

Daily Insight

Renminbi hits 10-month high

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The US dollar posted another day of recovery amid rising tensions between the United States and North Korea. Wednesday's statistics had a mixed impact on the US currency as the US Bureau of Labor Statistics said nonfarm productivity rose 0.9% on an annual basis in the second quarter, beating forecasts of a 0.7% uptick. However, any potential positive impact on the greenback was offset by data about unit labor costs, which edged up 0.6% in the second quarter, missing expectations of a 1.2% gain. On Wednesday the DXY index was in 93.49 – 93.89 range, and closed down 0.11% to 93.55.

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THURSDAY, 10 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 9 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 9 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	10.90	+10bp	+30bp
Banks reserves (UAHm)	44,640	-1.49	-10.24
Deposit certificates* (UAHm)	48,009	-0.55	-22.86
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.7100	-0.04	-5.13
Total trade volume (US\$m)	170.37	-3.25	+0.44
UAH index CPI-based	109.445	+0.06	+1.34
UAH index PPI-based	168.681	+0.06	+0.18
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	549bp	+9bp	-103bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,474.02	-0.04	+10.51
MSCI EM	1,068.92	-0.89	+23.97
US dollar index (DXY)	93.548	-0.11	-8.47
EUR / USD	1.1759	+0.06	+11.81
Crude oil WTI (US\$/bbl)	49.56	+0.79	-7.74
Crude oil BRENT (US\$/bbl)	52.70	+1.07	-7.25
CRB, commodities index	181.56	+0.26	-5.69
Gold (US\$/ounce)	1,277.34	+1.30	+10.85

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity declines further

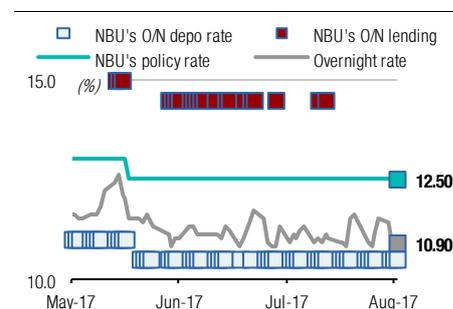
As of Wednesday morning, banking liquidity fell another 1%, down UAH0.94bn to UAH92.65bn from the previous day, mainly due to autonomous non-monetary operations and the conversion of reserves into cash. Banks decreased investments in 14-days CDs while they increased investments in ON instruments. Banks' reserve accounts with the NBU also declined.

Bank's correspondent accounts with the NBU fell UAH0.67bn as 14-day instruments declined UAH0.78bn and ON instruments rose UAH0.51bn. Other monetary NBU operational increases added UAH0.2bn to liquidity and the overall positive effect of NBU monetary operations amounted to UAH0.47bn. The State Treasury withdrew UAH0.46bn from reserves, with a negative effect from the conversion of reserves into cash currency of UAH0.74bn that amounted to UAH1.14bn of the total autonomous non-monetary operations negative impact.

Investment implications: Banking sector liquidity declining for the tenth consecutive day, continually hitting new year lows, having fallen 17.3% from the beginning of 2017. The negative effect from cash outflows continues for the fourth consecutive day as the Treasury has absorbed UAH 6.18bn via operations from the beginning of the month.

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Interest rates in the banks' reserves market (three months through 9 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 9 August 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	10.90	+10bp	+10bp	-40bp	+30bp
ON \$ swap	11.68	+29bp	-4bp	+70bp	+21bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	44,640	-1.49	-1.21	+11.27	-10.24
DepCerts ³	48,009	-0.55	-7.87	-22.38	-22.86
Total	92,649	-1.01	-4.77	-9.14	-17.26
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	366,104	+0.00	+0.00	-1.32	+2.80
Banks	295,888	-0.07	-0.18	+9.38	+71.69
Residents	22,585	+0.13	-0.15	+5.07	+44.05
Non-res ⁴	10	-0.19	+6.27	+82.69	-99.84
Total	684,588	-0.02	-0.08	+3.25	+24.35
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.97	+103bp	+755bp	-300bp	-10ppt
3 months	11.29	-13bp	+202bp	-325bp	-11ppt
6 months	11.79	+6bp	+134bp	-173bp	-626bp
1 year	11.62	+5bp	+60bp	-302bp	-437bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	549	+9bp	-11bp	-36bp	-103bp

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

Renminbi hits 10-month high

The US dollar posted another day of recovery amid rising tensions between the United States and North Korea. Wednesday's statistics had a mixed impact on the US currency as the US Bureau of Labor Statistics said nonfarm productivity rose 0.9% on an annual basis in the second quarter, beating forecasts of a 0.7% uptick. However, any potential positive impact on the greenback was offset by data about unit labor costs, which edged up 0.6% in the second quarter, missing expectations of a 1.2% gain. On Wednesday the DXY index was in 93.49 – 93.89 range, and closed down 0.11% to 93.55.

The EUR/USD pair struggled to find direction in on Wednesday morning. However, the US dollar appreciated, pushing the euro down in the afternoon to an intraday low of 1.1689 EUR/USD. However, the euro recovered losses by the end of the day as it closed up 0.1% to 1.1759 EUR/USD.

The renminbi strengthened past 6.7 USD/CNY for the first time since October 2016 on Tuesday, boosted by strong macroeconomic statistics. The FX reserves are rising for the sixth straight month and rose to US\$3.08tn, per the People's Bank of China. A robust real GDP outlook also provided support. Tuesday's breaking through the psychological ceiling of 6.7 USD/CNY lifted investors' sentiment and contributed to further growth of the CNY. On Wednesday, the renminbi strengthened 0.5% to 6.6743 USD/CNY. The stronger renminbi against the greenback and simultaneous strengthening of US dollar against other major currencies over the last several days has pushed the trade-weighted index of the CNY up significantly. The simultaneous appreciation of the USD and CNY seems less likely.

The hryvnia traded nearly flat on Wednesday, having slightly strengthened to 25.7245 USD/UAH, per the NBU, mostly due to an excess supply of USD in the domestic market. The Ukrainian currency was supported by declining liquidity in the banking sector, which hit 7-month lows on Tuesday. The UAH sold for 25.63 USD/UAH versus 25.81 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.06% to 109.445, while in year-on-year terms, up 8.48% from 100.89 last year. At the same time, steadily declining consumer prices of Ukraine's main trading partners, combined with inflation in Ukraine and the stronger UAH, has pushed the CPI-based real trade-weighted index higher, which could lead to the hryvnia's depreciation in the mid-term.

The Russian ruble posted some losses on Wednesday as investors turned to safe haven assets amid tensions between the United States and North Korea. Oil prices had no significant influence on the Russian currency, which traded in the 59.8725 – 60.2275 USD/RUB range. On Wednesday, the ruble closed down 0.3% to 59.9825 USD/RUB.

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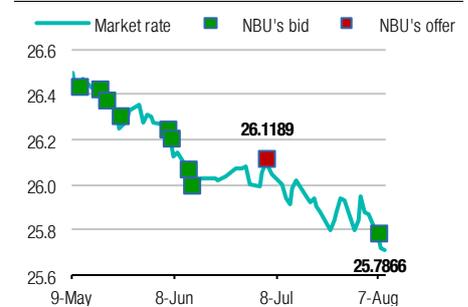
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 9 серпня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.7100	-0.04	-0.91	-1.29	-5.13
USD ¹	93.548	-0.11	+0.77	-2.56	-8.47
EUR	1.1759	+0.06	-0.82	+3.14	+11.81
JPY	110.0700	-0.23	-0.59	-3.38	-5.89
GBP ²	1.3004	+0.09	-1.66	+0.88	+5.38
CNY	6.6743	-0.47	-0.71	-1.93	-3.90
RUB	60.0844	+0.37	-0.79	-0.50	-2.36

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 9 August 2017)



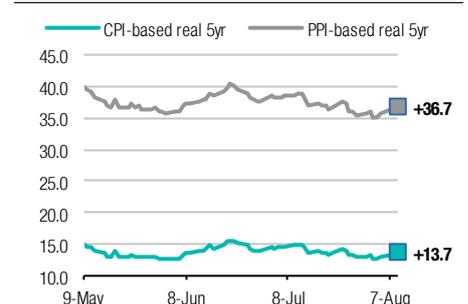
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 9 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 9 August 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)

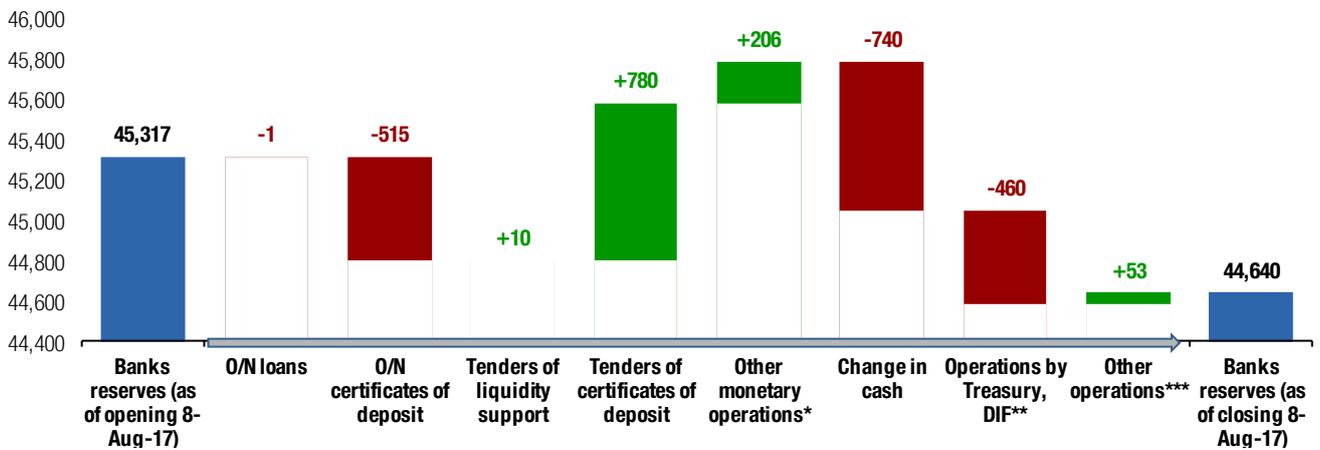
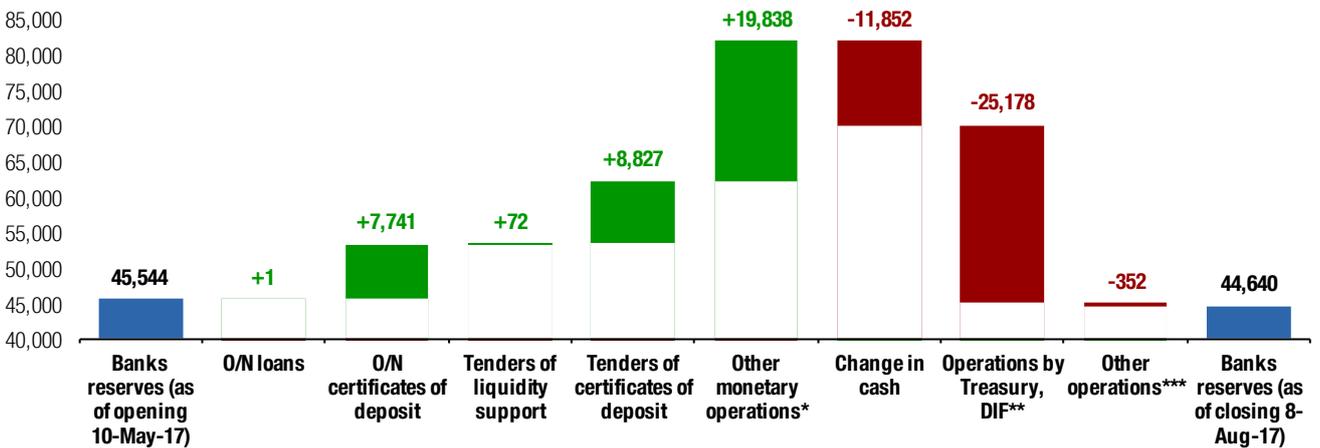
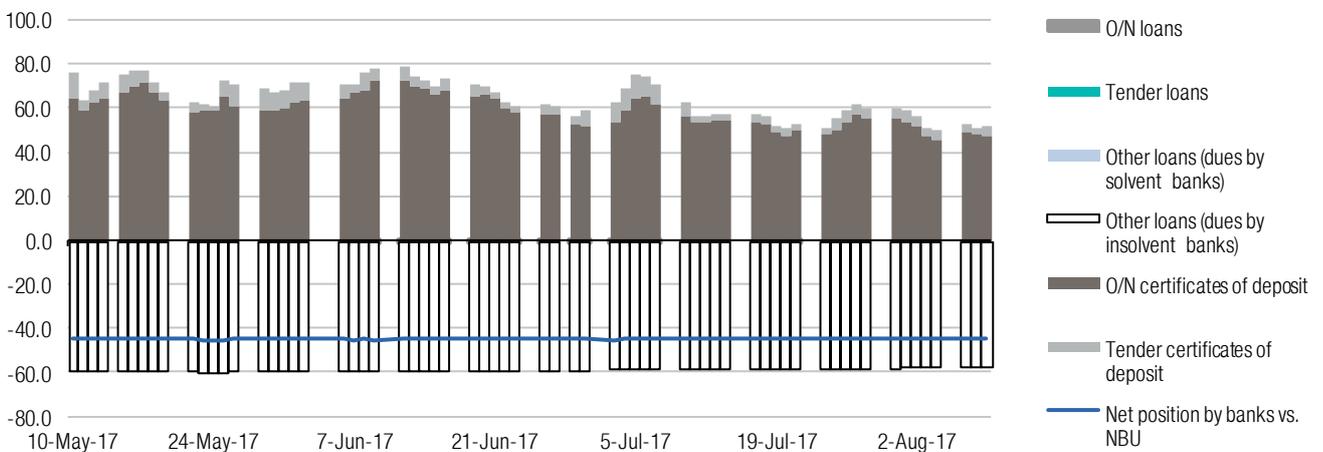


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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