

Daily Insight

Liquidity reallocation

Key messages of the today's comments

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Liquidity reallocation 2

Banking sector liquidity slid UAH0.19bn to UAH102.10bn yesterday following a UAH0.74bn decline from Treasury operations, partially offset by an increase in cash, resulting in a non-monetary operation impact at negative UAH0.46bn.

Interest rates decline 2

At yesterday's auction, the MoF significantly decreased the interest rate for 3-year bonds to 15.28% (weighted-average rate), and also to 14.95% for 12-month bonds. The MoF accepted the majority of demand and borrowed UAH1.14bn. Bonds with maturities less than one year did not receive any bids, while demand for 2-year bonds was rejected.

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WEDNESDAY, 15 MARCH 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 14 March 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 14 March 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	45,370	+10.10	-8.77
Deposit certificates* (UAHm)	65,978	-6.19	+6.01
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.8850	-0.13	-0.79
Total trade volume (US\$m)	131.86	-28.88	-22.26
UAH index PCI-based	103.337	+0.36	-0.49
UAH index PPI-based	163.442	+0.36	-0.49
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	615bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,365.45	-0.34	+5.66
MSCI EM	939.97	+0.16	+9.01
US dollar index (DXY)	101.700	+0.38	-0.50
EUR / USD	1.0604	-0.46	+0.83
Crude oil WTI (US\$/bbl)	47.72	-1.40	-11.17
Crude oil BRENT (US\$/bbl)	50.92	-0.84	-10.38
CRB, commodities index	182.12	-0.57	-5.40
Gold (US\$/ounce)	1,199.01	-0.42	+4.06

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity reallocation

Banking sector liquidity slid UAH0.19bn to UAH102.10bn yesterday following a UAH0.74bn decline from Treasury operations, partially offset by an increase in cash, resulting in a non-monetary operation impact at negative UAH0.46bn.

Banks' correspondent accounts with the NBU rose UAH4.16bn while total CDs outstanding fell UAH4.35bn, causing a minimal decline in liquidity.

Investment implications: Banks reallocated funds from CDs to banks' accounts, most likely in preparation for month-end tax payments next week or for loan repayments to the NBU. Consequently, liquidity should remain steady at around UAH102bn through the end of the week.

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Interest rates decline

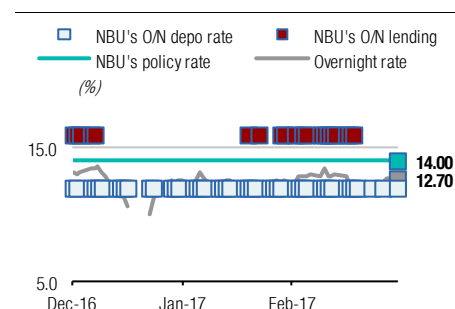
At yesterday's auction, the MoF significantly decreased the interest rate for 3-year bonds to 15.28% (weighted-average rate), and also to 14.95% for 12-month bonds. The MoF accepted the majority of demand and borrowed UAH1.14bn. Bonds with maturities less than one year did not receive any bids, while demand for 2-year bonds was rejected.

12-month bonds were sold as expected at the minimum level of bids seen two weeks ago, 14.95%, for a single bid for UAH22.87m (par value). 2-year bonds saw three bids for a total of UAH400m which the MoF could accept at 15.14%, but decided to not increase the interest rate set two weeks ago. Interest rates for 3-year bonds were close to our expectations. With bids at 15.24-15.39%, the MoF set the cut-off rate at 15.29% and weighted average interest rate at 15.28%. Out of UAH1.14bn of demand, the MoF accepted UAH1.12bn of bids (par value).

Therefore, the MoF moved the yield curve to a new level that was started two weeks ago. The following two auctions should see the rate hold steady, probably with insufficient movements. The market could cause a slight decline of a few basis points, while the MoF most likely will reject any attempts attempts to increase interest rates.

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Interest rates in the banks' reserves market (three months through 14 March 2017)



Source: Bloomberg, ICU.

Key indicators (as of 14 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	45,370	+10.10	+16.55	-7.10	-8.77
DepCerts ³	65,978	-6.19	-9.84	+9.51	+6.01
Total	111,348	-0.17	-0.67	+2.07	-0.56
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	384,574	+0.00	+0.00	+0.32	+7.98
Banks	279,644	+1.84	+1.66	+8.46	+62.26
Residents	22,069	-0.07	-0.13	-7.48	+40.76
Non-res ⁴	5,742	+0.30	-2.62	-7.12	-9.60
Total	692,029	+0.74	+0.64	+3.10	+25.71
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	615	+0bp	+8bp	-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.

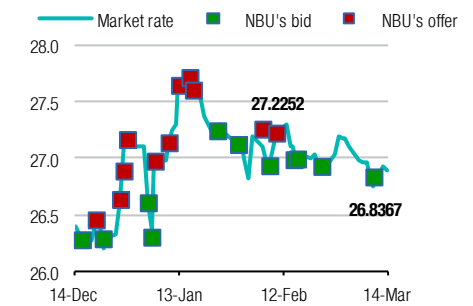
Foreign exchange markets

Key indicators (as of 14 березня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8850	-0.13	-0.30	-0.79	-0.79
USD ¹	101.700	+0.38	-0.11	+0.44	-0.50
EUR	1.0604	-0.46	+0.36	+0.25	+0.83
JPY	114.7500	-0.11	+0.68	+0.43	-1.89
GBP ²	1.2153	-0.54	-0.39	-2.53	-1.52
CNY	6.9150	+0.01	+0.18	+0.69	-0.43
RUB	59.2031	+0.67	+1.74	+3.76	-3.79

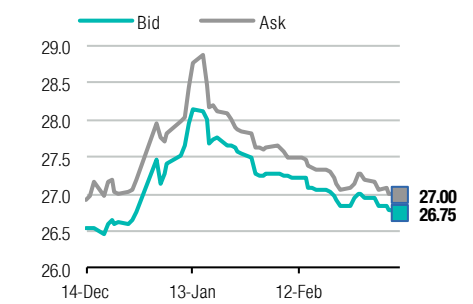
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 14 March 2017)



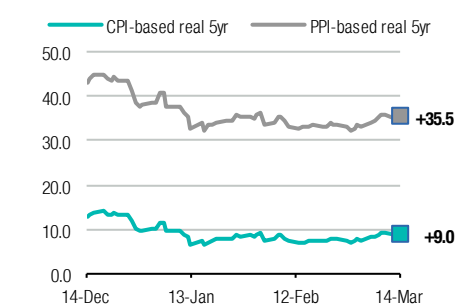
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 14 March 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 14 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)

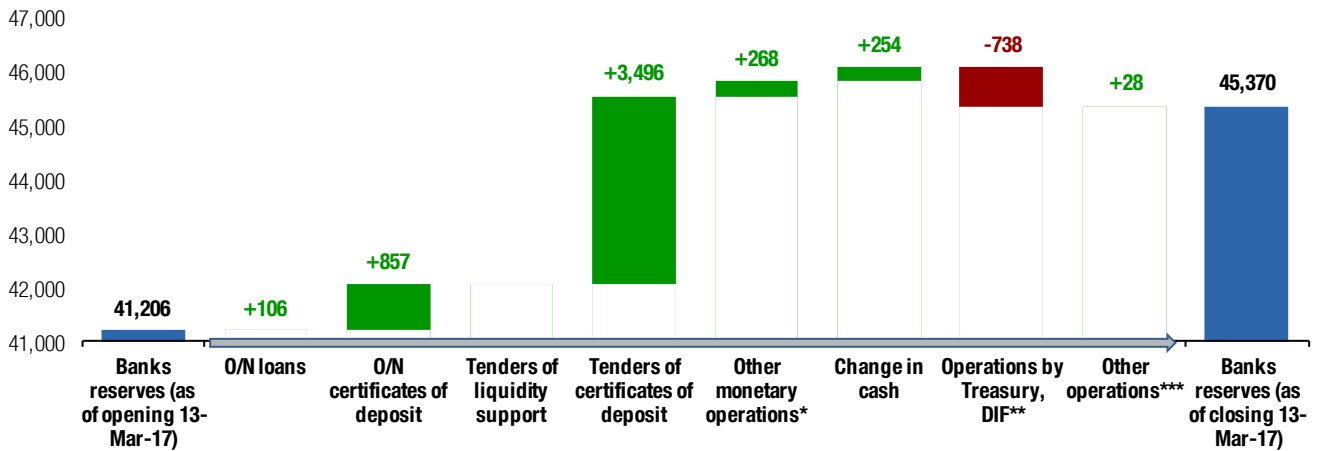
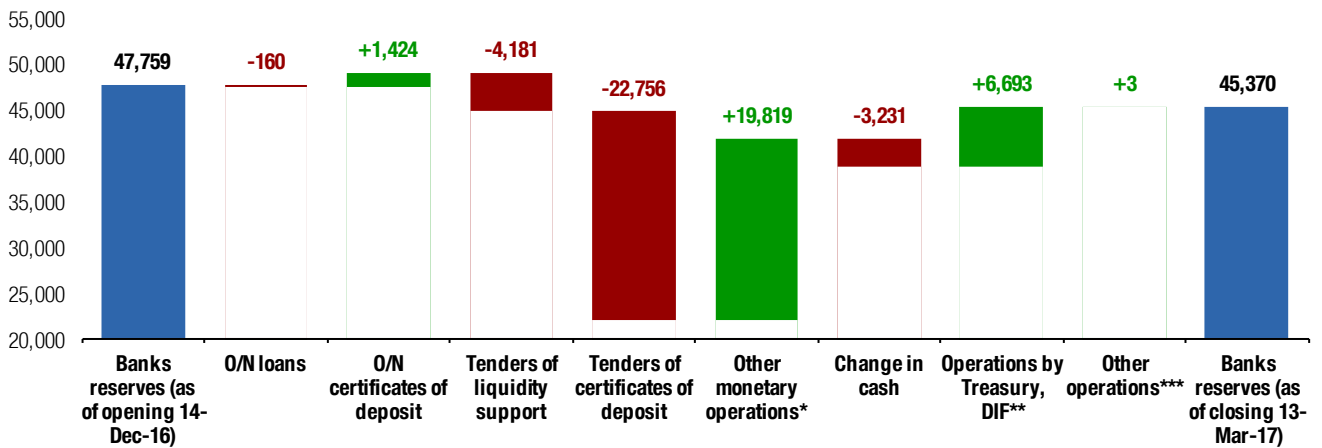
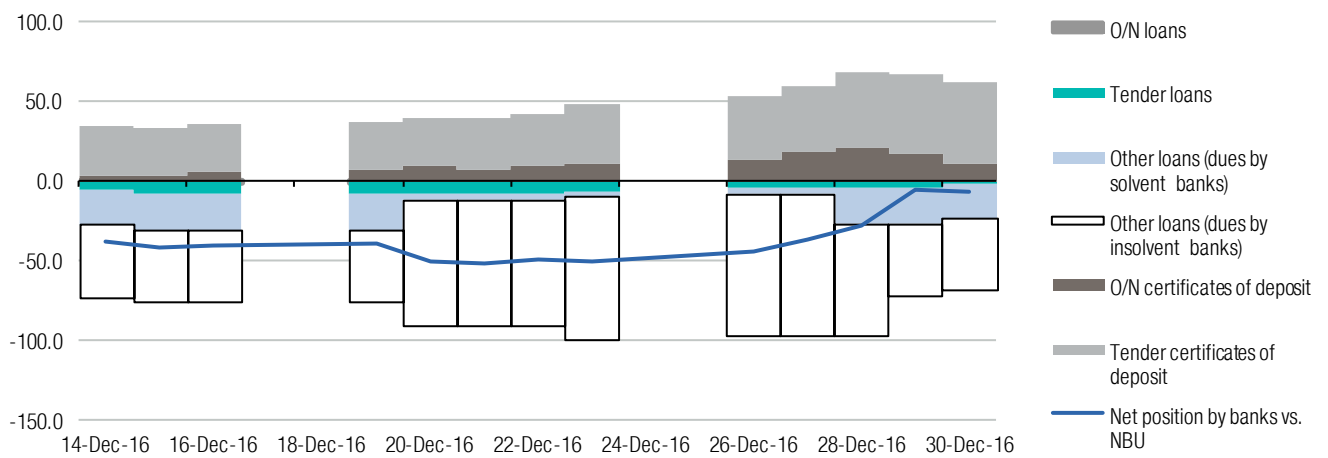


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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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