

# Daily Insight

## Renmibi near 1-year high

### Key messages of the today's comments

### FRIDAY, 11 AUGUST 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 10 August 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 10 August 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	10.80	-10bp	+20bp
Banks reserves (UAHm)	42,705	-4.33	-14.13
Deposit certificates* (UAHm)	51,302	+6.86	-17.57
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	25.6700	-0.16	-5.28
Total trade volume (US\$m)	N/A		
UAH index CPI-based	109.554	+0.10	+1.44
UAH index PPI-based	168.848	+0.10	+0.28
<b>UKRAINE SOVEREIGN EUROBOOND MARKET</b>			
CDS 5yr	550bp	+1bp	-103bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,438.21	-1.45	+8.91
MSCI EM	1,056.21	-1.19	+22.49
US dollar index (DXY)	93.401	-0.16	-8.62
EUR / USD	1.1772	+0.11	+11.93
Crude oil WTI (US\$/bbl)	48.59	-1.96	-9.55
Crude oil BRENT (US\$/bbl)	51.90	-1.52	-8.66
CRB, commodities index	178.91	-1.46	-7.06
Gold (US\$/ounce)	1,286.34	+0.70	+11.64

Notes: \* NBU's short-term bonds.

Source: Bloomberg, ICU.

#### Domestic liquidity ..... 2

##### Liquidity rises ..... 2

Following an ongoing decline, domestic liquidity (without UAH government bonds in financial institutions' portfolios) reversed. As of Thursday morning, the volume of reserve money and CDs in the NBU rose 1.5%, up UAH1.3bn to UAH94bn from the previous day. In a new development, autonomous non-monetary operations drove the rise despite the conversion of reserves into cash for clients. Banks increased investments in both ON and 14-day CDs.

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The DXY index moved upward on the first half of Thursday, having reached its intraday high of 93.81, as investors anticipated the inflation report. However, disappointing data about producer prices and the labor market fed into the US dollar's weakness. In a report, the US Department of Commerce said that the PPI rose only 1.9% YoY, compared to expectations for a gain of 2.2% YoY. At the same time, initial jobless claims unexpectedly rose by 3,000 to 244,000, while analysts expected it to decline by 1,000 to 240,000. On Thursday, the DXY index was in the 93.32 – 93.81 range, having closed down 0.16% to 93.4.

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# Domestic liquidity

## Liquidity rises

Following an ongoing decline, domestic liquidity (without UAH government bonds in financial institutions' portfolios) reversed. As of Thursday morning, the volume of reserve money and CDs in the NBU rose 1.5%, up UAH1.3bn to UAH94bn from the previous day. In a new development, autonomous non-monetary operations drove the rise despite the conversion of reserves into cash for clients. Banks increased investments in both ON and 14-day CDs.

Through CD placements to commercial banks, the NBU absorbed UAH0.46bn of ON instruments at 10.5% and UAH2.8bn in 14-day CDs at 12.5%. The total effect of NBU monetary operations absorbing reserves from bank's accounts amounted to UAH3.3bn. This appeared to be a defensive move against increasing of reserve money in banks' accounts with the NBU through Treasury operations of UAH2.1bn. The conversion of reserves into cash currency was UAH0.88bn. Overall, autonomous non-monetary operation surplus was UAH1.35bn versus NBU monetary operations of negative UAH3.3bn. Thus, commercial bank's correspondent accounts with the NBU declined UAH1.93bn. The interbank ON rate index rose 29 bp to 10.84%, indicating that the market rate is in line with the NBU's expected 10.5-125% range, a favorable sign of market health.

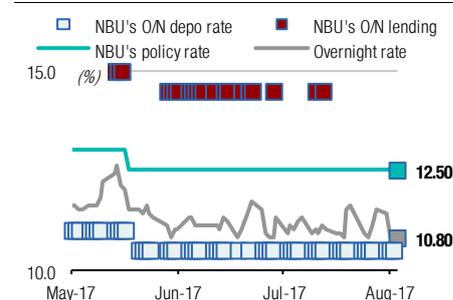
**ICU view: Following the ongoing decline on liquidity, it increased (excluding government bonds) due to Treasury operations. Considering the government's budget surplus in 1H17, the second half will show a deficit, which turns Treasury operations from absorbing reserves from banks' accounts to replenishment and increasing. Going forward, NBU monetary operations will aim to absorb reserves from bank's accounts. With little potential of lowering NBU CD rates, and with current inflation having grown over the last three months, the NBU will be cautious about decreasing its key policy rate.**

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## Interest rates in the banks' reserves market (three months through 10 August 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 10 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	10.80	-10bp	-30bp	-10bp	+20bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	42,705	-4.33	-12.68	-0.59	-14.13
DepCerts <sup>3</sup>	51,302	+6.86	+6.84	-10.01	-17.57
<b>Total</b>	<b>94,007</b>	<b>+1.47</b>	<b>-3.01</b>	<b>-5.96</b>	<b>-16.04</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	365,704	-0.11	-0.11	-1.43	+2.68
Banks	296,074	+0.06	-0.09	+9.49	+71.80
Residents	22,593	+0.03	-0.25	+5.04	+44.10
Non-res <sup>4</sup>	10	+0.00	+6.27	+83.66	-99.84
<b>Total</b>	<b>684,381</b>	<b>-0.03</b>	<b>-0.11</b>	<b>+3.24</b>	<b>+24.32</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	12.00	+3bp	+452bp	-299bp	-10ppt
3 months	11.71	+42bp	+2bp	-286bp	-10ppt
6 months	11.95	+16bp	+98bp	-159bp	-610bp
1 year	11.63	+2bp	+36bp	-301bp	-436bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	550	+1bp	+10bp	-35bp	-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

## Renmibi near 1-year high

The DXY index moved upward on the first half of Thursday, having reached its intraday high of 93.81, as investors anticipated the inflation report. However, disappointing data about producer prices and the labor market fed into the US dollar's weakness. In a report, the US Department of Commerce said that the PPI rose only 1.9% YoY, compared to expectations for a gain of 2.2% YoY. At the same time, initial jobless claims unexpectedly rose by 3,000 to 244,000, while analysts expected it to decline by 1,000 to 240,000. On Thursday, the DXY index was in the 93.32 – 93.81 range, having closed down 0.16% to 93.4.

The euro steadily declined against the USD as it reached an intraday low of 1.1704 EUR/USD, as investors awaited the data on the US PPI and pushed the dollar higher. However, due to disappointing PPI data (see above), the euro managed to recover all of its losses, having closed up 0.11% to 1.1772 EUR/USD.

The renminbi continues to strengthen amid tensions between North Korea and the United States, rising 0.41% against the greenback to 6.647 USD/CNY on Thursday. Investors in the region turn risk averse; this corresponds with a decrease of its other major peer currencies – the South Korean won and Australian dollar fell this week more than 1.3% and 0.4%, respectively. The renminbi was also supported by strong macroeconomic data - FX reserves are rising for the sixth straight month.

Global developments in the FX markets supported the hryvnia, as it strengthened for the sixth trading session, rising another 0.12% against the greenback to 25.6926 USD/UAH. The hryvnia was also supported by the NBU's decision to keep the key policy rate on hold (12.5% per annum), while liquidity in the banking sector remains near 7-month lows. The UAH sold for 25.60 USD/UAH versus 25.79 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index rose 0.1% to 109.55, while in year-on-year terms, up 8.1% from 100.64 last year.

The Russian ruble traded in the 59.72 – 60.13 USD/RUB range on Thursday. In a report, the OPEC committee improved its forecast by 200,000 barrels per day for demand for oil produced by the cartel. On this news, the oil price exceeded \$53 per barrel, supporting the Russian currency. At the same time, investor risk aversion and tensions between the US and North Korea put pressure on the ruble. On Thursday, the ruble fell 0.2% against the greenback to 60.11 USD/RUB.

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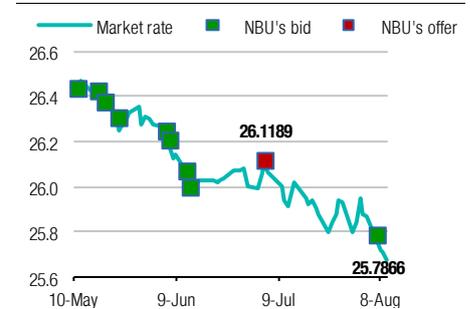
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 10 серпня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	25.6700	-0.16	-0.81	-1.26	-5.28
USD <sup>1</sup>	93.401	-0.16	+0.61	-2.73	-8.62
EUR	1.1772	+0.11	-0.83	+3.27	+11.93
JPY	109.2000	-0.79	-0.77	-4.24	-6.63
GBP <sup>2</sup>	1.2977	-0.21	-1.23	+0.75	+5.16
CNY	6.6470	-0.41	-1.05	-2.30	-4.29
RUB	60.1250	+0.07	-0.37	-0.20	-2.30

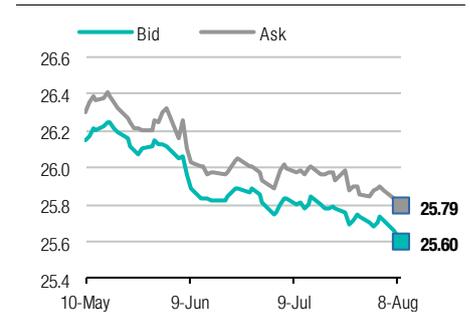
Notes: [1] DXY, US dollar index; [2] British pound.  
 Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 10 August 2017)



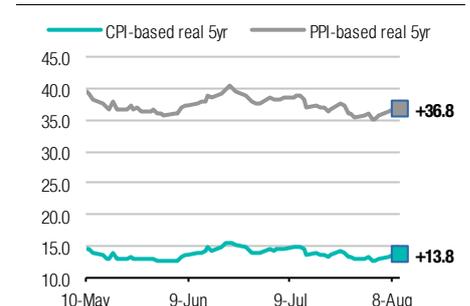
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 10 August 2017)



Source: NBU.

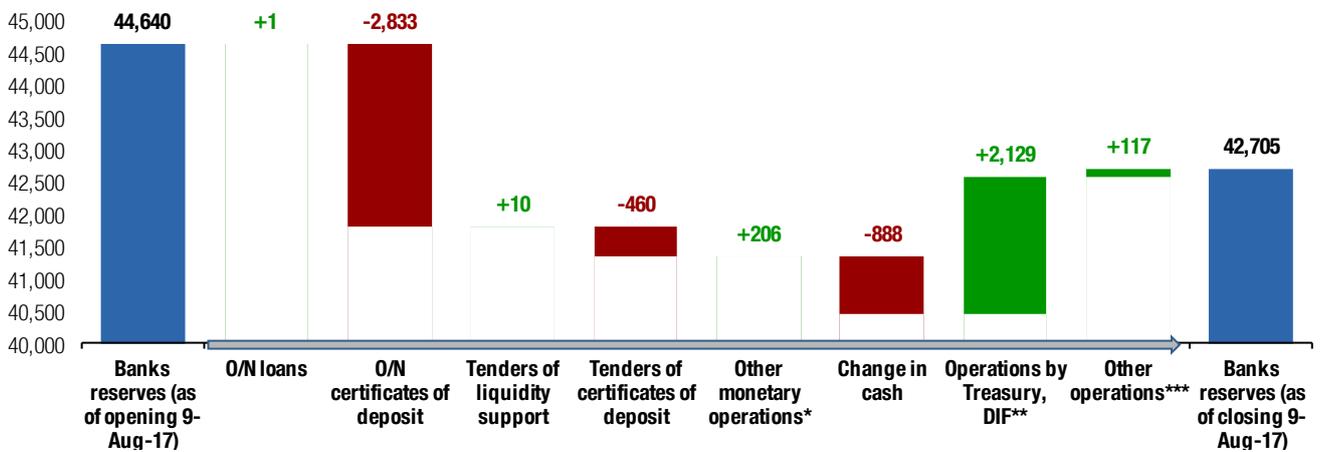
## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 10 August 2017)



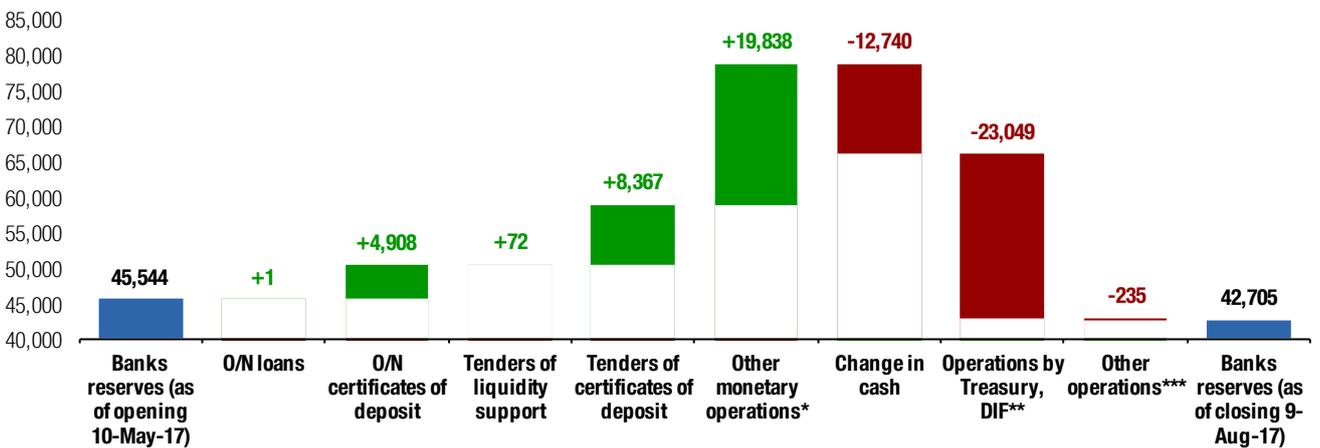
Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

# Appendix #1: Domestic liquidity

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

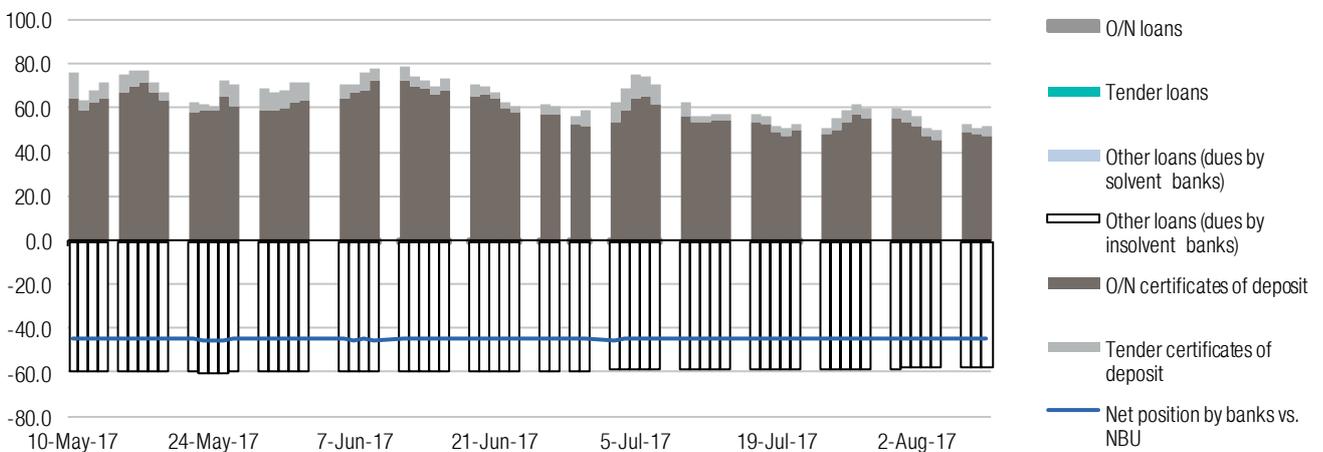


**Chart 2. Banks reserves usages over last 90-day period (UAHm)**



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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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