

Daily Insight

Liquidity up slightly

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Liquidity up slightly 2

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Lower dependence on imported coal and higher exports of iron ore may mitigate negative effect from seizure of Ukrainian enterprises in the occupied territories 3

We estimate that the potential losses to Ukraine's balance of payments, as a result of Ukrainian enterprises taken over by separatists in the occupied territories, could amount to US\$2.1-2.5bn in 2017. However, several mitigating factors could reduce these losses to US\$1.2-1.4bn.

Appendix #1: Domestic liquidity 4

WEDNESDAY, 29 MARCH 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 28 March 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 28 March 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.20	-20bp	+160bp
Banks reserves (UAHm)	43,730	-0.13	-12.19
Deposit certificates* (UAHm)	60,650	-8.01	-10.36
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.0950	-0.13	-0.02
Total trade volume (US\$m)	128.81	-16.65	-24.06
UAH index PCI-based	100.530	+0.48	-3.20
UAH index PPI-based	159.003	+0.48	-3.20
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	615bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,358.57	+0.73	+5.35
MSCI EM	970.32	+0.48	+12.53
US dollar index (DXY)	99.712	+0.55	-2.44
EUR / USD	1.0814	-0.46	+2.82
Crude oil WTI (US\$/bbl)	48.37	+1.34	-9.96
Crude oil BRENT (US\$/bbl)	51.33	+1.14	-9.66
CRB, commodities index	184.08	+0.54	-4.38
Gold (US\$/ounce)	1,251.88	-0.20	+8.64

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity up slightly

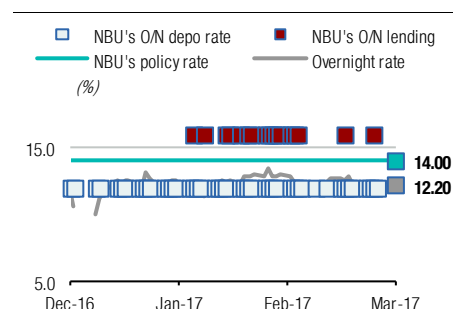
Despite month-end tax payments, liquidity remained steady and slightly rose yesterday, up UAH0.12bn to UAH104.11bn, including a slight reallocation of funds. Banks' correspondent accounts with the NBU declined UAH1.16bn to UAH43.73bn while total CDs outstanding was up UAH1.29bn to UAH60.38bn.

The over UAH1.0bn negative impact of Treasury operations was offset by an increase in cash as the NBU issued a UAH0.10bn ON loan to one bank.

Investment implications: The loan issued by the NBU was the primary reason for the increase, even without which liquidity would have remained high yesterday. Through the end of the month, liquidity should remain high, especially if a larger VAT refund is paid. The scheduled UAH1.3bn VAT refund on Monday is too small to have an impact.

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Interest rates in the banks' reserves market (three months through 28 March 2017)



Source: Bloomberg, ICU.

Key indicators (as of 28 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	12.20	-20bp	-10bp	-20bp	+160bp
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	43,730	-0.13	-13.00	-19.71	-12.19
DepCerts ³	60,650	-8.01	-10.92	+5.72	-10.36
Total	104,380	-4.71	-11.84	-7.19	-11.17
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	384,071	+0.00	+0.00	+0.52	+7.84
Banks	286,089	+0.05	+0.31	+4.78	+66.00
Residents	22,852	-0.04	+0.37	-5.07	+45.75
Non-res ⁴	5,440	+0.11	+0.99	-7.85	-14.36
Total	698,451	+0.02	+0.15	+1.95	+26.87
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	-1bp	+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

Lower dependence on imported coal and higher exports of iron ore may mitigate negative effect from seizure of Ukrainian enterprises in the occupied territories

We estimate that the potential losses to Ukraine's balance of payments, as a result of Ukrainian enterprises taken over by separatists in the occupied territories, could amount to US\$2.1-2.5bn in 2017. However, several mitigating factors could reduce these losses to US\$1.2-1.4bn.

One of the primary mitigating effects could come from Ukraine's lower imports of coking coal consumed by steel mills and coke plants located in the temporarily uncontrolled territories. This will be further enhanced by higher prices for coking coal, which we expect to grow 40-50% to an average of \$165-170/t in 2017. This could result in US\$300-400m savings for the national trade balance.

Furthermore, we expect Ukrainian TPPs to reduce their consumption of anthracite by 40-50% to 4.5-5.5m ton, one of the key causes being the transfer of power blocks of PJSC "Centrenergo" from using anthracite to using gas coal. This could lead to US\$400-500m savings. Over the longer term, one or two years, Ukrainian TPPs could abandon burning anthracite, and we estimate such a conversion as highly likely. According to known technological parameters, anthracite-burning power blocks in Ukraine are specifically designed to use Donbass anthracites, while using coal from other regions is possible as a mix component only. Only the reconstruction of power blocks could critically alter the requirements for consumed coal fuel.

Finally, losses in steel exports should be partially offset by additional exports of iron ore which were previously supplied to steel mills in the uncontrolled territories. Even factoring in volume losses, sea port bottlenecks and additional price discounts in external spot markets, as much as US\$150-200m could be offset.

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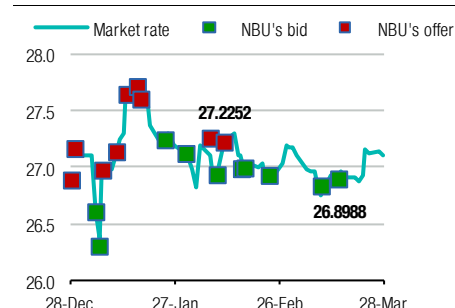
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 28 березня 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.0950	-0.13	+0.82	-0.33	-0.02
USD ¹	99.712	+0.55	-0.10	-1.39	-2.44
EUR	1.0814	-0.46	+0.03	+2.25	+2.82
JPY	111.1500	+0.44	-0.50	-1.44	-4.97
GBP ²	1.2450	-0.87	-0.22	+0.57	+0.89
CNY	6.8795	+0.10	-0.11	+0.18	-0.94
RUB	57.0493	+0.31	-1.11	-2.28	-7.29

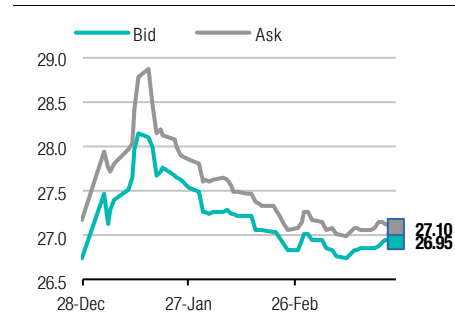
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 28 March 2017)



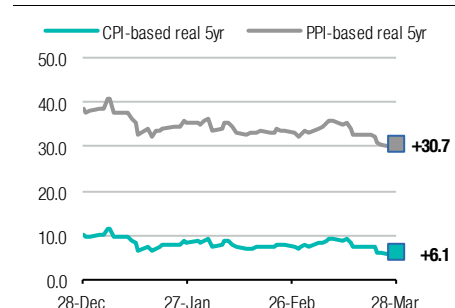
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 28 March 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 28 March 2017)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

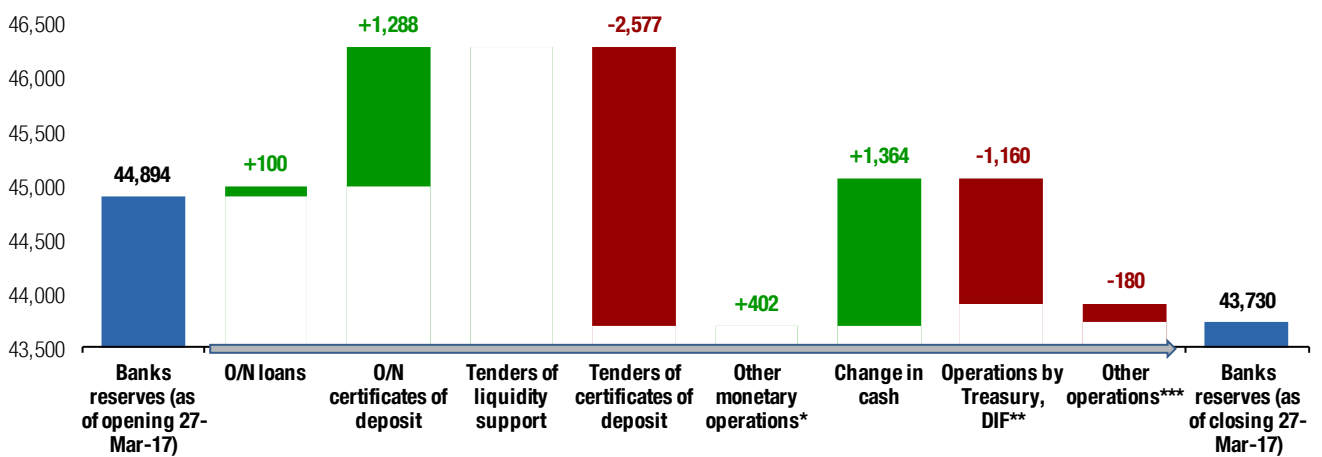
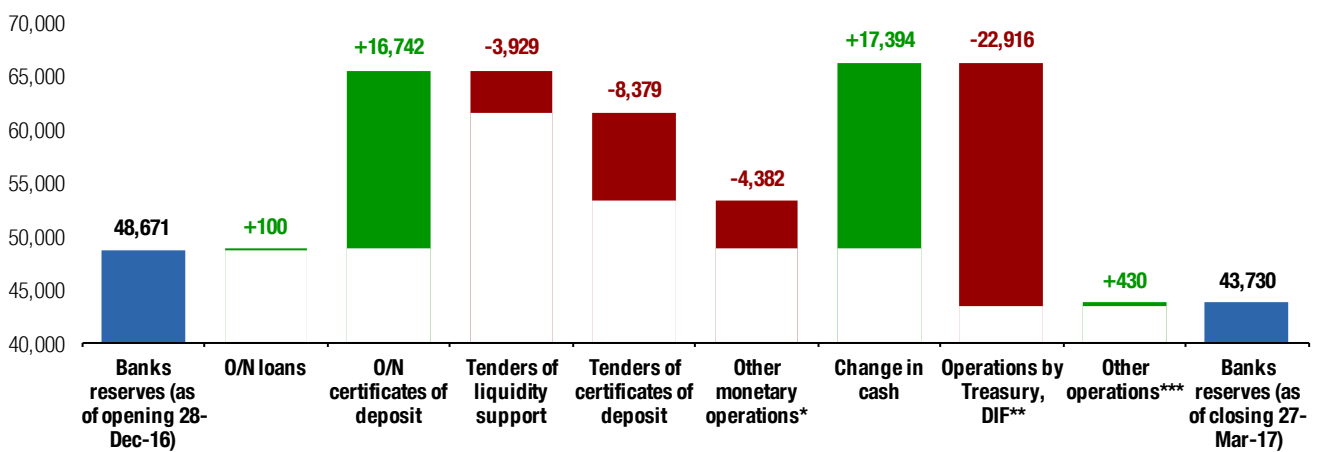
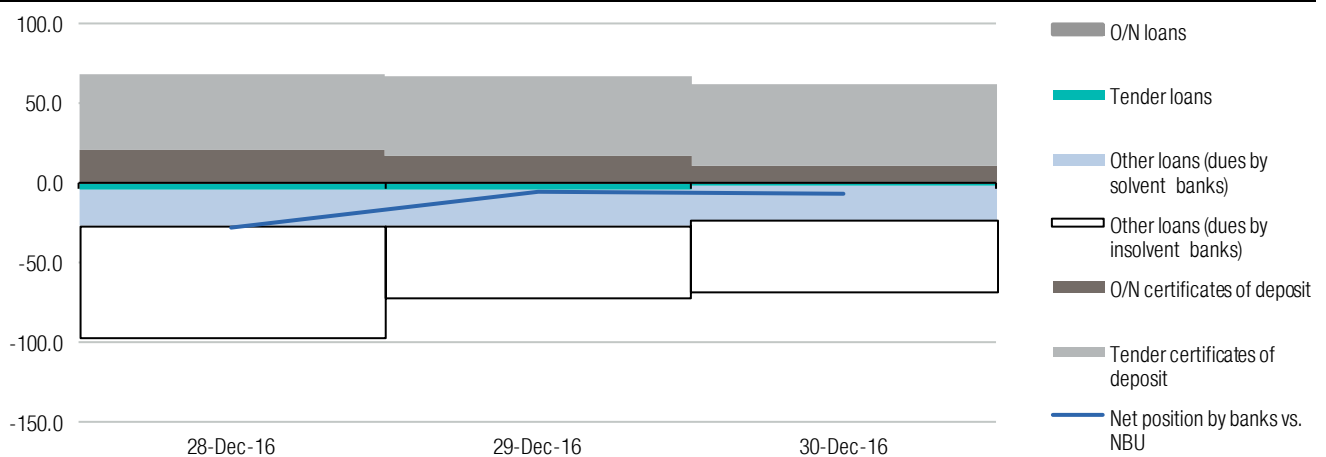


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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