

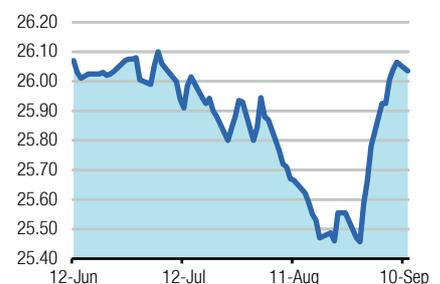
# Daily Insight

## Hryvnia rises against the US dollar

### Key messages of the today's comments

TUESDAY, 12 SEPTEMBER 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 11 September 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 11 September 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.60	-30bp	+100bp
Banks reserves (UAHm)	42,625	-8.42	-14.29
Deposit certificates* (UAHm)	29,670	-9.65	-52.33
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.0350	-0.12	-3.93
Total trade volume (US\$m)	158.27	-20.62	-6.69
UAH index CPI-based	105.883	+0.46	-1.96
UAH index PPI-based	163.190	+0.46	-3.08

#### UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	445bp	+0bp	-208bp
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#### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,488.11	+1.08	+11.13
MSCI EM	1,099.18	+0.73	+27.48
US dollar index (DXY)	91.875	+0.57	-10.11
EUR / USD	1.1953	-0.69	+13.65
Crude oil WTI (US\$/bbl)	48.07	+1.24	-10.52
Crude oil BRENT (US\$/bbl)	53.84	+0.11	-5.24
CRB, commodities index	181.66	+0.27	-5.64
Gold (US\$/ounce)	1,327.46	-1.41	+15.20

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

Source: Bloomberg, ICU.

### Domestic liquidity

2

#### Liquidity stabilizing, declining less dramatically.....2

Last Friday, the Treasury collected a less significant amount than it received in budget revenues. Most likely, higher budget expenditures resulted in the Treasury causing liquidity to offset much of the outflow by exchanging reserves into cash. The net impact of non-monetary operations was a UAH0.75bn increase, but it could not support liquidity to a full recovery. The NBU absorbed UAH0.52bn via FX purchases last Friday, causing liquidity to decline a slight UAH0.25bn to UAH79.13bn, the lowest level of the year.

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### Foreign exchange markets

3

#### Hryvnia rises against the US dollar .....3

At the week began, the hryvnia appreciated against the US dollar. As of Monday, the Ukrainian currency increased 0.2% to 26.0087 USD/UAH, close to last Thursday's result. The UAH is aiming to stabilize near 26 USD/UAH as the US dollar supply exceeds demand. Thus, the hryvnia sold for 26.11 USD/UAH versus 26.34 to buy in the Ukrainian cash market and its CPI-based real trade-weighted index rose 0.46% to 105.88; in year-on-year terms, it is up 10.82% from 95.54 last year. At the same time, in the short-time period (1-2 months) we expect the hryvnia to remain near its current level.

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### Appendix #1: Domestic liquidity

4

# Domestic liquidity

## Liquidity stabilizing, declining less dramatically

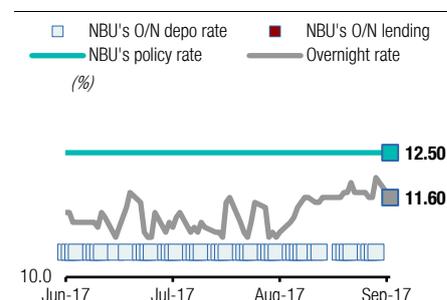
Last Friday, the Treasury collected a less significant amount than it received in budget revenues. Most likely, higher budget expenditures resulted in the Treasury causing liquidity to offset much of the outflow by exchanging reserves into cash. The net impact of non-monetary operations was a UAH0.75bn increase, but it could not support liquidity to a full recovery. The NBU absorbed UAH0.52bn via FX purchases last Friday, causing liquidity to decline a slight UAH0.25bn to UAH79.13bn, the lowest level of the year.

Banks mostly reallocated funds from reserves into CDs with an additional UAH1.69bn in ON CDs and purchased UAH1.97bn of 14-day CDs. With an increase of CDs outstanding of UAH3.66bn to UAH36.50bn, the banks' correspondent account balance with the NBU fell UAH3.92bn to UAH42.63bn.

**ICU view: Fund inflows from the Treasury and additional CD purchases could signal that liquidity is stabilizing and could recover slightly. At the same time, we should not anticipate a significant change in liquidity as the current level of liquidity is routine for September for the third consecutive year. This is likely to decrease pressure on the exchange rate which could cause an increase in budget expenditures.**

**Taras Kotovych, Kyiv, (044) 377-7040 ext.724**

## Interest rates in the banks' reserves market (three months through 11 September 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 11 September 2017)

	Last	Daily	Weekly	Monthly	YT
		chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.60	-30bp	-10bp	+70bp	+100bp
ON \$ swap	12.76	-16bp	-47bp	+117bp	+129bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	42,625	-8.42	-4.32	-12.39	-14.29
DepCerts <sup>3</sup>	29,670	-9.65	-17.80	-36.86	-52.33
<b>Total</b>	<b>72,295</b>	<b>-8.93</b>	<b>-10.35</b>	<b>-24.41</b>	<b>-35.43</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	363,485	+0.00	+0.00	-0.61	+2.06
Banks	306,457	+0.08	+0.37	+3.51	+77.82
Residents	23,351	+0.12	+0.60	+3.79	+48.93
Non-res <sup>4</sup>	1,734	+0.04	+196.5	+16,168.9	-72.70
<b>Total</b>	<b>695,027</b>	<b>+0.04</b>	<b>+0.35</b>	<b>+1.57</b>	<b>+26.25</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	11.47	-72bp	+139bp	+27bp	-11pp
3 months	12.03	+0bp	+50bp	+65bp	-10pp
6 months	12.13	-2bp	+30bp	+32bp	-591bp
1 year	11.62	-8bp	+10bp	-4bp	-437bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	445	+0bp	-60bp	-105bp	-208bp

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 rises against the US dollar

At the week began, the hryvnia appreciated against the US dollar. As of Monday, the Ukrainian currency increased 0.2% to 26.0087 USD/UAH, close to last Thursday's result. The UAH is aiming to stabilize near 26 USD/UAH as the US dollar supply exceeds demand. Thus, the hryvnia sold for 26.11 USD/UAH versus 26.34 to buy in the Ukrainian cash market and its CPI-based real trade-weighted index rose 0.46% to 105.88; in year-on-year terms, it is up 10.82% from 95.54 last year. At the same time, in the short-time period (1-2 months) we expect the hryvnia to remain near its current level.

The US dollar recovered on Monday. As tension over North Korea eased (with no reported missile tests) and as Hurricane Irma lost its power, investors aim to invest in "risky" assets. Meanwhile, investors remain cautious about the economic impact of the storm. On Monday, the DXY index traded within 91.415 - 91.985, closing down 0.6% to 91.875.

The euro traded lower on Monday as the US dollar gained strength. An ECB board member said that a strong euro may have a negative impact on inflation, which puts pressure on the currency. On Monday the euro traded within 1.1948 - 1.2036 and closed at 1.1953 USD/EU, down 0.7%.

The Chinese yuan depreciated against the dollar on Monday, as PBOC is concerned about strong renminbi have a nibble! negative effect on export income. So the PBOC eased the yuan hedging rules, which required reserves for settling forward yuan positions and foreign banks to make reserves for offshore yuan deposits in China. Thus the renminbi depreciated 0.5% to 6.5292 USD/CNY. The Russian ruble appreciated at the beginning of the trading session as investors' risk appetite has returned, only to decline slightly during the second half on weak oil prices. As of Monday, the ruble appreciated 0.3% to 57.2191 USD/RUB.

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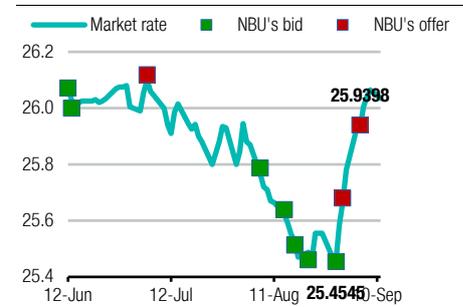
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 11 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	26.0350	-0.12	+0.42	+1.44	-3.93
USD <sup>1</sup>	91.875	+0.57	-0.82	-1.28	-10.11
EUR	1.1953	-0.69	+0.48	+1.12	+13.65
JPY	109.3900	+1.44	-0.30	+0.18	-6.47
GBP <sup>2</sup>	1.3163	-0.28	+1.79	+1.14	+6.67
CNY	6.5292	+0.54	-0.03	-2.02	-5.99
RUB	57.2191	-0.26	-1.06	-4.38	-7.02

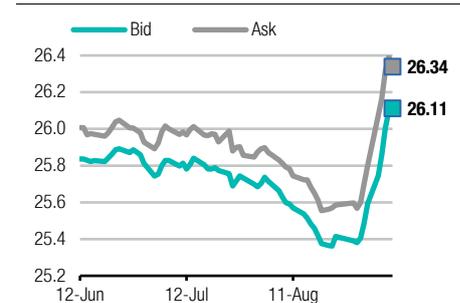
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 11 September 2017)



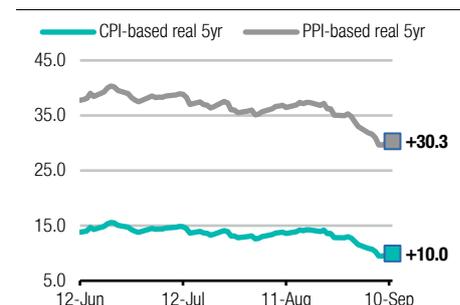
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 11 September 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 11 September 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)

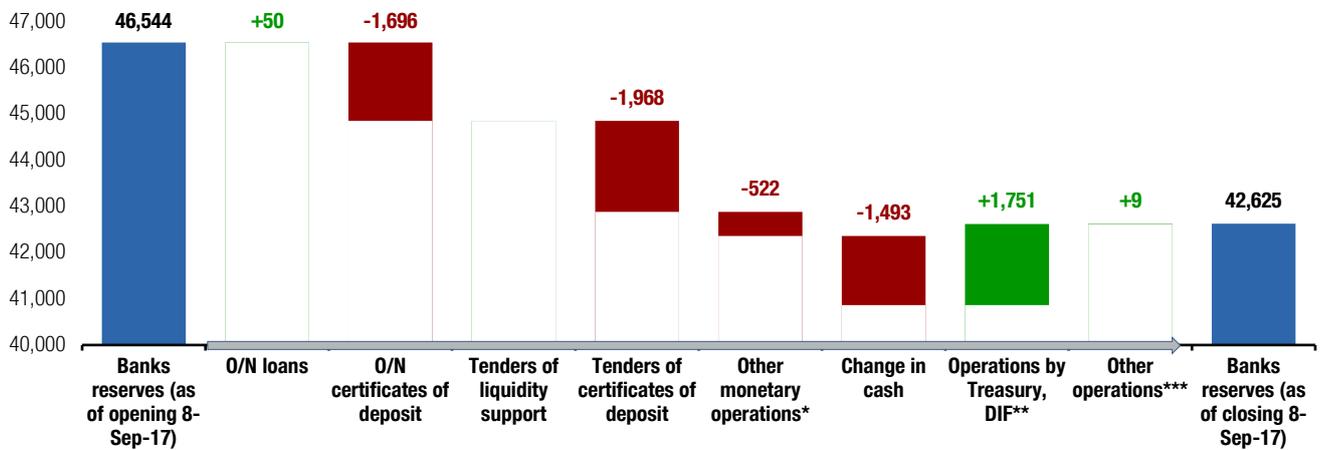
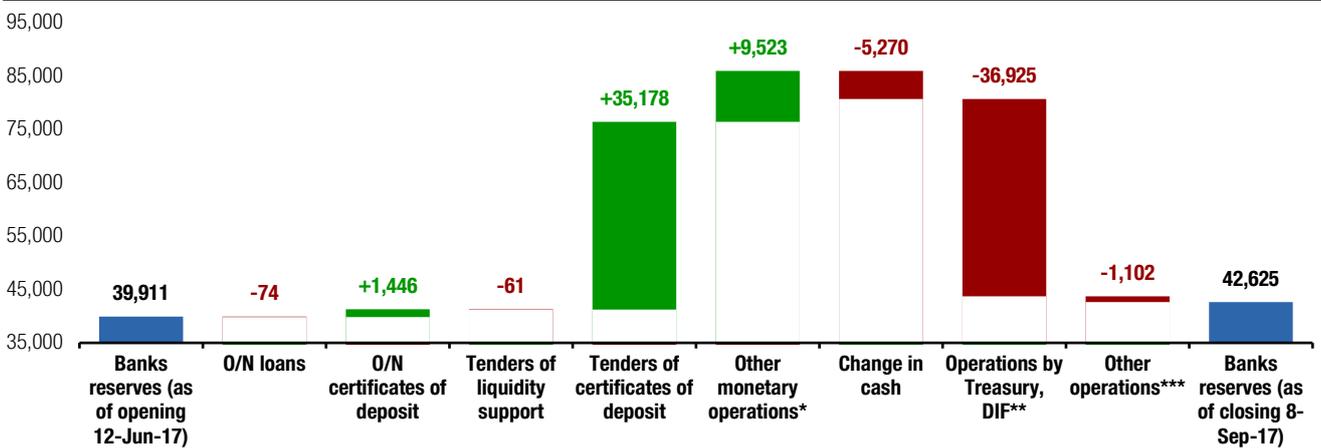
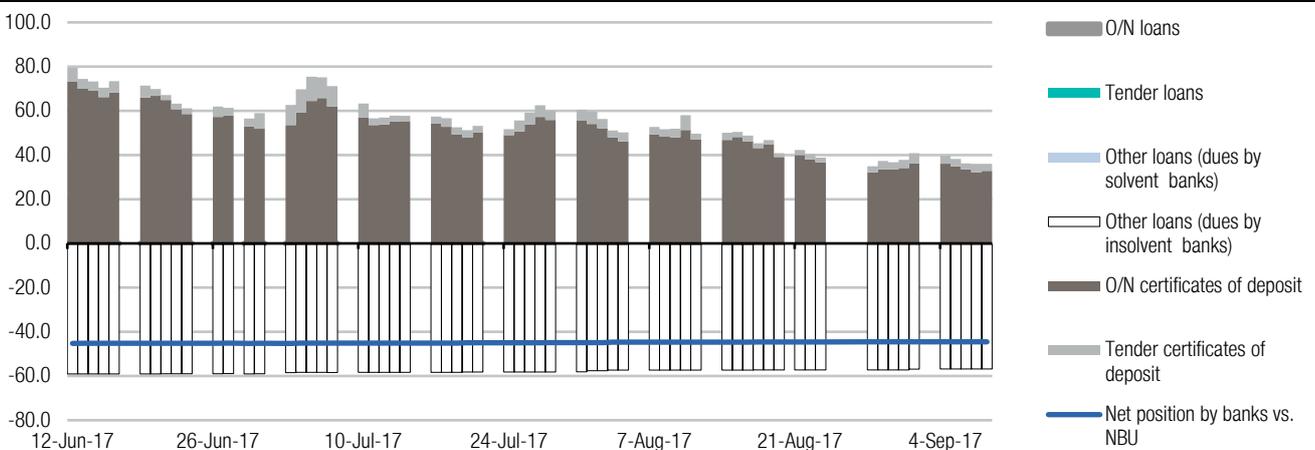


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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