

Daily Insight

Liquidity slightly volatile

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As a result of last Thursday's cashflows, banking sector liquidity was up slightly on UAH0.88bn of inflows from Treasury and DGF operations and UAH0.43bn from the NBU against UAH0.58bn outflows via cash withdrawals.	
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MONDAY, 13 MARCH 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 10 March 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 10 March 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	34,985	-7.58	-29.65
Deposit certificates* (UAHm)	76,180	+4.99	+22.40
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.7500	-0.43	-1.29
Total trade volume (US\$m)	199.45	+44.17	+17.59
UAH index PCI-based	103.492	-0.15	-0.35
UAH index PPI-based	163.687	-0.15	-0.35
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	615bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,372.60	+0.33	+5.97
MSCI EM	926.14	+0.35	+7.41
US dollar index (DXY)	101.250	-0.59	-0.94
EUR / USD	1.0673	+0.91	+1.48
Crude oil WTI (US\$/bbl)	48.49	-1.60	-9.74
Crude oil BRENT (US\$/bbl)	51.37	-1.57	-9.59
CRB, commodities index	182.65	-0.31	-5.12
Gold (US\$/ounce)	1,204.73	+0.30	+4.55

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity slightly volatile

As a result of last Thursday's cashflows, banking sector liquidity was up slightly on UAH0.88bn of inflows from Treasury and DGF operations and UAH0.43bn from the NBU against UAH0.58bn outflows via cash withdrawals.

Banks' correspondent accounts with the NBU fell UAH2.87bn to UAH34.99bn while total CDs outstanding was up UAH3.62bn to UAH66.93bn, causing banking sector liquidity to rise UAH0.75bn to UAH101.91bn last Friday.

Investment implications: Liquidity remains slightly volatile above UAH100bn, with reallocation mostly to 2-week CDs. Currently, banks do not anticipate pressure on liquidity and invest funds in CDs with redemption during month-end tax payments. Today, liquidity could rise slightly, received also UAH0.33bn from the NBU via FX auction.

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Primary auction could become more active

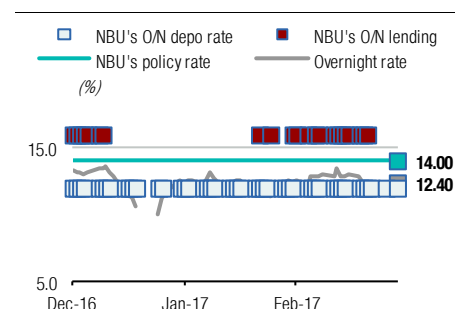
Tomorrow, the MoF will offer 3-year bonds after a month-long break, possibly this auction a bit more active than last week. Demand could be seen for 12-month and 2-year maturities as well, with no demand for shorter maturities.

After 9-month bonds were sold at a very low interest rate two weeks ago, demand for zero-coupon bonds with maturities up to nine months should be minimal, particularly as the MoF is unlikely to increase the interest rate. At the same time, last week's results indicated that interest rates are unlikely to decline significantly.

Investment implications: Tomorrow, we anticipate that demand will be seen for 12-month bonds at 14.90-19.95%, for 2-year bonds at 15.09-15-15%, and for 3-year bonds at 15.30-15.40%. At the same time, the MoF will prefer to accept a majority of the demand, not cause an increase in interest rates for 12-month and 2-year bonds, and will allow the interest rate for 3-year bonds to fall to or below 15.30%.

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Interest rates in the banks' reserves market (three months through 10 March 2017)



Source: Bloomberg, ICU.

Key indicators (as of 10 March 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	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
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	34,985	-7.58	-18.37	-4.82	-29.65
DepCerts ³	76,180	+4.99	+10.15	+4.68	+22.40
Total	111,165	+0.68	-0.76	+1.49	-0.72
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	384,574	+0.00	+0.00	+0.32	+7.98
Banks	274,883	-0.06	-0.13	+8.08	+59.50
Residents	22,010	+0.68	-0.63	-7.64	+40.38
Non-res ⁴	5,874	-0.17	-0.62	-4.55	-7.52
Total	687,341	-0.01	-0.08	+2.95	+24.85
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	16.39	+234bp	+135bp	-177bp	-602bp
6 months	18.65	+8bp	+25bp	+40bp	+18bp
9 months	18.35	+7bp	+23bp	+40bp	+34bp
1 year	17.42	+7bp	+22bp	+41bp	+43bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	615	+0bp	-1bp	-7bp	+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

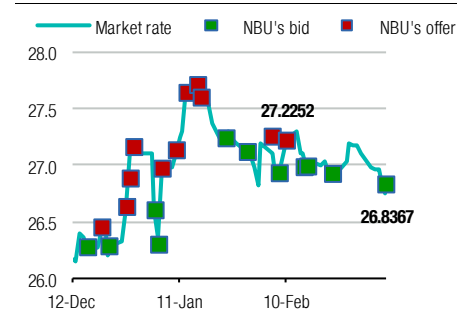
Key indicators (as of 10 березня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.7500	-0.43	-1.33	-1.76	-1.29
USD ¹	101.250	-0.59	-0.29	+0.45	-0.94
EUR	1.0673	+0.91	+0.48	+0.28	+1.48
JPY	114.7900	-0.14	+0.66	+1.39	-1.86
GBP ²	1.2167	+0.02	-1.01	-2.59	-1.40
CNY	6.9093	-0.02	+0.08	+0.45	-0.51
RUB	58.9825	-0.50	+1.28	+1.15	-4.15

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

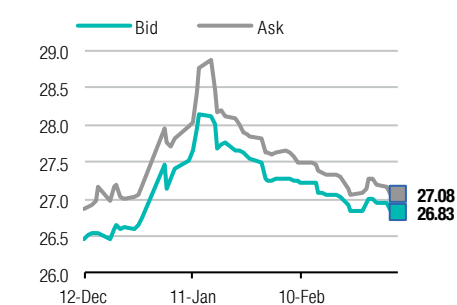
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 10 March 2017)



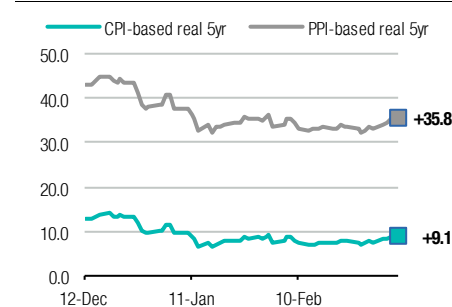
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 10 March 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 10 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)

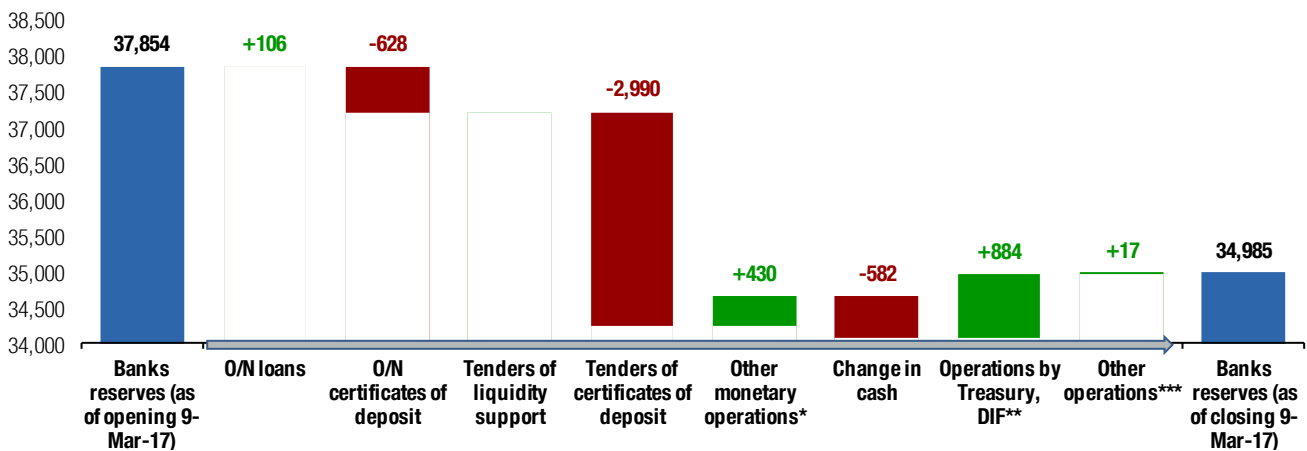
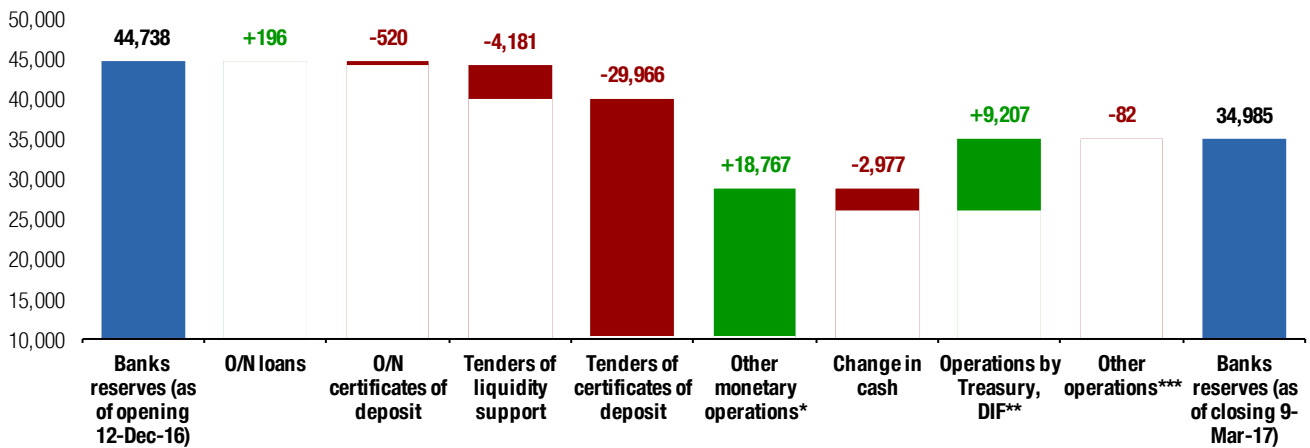
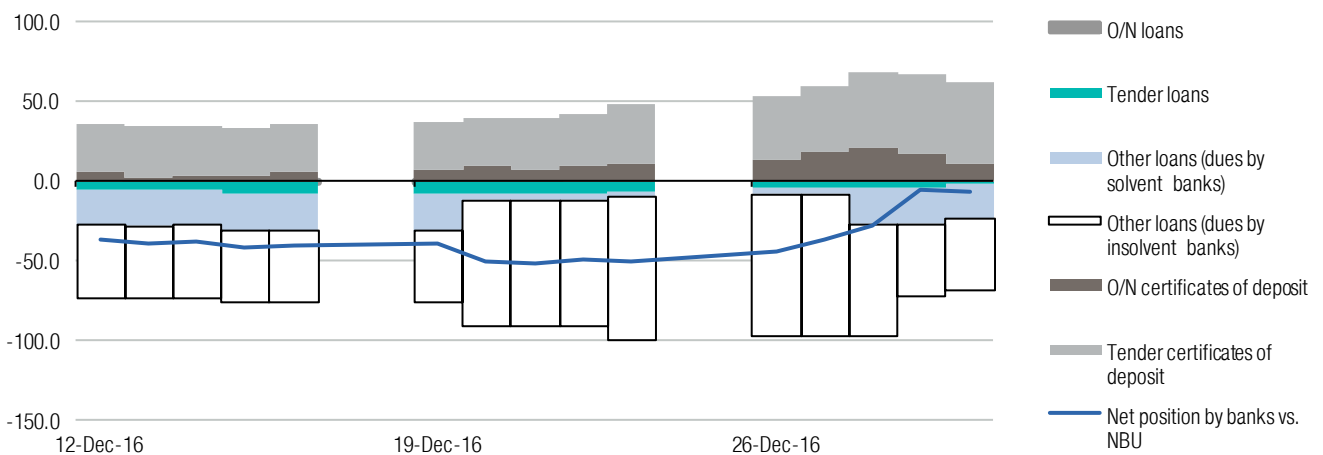


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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