

Daily Insight

Liquidity up significantly

Key messages of the today's comments

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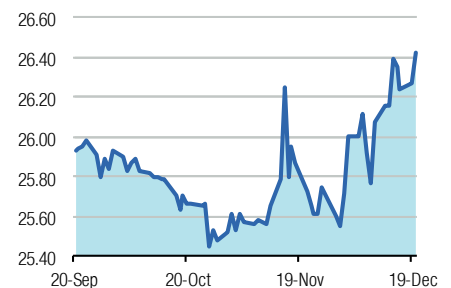
MoF sells only USD-denominated bonds 2

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WEDNESDAY, 21 DECEMBER 2016

Ukraine's hryvnia exchange rate per US dollar (three months through 20 December 2016)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 20 December 2016)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	61,680	+18.73	+60.37
Deposit certificates* (UAHm)	39,934	+7.81	-53.99
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.4250	+0.59	+9.98
Total trade volume (US\$m)	N/A		
UAH index PCI-based	100.023	-0.56	+1.77
UAH index PPI-based	132.076	-0.56	+0.22
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	720bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,270.76	+0.36	+11.10
MSCI EM	851.31	+0.02	+7.20
US dollar index (DXY)	103.290	+0.15	+4.72
EUR / USD	1.0388	-0.13	-4.36
Crude oil WTI (US\$/bbl)	53.30	+2.26	+43.90
Crude oil BRENT (US\$/bbl)	55.35	+0.78	+54.83
CRB, commodities index	190.57	-0.34	+8.19
Gold (US\$/ounce)	1,132.28	-0.49	+6.68

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity up significantly

The NBU supported PrivatBank on Monday, issuing UAH15bn of loans while it also stopped all outflows from the accounts of legal entities. These two factors caused a significant increase in banking sector liquidity indicators published yesterday. However, it should significantly decline today after payments resume.

Banking sector liquidity rose UAH12.62bn to UAH101.61bn yesterday, the largest amount since May 2016, as banks' correspondent accounts with the NBU increased UAH9.73bn to UAH61.68bn and total CDs outstanding rose UAH2.89bn to UAH39.93bn.

Investment implications: *The NBU issued a special loan to PrivatBank through the end of this year to support its ability to fulfill transactions, but it also stopped transactions for one day (which were resumed yesterday in the afternoon), which also had a positive impact on fund accumulations. Also, banks invested more funds in CDs, mostly in ON CDs. Today, liquidity could decline UAH5-10bn after PrivatBank resumes fulfilling transactions. Yesterday, month-end tax payments began and the NBU sold US\$28.4m at the FX auction.*

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MoF sells only USD-denominated bonds

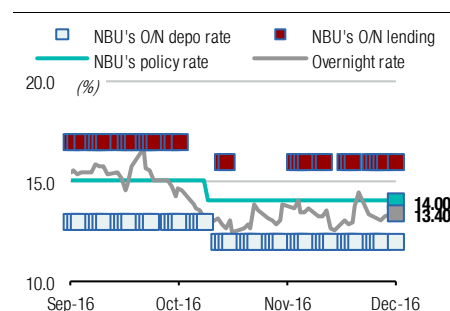
At yesterday's auction, which was crucial for the MoF to replace financing from other sources, demand was low but, as anticipated, concentrated on FX-denominated bonds. Local currency bonds, which saw demand last week, attracted no bids.

The MoF received 14 bids, four for the 22-month bond and 10 for the 2-year bond, satisfying a total of US\$225.18m. Interest rates for submitted bids, probably including non-competitive bids, were 6.35% and 6.40%, as anticipated following rates set last week being acceptable for both sides of the auction.

Investment implications: *As a result of the auction, the MoF received US\$226.54m of proceeds, which did not fully replace funds not received from the EU. Next week, we could see an unscheduled offering of USD-denominated bonds.*

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Interest rates in the banks' reserves market (three months through 20 December 2016)



Source: Bloomberg, ICU.

Key indicators (as of 20 December 2016)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	N/A	N/A	N/A	N/A	N/A
Overnight	N/A	N/A	N/A	N/A	N/A
KYIV PRIME RATES (%)					
Overnight	13.50	+0bp	+0bp	-17bp	-556bp
1 week	14.50	+0bp	+0bp	-17bp	-550bp
1 month	16.33	-17bp	+0bp	-34bp	-592bp
2 months	18.00	+0bp	+0bp	-17bp	-550bp
3 months	18.17	+17bp	+0bp	-16bp	-558bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	61,680	+18.73	+29.48	+51.73	+60.37
DepCerts ³	39,934	+7.81	+15.95	+14.12	-53.99
Total	101,614	+14.18	+23.80	+34.33	-18.88
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	356,146	+0.00	+0.00	-1.52	-6.23
Banks	166,494	+0.15	+5.75	+5.69	+104.1
Residents	14,624	-0.18	+4.18	+7.60	-30.35
Non-res ⁴	6,314	+0.20	-29.92	-38.62	-71.70
Total	543,577	+0.04	+1.29	+0.10	+7.71
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.

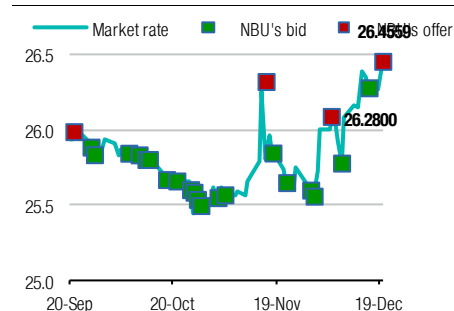
Foreign exchange markets

Key indicators (as of 20 грудня 2016)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.4250	+0.59	+1.04	+2.17	+9.98
USD ¹	103.290	+0.15	+2.20	+2.06	+4.72
EUR	1.0388	-0.13	-2.24	-1.89	-4.36
JPY	117.8600	+0.66	+2.32	+6.27	-1.96
GBP ²	1.2368	-0.22	-2.29	+0.21	-16.07
CNY	6.9527	-0.11	+0.73	+0.96	+7.07
RUB	61.4445	-0.75	+1.29	-5.44	-15.27

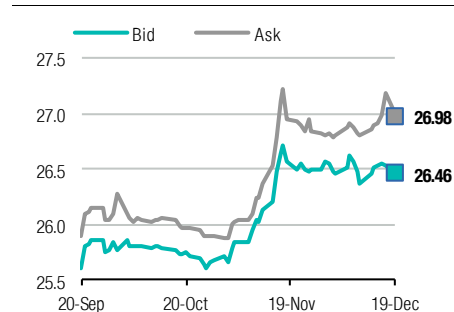
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 20 December 2016)



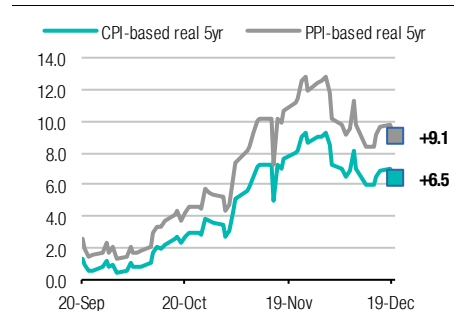
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 20 December 2016)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 20 December 2016)



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

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

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