

# Daily Insight

## Liquidity stabilizes

### Key messages of the today's comments

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

##### Liquidity stabilizes ..... 2

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##### Primary auction: this week appears to be quiet ..... 2

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

#### Appendix #1: Domestic liquidity ..... 4

MONDAY, 6 MARCH 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 3 March 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 3 March 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	42,860	+7.25	-13.82
Deposit certificates* (UAHm)	59,906	-4.23	-3.75
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	27.1100	-0.26	+0.04
Total trade volume (US\$m)	130.42	+3.50	-23.11
UAH index PCI-based	101.603	-0.39	-2.16
UAH index PPI-based	160.699	-0.39	-2.16
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	615bp	-1bp	+0bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,383.12	+0.05	+6.44
MSCI EM	931.07	-0.57	+7.98
US dollar index (DXY)	101.540	-0.65	-0.66
EUR / USD	1.0622	+1.09	+1.00
Crude oil WTI (US\$/bbl)	53.33	+1.37	-0.73
Crude oil BRENT (US\$/bbl)	55.90	+1.49	-1.62
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,234.55	+0.02	+7.14

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity stabilizes

After significant volatility from the end of February through the first day of March, liquidity appears to have stabilized at the end of last week following the NBU's decision to leave the key monetary rate unchanged. Last Thursday, the Treasury received only about UAH4bn of revenues to the budget as it spent slightly more than that.

As a result, last Friday total banking sector liquidity was up a mere UAH0.25bn to UAH102.77bn, including a significant reallocation of funds. Banks' correspondent accounts with the NBU rose UAH2.90bn to UAH42.86bn while total Cds outstanding fell UAH2.65bn to UAH59.91bn.

**Investment implications:** *As market response to tax payments, the VAT refund, and anticipation of the key monetary rate cut are no longer issues, the main reasons for volatility no longer have an impact on liquidity this week. Only a new VAT refund or loan redemption could increase volatility going forward.*

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

## Primary auction: this week appears to be quiet

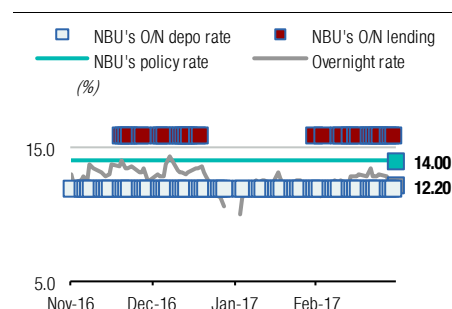
Last week, the MoF borrowed UAH2.91bn and significantly decreased interest rates. This happened as a result of an anticipated key monetary rate cut. However, as the NBU left it unchanged, the MoF most likely will be unable to decrease the cost of new borrowings significantly again.

Tomorrow, the MoF will offer only four bonds with maturities from three months to one year, but most likely the auction will be cancelled. After 9-month bonds were sold at 12.10%, demand should be insufficient from bidders who have currently cheap funding.

**Investment implications:** *This week, the primary market should be inactive as investors will most likely prefer longer term bonds at the secondary market with higher rates. Because of this, the auctions could be cancelled or the MoF will accept only the cheapest bids.*

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## Interest rates in the banks' reserves market (three months through 3 March 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 3 March 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	N/A	N/A	N/A	N/A	N/A
Overnight	N/A	N/A	N/A	N/A	N/A
<b>KYIV PRIME RATES (%)</b>					
Overnight	N/A	N/A	N/A	N/A	N/A
1 week	N/A	N/A	N/A	N/A	N/A
1 month	N/A	N/A	N/A	N/A	N/A
2 months	N/A	N/A	N/A	N/A	N/A
3 months	N/A	N/A	N/A	N/A	N/A
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	42,860	+7.25	-12.24	+5.82	-13.82
DepCerts <sup>3</sup>	59,906	-4.23	+25.97	-11.96	-3.75
<b>Total</b>	<b>102,766</b>	<b>+0.24</b>	<b>+6.61</b>	<b>-5.32</b>	<b>-8.22</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	384,574	+0.65	+0.65	+0.69	+7.98
Banks	275,242	-0.11	+1.03	+7.74	+59.71
Residents	22,150	-10.28	-8.21	-6.49	+41.28
Non-res <sup>4</sup>	5,911	-0.30	+0.63	-8.49	-6.94
<b>Total</b>	<b>687,877</b>	<b>-0.05</b>	<b>+0.49</b>	<b>+3.04</b>	<b>+24.95</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
3 months	15.03	-244bp	+161bp	+0bp	-737bp
6 months	18.40	+120bp	-23bp	+4bp	-7bp
9 months	18.12	+82bp	-16bp	+11bp	+11bp
1 year	17.21	+63bp	-11bp	+20bp	+21bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	615	-1bp	+14bp	+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

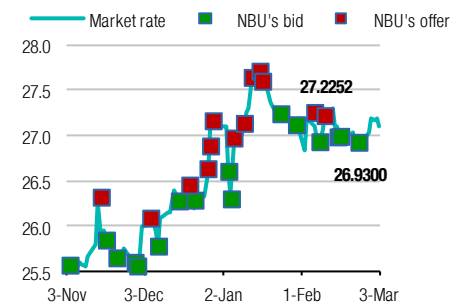
**Key indicators (as of 3 березня 2017)**

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	27.1100	-0.26	+0.76	+0.04	+0.04
USD <sup>1</sup>	101.540	-0.65	+0.60	-1.62	-0.66
EUR	1.0622	+1.09	+0.31	+2.09	+1.00
JPY	114.0400	-0.32	+1.10	-3.15	-2.50
GBP <sup>2</sup>	1.2291	+0.20	-2.14	+0.44	-0.40
CNY	6.9040	+0.20	+0.48	-0.86	-0.59
RUB	58.2370	-1.05	+0.87	-4.40	-5.36

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

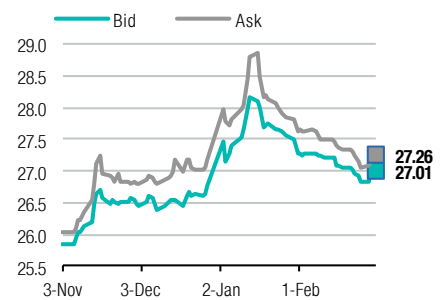
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 3 March 2017)



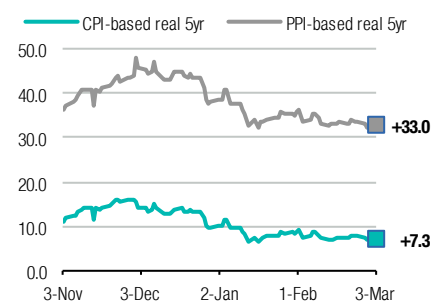
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 3 March 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 3 March 2017)

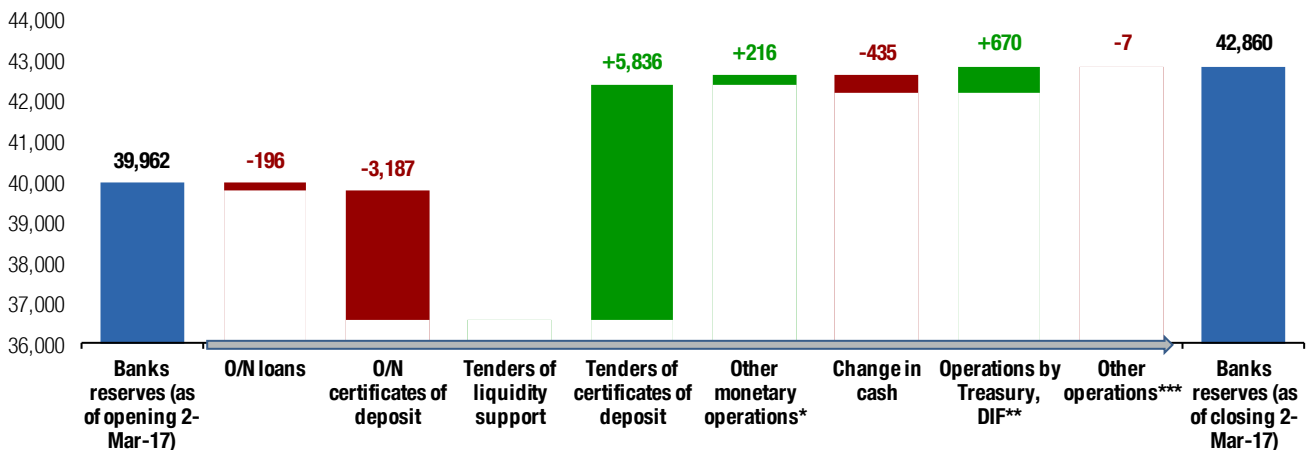


Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

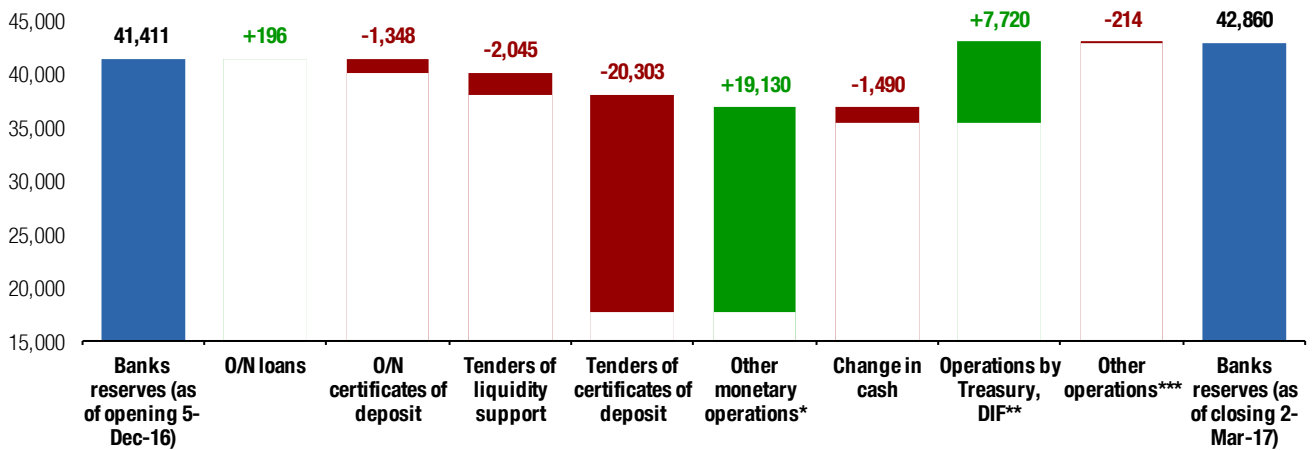
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

# Appendix #1: Domestic liquidity

**Chart 1. Banks reserves usages over last reporting date (UAHm)**

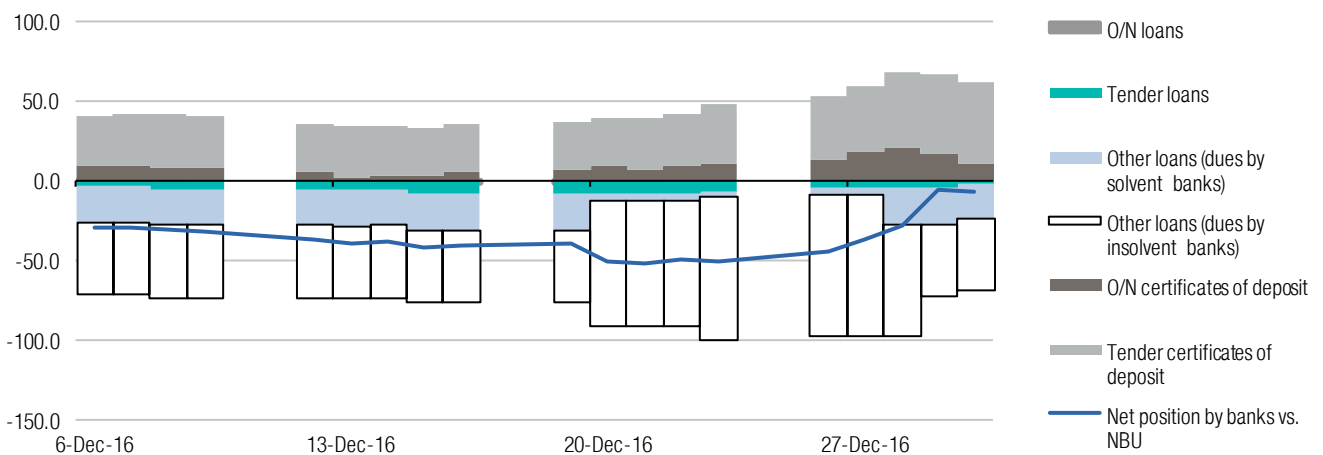


**Chart 2. Banks reserves usages over last 30-day period (UAHm)**



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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