

# Daily Insight

## Interest rates could decline

### Key messages of the today's comments

#### Domestic liquidity ..... 2

##### Liquidity increase on budget expenditures ..... 2

Despite a significant UAH9.89bn only in state budget revenues collected last Friday, the final impact on Treasury operations amounted to UAH1.33bn. Along with a higher amount of cash, non-monetary operations rose UAH1.90bn, being the main source for the increase in liquidity.

##### Primary auction: Interest rates could decline ..... 2

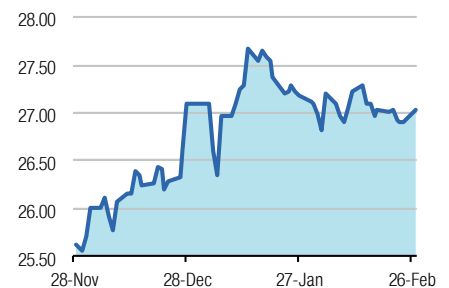
Over the past two weeks, the MoF has been cutting interest rates and should continue to do so, but this depends on demand at today's auction.

#### Foreign exchange markets ..... 3

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TUESDAY, 28 FEBRUARY 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 27 February 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 27 February 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.80	-20bp	+220bp
Banks reserves (UAHm)	51,196	+6.24	+9.37
Deposit certificates* (UAHm)	47,165	-15.54	-36.00
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	27.0350	+0.48	-0.24
Total trade volume (US\$m)	131.56	-15.28	-22.43
UAH index PCI-based	101.558	-0.31	-2.21
UAH index PPI-based	160.628	-0.31	-2.21
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	613bp	+12bp	+0bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,369.75	+0.10	+5.85
MSCI EM	940.32	-0.34	+9.05
US dollar index (DXY)	101.130	+0.20	-1.06
EUR / USD	1.0587	-0.02	+0.67
Crude oil WTI (US\$/bbl)	54.05	-0.59	+0.61
Crude oil BRENT (US\$/bbl)	55.93	-1.01	-1.57
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,252.77	-0.03	+8.72

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity increase on budget expenditures

Despite a significant UAH9.89bn only in state budget revenues collected last Friday, the final impact on Treasury operations amounted to UAH1.33bn. Along with a higher amount of cash, non-monetary operations rose UAH1.90bn, being the main source for the increase in liquidity.

Banks' correspondent accounts with the NBU rose UAH2.36bn to UAH51.20bn while total CDs outstanding slid UAH0.39bn to UAH47.17bn, causing banking sector liquidity to rise UAH1.97bn to UAH98.36bn yesterday.

**Investment implications:** *Currently, the Treasury increased budget expenditures and did not cause liquidity to decline last Friday, despite significant outflows to the budget. Today and tomorrow liquidity could rise or decline, as the Treasury has not been routinely keeping a balance between revenues and expenditures.*

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

## Primary auction: Interest rates could decline

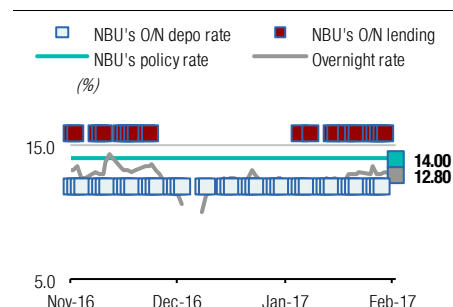
Over the past two weeks, the MoF has been cutting interest rates and should continue to do so, but this depends on demand at today's auction.

The MoF will offer five bonds with maturities from 70 days to two years. Over the past few weeks, the MoF sold 5-month bonds at 14.30%, 9-month and 11-month bonds at 15.20%, and 2-year bonds at 15.40%. However, in anticipation of another NBU key monetary rate cut, if the market does not accept lower rates, the MoF could cancel today's auction.

**Investment implications:** *If there is demand, interest rates for 9-month bonds could decline, as they were sold earlier this month at the same rate as last week's UAH0.50bn sale of 11-month bonds. At the same time, rates for the 10-month and 2-year bonds could decline further, but just to be in line with the 25bp cut for 3-year bonds that were sold two weeks ago.*

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## Interest rates in the banks' reserves market (three months through 27 February 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 27 February 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	12.80	-20bp	+0bp	+90bp	+220bp
<b>KYIV PRIME RATES (%)</b>					
Overnight	13.00	+12bp	+0bp	+8bp	+0bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.13	+0bp	+5bp	+5bp	-37bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	+0bp	+0bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	51,196	+6.24	+19.43	+7.55	+9.37
DepCerts <sup>3</sup>	47,165	-15.54	-19.78	-29.60	-36.00
<b>Total</b>	<b>98,361</b>	<b>-4.20</b>	<b>-1.02</b>	<b>-12.07</b>	<b>-15.85</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	382,074	+0.00	+0.00	-0.33	+7.28
Banks	272,735	+0.11	+3.94	+7.25	+58.26
Residents	24,111	-0.09	+0.47	+0.43	+53.78
Non-res <sup>4</sup>	5,888	+0.24	-2.31	-6.91	-7.30
<b>Total</b>	<b>684,808</b>	<b>+0.04</b>	<b>+1.53</b>	<b>+2.52</b>	<b>+24.39</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 EUROBOOND MARKET</b>					
CDS 5yr	613	+12bp	+12bp	+16bp	+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.

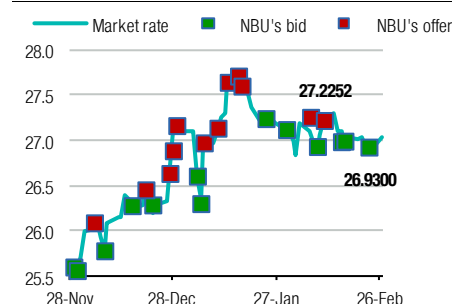
# Foreign exchange markets

Key indicators (as of 27 лютого 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	27.0350	+0.48	+0.12	-0.57	-0.24
USD <sup>1</sup>	101.130	+0.20	+0.18	+0.60	-1.06
EUR	1.0587	-0.02	-0.25	-1.05	+0.67
JPY	112.7000	-0.09	-0.35	-2.09	-3.64
GBP <sup>2</sup>	1.2442	-0.94	-0.17	-0.90	+0.83
CNY	6.8708	+0.00	-0.11	-0.19	-1.07
RUB	58.1272	+0.68	+0.26	-2.92	-5.54

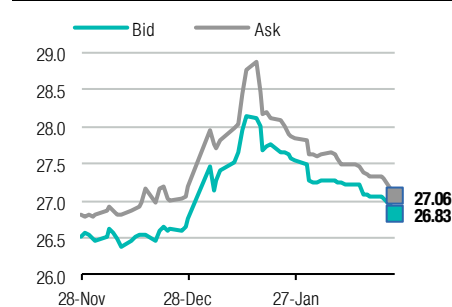
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 27 February 2017)



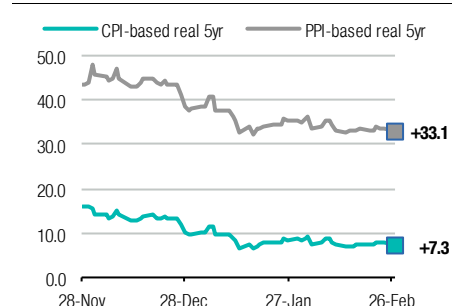
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 27 February 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 27 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)

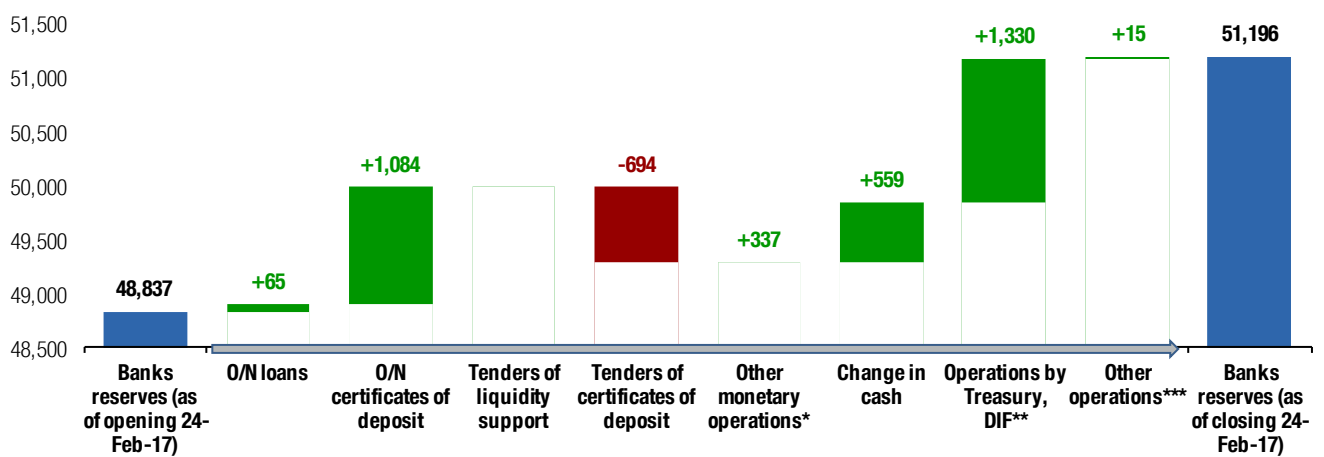
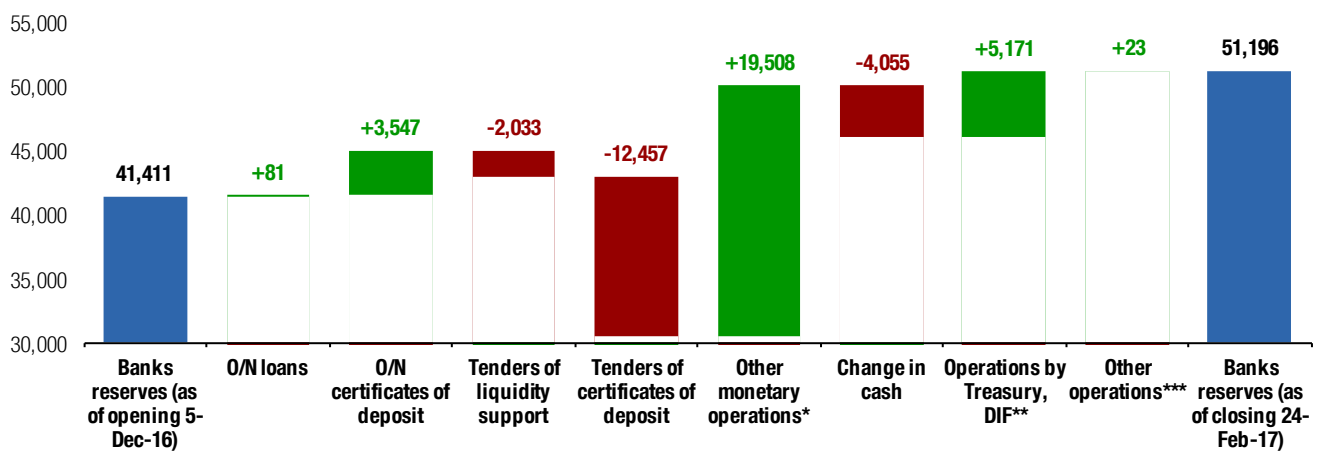
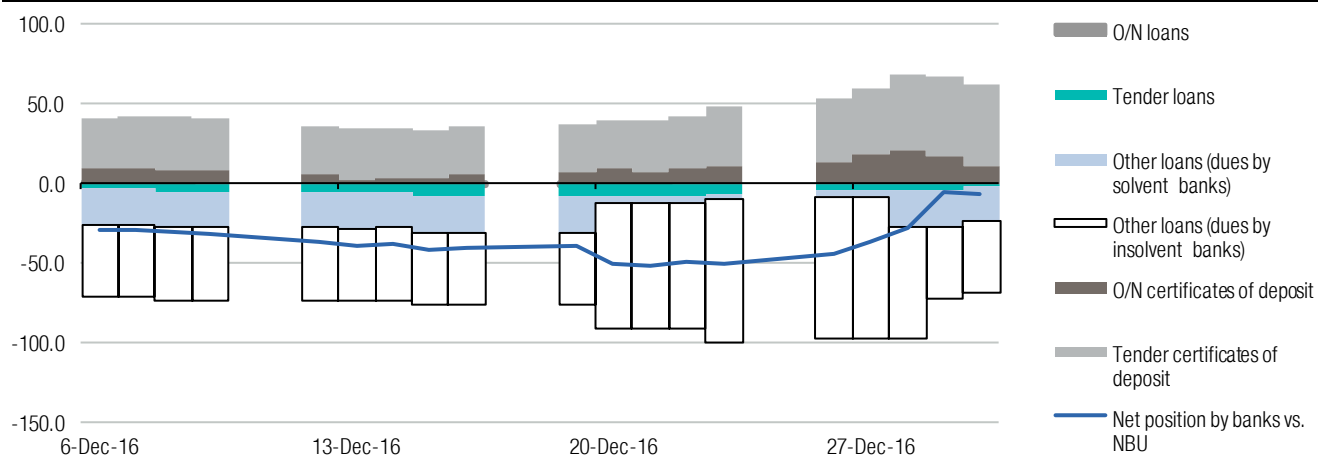


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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