

Daily Insight

Hryvnia near 25.5 USD/UAH

Key messages of the today's comments

TUESDAY, 29 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 28 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 28 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.60	+0bp	+100bp
Banks reserves (UAHm)	51,184	+6.43	+2.92
Deposit certificates* (UAHm)	32,190	-12.36	-48.28
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.4700	-0.33	-6.01
Total trade volume (US\$m)	113.19	-39.72	-33.27
UAH index CPI-based	108.637	-0.02	+0.59
UAH index PPI-based	167.435	-0.02	-0.56

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	520bp	+0bp	-133bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,444.24	+0.05	+9.17
MSCI EM	1,085.08	-0.03	+25.84
US dollar index (DXY)	92.207	-0.57	-9.79
EUR / USD	1.1979	+0.46	+13.90
Crude oil WTI (US\$/bbl)	46.57	-2.72	-13.31
Crude oil BRENT (US\$/bbl)	51.89	-0.99	-8.68
CRB, commodities index	178.01	+0.10	-7.53
Gold (US\$/ounce)	1,308.35	+1.31	+13.55

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity 2

Banks increase reserves2

Banks increased reserves by UAH10.78bn over this past week as banks' correspondent accounts with the NBU rose to UAH51.18bn through yesterday morning. The higher reserves were primarily the result of reallocations from CDs, as total CDs outstanding fell to UAH32.19bn at the end of last week, hitting the lowest level since the end of last November. Total banking sector liquidity remains slightly volatile at UAH83.37bn after falling UAH1.45bn last Wednesday (the last business day last week before the holiday) . 2

Foreign exchange markets 3

Hryvnia near 25.5 USD/UAH3

The hryvnia appreciated 0.1% against the USD to 25.5158 USD/UAH. Friday's 0.6% drop of the USD bolstered EM currencies, including the hryvnia. Moreover, August taxes began on Monday, which increased exporters' demand for hryvnia. The UAH sold for 25.41 USD/UAH versus 25.59 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.02% to 108.64; in year-on-year terms, it is up 10.91% from 97.95 last year. The steadily rising trade-weighted index of the hryvnia means that the future depreciation of the currency is more likely than extended appreciation. Consequently, we expect some weakness in hryvnia in early September, as temporary factors (such as taxes) will stop supporting the Ukrainian currency while the US dollar provides essential support. 3

Appendix #1: Domestic liquidity 4

Domestic liquidity

Banks increase reserves

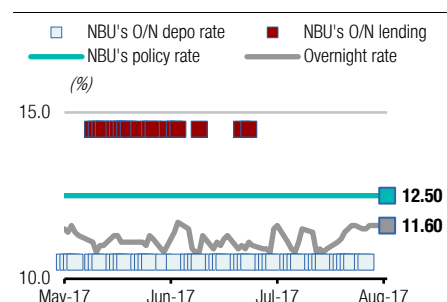
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Last Wednesday, non-monetary operations caused most of the decline as the Treasury absorbed UAH0.68bn as tax collections exceeded expenditures. Banks exchanged UAH0.58bn of reserves into cash and paid UAH0.19bn, most likely on NBU loans. NBU monetary operations included only redemptions and issuances of new CDs. Banks decreased 14-day CDs by UAH5.17bn while they increased ON CDs by a mere UAH0.63bn.

ICU view: Currently, month-end tax payments put additional pressure on liquidity. Banks increased reserves at accounts with the NBU, most likely to avoid falling below the newly required amount of reserves set at UAH46.49bn. Banks could increase investments in CDs, especially if the Treasury attempts to keep its operational balance low without absorbing significant funds.

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Interest rates in the banks' reserves market (three months through 28 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 28 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	11.60	+0bp	+10bp	+0bp	+100bp
ON \$ swap	12.78	+2bp	-10bp	+130bp	+131bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	51,184	+6.43	+24.26	+14.60	+2.92
DepCerts ³	32,190	-12.36	-19.54	-42.36	-48.28
Total	83,374	-1.70	+2.68	-17.04	-25.54
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	363,485	-0.33	-0.33	-1.20	+2.06
Banks	304,674	+0.08	-0.10	+2.73	+76.79
Residents	23,080	+0.37	+2.19	+5.27	+47.21
Non-res ⁴	586	+24.42	+24.41	+17.99k	-90.77
Total	691,825	-0.11	-0.13	+0.79	+25.67
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.31	+111bp	+129bp	+732bp	-10ppt
3 months	12.03	+16bp	+44bp	+126bp	-10ppt
6 months	11.90	+13bp	+21bp	+145bp	-614bp
1 year	11.73	+5bp	+12bp	+68bp	-426bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	520	+0bp	-30bp	-65bp	-133bp

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 near 25.5 USD/UAH

The hryvnia appreciated 0.1% against the USD to 25.5158 USD/UAH. Friday's 0.6% drop of the USD bolstered EM currencies, including the hryvnia. Moreover, August taxes began on Monday, which increased exporters' demand for hryvnia. The UAH sold for 25.41 USD/UAH versus 25.59 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.02% to 108.64; in year-on-year terms, it is up 10.91% from 97.95 last year. The steadily rising trade-weighted index of the hryvnia means that the future depreciation of the currency is more likely than extended appreciation. Consequently, we expect some weakness in hryvnia in early September, as temporary factors (such as taxes) will stop supporting the Ukrainian currency while the US dollar provides essential support.

In global financial markets, the US dollar plunged on Monday to near 20-month lows in reaction to Yellen's speech on Friday. Investors await labor market data later this week. Strong labor data should increase the possibility of a third interest rate hike this year which could support the USD. The DXY index was in 92.17 – 92.55 range, having closed down 0.6% to 92.21.

The EUR/USD pair fought to find its direction on Monday with no important upcoming US or EU macroeconomic data expected. The euro traded in the 1.1917 – 1.1984 range, having closed up 0.46% to 1.1979 EUR/USD. The renminbi extended last week's gains and reached a 13-month high, bolstered by the weak USD and central bank's decision to set a reference rate at 6.6353 USD/CNY (the strongest level this year). On Monday, the renminbi strengthened 0.5% to 6.6144 USD/CNY. A stronger CNY supports the UAH's exchange rate.

The same is true in relation to the Russian ruble that remained near a 2-month high at the beginning of the week. There was some correction in the USD/RUB pair, as oil prices slightly decline (with no significant impact on the Russian currency). On Monday, the ruble closed up 0.2% to 58.435 USD/RUB.

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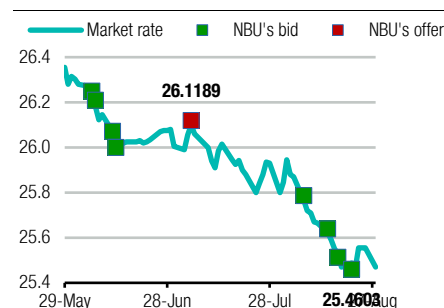
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 28 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.4700	-0.33	-0.07	-1.77	-6.01
USD ¹	92.207	-0.57	-0.95	-1.13	-9.79
EUR	1.1979	+0.46	+1.39	+1.94	+13.90
JPY	109.2500	-0.10	+0.25	-1.29	-6.59
GBP ²	1.2933	+0.40	+0.26	-1.55	+4.81
CNY	6.6144	-0.48	-0.77	-1.82	-4.76
RUB	58.4434	-0.26	-1.19	-1.87	-5.03

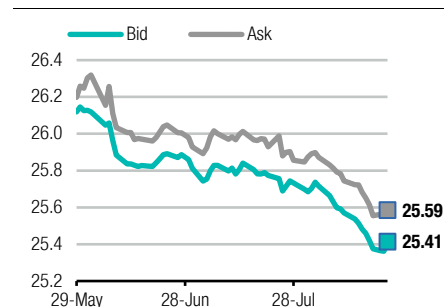
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 28 August 2017)



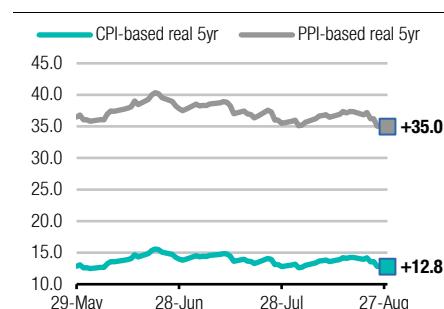
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 28 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 28 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)

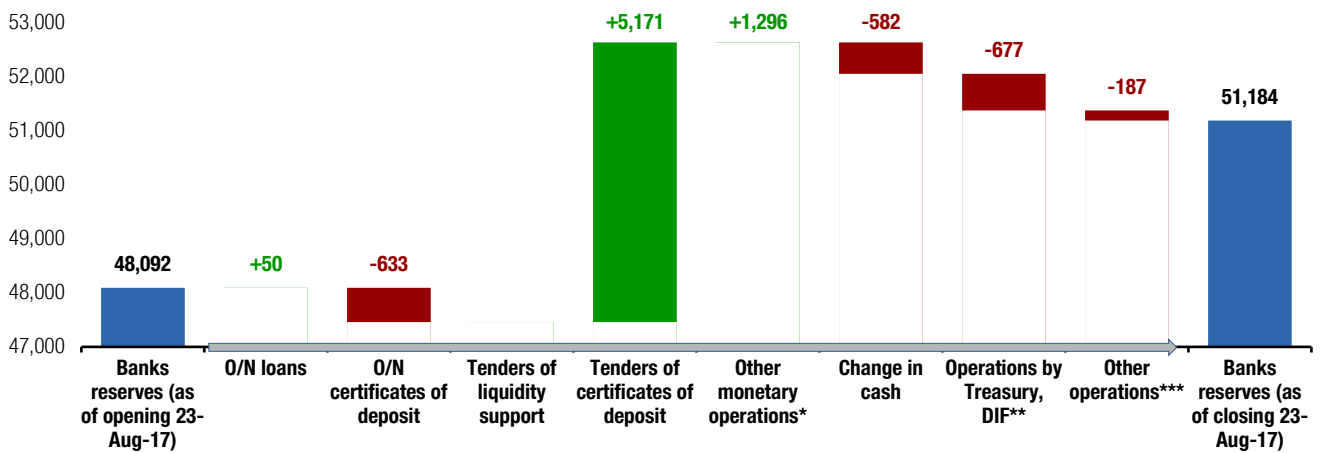
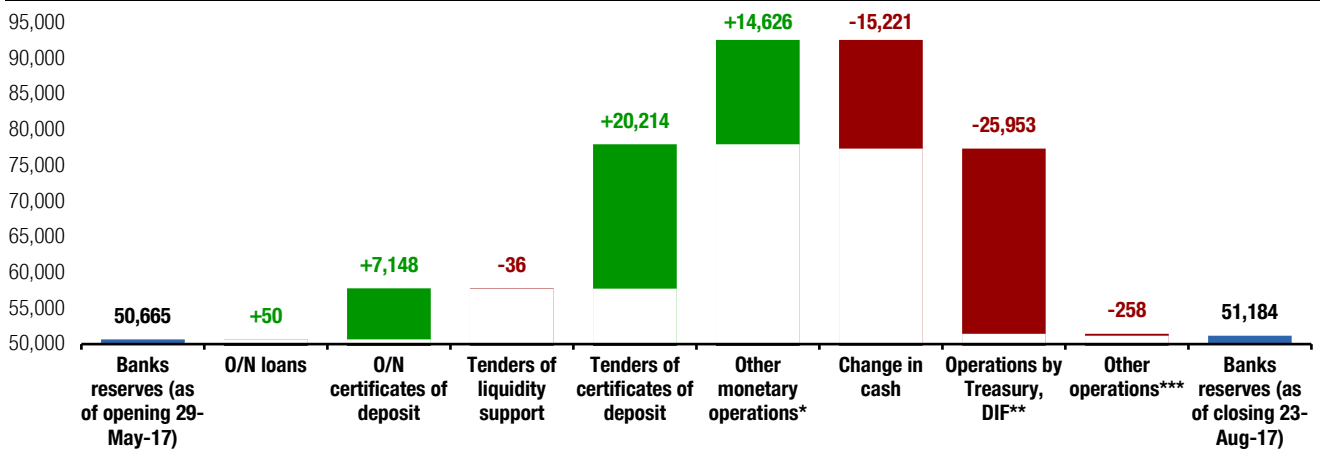
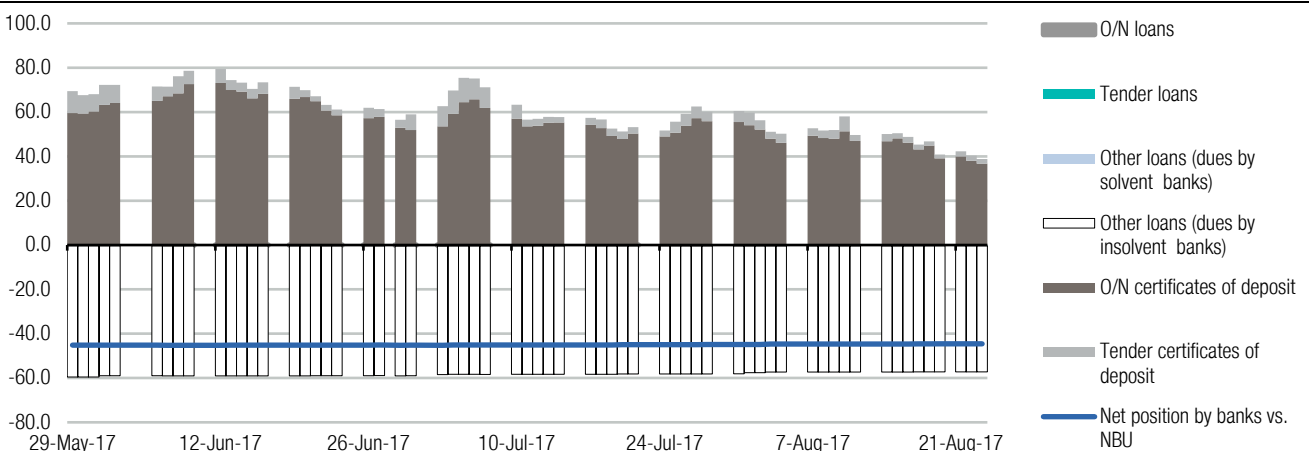


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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