declined to US\$52 per barrel of Brent, also pushed the ruble down. The ruble traded in the 59.72-60.29 range and finished the day at 60 RUB/USD, having depreciated 0.2%.

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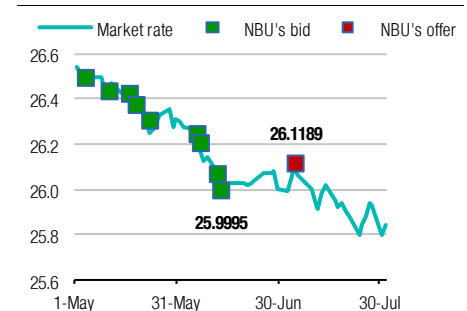
Key indicators (as of 1 серпня 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.8450	+0.17	+0.02	-0.62	-4.63
USD ¹	93.043	+0.19	-1.07	-2.70	-8.97
EUR	1.1802	-0.34	+1.33	+3.29	+12.22
JPY	110.3600	+0.09	-1.37	-1.81	-5.64
GBP ²	1.3203	-0.09	+1.37	+1.37	+6.99
CNY	6.7179	-0.13	-0.49	-0.93	-3.27
RUB	60.3433	+0.95	+0.74	+2.50	-1.94

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

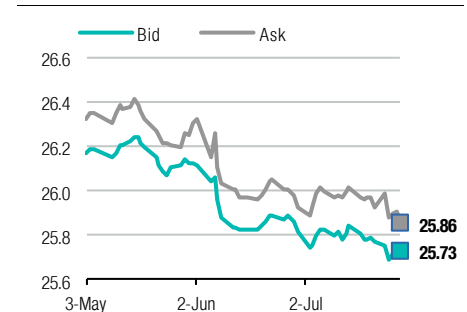
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 1 August 2017)



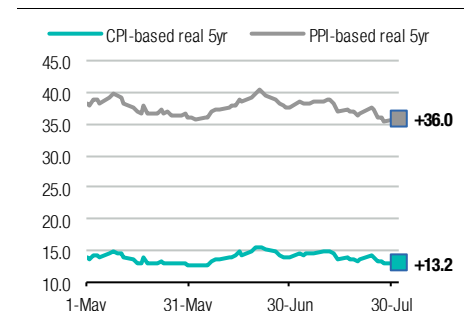
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 1 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 1 August 2017)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

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

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

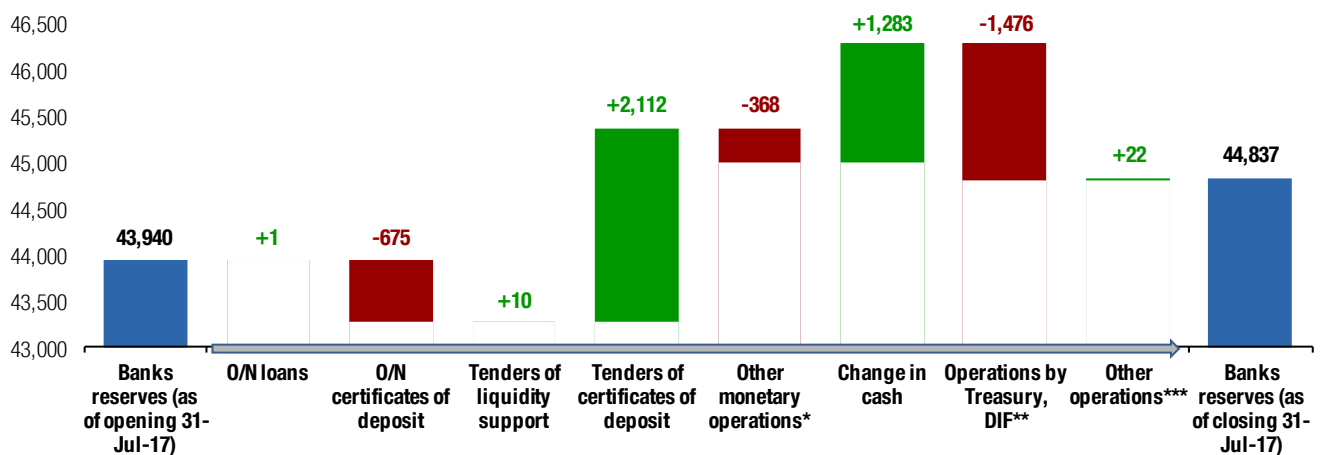
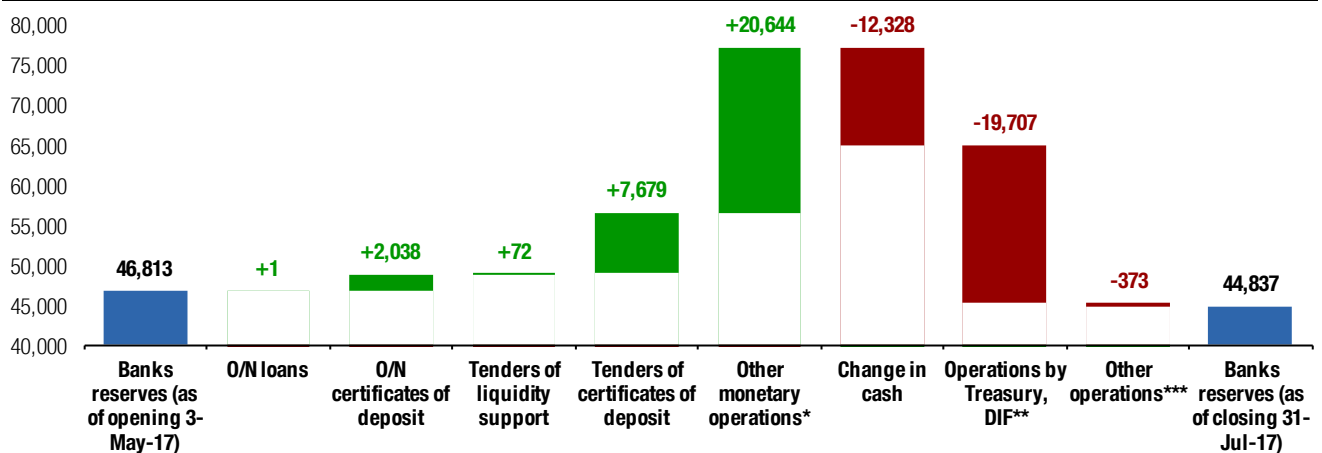


Chart 2. Banks reserves usages over last 90-day period (UAHm)

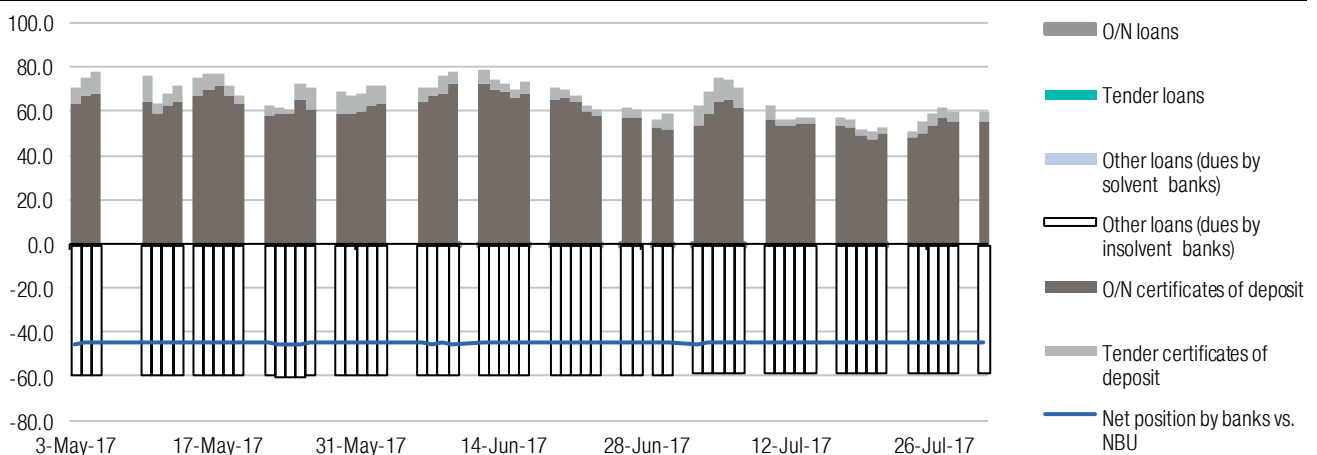


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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