

# Daily Insight

## Liquidity down slightly

### Key messages of the today's comments

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

##### Liquidity down slightly ..... 2

Banking sector liquidity slid a mere UAH0.09bn yesterday as the result of the impact of non-monetary operations. A Treasury outflow UAH0.65bn was offset by an increase in cash of UAH0.53bn along with other non-monetary operations, resulting in a UAH0.09bn decline in liquidity and a small reallocation of funds to CDs.

##### Yield curve remains steady ..... 2

Yesterday's auctions confirmed anticipations that the market will not force bond purchasing at any price, while the MoF will not increase interest rates. The MoF received six bids, one for 77-day bonds, one for 12-month bonds and four for 2-year bonds. Out of this demand, the MoF rejected only the bid for the 77-day bond due to the high level interest rate at 14.75%. The main portion of yesterday's demand was submitted for 12-month and 2-year bonds at the usual level of interest rates, 14.95% and 15.09%, respectively.

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WEDNESDAY, 22 MARCH 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 21 March 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 21 March 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.30	+20bp	+170bp
Banks reserves (UAHm)	50,195	-2.61	+0.93
Deposit certificates* (UAHm)	49,941	-12.37	-29.69
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	26.8750	-0.09	-0.83
Total trade volume (US\$m)	N/A		
UAH index PCI-based	101.604	-0.11	-2.16
UAH index PPI-based	160.701	-0.11	-2.16
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	615bp	+0bp	+0bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,344.02	-1.24	+4.70
MSCI EM	973.08	+0.08	+12.85
US dollar index (DXY)	99.813	-0.59	-2.35
EUR / USD	1.0811	+0.67	+2.80
Crude oil WTI (US\$/bbl)	48.24	+0.04	-10.20
Crude oil BRENT (US\$/bbl)	50.96	-1.28	-10.31
CRB, commodities index	184.29	-0.27	-4.27
Gold (US\$/ounce)	1,244.57	+0.83	+8.01

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

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity down slightly

Banking sector liquidity slid a mere UAH0.09bn yesterday as the result of the impact of non-monetary operations. A Treasury outflow UAH0.65bn was offset by an increase in cash of UAH0.53bn along with other non-monetary operations, resulting in a UAH0.09bn decline in liquidity and a small reallocation of funds to CDs.

Banks' correspondent accounts with the NBU slid UAH1.35bn to UAH50.20bn while total CDs outstanding was up UAH1.26bn to UAH53.38bn, causing banking sector liquidity to slide UAH0.09bn to UAH103.57bn. The Treasury collected about UAH3.5bn but expenditures were less significant, resulting in a negative impact on liquidity.

**Investment implications:** The week started without significant tax collections, causing the balance between cashflows and liquidity to be UAH103.6bn. With taxes being collected, liquidity could decline through the end of the month.

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

## Yield curve remains steady

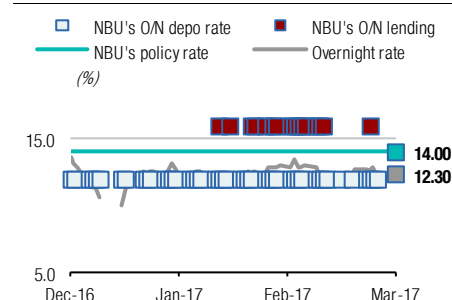
Yesterday's auctions confirmed anticipations that the market will not force bond purchasing at any price, while the MoF will not increase interest rates. The MoF received six bids, one for 77-day bonds, one for 12-month bonds and four for 2-year bonds. Out of this demand, the MoF rejected only the bid for the 77-day bond due to the high level interest rate at 14.75%. The main portion of yesterday's demand was submitted for 12-month and 2-year bonds at the usual level of interest rates, 14.95% and 15.09%, respectively.

Most demand was seen for 2-year bonds, at 15.08-15.09%. The MoF accepted all UAH570m of demand, out of which UAH100m was non-competitive demand, and received UAH573.23m of proceeds to the budget. One small bid for 12-month bonds was received at UAH20m par value, which provided an additional UAH17.54m of proceeds. At the same time, the interest rate for 77-day bonds was too high, 45bp higher than that for 5-month bonds that were sold in February, and just 20bp lower than for 12-month bonds.

**Ultimately, the MoF accepted the main portion of demand, receiving UAH590.77m of proceeds today, keeping the yield curve unchanged. Most likely, next week will be the same with similar turnover and rates as only about UAH1.0bn in repayments, an insignificant amount, are scheduled.**

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## Interest rates in the banks' reserves market (three months through 21 March 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 21 March 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	12.30	+20bp	-30bp	-110bp	+170bp
<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>	50,195	-2.61	+10.64	+2.96	+0.93
DepCerts <sup>3</sup>	49,941	-12.37	-33.67	-8.75	-29.69
<b>Total</b>	<b>100,136</b>	<b>-6.20</b>	<b>-15.64</b>	<b>-2.88</b>	<b>-16.11</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	384,071	+0.00	-0.13	+0.52	+7.84
Banks	285,204	-0.03	+1.99	+8.65	+65.49
Residents	22,766	-0.01	+3.16	-4.75	+45.21
Non-res <sup>4</sup>	5,386	-0.08	-6.19	-10.63	-15.20
<b>Total</b>	<b>697,428</b>	<b>-0.01</b>	<b>+0.78</b>	<b>+3.40</b>	<b>+26.69</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
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
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	615	+0bp	+1bp	+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

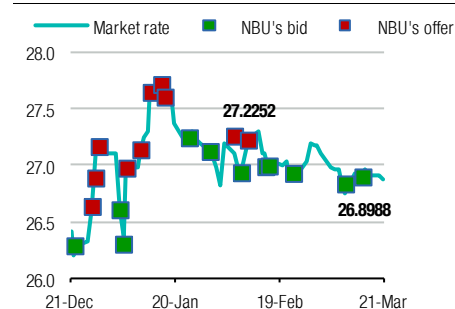
Key indicators (as of 21 березня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8750	-0.09	-0.04	-0.57	-0.83
USD <sup>1</sup>	99.813	-0.59	-1.86	-1.54	-2.35
EUR	1.0811	+0.67	+1.95	+2.61	+2.80
JPY	111.7100	-0.75	-2.65	-1.73	-4.49
GBP <sup>2</sup>	1.2478	+0.97	+2.67	+0.04	+1.12
CNY	6.8874	-0.31	-0.40	+0.05	-0.83
RUB	57.6896	+0.62	-2.56	+0.46	-6.25

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

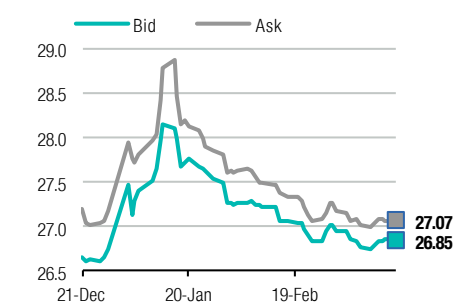
Source: Bloomberg, ICU.

**Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 21 March 2017)**



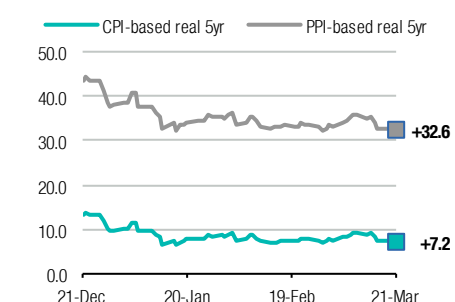
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

**Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 21 March 2017)**



Source: NBU.

**UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 21 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)

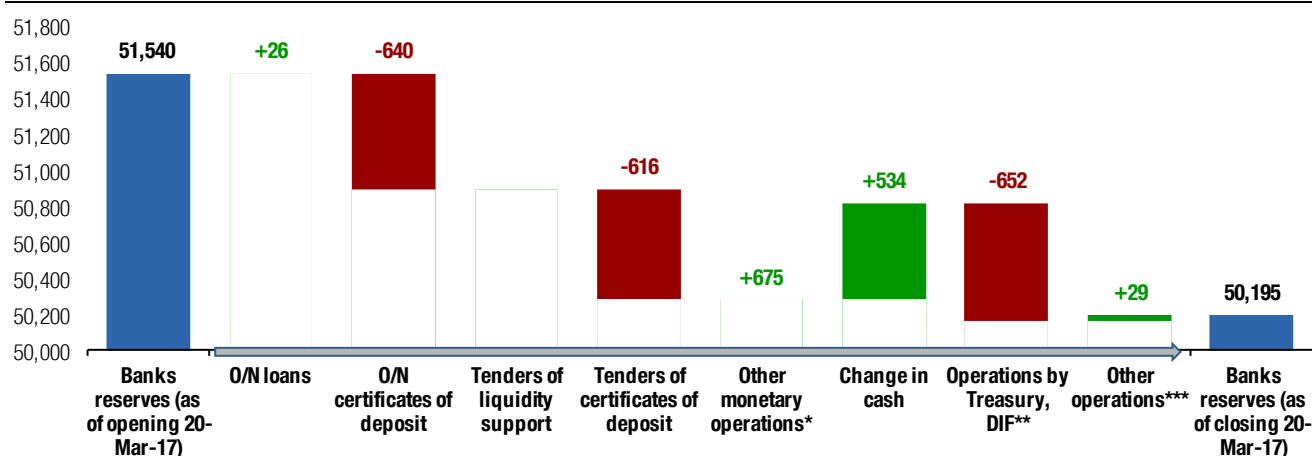
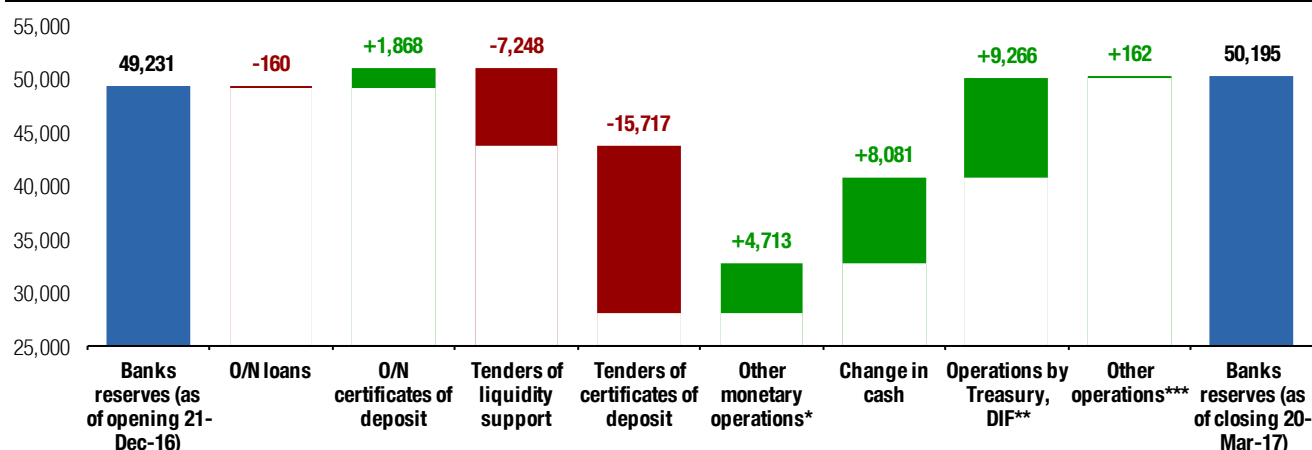


Chart 2. Banks reserves usages over last 30-day period (UAHm)

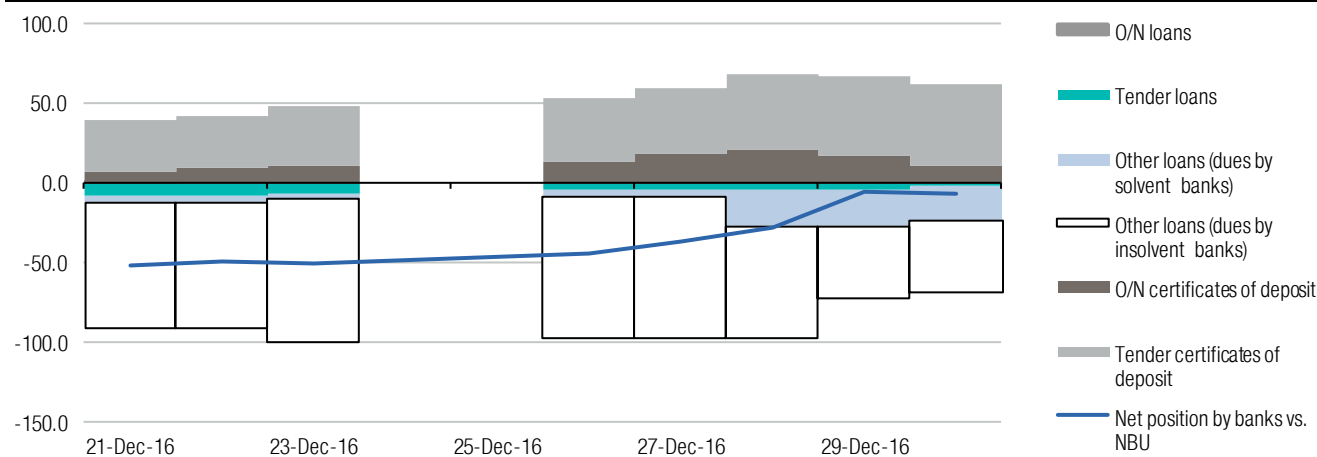


Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142) ;

\* 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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