

# Daily Insight

## Liquidity rose mildly

### Key messages of the today's comments

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##### Liquidity rose mildly ..... 2

Banking sector liquidity recovered a slight UAH1.15bn to UAH104.28bn yesterday, mostly due to Treasury operations. Outflows via the FX auction were covered.

##### Auction results – demand rejected ..... 2

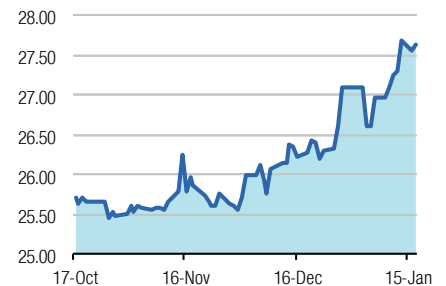
After months of low demand, only one bid was submitted at 16.00% for UAH50m of each bond with three- to nine-month maturities while the 12-month bond rate was at 16.50%. The MoF rejected these bids, as anticipated, in light of the NBU's forecast for inflation to decrease. Actual secondary market quotes are at around 16%. Bids for bonds maturing this year are at 16.0-16.4%, and next year at and above 16.70%.

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### WEDNESDAY, 18 JANUARY 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 17 January 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 17 January 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.50	+30bp	+190bp
Banks reserves (UAHm)	47,073	-0.40	-5.35
Deposit certificates* (UAHm)	57,208	-10.07	-17.34
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	27.6500	+0.36	+2.03
Total trade volume (US\$m)	111.93	-39.22	-34.01
UAH index PCI-based	93.584	-1.10	-3.17
UAH index PPI-based	123.573	-1.10	-3.17

#### UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	597bp	+0bp	-56bp
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#### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,267.89	-0.30	+1.30
MSCI EM	894.87	+0.65	+3.78
US dollar index (DXY)	100.330	-0.84	-1.84
EUR / USD	1.0713	+1.06	+1.86
Crude oil WTI (US\$/bbl)	52.48	+0.00	-2.31
Crude oil BRENT (US\$/bbl)	55.47	-0.70	-2.38
CRB, commodities index	195.14	+0.31	+1.36
Gold (US\$/ounce)	1,217.00	+1.18	+5.62

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity rose mildly

Banking sector liquidity recovered a slight UAH1.15bn to UAH104.28bn yesterday, mostly due to Treasury operations. Outflows via the FX auction were covered.

Banks' correspondent accounts with the NBU slid UAH0.19bn to UAH47.07bn while total CDs outstanding rose UAH1.34bn to UAH57.21bn on additional purchases of 14-day CDs while funds in ON CDs declined slightly.

**Investment implications: Budget revenues match expenditures, according to Monday's data, supporting the liquidity increase. There have been no VAT refunds since the beginning of the year.**

**Taras Kotovych, Kyiv, (044) 220-0120 ext.724**

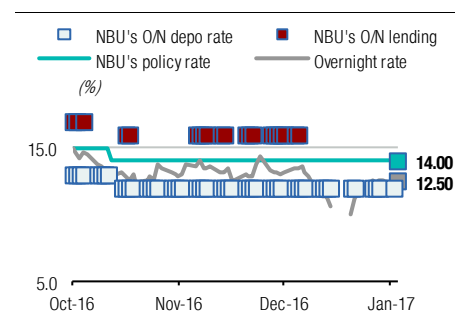
## Auction results – demand rejected

After months of low demand, only one bid was submitted at 16.00% for UAH50m of each bond with three- to nine-month maturities while the 12-month bond rate was at 16.50%. The MoF rejected these bids, as anticipated, in light of the NBU's forecast for inflation to decrease. Actual secondary market quotes are at around 16%. Bids for bonds maturing this year are at 16.0-16.4%, and next year at and above 16.70%.

The next auction should be very important for the primary market as both the MoF and traders will have to determine a meeting ground. Most likely, the MoF will attempt to cut interest rates, but also be very careful with increasing rates as this will give a negative message to the market. On the other hand, market players will be forced to purchase new bonds and additional bonds in portfolios over buying smaller portions of bonds at higher rates. The next auction could move interest rates to levels routinely seen in recent months in the range of 15-16%, providing the state budget with larger proceeds.

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## Interest rates in the banks' reserves market (three months through 17 January 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 17 January 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	12.50	+30bp	+0bp	-70bp	+190bp
<b>KYIV PRIME RATES (%)</b>					
Overnight	13.00	+0bp	+0bp	-50bp	+0bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.08	+0bp	-17bp	-25bp	-42bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	-17bp	+0bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	47,073	-0.40	+21.54	-9.43	-5.35
DepCerts <sup>3</sup>	57,208	-10.07	-27.24	+43.76	-17.34
<b>Total</b>	<b>104,281</b>	<b>-6.67</b>	<b>-11.07</b>	<b>+10.90</b>	<b>-13.08</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	383,346	+0.00	+0.37	+7.64	+7.64
Banks	255,587	+0.06	+0.44	+53.74	+48.31
Residents	23,864	+0.01	+0.43	+62.89	+52.21
Non-res <sup>4</sup>	6,565	+0.16	+2.18	+4.19	+3.36
<b>Total</b>	<b>669,362</b>	<b>+0.03</b>	<b>+0.42</b>	<b>+23.19</b>	<b>+21.59</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
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
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	597	+0bp	-56bp	-123bp	-56bp

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.

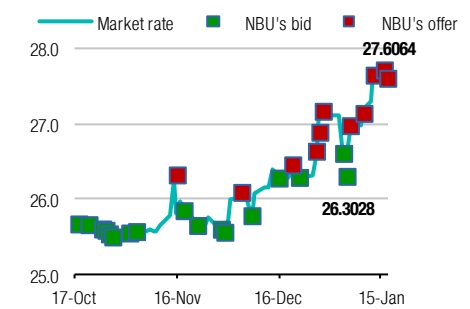
# Foreign exchange markets

## Key indicators (as of 17 січня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	27.6500	+0.36	+2.03	+5.39	+2.03
USD <sup>1</sup>	100.330	-0.84	-1.65	-2.54	-1.84
EUR	1.0713	+1.06	+1.51	+2.51	+1.86
JPY	112.6200	-1.38	-2.72	-4.50	-3.71
GBP <sup>2</sup>	1.2414	+3.05	+1.95	-0.66	+0.60
CNY	6.8450	-0.81	-1.11	-1.67	-1.44
RUB	59.4070	-0.79	-1.25	-4.28	-3.46

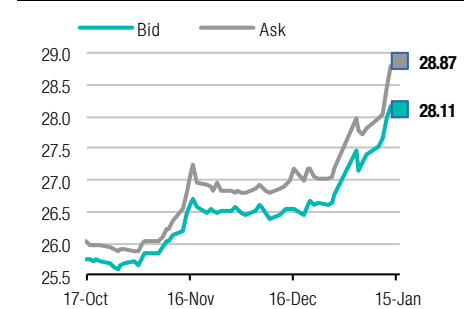
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 17 January 2017)



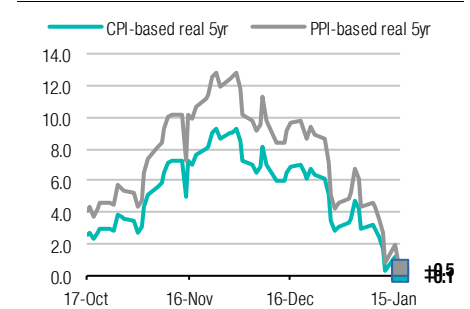
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 17 January 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 17 January 2017)



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](#).

# Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

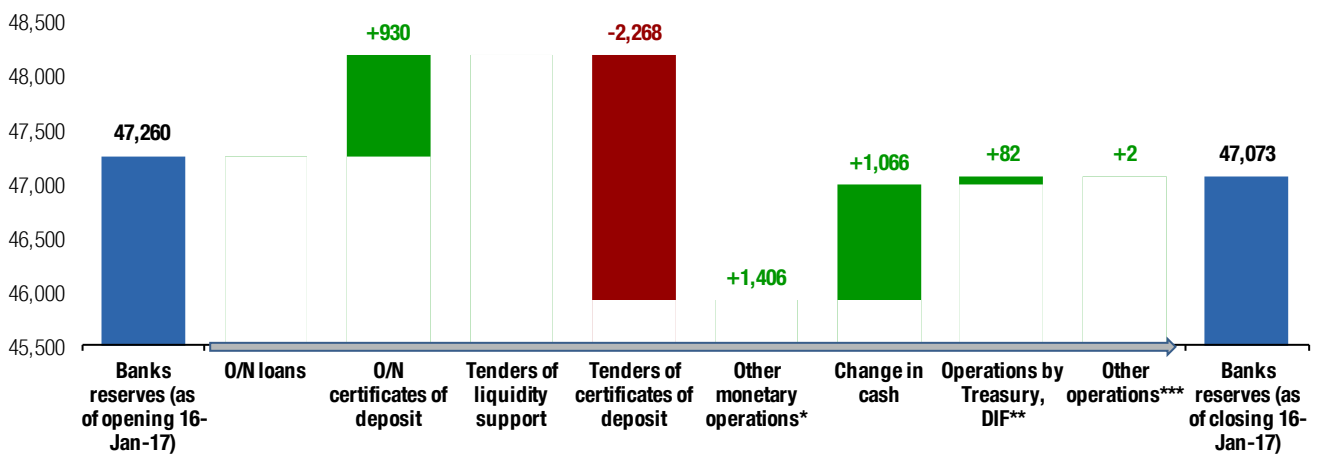
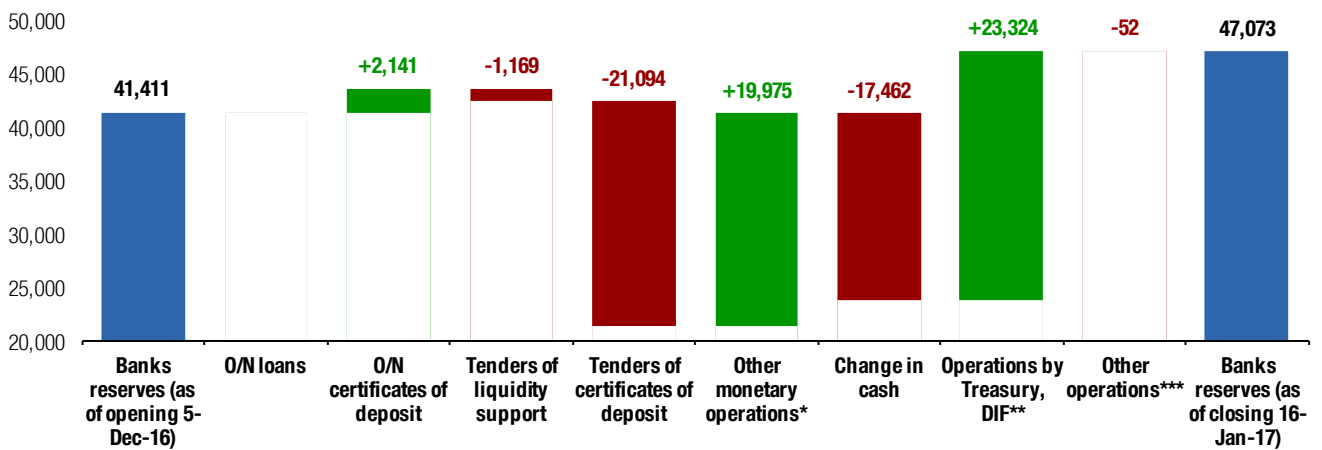
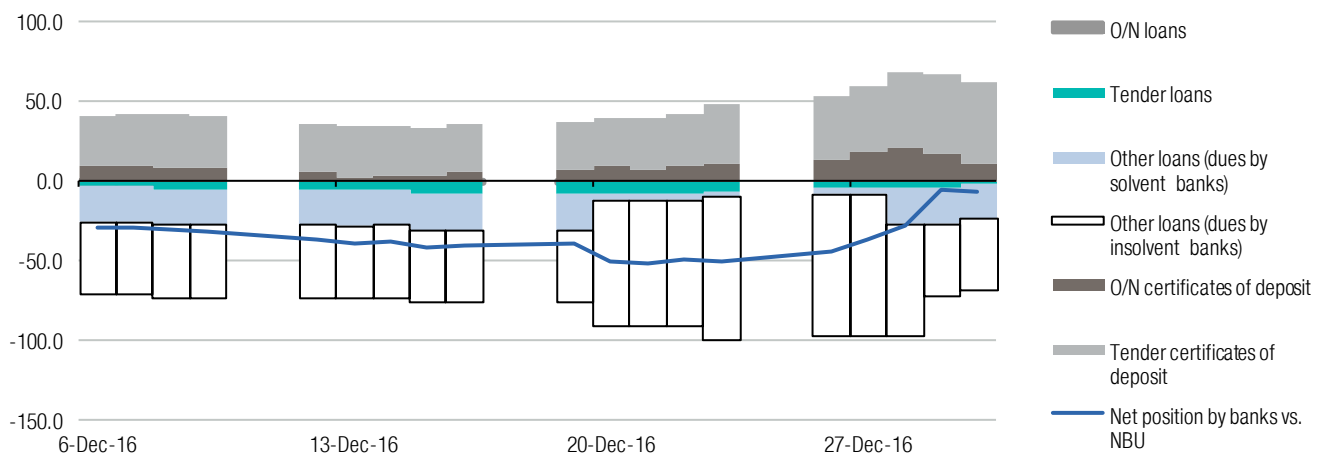


Chart 2. Banks reserves usages over last 30-day period (UAHm)



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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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