

Daily Insight

Liquidity continues to decline

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Liquidity continues to decline 2

Due to significant outflows to the budget which rose last Thursday, total banking sector liquidity fell UAH4.32bn to UAH100.90bn, the lowest level this year. Dyer the State budget collected UAH.73bn last Thursday, the local budget collected an additional UA1.60bn. Outflows were partially offset by the NBU's injection via the FX auction of UAH0.77bn

Primary auction: interest rates could decline further 2

Tomorrow, the MoF will offer only zero-coupon bonds with maturities from three to 11 months. Usually these bonds attract small demand or bids from state-owned banks. The market mostly prefers longer term bonds with 2-year and 3-year maturities.

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MONDAY, 20 FEBRUARY 2017

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



Source: Bloomberg.

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

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	13.00	+20bp	+240bp
Banks reserves (UAHm)	48,606	-6.31	-8.43
Deposit certificates* (UAHm)	0	+0.00	-100.00
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.0350	+0.26	-0.24
Total trade volume (US\$m)	134.15	-24.43	-20.91
UAH index PCI-based	101.705	+0.23	-2.07
UAH index PPI-based	160.861	+0.23	-2.07
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	601bp	-20bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,351.16	+0.17	+5.02
MSCI EM	939.03	-0.70	+8.90
US dollar index (DXY)	100.950	+0.51	-1.23
EUR / USD	1.0616	-0.54	+0.94
Crude oil WTI (US\$/bbl)	53.40	+0.07	-0.60
Crude oil BRENT (US\$/bbl)	55.81	+0.29	-1.78
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,234.95	-0.33	+7.18

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to decline

Due to significant outflows to the budget which rose last Thursday, total banking sector liquidity fell UAH4.32bn to UAH100.90bn, the lowest level this year. Dyer the State budget collected UAH.73bn last Thursday, the local budget collected an additional UA1.60bn. Outflows were partially offset by the NBU's injection via the FX auction of UAH0.77bn

Banks' correspondent accounts with the NBU slid a mere UAH0.28bn to UAH48.61bn while total CDs outstanding fell UAH4.04bn to UAH52.30bn.

Investment implications: NBU operations at the FX market just partially offset outflows to the budget. We should continue to see additional outflows as month-end tax payments begin this week. We could see liquidity fall below UAH100bn. Only the NBU's purchase of FX and increase in budget expenditures could support liquidity and stop it from declining further.

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

Primary auction: interest rates could decline further

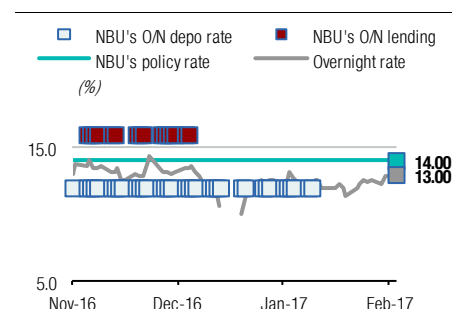
Tomorrow, the MoF will offer only zero-coupon bonds with maturities from three to 11 months. Usually these bonds attract small demand or bids from state-owned banks. The market mostly prefers longer term bonds with 2-year and 3-year maturities.

12-month bonds were last sold in January at 15.30% and 9-month bonds were sold two weeks ago at 15.20%. Shorter term bonds were sold last year. Last week, the MoF rejected bids for zero coupon bonds despite unchanged interest rates.

Investment implications: Tomorrow the MoF will anticipate interest rates down about 10bp as the decline continues from its start last week when the MoF decreased cut-off interest rates by 10-25bp for 2-year and 3-year bonds, respectively. At the same time, demand should come from state-owned banks using funds from local budget deposits.

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



Source: Bloomberg, ICU.

Key indicators (as of 17 February 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	13.00	+20bp	+50bp	+50bp	+240bp
KYIV PRIME RATES (%)					
Overnight	13.00	+0bp	+8bp	+0bp	+0bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.08	+0bp	+0bp	+0bp	-42bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	+0bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	48,606	-6.31	+23.90	-3.25	-8.43
DepCerts ³	0	+0.00	+0.00	-100.0	-100.0
Total	48,606	-6.31	+23.90	-56.33	-59.33
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	382,074	+0.00	-0.33	-0.33	+7.28
Banks	262,285	+0.03	+3.12	+2.62	+52.19
Residents	23,983	+0.29	+0.64	+0.50	+52.97
Non-res ⁴	6,019	-2.09	-2.19	-8.31	-5.23
Total	674,362	+0.00	+1.00	+0.75	+22.50
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	13.95	-324bp	-421bp	-361bp	-846bp
6 months	18.39	-42bp	+14bp	+78bp	-8bp
9 months	18.09	-30bp	+14bp	+64bp	+8bp
1 year	17.16	-24bp	+15bp	+57bp	+17bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	601	-20bp	-20bp	+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.

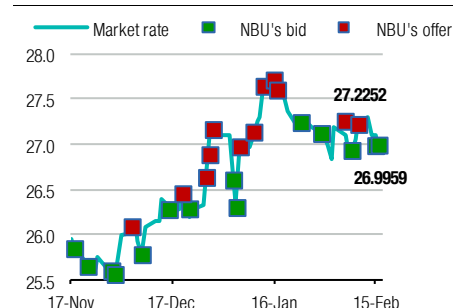
Foreign exchange markets

Key indicators (as of 17 лютого 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.0350	+0.26	-0.72	-2.22	-0.24
USD ¹	100.950	+0.51	+0.15	+0.62	-1.23
EUR	1.0616	-0.54	-0.25	-0.91	+0.94
JPY	112.8400	-0.35	-0.34	+0.20	-3.52
GBP ²	1.2412	-0.62	-0.63	-0.02	+0.58
CNY	6.8665	+0.20	-0.17	+0.31	-1.13
RUB	58.2915	+1.17	-0.03	-1.88	-5.27

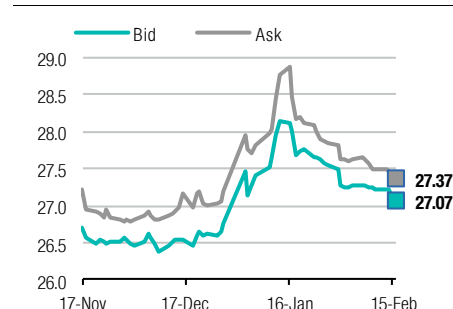
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

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



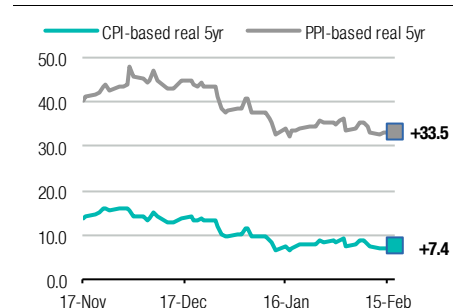
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

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



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 17 February 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)

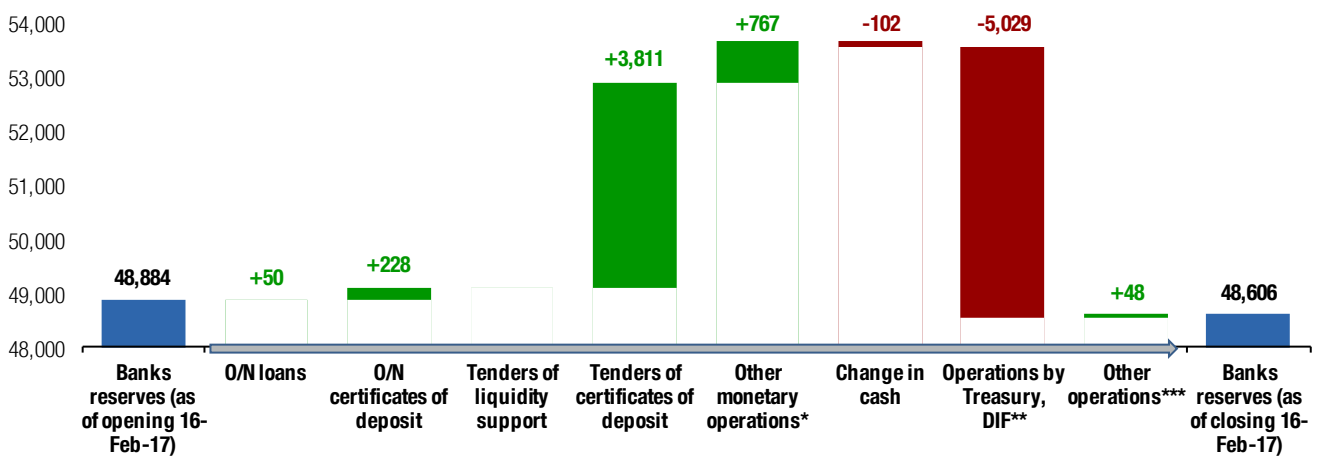
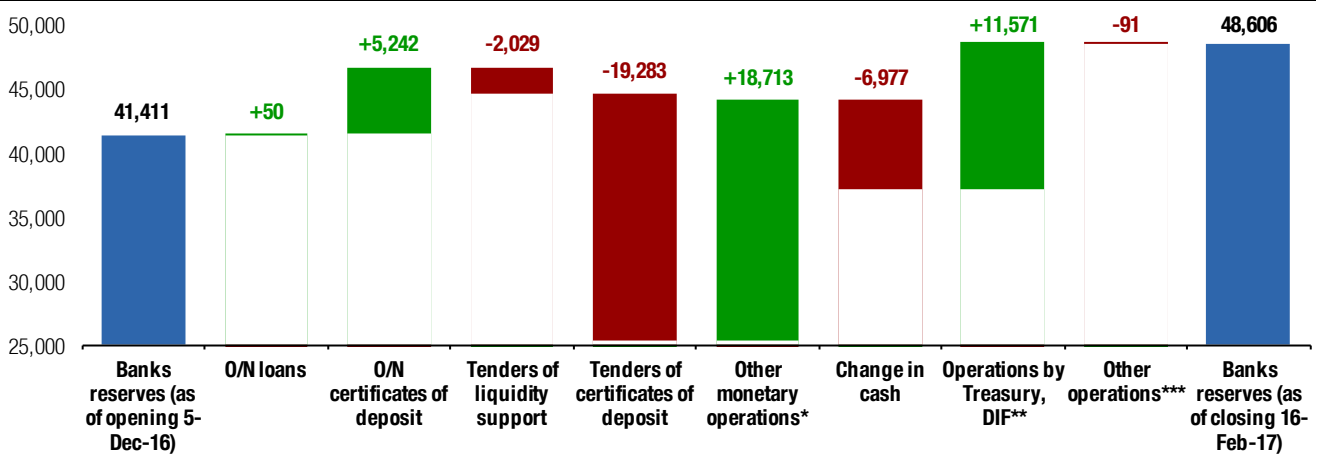
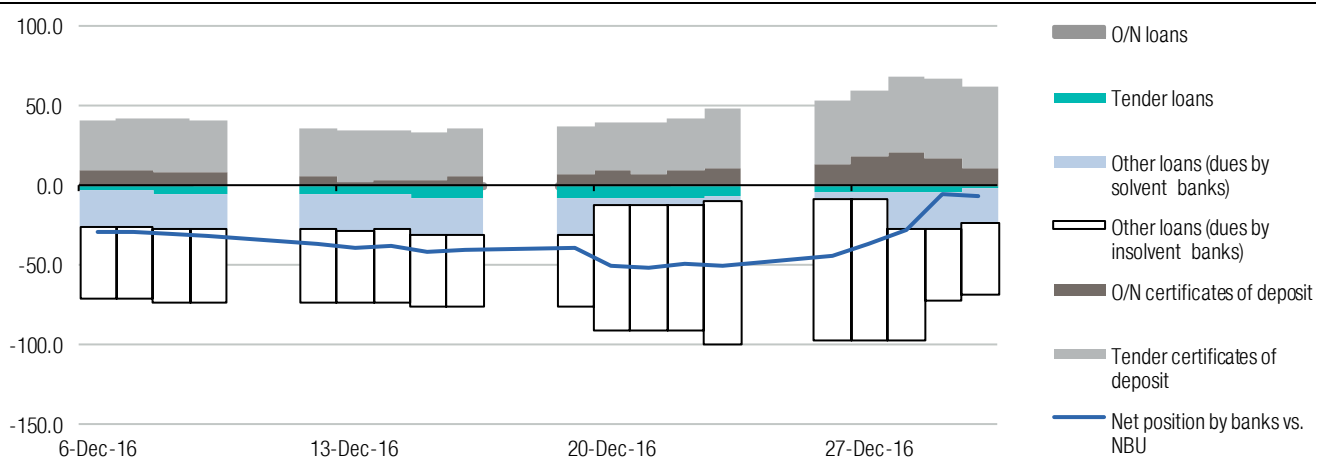


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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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