

Daily Insight

Turkish lira down significantly in 2017

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Following Tuesday's cash flows and CD auction, the structure of liquidity changed significantly while total liquidity remained nearly unchanged. This should be temporary.

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NBU sold \$51m at auction 3

On January 10, following its announcement to auction up to \$100m, the NBU sold \$51m from total demand of \$57.3m. The currency exchange rate ranged from a high of 27.21 to a low of 21.1 UAH/USD.

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THURSDAY, 12 JANUARY 2017

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



Source: Bloomberg.

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

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.30	-20bp	+170bp
Banks reserves (UAHm)	49,547	+4.79	+4.40
Deposit certificates* (UAHm)	58,672	-23.12	-27.53
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.2500	+0.55	+0.55
Total trade volume (US\$m)	180.60	+9.56	+6.48
UAH index PCI-based	95.918	-0.60	-0.76
UAH index PPI-based	126.655	-0.60	-0.76
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	653bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,275.32	+0.28	+1.63
MSCI EM	886.73	+0.12	+2.84
US dollar index (DXY)	101.780	-0.23	-0.42
EUR / USD	1.0582	+0.27	+0.62
Crude oil WTI (US\$/bbl)	52.25	+2.81	-2.74
Crude oil BRENT (US\$/bbl)	55.10	+2.72	-3.03
CRB, commodities index	192.29	+0.60	-0.11
Gold (US\$/ounce)	1,191.63	+0.33	+3.42

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity reallocation

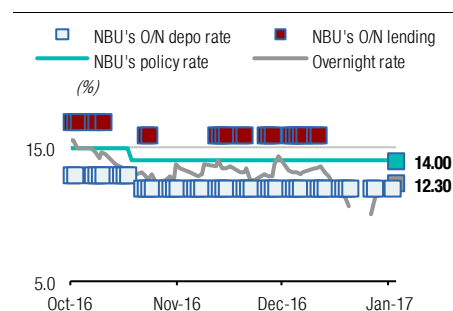
Following Tuesday's cash flows and CD auction, the structure of liquidity changed significantly while total liquidity remained nearly unchanged. This should be temporary.

A significant volume of CDs was reallocated to banks' accounts as CDs outstanding declined UAH12.04bn to UAH58.67bn and banks' correspondent accounts with the NBU rose UAH10.82bn to UAH49.55bn. An additional UAH1.38bn was absorbed by the NBU via an FX auction as the impact of Treasury operations was also negative.

Investment implications: Liquidity remains volatile and under the negative impact of Treasury and NBU operations, causing it to decline. After the FX market stabilizes, the NBU should start to purchase FX into reserves, providing additional liquidity. The Treasury should also resume normal budget expenditures without fund accumulations, causing liquidity to stabilize. The recent reallocation of funds to banks' accounts could be reversed and funds could be invested in new CDs through the end of this week unless they are used for NBU loan redemptions.

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



Source: Bloomberg, ICU.

Key indicators (as of 11 January 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	12.30	-20bp	+230bp	-210bp	+170bp
KYIV PRIME RATES (%)					
Overnight	13.00	+0bp	+0bp	-50bp	+0bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.00	-25bp	-33bp	-50bp	-50bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	+0bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	49,547	+4.79	+28.19	+36.80	+4.40
DepCerts ³	58,672	-23.12	-33.71	+10.55	-27.53
Total	108,219	-10.34	-10.61	+23.20	-13.35
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	381,946	+0.00	+0.00	+7.24	+7.24
Banks	255,133	+0.27	-0.02	+62.95	+48.04
Residents	23,690	-0.31	+0.37	+72.76	+51.10
Non-res ⁴	6,458	+0.52	-0.01	-27.35	+1.68
Total	667,228	+0.10	+0.00	+24.64	+21.20
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	653	+0bp	-72bp	-67bp	+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

NBU sold \$51m at auction

On January 10, following its announcement to auction up to \$100m, the NBU sold \$51m from total demand of \$57.3m. The currency exchange rate ranged from a high of 27.21 to a low of 21.1 UAH/USD.

At the low exchange rate bid, 24.9% was fulfilled.

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Turkish lira down significantly in 2017

The Turkish lira has declined by more than 9% so far in 2017 and reached its bottom at 3.88, marking the worst performing currency in 2017 after depreciating 17% in 2016.

Following the gradual weakening of the currency, consumer price growth reached 8.53% on December and exceeded the central bank's target by more than 3.5%. UniCredit analysts expect inflation to increase to 12% in 2017.

Heavily dependent and influenced by the US Fed's strengthening its monetary policy, Turkey's central bank is under extreme domestic political pressure to hold its interest rates unchanged.

The World Bank forecasts 3% Turkish GDP growth in 2017.

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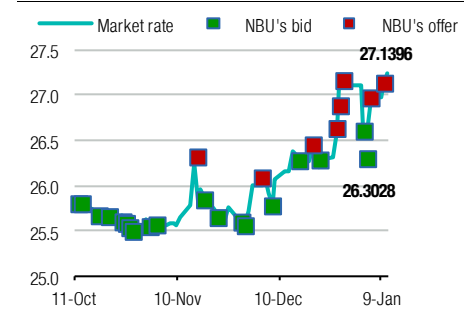
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 11 січня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.2500	+0.55	+2.44	+4.51	+0.55
USD ¹	101.780	-0.23	-0.90	+0.19	-0.42
EUR	1.0582	+0.27	+0.89	+0.20	+0.62
JPY	115.4100	-0.31	-1.57	+0.08	-1.33
GBP ²	1.2213	+0.30	-0.89	-2.86	-1.03
CNY	6.9377	+0.23	+0.05	+0.43	-0.11
RUB	59.7703	-0.64	-1.00	-4.31	-2.87

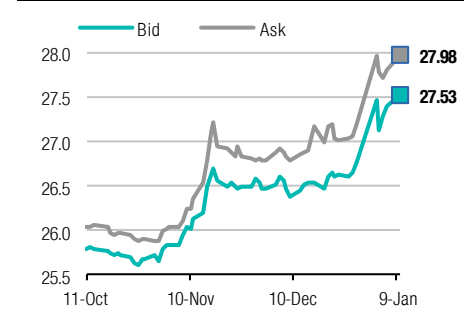
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

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



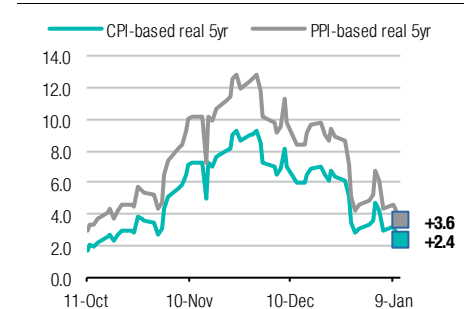
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

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



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 11 January 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)

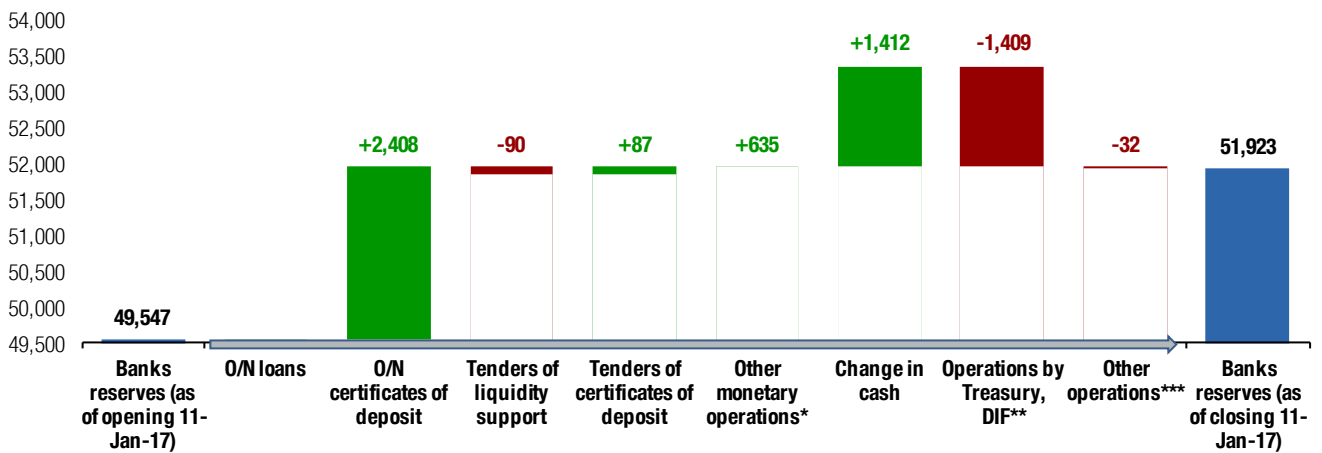
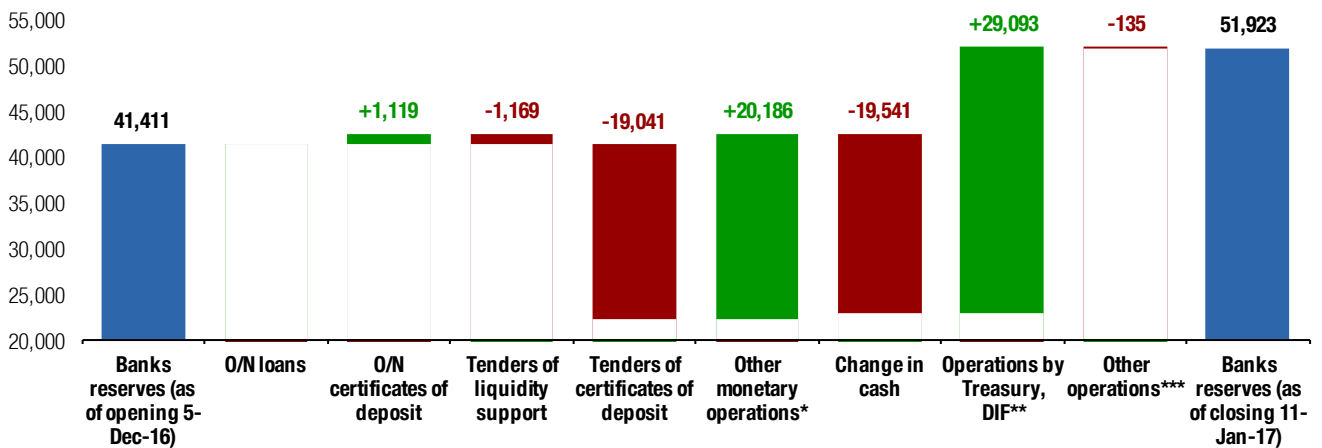
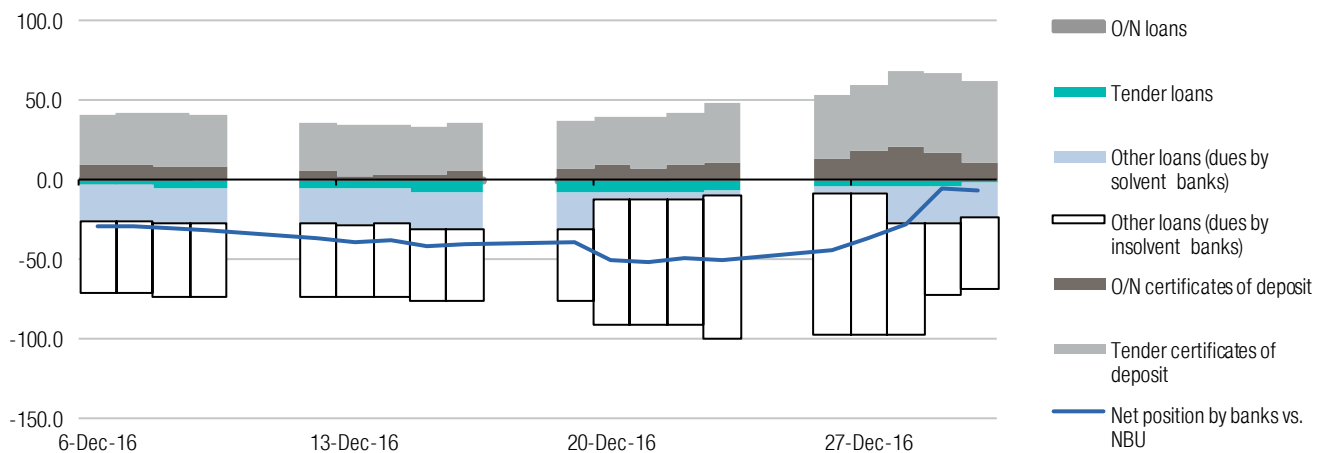


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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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