

Daily Insight

Banks prepare for decline in liquidity

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Banks prepare for decline in liquidity 2

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MoF borrows funds in US dollars 3

At yesterday's auction, the MoF borrowed nearly half of the EUR600m not received from the EU this year. The auction also set interest rates at levels which will help investors decide on bids for next week's auction. Out of the three local currency bonds offered yesterday, the MoF accepted the sole bid for UAH510m (par value) at 15.3%, down 20bp from last week, and received UAH443.61m of funds, a very large amount in comparison to others received over the recent months.

WEDNESDAY, 14 DECEMBER 2016

Ukraine's hryvnia exchange rate per US dollar (three months through 13 December 2016)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 13 December 2016)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	-800bp
Overnight rate (interbank)	13.20	-10bp	-440bp
Banks reserves (UAHm)	47,638	+0.25	+24.17
Deposit certificates* (UAHm)	34,442	-11.76	-64.99
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.1525	-0.01	+8.84
Total trade volume (US\$m)	N/A		
UAH index PCI-based	99.474	+0.01	+1.21
UAH index PPI-based	131.351	+0.01	-0.33
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	720bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,271.72	+0.65	+11.14
MSCI EM	877.20	+0.57	+10.46
US dollar index (DXY)	101.070	+0.04	+2.47
EUR / USD	1.0626	-0.08	-2.17
Crude oil WTI (US\$/bbl)	52.98	+0.28	+43.03
Crude oil BRENT (US\$/bbl)	55.72	+0.05	+55.86
CRB, commodities index	193.46	+0.06	+9.83
Gold (US\$/ounce)	1,158.45	-0.33	+9.14

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Banks prepare for decline in liquidity

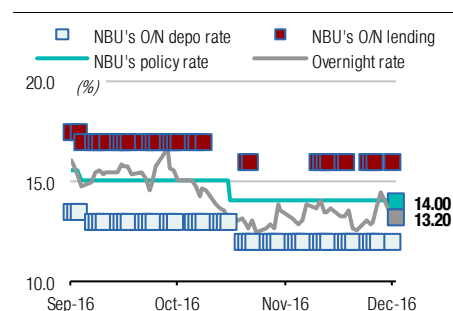
Over the last three business days, liquidity increased significantly above UAH82bn. However, as it is mostly concentrated at banks' accounts, this usually indicates that it will fall due to significant withdrawals of local budget funds deposited in banking sector during the year

Banking sector liquidity was up UAH0.90bn to UAH82.08bn with a significant fund reallocation. Total CDs outstanding fell UAH2.0bn to UAH34.44, while banks' correspondent accounts with the NBU rose UAH2.90bn to UAH47.64bn, the largest amount since January 2016.

Investment implications: Banks appeared to be preparing for large local budget fund withdrawals to meet year-end payments. Moreover, month-end tax payments begin next week as well.

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Interest rates in the banks' reserves market (three months through 13 December 2016)



Source: Bloomberg, ICU.

Key indicators (as of 13 December 2016)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.00	+0bp	+0bp	+0bp	-800bp
Overnight	13.20	-10bp	+40bp	-30bp	-440bp
KYIV PRIME RATES (%)					
Overnight	13.50	+0bp	+17bp	+17bp	-556bp
1 week	14.50	+0bp	+0bp	-17bp	-550bp
1 month	16.33	+0bp	+0bp	-17bp	-592bp
2 months	18.00	+0bp	+0bp	-17bp	-550bp
3 months	18.17	+0bp	+0bp	-16bp	-558bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	47,638	+0.25	+20.08	+21.64	+24.17
DepCerts ³	34,442	-11.76	-26.59	-29.66	-64.99
Total	82,080	-4.79	-3.72	-5.24	-37.61
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	356,146	+0.00	-0.84	-1.90	-6.23
Banks	157,442	+0.54	-0.12	+1.11	+93.01
Residents	14,037	+0.58	+2.21	+1.56	-33.15
Non-res ⁴	9,009	+0.98	+0.15	-16.40	-59.61
Total	536,635	+0.19	-0.53	-1.24	+6.33
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	N/A	N/A	N/A	N/A	N/A
6 months	N/A	N/A	N/A	N/A	N/A
9 months	N/A	N/A	N/A	N/A	N/A
1 year	N/A	N/A	N/A	N/A	N/A
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	720	+0bp	+0bp	+87bp	+0bp

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

MoF borrows funds in US dollars

At yesterday's auction, the MoF borrowed nearly half of the EUR600m not received from the EU this year. The auction also set interest rates at levels which will help investors decide on bids for next week's auction. Out of the three local currency bonds offered yesterday, the MoF accepted the sole bid for UAH510m (par value) at 15.3%, down 20bp from last week, and received UAH443.61m of funds, a very large amount in comparison to others received over the recent months.

As expected, the FX-denominated bonds received most of yesterday's demand of US\$337m in over 30 bids for the various maturities. While submitted bids were mostly below levels accepted in September, there were several optimistic bids up to 6.95%. Of the 31 bids for USD-denominated bonds, the MoF rejected ten on the basis of high interest rates. It sold US\$320.5m in bonds to receive US\$323.89m in proceeds. Accepted bids were above the range of 5.99-6.19% at the bottom of demand, respectively for different maturities, while the higher end of accepted bids were at 6.20-6.30%. This enables the MoF to keep rates for longer maturities scheduled for next week's offering to stay below the cut-off rate set in September.

Investment implications: Considering the results of this auction, the MoF could sell around US\$200m of bonds or more next week, but accepted interest rates could be no higher than 6.35-6.40%. Only significantly higher volume bids would provide incentive for the MoF to accept rates above the cut-off level.

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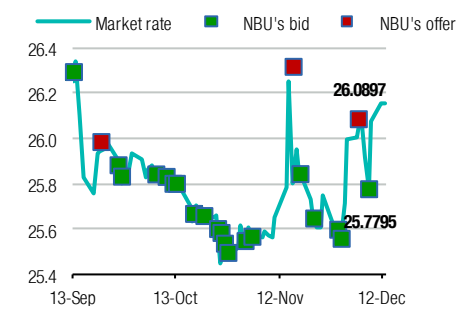
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 13 грудня 2016)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.1525	-0.01	+0.14	+1.96	+8.84
USD ¹	101.070	+0.04	+0.58	+2.03	+2.47
EUR	1.0626	-0.08	-0.86	-2.11	-2.17
JPY	115.1900	+0.15	+1.03	+8.01	-4.18
GBP ²	1.2658	-0.17	-0.16	+0.49	-14.10
CNY	6.9023	-0.07	+0.30	+1.33	+6.29
RUB	60.6604	-0.58	-5.01	-7.86	-16.35

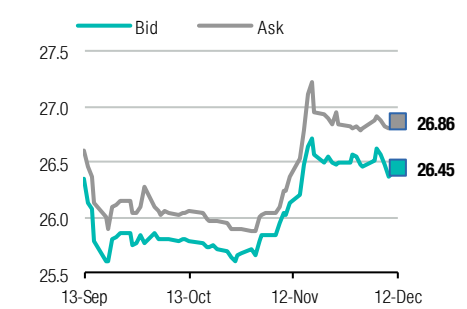
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 13 December 2016)



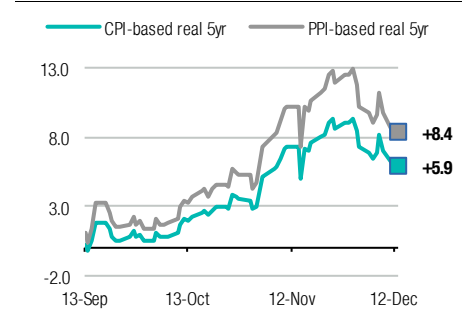
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 13 December 2016)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 13 December 2016)



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

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