

Daily Insight

About sanctions against Russian banks

Key messages of the today's comments

THURSDAY, 16 MARCH 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 15 March 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 15 March 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.80	+20bp	+220bp
Banks reserves (UAHm)	47,896	+5.57	-3.69
Deposit certificates* (UAHm)	63,190	-22.93	-21.76
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.8750	-0.04	-0.83
Total trade volume (US\$m)	144.99	+9.95	-14.52
UAH index PCI-based	102.541	-0.77	-1.26
UAH index PPI-based	162.183	-0.77	-1.26
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	615bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,385.26	+0.84	+6.54
MSCI EM	943.52	+0.38	+9.42
US dollar index (DXY)	100.740	-0.94	-1.44
EUR / USD	1.0734	+1.23	+2.06
Crude oil WTI (US\$/bbl)	48.86	+2.39	-9.05
Crude oil BRENT (US\$/bbl)	51.81	+1.75	-8.82
CRB, commodities index	183.80	+0.92	-4.53
Gold (US\$/ounce)	1,219.68	+1.72	+5.85

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity 2

The NBU suggests sanctions against Russian banks 2

In the wake of political unrest, the NBU has proposed to the National Security Council to introduce sanctions against Russian banks. Only five banks with Russian state capital are subject to these actions: Sberbank, VTB, Prominvestbank (subsidiary of VEB), BM Bank and VS bank. The sanctions will imply a moratorium on any repayments of interbank loans or subordinated debts issued by the parent banks. Banks may not distribute dividends or reallocate profits in any other way. Alfa Group has been specifically named as not included in these prohibitions.

Liquidity slightly volatile 2

Banking sector liquidity remained slightly volatile at around UAH102bn, declined UAH0.26bn to UAH101.83bn yesterday, down by almost the same UAH0.29bn in outflows caused by non-monetary operations. At the same time, banks continued to collect funds at correspondent accounts with the NBU.

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Domestic liquidity

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By our estimates, the total amount of such debt is US\$1.3bn while the annual interest charge is close to US\$90m. As the banks mentioned above have been losing money over the last few years, the ban on dividends should have little impact. The most likely scenario is a debt to equity conversion of the remaining debt.

Investment implications: Although Russian banks should not be nationalized, the NBU expects them to be sold in the near future.

[Analyst's name.]

Liquidity slightly volatile

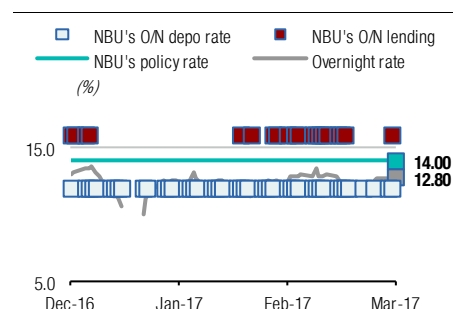
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Outflows of UAH0.26bn were from the Treasury as cash fell by UAH0.06bn. Total CDs outstanding fell UAH2.79bn to UAH53.94bn while correspondent accounts with the NBU was up UAH2.53bn to UAH47.90bn.

Investment implications: Liquidity remained steady with a slight decline during this week and funds reallocation to banks' accounts. These reallocations with a probably slight decline should continue through the end of the week, while today we could see a minor decline caused by yesterday's new government bond purchases.

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Interest rates in the banks' reserves market (three months through 15 March 2017)



Source: Bloomberg, ICU.

Key indicators (as of 15 March 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	12.80	+20bp	+40bp	-10bp	+220bp
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	47,896	+5.57	+23.04	-3.65	-3.69
DepCerts ³	63,190	-22.93	-33.45	-17.04	-21.76
Total	111,086	-8.63	-9.46	-6.38	-9.35
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	384,574	+0.00	+0.00	+0.32	+7.98
Banks	279,561	-0.03	+1.63	+6.90	+62.22
Residents	22,317	+1.12	+0.99	-6.52	+42.34
Non-res ⁴	5,603	-2.43	-4.98	-9.56	-11.79
Total	692,055	+0.00	+0.64	+2.54	+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	+0bp	-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.

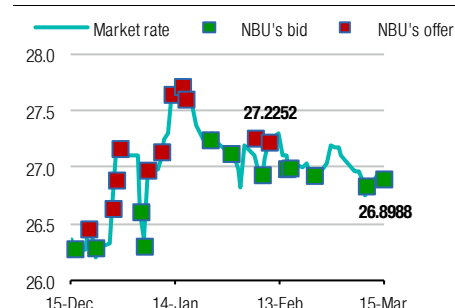
Foreign exchange markets

Key indicators (as of 15 березня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8750	-0.04	-0.33	-0.83	-0.83
USD ¹	100.740	-0.94	-1.30	-0.45	-1.44
EUR	1.0734	+1.23	+1.83	+1.45	+2.06
JPY	113.3800	-1.19	-0.85	-0.88	-3.06
GBP ²	1.2291	+1.14	+1.01	-1.42	-0.40
CNY	6.9149	+0.00	+0.03	+0.73	-0.43
RUB	58.4618	-1.25	-0.75	+2.33	-5.00

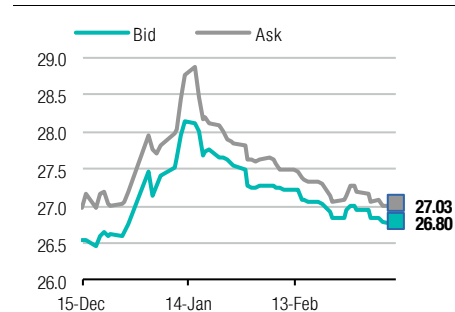
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 15 March 2017)



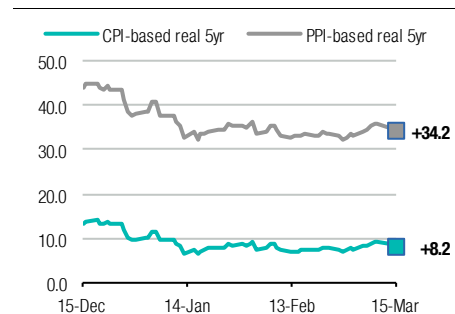
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 15 March 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 15 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)

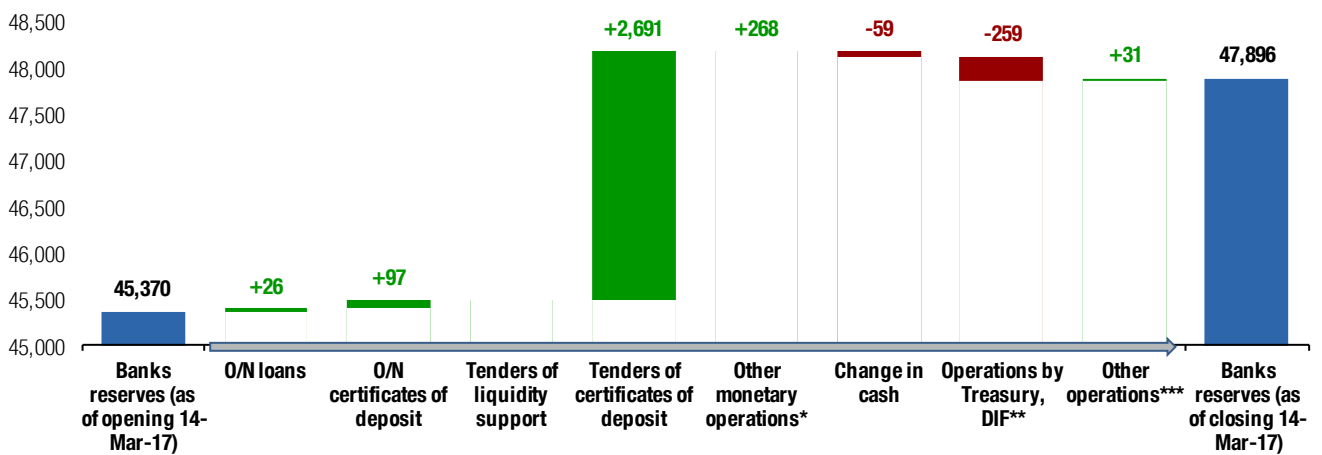
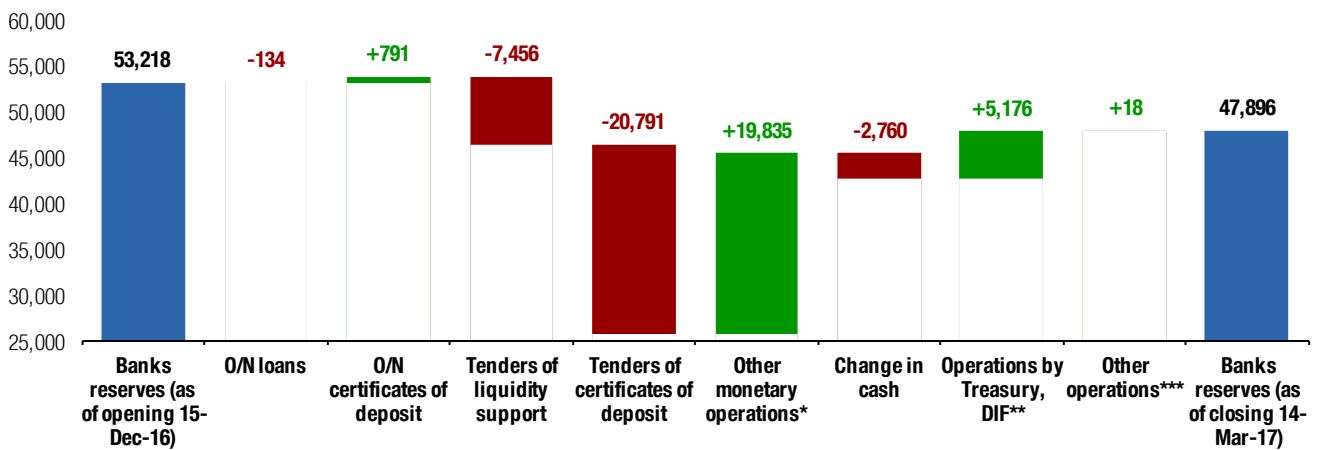
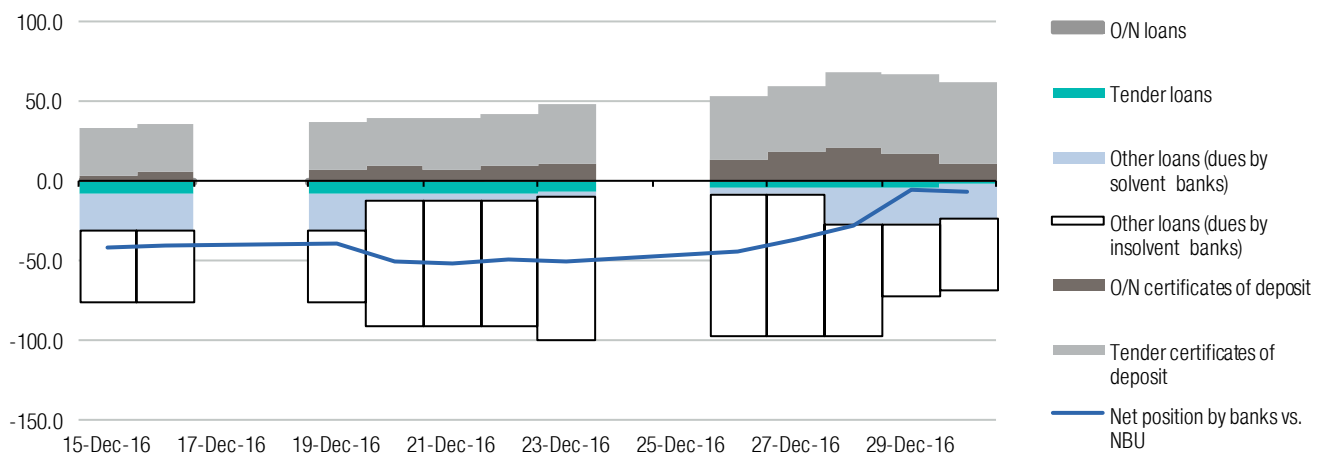


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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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