

Daily Insight

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Banking sector liquidity rose slightly with a reallocation of funds from CDs to banks' accounts, most likely in preparation to outflows to the budget. Banks starting to accumulate funds at accounts at the NBU by decreasing investments in CDs.

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FRIDAY, 20 JANUARY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 19 January 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 19 January 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	48,283	+5.24	-2.91
Deposit certificates* (UAHm)	57,411	-3.04	-7.76
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.5500	-0.13	+1.66
Total trade volume (US\$m)	157.42	+21.02	-7.19
UAH index PCI-based	94.403	+0.24	-2.32
UAH index PPI-based	124.654	+0.24	-2.32
UKRAINE SOVEREIGN EUROBOOND MARKET			
CDS 5yr	597bp	+0bp	-56bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,263.69	-0.36	+1.11
MSCI EM	894.52	-0.38	+3.74
US dollar index (DXY)	101.150	+0.22	-1.04
EUR / USD	1.0664	+0.32	+1.40
Crude oil WTI (US\$/bbl)	51.37	+0.57	-4.37
Crude oil BRENT (US\$/bbl)	54.16	+0.45	-4.68
CRB, commodities index	192.96	-0.20	+0.24
Gold (US\$/ounce)	1,204.82	+0.06	+4.56

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity reallocated

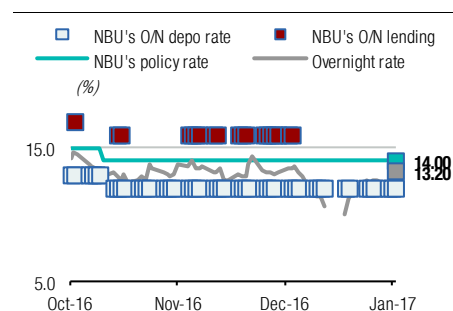
Banking sector liquidity rose slightly with a reallocation of funds from CDs to banks' accounts, most likely in preparation to outflows to the budget. Banks starting to accumulate funds at accounts at the NBU by decreasing investments in CDs.

Banks' correspondent accounts with the NBU rose UAH2.40bn to UAH48.28bn yesterday while total CDs outstanding slid UAH1.80bn to UAH57.41bn, causing banking sector liquidity to increase UAH0.60bn to UAH105.69bn. This increase was supported by the NBU as no FX auction occurred on Wednesday. Moreover, the State Treasury kept its operations deficit at UAH0.11bn.

Investment implications: As banks prepare for month-end tax payments which could start as soon as today, they are accumulating funds at correspondent accounts with the NBU to meet client demands. As budget transactions should rise significantly, if the Treasury does not offset expenditures, liquidity could decline, albeit not significantly.

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Interest rates in the banks' reserves market (three months through 19 January 2017)



Source: Bloomberg, ICU.

Key indicators (as of 19 January 2017)

	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	+0bp	-50bp	+0bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.08	+0bp	+8bp	-42bp	-42bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	+0bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	48,283	+5.24	-7.01	-7.06	-2.91
DepCerts ³	57,411	-3.04	+2.20	+55.00	-7.76
Total	105,694	+0.57	-2.23	+18.77	-5.61
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	383,346	+0.00	+0.37	+7.64	+7.64
Banks	254,755	-0.21	-0.06	+53.23	+47.82
Residents	23,881	+0.13	+0.86	+63.00	+52.31
Non-res ⁴	6,514	-0.42	+1.09	+3.38	+2.56
Total	668,496	-0.08	+0.23	+23.03	+21.43
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

Centrenergopro may completely abandon anthracite use for gas coal

Refurbishment of the state-owned power generation company Centrenergopro to completely substitute anthracite with gas coal will reduce the dependence of Ukraine's coal-burning power plants from anthracite, which is imported, or supplied from a temporarily uncontrolled territories of Ukraine, by 30-35% or 4-4.3mtpa.

State-owned power generation company Centrenergopro may completely switch to gas coal, according to Minister Igor Nasalik on Wednesday. The government plans to convert all the thermal power plants (TPPs) of Centrenergopro, currently working on anthracite, to the coal of the gas group (grade G). Such a conversion is planned to be financed by loans from China. The minister added that the respective refurbishment of two blocks at Centrenergopro's Zmiiv TPP (Kharkiv region) is at the final stage: block No.2 is planned to be launched on March 20, and block No.5 will go online the end of May. The conversion of one block costs approximately UAH110-120m. Commentary: Currently two TPPs of Centrenergopro, Trypillia and Zmiiv, consume anthracite, which Ukraine has to either import or purchase in temporarily uncontrolled territories of Eastern Ukraine. Anthracite-to-gas-coal conversion at Centrenergopro will reduce the dependence of Ukraine's coal-burning power plants from anthracite by 30-35% or 4-4.3mtpa.

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

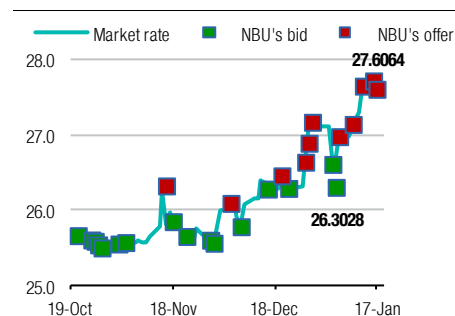
Key indicators (as of 19 січня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.5500	-0.13	+0.93	+4.87	+1.66
USD ¹	101.150	+0.22	-0.20	-1.93	-1.04
EUR	1.0664	+0.32	+0.48	+2.52	+1.40
JPY	114.8600	+0.18	+0.12	-1.90	-1.80
GBP ²	1.2342	+0.66	+1.48	-0.43	+0.02
CNY	6.8720	+0.33	-0.32	-1.27	-1.05
RUB	59.8877	+0.63	+0.84	-3.26	-2.68

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

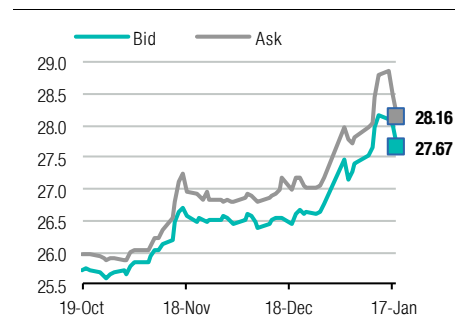
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 19 January 2017)



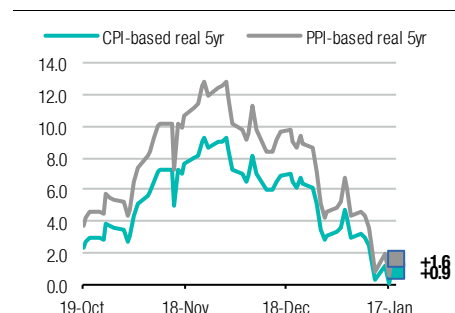
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 19 January 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 19 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)

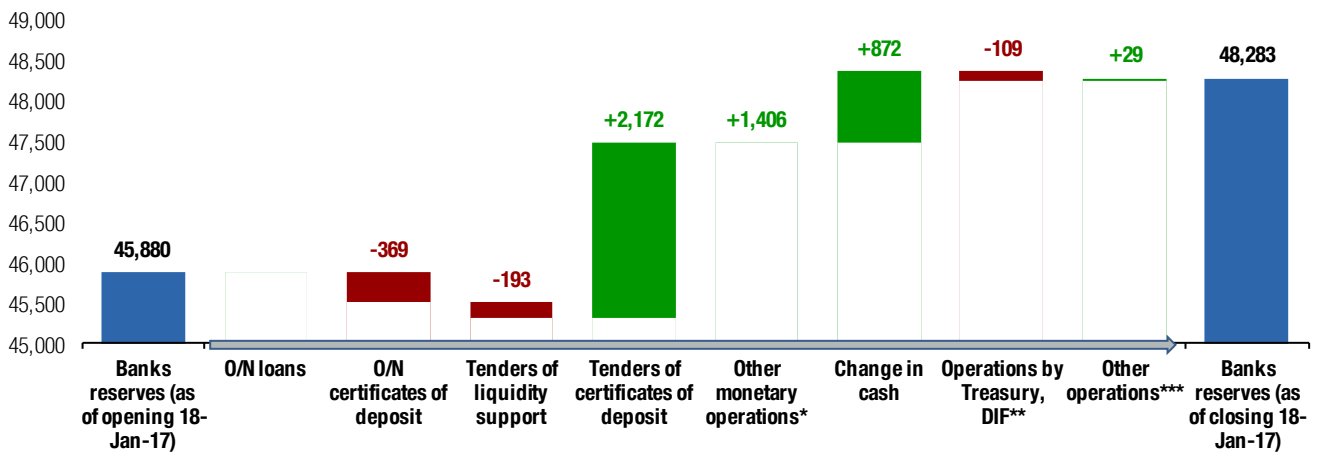
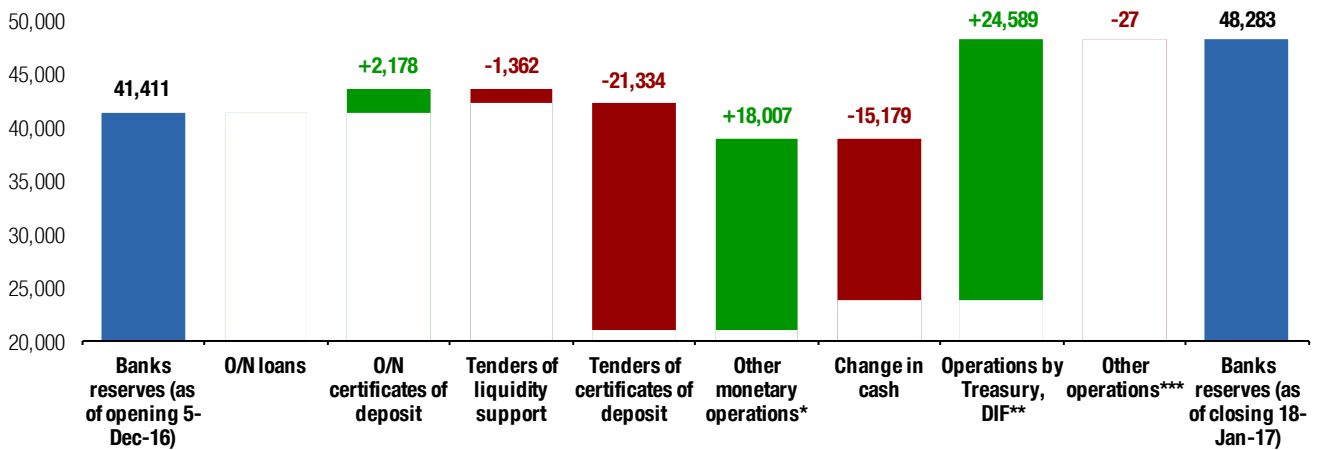
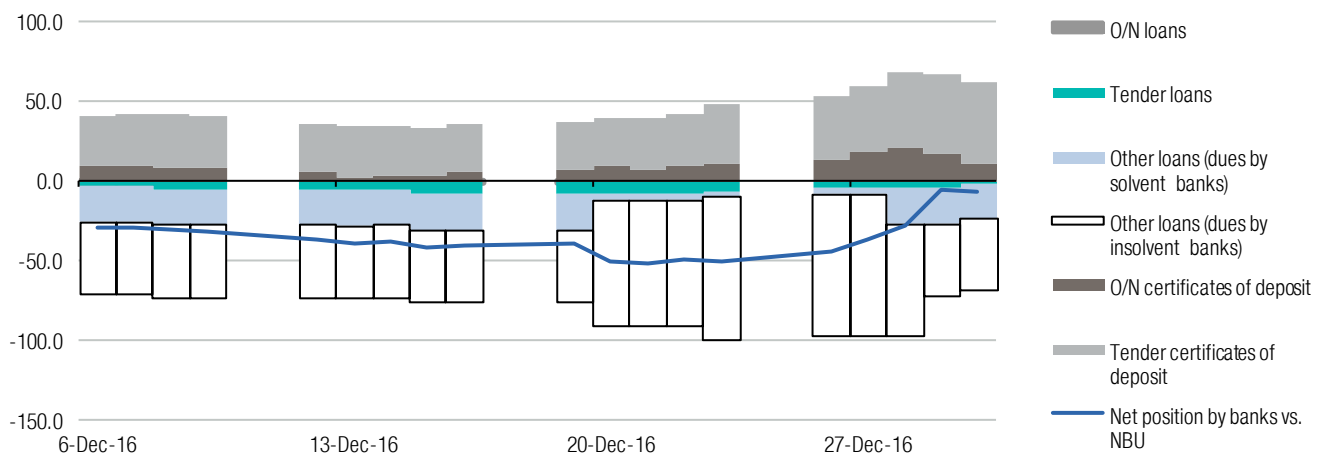


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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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