

Daily Insight

Liquidity down slightly

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Liquidity down slightly 2

According to Treasury data collected this Monday, UAH7.9bn of revenues were collected to the budget, which is above the amounts seen in recent days. This had little impact on liquidity as budget expenditures were quite large. The net impact of Treasury cash flows amounted to UAH2.14bn, but the final negative impact of non-monetary operations was UAH1.35bn as outflows to the budget were partially offset by an increase in cash.

Auction results: Only 12-month bonds sold 2

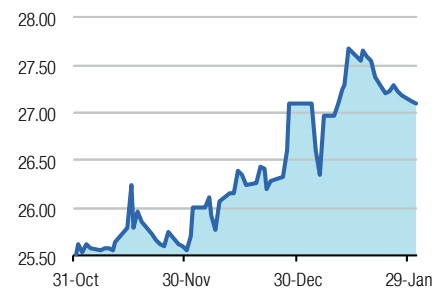
Despite the MoF offering very short-term bonds that mature this March, possibly as a substitute for CDs, demand was seen only for 12-month bonds. Only one bid was submitted for this auction, namely for UAH34.4m (par value) at the same 15.30% interest rate as 12-month bonds sold at the debut auction this year. This demand was fully accepted for budget proceeds of UAH30.08bn.

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WEDNESDAY, 1 FEBRUARY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 31 January 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 31 January 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.00	+0bp	+140bp
Banks reserves (UAHm)	45,567	-1.66	-8.37
Deposit certificates* (UAHm)	30,680	-6.88	-50.71
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.0900	-0.11	-0.04
Total trade volume (US\$m)	258.11	+56.51	+52.18
UAH index PCI-based	102.451	-0.28	-1.35
UAH index PPI-based	162.040	-0.28	-1.35
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	621bp	+25bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,278.87	-0.09	+1.79
MSCI EM	909.23	-0.42	+5.45
US dollar index (DXY)	99.512	-0.91	-2.64
EUR / USD	1.0798	+0.96	+2.67
Crude oil WTI (US\$/bbl)	52.81	+0.34	-1.69
Crude oil BRENT (US\$/bbl)	55.58	+0.63	-2.18
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,210.65	+1.26	+5.07

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity down slightly

According to Treasury data collected this Monday, UAH7.9bn of revenues were collected to the budget, which is above the amounts seen in recent days. This had little impact on liquidity as budget expenditures were quite large. The net impact of Treasury cash flows amounted to UAH2.14bn, but the final negative impact of non-monetary operations was UAH1.35bn as outflows to the budget were partially offset by an increase in cash.

Banks' correspondent accounts with the NBU declined UAH0.77bn to UAH45.57bn, while total CDs outstanding rose a mere UAH0.33bn to UAH57.79bn, causing banking sector liquidity to slide UAH0.44bn to UAH104.35bn.

Investment implications: *The negative impact of non-monetary operations was significantly compensated by the NBU via the FX auction, providing UAH0.91bn of funds into the banking system. As the NBU compensated much of the outflows, the liquidity decline was the same UAH0.44bn as what was not offset to the budget. As this Monday was the last day of month-end tax payments, liquidity could increase today.*

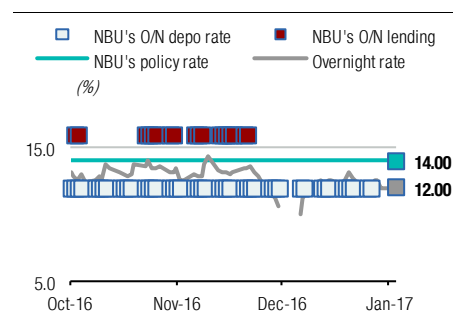
Auction results: Only 12-month bonds sold

Despite the MoF offering very short-term bonds that mature this March, possibly as a substitute for CDs, demand was seen only for 12-month bonds. Only one bid was submitted for this auction, namely for UAH34.4m (par value) at the same 15.30% interest rate as 12-month bonds sold at the debut auction this year. This demand was fully accepted for budget proceeds of UAH30.08bn.

Low demand was anticipated as the majority of debt repayments in January were to the NBU while the market portion was refinanced last week with 3-year bonds. We do not anticipate large repayments to the market this month as demand will be low and concentrated on 2-year and 3-year bonds. Next week should see demand similar to yesterday's auction as only zero-coupon bonds will be offered.

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Interest rates in the banks' reserves market (three months through 31 January 2017)



Source: Bloomberg, ICU.

Key indicators (as of 31 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	12.00	+0bp	-10bp	+140bp	+140bp
KYIV PRIME RATES (%)					
Overnight	13.00	+0bp	+0bp	+0bp	+0bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.08	+8bp	+0bp	-42bp	-42bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	+0bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	45,567	-1.66	-11.27	-8.37	-8.37
DepCerts ³	30,680	-6.88	-45.30	-50.71	-50.71
Total	76,247	-3.83	-29.04	-31.90	-31.90
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	383,344	+0.00	+0.00	+7.64	+7.64
Banks	253,933	-0.11	-0.11	+47.35	+47.35
Residents	23,990	-0.09	+0.93	+53.01	+53.01
Non-res ⁴	6,306	-0.23	-0.67	-0.71	-0.71
Total	667,572	-0.05	-0.02	+21.26	+21.26
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	621	+25bp	+25bp	+0bp	+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.

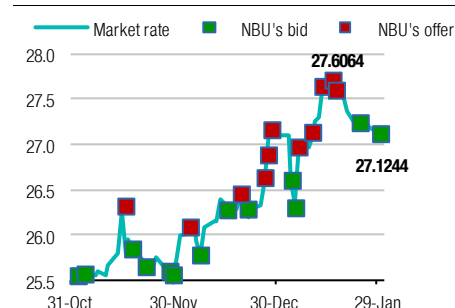
Foreign exchange markets

Key indicators (as of 31 січня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.0900	-0.11	-0.53	-0.04	-0.04
USD ¹	99.512	-0.91	-0.84	-2.64	-2.64
EUR	1.0798	+0.96	+0.62	+2.67	+2.67
JPY	112.8000	-0.85	-0.87	-3.56	-3.56
GBP ²	1.2579	+0.74	+0.47	+1.94	+1.94
CNY	N/A	N/A	N/A	N/A	N/A
RUB	60.1908	+0.47	+1.55	-2.19	-2.19

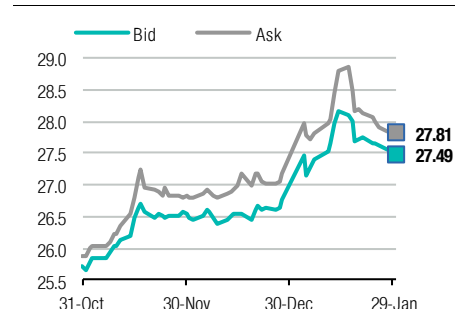
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 31 January 2017)



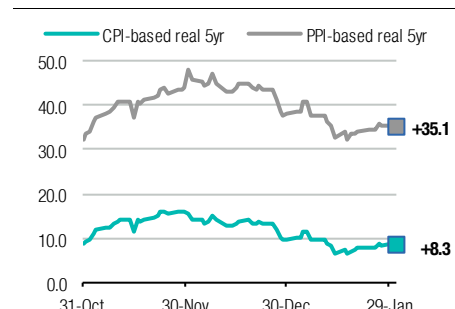
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 31 January 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 31 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)

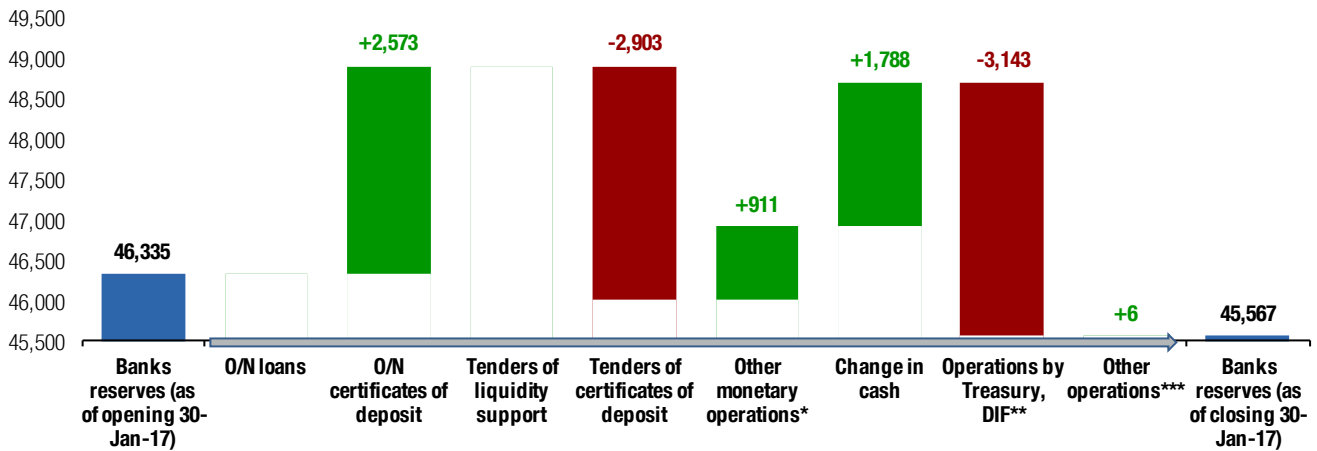
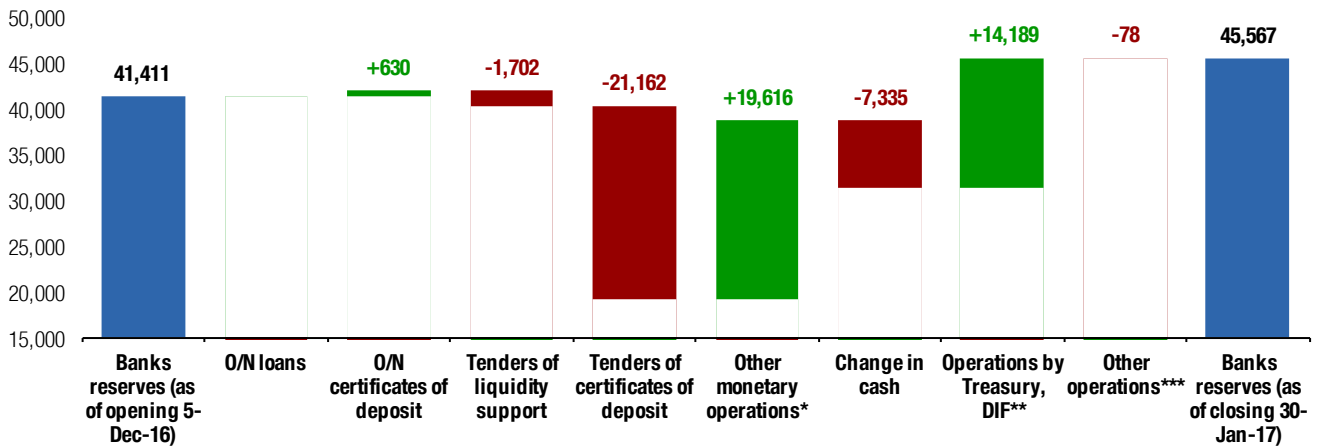
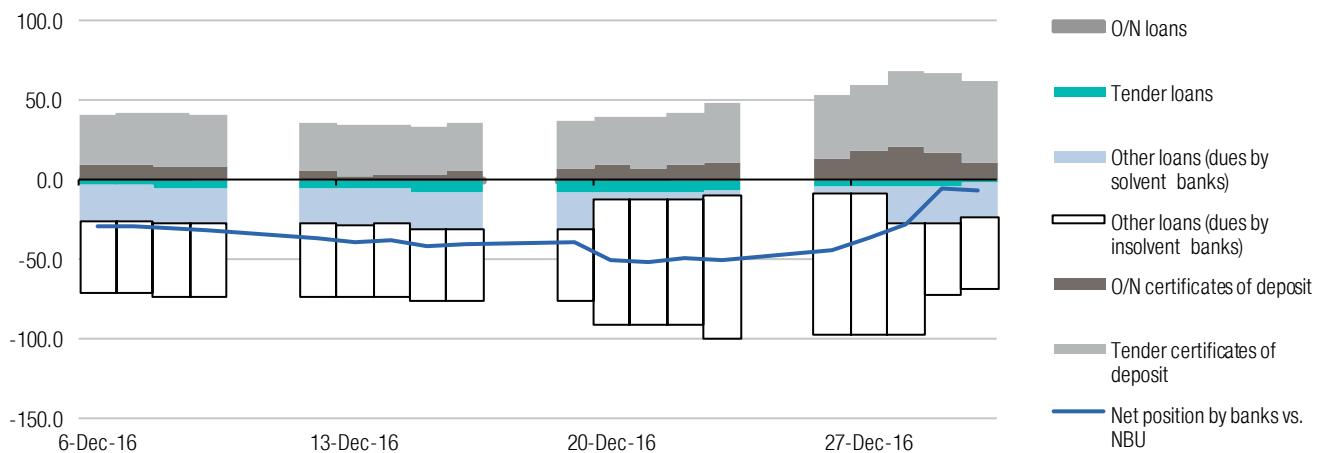


Chart 2. Banks reserves usages over last 30-day period (UAHm)



Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;
 * 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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