

Daily Insight

Liquidity could beat record

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Liquidity could beat record 2

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Auction cancelled 2

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WEDNESDAY, 28 DECEMBER 2016

Ukraine's hryvnia exchange rate per US dollar (three months through 27 December 2016)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 27 December 2016)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	52,300	+7.70	+35.98
Deposit certificates* (UAHm)	60,123	+13.28	-30.73
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.6000	+1.06	+10.70
Total trade volume (US\$m)	N/A		
UAH index PCI-based	98.611	-1.10	+0.33
UAH index PPI-based	130.212	-1.10	-1.19
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	720bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,268.88	+0.22	+11.01
MSCI EM	844.66	+0.26	+6.36
US dollar index (DXY)	103.020	+0.05	+4.45
EUR / USD	1.0457	+0.02	-3.73
Crude oil WTI (US\$/bbl)	53.90	+1.66	+45.52
Crude oil BRENT (US\$/bbl)	56.09	+1.69	+56.90
CRB, commodities index	192.75	+1.17	+9.43
Gold (US\$/ounce)	1,138.85	+0.35	+7.29

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity could beat record

Liquidity rose UAH10.79bn to UAH112.42bn yesterday, nearly UAH13bn below the five year record high of 125.25bn set last year on December 31, 2015. During last three days of 2015, liquidity rose UAH14bn, increasing the probability of exceeding that volume this year.

According to the NBU, Monday's Treasury transactions were UAH11.61bn, only UAH0.8bn larger than that day's liquidity increase, as banks' correspondent accounts with the NBU rose UAH3.74bn to UAH52.30bn and total CDs outstanding was up UAH7.05bn to UAH60.12bn.

Investment implications: Liquidity rose significantly. If budget transactions continue on their current path, liquidity could rise above UAH130bn by the end of the year. Treasury inflows were 11.61bn, including UAH6.47bn of VAT refund flows, against revenues of UAH14.28bn. With the net impact of UAH11.61bn, total budget expenditures this Monday exceeded UAH18bn.

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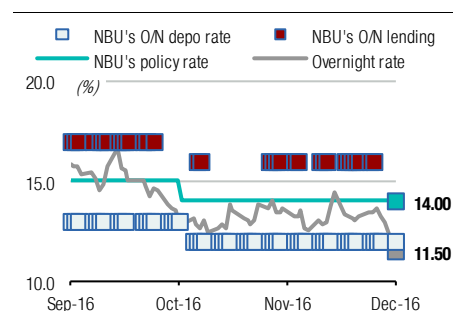
Auction cancelled

Because of insufficient demand and high bid rates, the MoF cancelled the last primary auction of 2016. High banking system liquidity had no impact on rates as the budget had no funding needs.

Of the five offered bonds, only the 2-year bond received and rejected two bids for a paltry total of UAH150m at 16.00%, which was above the 15.65-15.70% bids that were rejected in November. Flush with cash from having raised UAH14.28bn on Monday, the MoF rejected the higher rates to avoid setting a negative benchmark for the beginning of 2017.

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Interest rates in the banks' reserves market (three months through 27 December 2016)



Source: Bloomberg, ICU.

Key indicators (as of 27 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	13.00	+0bp	-50bp	-50bp	-606bp
1 week	14.83	+0bp	+33bp	+16bp	-517bp
1 month	16.50	+0bp	+17bp	-17bp	-575bp
2 months	18.00	+0bp	+0bp	-17bp	-550bp
3 months	18.17	+0bp	+0bp	-16bp	-558bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	52,300	+7.70	-15.21	+21.65	+35.98
DepCerts ³	60,123	+13.28	+50.56	+93.74	-30.73
Total	112,423	+10.61	+10.64	+51.87	-10.25
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	356,146	+0.00	+0.00	-1.25	-6.23
Banks	171,325	+0.21	+2.90	+10.00	+110.0
Residents	15,641	+0.10	+6.96	+12.79	-25.51
Non-res ⁴	6,295	+0.11	-0.30	-37.74	-71.78
Total	549,406	+0.07	+1.07	+1.67	+8.86
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.

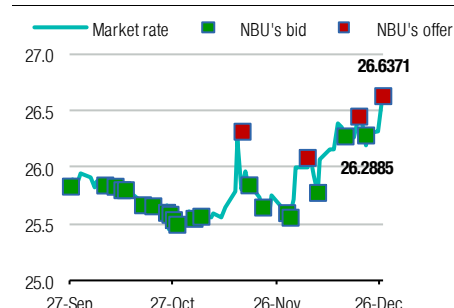
Foreign exchange markets

Key indicators (as of 27 грудня 2016)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.6000	+1.06	+0.66	+3.30	+10.70
USD ¹	103.020	+0.05	-0.26	+1.51	+4.45
EUR	1.0457	+0.02	+0.66	-1.25	-3.73
JPY	117.4300	+0.28	-0.36	+3.72	-2.32
GBP ²	1.2271	-0.09	-0.78	-1.65	-16.73
CNY	6.9520	+0.04	-0.01	+0.48	+7.06
RUB	60.6550	-0.53	-1.28	-6.44	-16.36

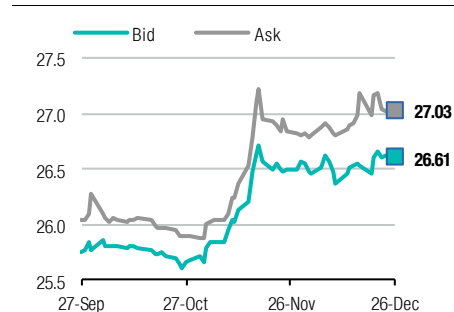
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 27 December 2016)



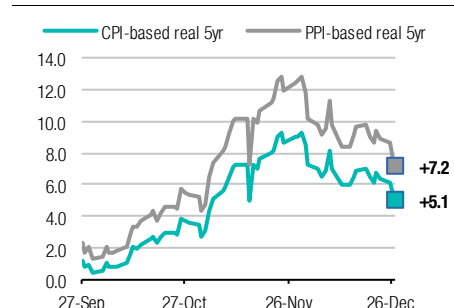
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 27 December 2016)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 27 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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