

Daily Insight

MoF expects IMF tranche next month

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Liquidity supported by Treasury 2

This Tuesday, non-monetary operations rose UAH2.78bn, including UAH1.38bn of funds from the Treasury, causing banking sector liquidity to increase UAH0.81bn to UAH105.09bn yesterday. There was a significant reallocation of funds from banks' accounts to CDs.

Ministry of Finance expects next tranche from IMF early next month. 2

Finance Minister Alexander Danyliuk expects Ukraine will receive the next tranche from the IMF worth US\$1bn within the Extended Fund Facility in early February. Danyliuk said that Ukraine continues to reform the economy and Ukraine's parliament has approved state budget with a deficit of 3% of gross domestic product, in line with the IMF's guidelines. He also said that the United States plans to provide Ukraine with guarantees worth US\$1bn.

Foreign exchange markets 3

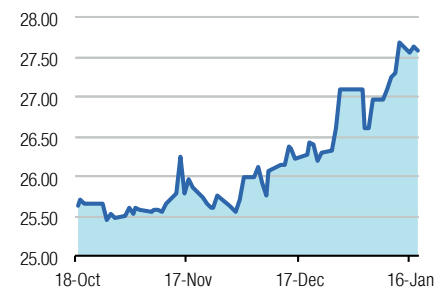
Ukraine's trade deficit in goods at US\$2.3bn in January-November. 3

Trade deficit in goods amounted to US\$2.3bn in January-November 2016 versus a surplus of US\$315m in January-November 2015. The export-import coverage ratio was 0.93 versus 1.01 in the eleven months to November in 2015.

Appendix #1: Domestic liquidity 4

THURSDAY, 19 JANUARY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 18 January 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 18 January 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	13.20	+70bp	+260bp
Banks reserves (UAHm)	45,880	+5.24	-2.91
Deposit certificates* (UAHm)	59,214	-22.48	-26.25
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.5850	-0.24	+1.79
Total trade volume (US\$m)	130.08	+16.21	-23.31
UAH index PCI-based	94.174	+0.63	-2.56
UAH index PPI-based	124.353	+0.63	-2.56
UKRAINE SOVEREIGN EUROBOOND MARKET			
CDS 5yr	597bp	+0bp	-56bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,271.89	+0.18	+1.48
MSCI EM	897.89	+0.34	+4.13
US dollar index (DXY)	100.930	+0.60	-1.25
EUR / USD	1.0630	-0.77	+1.07
Crude oil WTI (US\$/bbl)	51.08	-2.67	-4.91
Crude oil BRENT (US\$/bbl)	53.92	-2.79	-5.10
CRB, commodities index	193.36	-0.91	+0.44
Gold (US\$/ounce)	1,204.15	-1.06	+4.50

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity supported by Treasury

This Tuesday, non-monetary operations rose UAH2.78bn, including UAH1.38bn of funds from the Treasury, causing banking sector liquidity to increase UAH0.81bn to UAH105.09bn yesterday. There was a significant reallocation of funds from banks' accounts to CDs.

Banks' correspondent accounts with the NBU slid UAH1.19bn to UAH45.88bn while total CDs outstanding rose UAH2.01bn, mostly in purchases of 14-day CDs.

Investment implications: The State Treasury increased expenditures, which supported liquidity to rise slightly prior to month-end tax payments. If the Treasury continues to balance revenues and expenditures, banking sector liquidity should remain steady this week and then decline slightly at the end of the month.

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Ministry of Finance expects next tranche from IMF early next month.

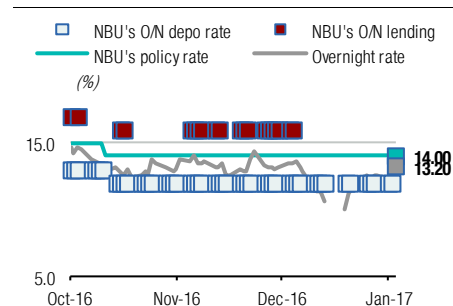
Finance Minister Alexander Danyliuk expects Ukraine will receive the next tranche from the IMF worth US\$1bn within the Extended Fund Facility in early February. Danyliuk said that Ukraine continues to reform the economy and Ukraine's parliament has approved state budget with a deficit of 3% of gross domestic product, in line with the IMF's guidelines. He also said that the United States plans to provide Ukraine with guarantees worth US\$1bn.

In the updated memorandum of cooperation with the IMF, Ukraine pledged to adopt a law that provides for gradually raising the retirement age for citizens and to implement land reform. The third tranche from the IMF worth US\$1bn was transferred to the account of the NBU on September 16, 2016.

Investment implication: In our view, this tranche is set to arrive through the end of February at the latest. This will boost official FX reserves as well as aid the NBU's efforts to calm the domestic FX market, where the UAH slid slightly and has been trading within the 27-28/USD range. In our view, the fiscal stance that is usually employed in 1Q (when the government spends less than it receives in taxes and other revenues) will help the NBU tighten its money market somewhat and eventually raise demand for the UAH.

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Interest rates in the banks' reserves market (three months through 18 January 2017)



Source: Bloomberg, ICU.

Key indicators (as of 18 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	13.20	+70bp	+90bp	+0bp	+260bp
KYIV PRIME RATES (%)					
Overnight	13.00	+0bp	+0bp	-50bp	+0bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.08	+0bp	+8bp	-25bp	-42bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	-17bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	45,880	+5.24	-2.55	-7.10	-2.91
DepCerts ³	59,214	-22.48	-21.76	+28.27	-26.25
Total	105,094	-10.38	-12.97	+7.33	-15.88
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	383,346	+0.00	+0.37	+7.64	+7.64
Banks	255,303	-0.11	+0.07	+53.56	+48.14
Residents	23,850	-0.06	+0.68	+62.79	+52.12
Non-res ⁴	6,542	-0.36	+1.29	+3.82	+2.99
Total	669,040	-0.05	+0.27	+23.13	+21.53
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	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

Ukraine's trade deficit in goods at US\$2.3bn in January-November.

Trade deficit in goods amounted to US\$2.3bn in January-November 2016 versus a surplus of US\$315m in January-November 2015. The export-import coverage ratio was 0.93 versus 1.01 in the eleven months to November in 2015.

Exports of goods dropped 5.9% YoY or US\$2bn to US\$32.7bn. Ukraine exported 37.3% of goods worth US\$12.2bn to the European Union. 21.9% of total exports worth US\$7.2bn were exported to Eurozone countries and 15.4% worth US\$5.4bn to non-Eurozone countries. 62.7% of all goods were exported to other countries of the world. The top exports were metals and metal products, which amounted to US\$7.6bn or 23.3% of total exports, and plants and plant products, which amounted to US\$7.2bn or 21.9%.

Imports of goods rose 1.8% YoY or US\$603m to US\$35bn. 43.7% of Ukraine's total imports worth US\$15.3bn were purchased from the European Union, including 28.4% worth US\$9.7bn from Eurozone countries and 15.3% worth US\$5.4bn from non-Eurozone countries. 56.3% of goods worth US\$19.7bn were imported from other countries of the world. The top imports were mineral commodities worth US\$7.4bn or 21.2% of total imports, machinery and equipment worth US\$7.1bn or 20.2%, and chemical industry products worth US\$5.1bn or 14.4% of overall imports.

Investment implication: This trade data means that domestic demand is recovering along with the entire economy, which added 1.5% YoY in real GDP terms during the whole year 2016. In 2017, the trade deficit should remain unchanged, or at least be contained by, a flexible FX regime that will allow for a weaker UAH and hence lower imports.

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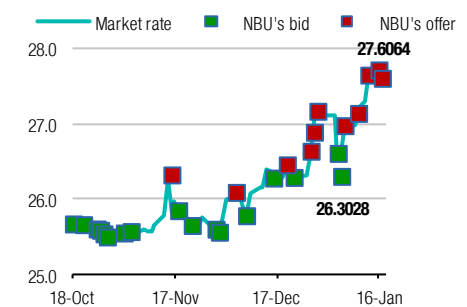
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 18 січня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.5850	-0.24	+1.23	+5.15	+1.79
USD ¹	100.930	+0.60	-0.84	-1.96	-1.25
EUR	1.0630	-0.77	+0.45	+1.71	+1.07
JPY	114.6500	+1.80	-0.66	-2.78	-1.98
GBP ²	1.2261	-1.23	+0.39	-1.88	-0.64
CNY	6.8496	+0.07	-1.27	-1.61	-1.37
RUB	59.5146	+0.18	-0.43	-4.11	-3.29

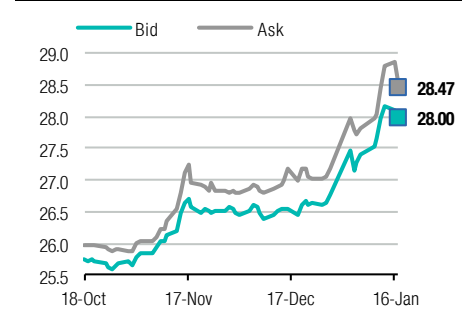
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 18 January 2017)



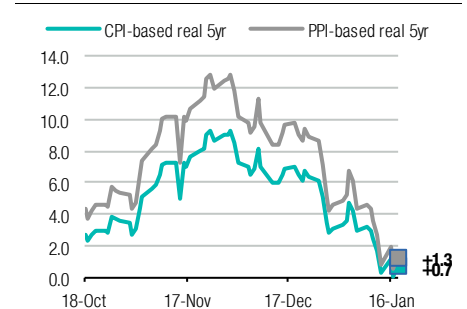
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 18 January 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 18 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)

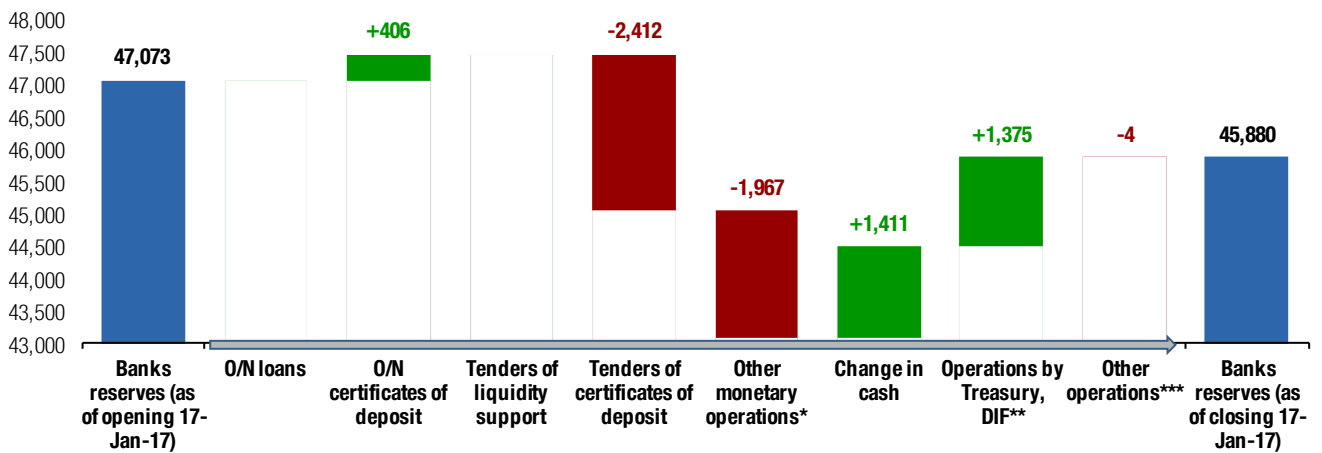
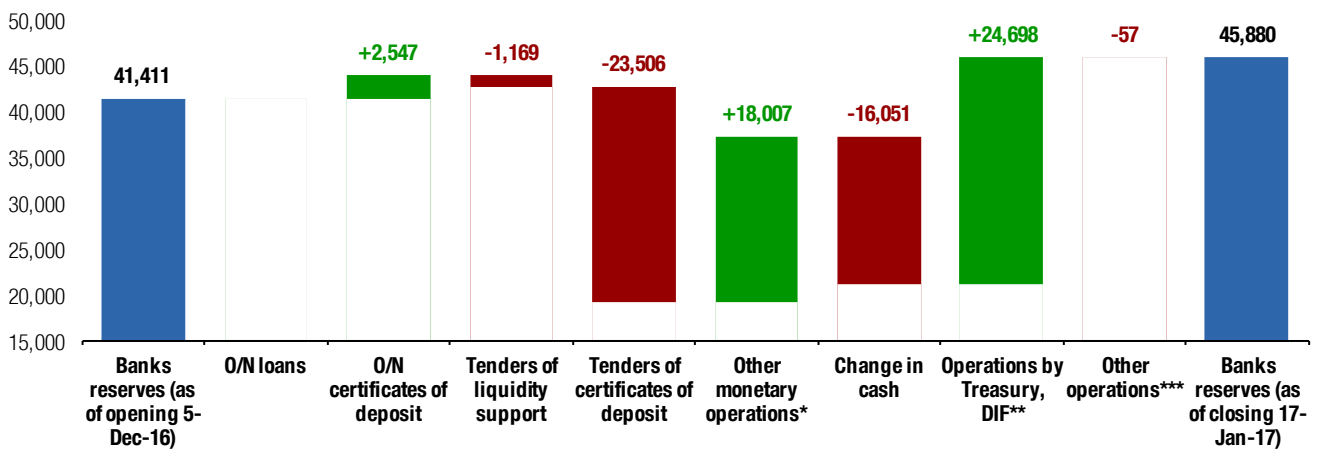
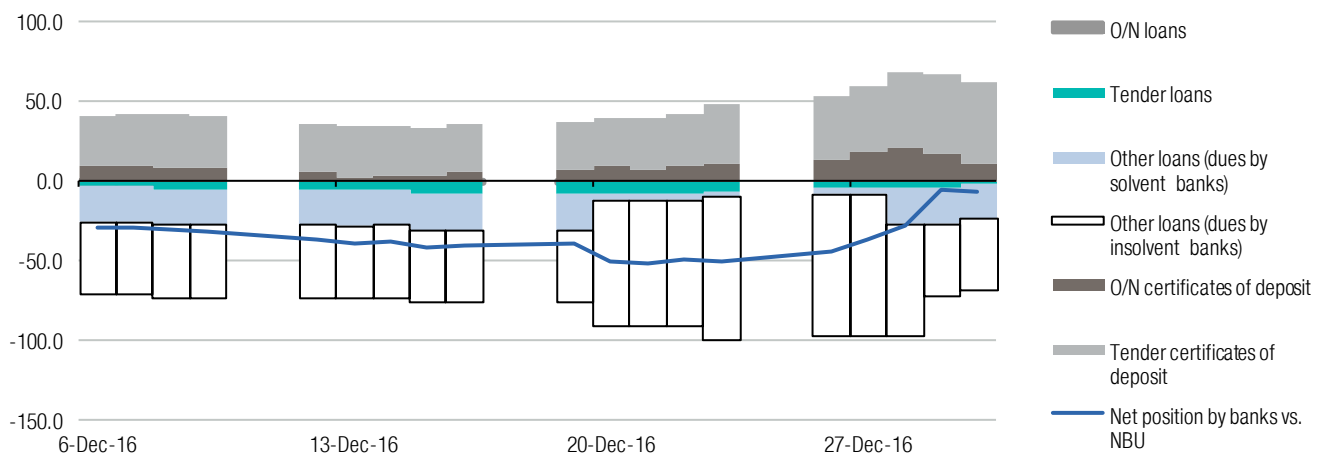


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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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