

Daily Insight

Liquidity continues to rise

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Last Friday, total banking sector liquidity rose UAH0.68bn to UAH103.47bn, parallel to non-monetary operations. The inflow from Treasury operations was UAH1.32bn while the decline in cash cut the impact of the inflow significantly.

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At the end of last week, the MoF announced tomorrow's auction according to schedule, offering five bonds with maturities from 77 days to two years with no volume limits.

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MONDAY, 20 MARCH 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 17 March 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 17 March 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	49,632	-6.00	-0.20
Deposit certificates* (UAHm)	63,095	+6.49	+1.38
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.9000	-0.24	-0.74
Total trade volume (US\$m)	N/A		
UAH index PCI-based	101.734	+0.09	-2.04
UAH index PPI-based	160.907	+0.09	-2.04
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	615bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,378.25	-0.13	+6.23
MSCI EM	965.57	+0.25	+11.98
US dollar index (DXY)	100.300	-0.06	-1.87
EUR / USD	1.0738	-0.26	+2.10
Crude oil WTI (US\$/bbl)	N/A		
Crude oil BRENT (US\$/bbl)	N/A		
CRB, commodities index	184.48	+0.24	-4.17
Gold (US\$/ounce)	1,229.29	+0.23	+6.68

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to rise

Last Friday, total banking sector liquidity rose UAH0.68bn to UAH103.47bn, parallel to non-monetary operations. The inflow from Treasury operations was UAH1.32bn while the decline in cash cut the impact of the inflow significantly.

Banks partially returned funds to CDs, increasing total CDs outstanding by UAH3.85bn to UAH53.84bn, while banks' correspondent accounts with the NBU slid UAH3.17bn to UAH49.63bn.

Investment implications: *Despite Treasury inflows, liquidity changed insignificantly prior to month-end tax payments, but should decline to below UAH100bn by the end of this week. Oschadbank's UAH0.50bn refinancing of a loan to the NBU should have some impact on liquidity today.*

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Primary auction announcement

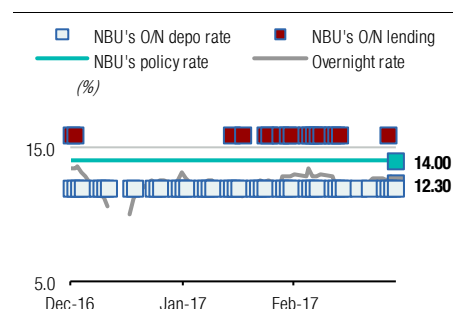
At the end of last week, the MoF announced tomorrow's auction according to schedule, offering five bonds with maturities from 77 days to two years with no volume limits.

Last week, the MoF sold 12-month bonds at 14.95% and 3-year bonds at 15.28% (weighted average rate). Demand for 2-year bonds was rejected due to a high rate, 6bp above the recent weighted average rate (15.09%).

Investment implications: *Although the MoF rejected UAH0.40bn of demand for 2-year bonds last week, the majority of demand appears to have been satisfied at the secondary market. As a result, tomorrow we could see mostly new demand for this bond, including the reinvestment of nearly UAH1.0bn of debt repayments and some additional bids. Demand should be seen for 12-month and 2-year bonds, at 14.95% and 15.09%, respectively, with possible slight decline in rates by a few basis points.*

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Interest rates in the banks' reserves market (three months through 17 March 2017)



Source: Bloomberg, ICU.

Key indicators (as of 17 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	49,632	-6.00	+41.87	+2.11	-0.20
DepCerts ³	63,095	+6.49	-17.18	+20.65	+1.38
Total	112,727	+0.61	+1.41	+11.72	+0.67
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	384,071	+0.00	-0.13	+0.52	+7.84
Banks	285,428	+0.02	+3.84	+8.82	+65.62
Residents	22,656	+1.56	+2.94	-5.53	+44.50
Non-res ⁴	5,618	+0.35	-4.36	-6.67	-11.55
Total	697,773	+0.06	+1.52	+3.47	+26.75
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	14.91	-564bp	-147bp	+97bp	-749bp
6 months	18.59	-3bp	-6bp	+20bp	+12bp
9 months	18.26	-1bp	-9bp	+17bp	+25bp
1 year	17.33	+0bp	-9bp	+17bp	+33bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	615	+0bp	+0bp	+14bp	+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.

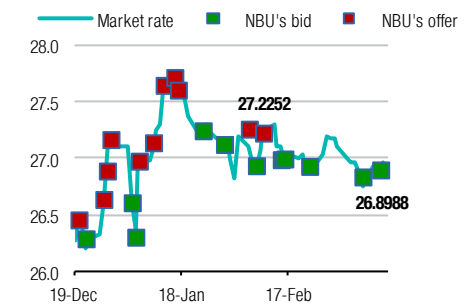
Foreign exchange markets

Key indicators (as of 17 березня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.9000	-0.24	+0.56	-0.50	-0.74
USD ¹	100.300	-0.06	-0.94	-0.64	-1.87
EUR	1.0738	-0.26	+0.61	+1.15	+2.10
JPY	112.7000	-0.54	-1.82	-0.12	-3.64
GBP ²	1.2396	+0.29	+1.88	-0.13	+0.45
CNY	6.9034	+0.08	-0.09	+0.54	-0.60
RUB	57.1817	-1.08	-3.05	-1.90	-7.08

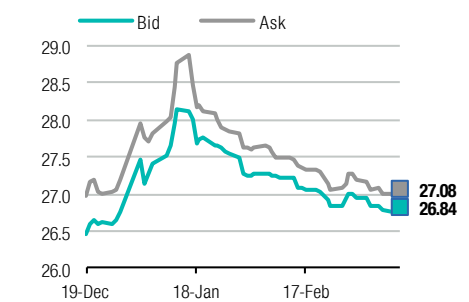
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 17 March 2017)



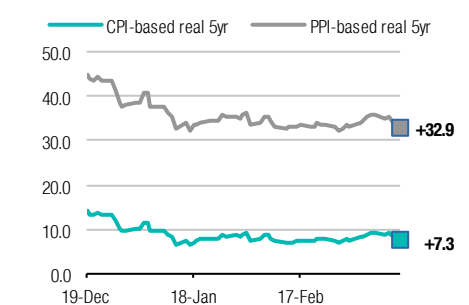
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 17 March 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 17 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)

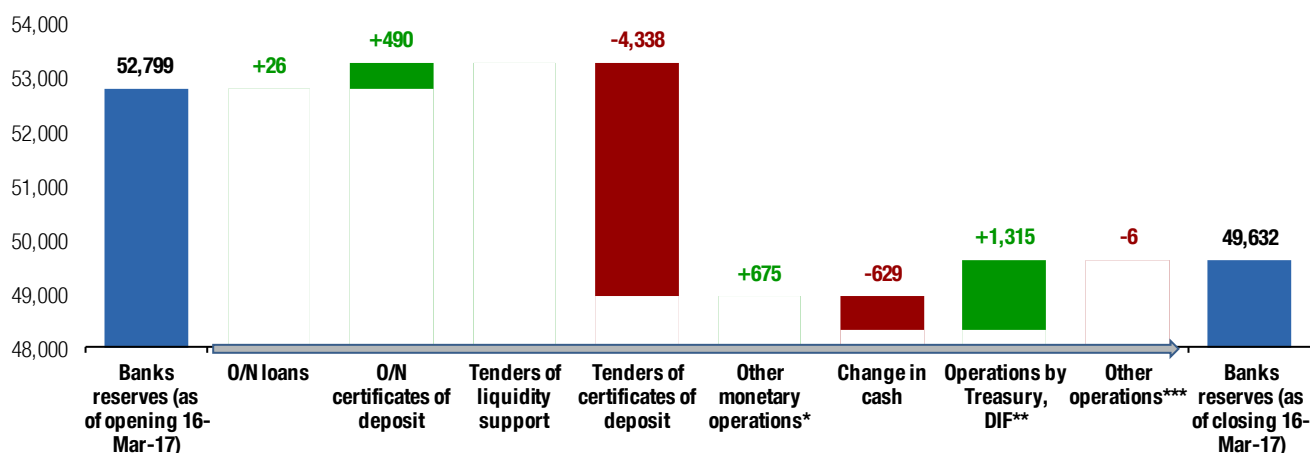
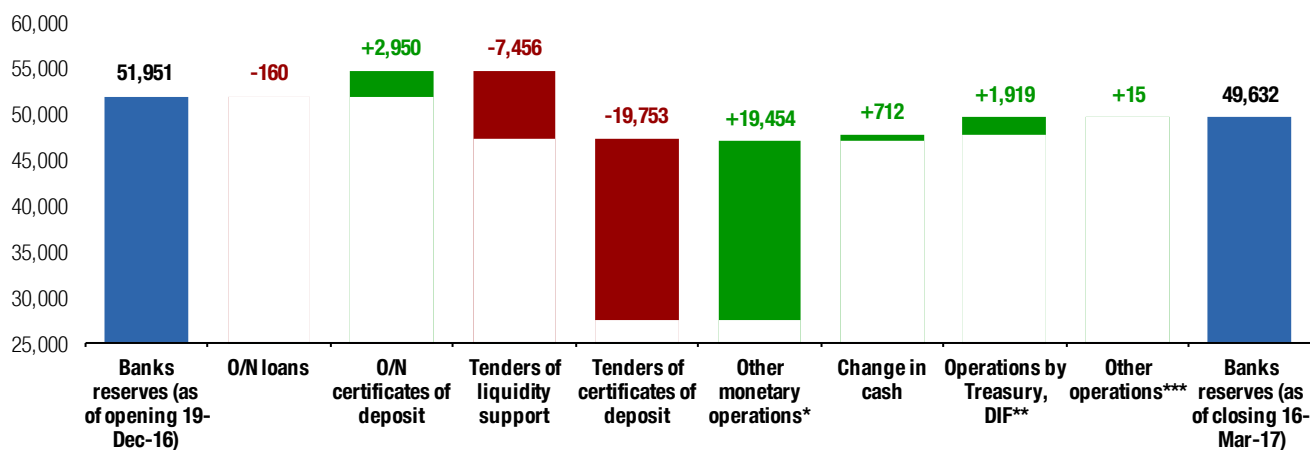
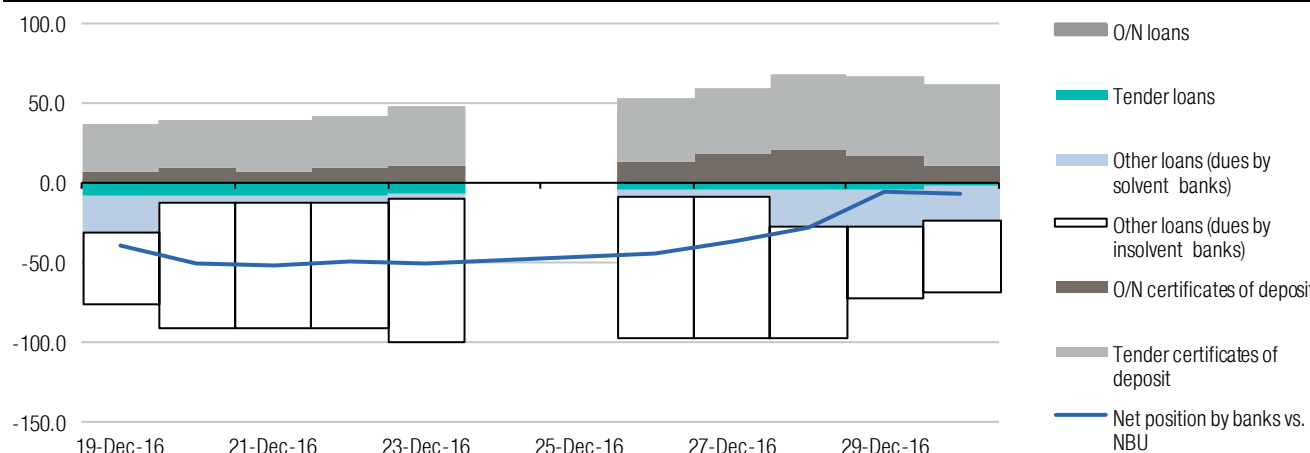


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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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