

Daily Insight

Liquidity up on VAT refund

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Liquidity up on VAT refund 2

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Primary auction announcement 2

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TUESDAY, 4 APRIL 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 3 April 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 3 April 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	45,416	+7.05	-8.68
Deposit certificates* (UAHm)	74,599	+5.91	+19.86
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.0000	-0.26	-0.37
Total trade volume (US\$m)	N/A		
UAH index PCI-based	101.099	+0.14	-2.65
UAH index PPI-based	159.903	+0.14	-2.65
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	629bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,358.84	-0.16	+5.36
MSCI EM	965.15	+0.71	+11.93
US dollar index (DXY)	100.540	+0.19	-1.63
EUR / USD	1.0670	+0.17	+1.45
Crude oil WTI (US\$/bbl)	50.24	-0.71	-6.48
Crude oil BRENT (US\$/bbl)	53.12	-0.77	-6.51
CRB, commodities index	184.53	-0.73	-4.15
Gold (US\$/ounce)	1,253.35	+0.32	+8.77

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity up on VAT refund

According to NBU data, the impact of non-monetary operations on liquidity was a significant UAH7.71bn of net inflows, where only UAH0.42bn was an increase in cash. The main portion of inflows was caused by the Treasury as the DGF injected UAH7.32bn into liquidity. Other operations that caused outflows amounted to UAH0.03bn. A key inflow from the Treasury was the VAT refund of UAH8.53bn, which increased the monthly amount to UAH9.92bn.

Most of the additional liquidity was invested in CDs with redemptions yesterday. As the result of last Friday's tender, banks purchased UAH7.68bn of 14-day CDs, only UAH0.11bn more than were redeemed last Friday, while outstanding ON CDs increased UAH4.05bn to UAH9.44bn. As a result, total CDs outstanding was up UAH4.16bn. Banks' correspondent accounts with the NBU rose UAH2.99bn. Finally, total banking sector liquidity rose UAH7.16bn.

Investment implications: The Treasury and Tax administration last month made insufficient VAT refunds until the last day of the month when it paid large enough volume that caused liquidity to increase. These funds most likely will be used to purchase FX, and probably could be partially absorbed by the NBU through FX auctions.

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Primary auction announcement

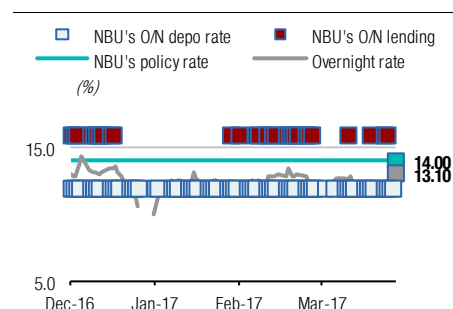
Today, the MoF will offer just three maturities of local currency bonds, following the auction schedule for 2Q17, offering 6-month (168 days), 12-month (329 days) and 2-year (700 days) bonds. All offerings will be re-openings of older issues.

The last time the MoF sold 5-month bonds was in February at 14.30%, and today the MoF will use this auction as the benchmark for this issue. However, the market could bid higher interest rates due to the longer maturity. As 12-month and 2-year bonds were sold last week, today we should see demand at the same level, 14.95% and 15.08%, respectively.

Investment implications: The MoF should use older cut-off rates as the benchmarks and not increase rates. As the market could submit bids at higher rates, they could be rejected. Regardless, we do not anticipate large demand today, as most demand was satisfied last week.

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Interest rates in the banks' reserves market (three months through 3 April 2017)



Source: Bloomberg, ICU.

Key indicators (as of 3 April 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	45,416	+7.05	+1.16	+5.96	-8.68
DepCerts ³	74,599	+5.91	+9.16	+7.87	+19.86
Total	120,015	+6.34	+5.99	+7.14	+7.18
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	383,022	+0.00	-0.27	-0.40	+7.55
Banks	284,938	+0.04	-0.35	+3.52	+65.34
Residents	23,240	+0.11	+1.66	+4.92	+48.23
Non-res ⁴	5,416	+0.17	-0.32	-8.36	-14.72
Total	696,616	+0.02	-0.24	+1.27	+26.54
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	629	+0bp	+14bp	+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.

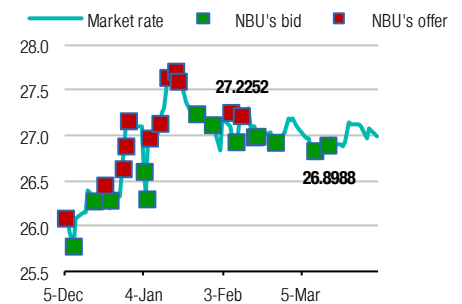
Foreign exchange markets

Key indicators (as of 3 квітня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.0000	-0.26	-0.48	-0.41	-0.37
USD ¹	100.540	+0.19	+1.39	-0.98	-1.63
EUR	1.0670	+0.17	-1.79	+0.45	+1.45
JPY	110.9000	-0.44	+0.22	-2.75	-5.18
GBP ²	1.2486	-0.51	-0.58	+1.59	+1.18
CNY	N/A	N/A	N/A	N/A	N/A
RUB	56.0986	-0.26	-1.36	-3.67	-8.84

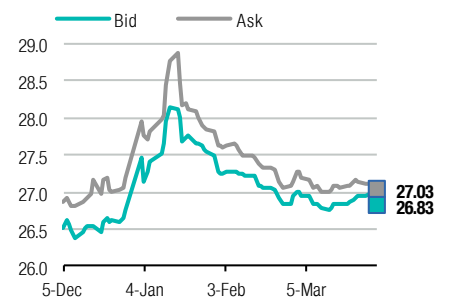
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 3 April 2017)



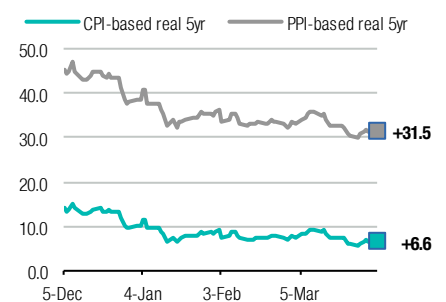
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 3 April 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 3 April 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)

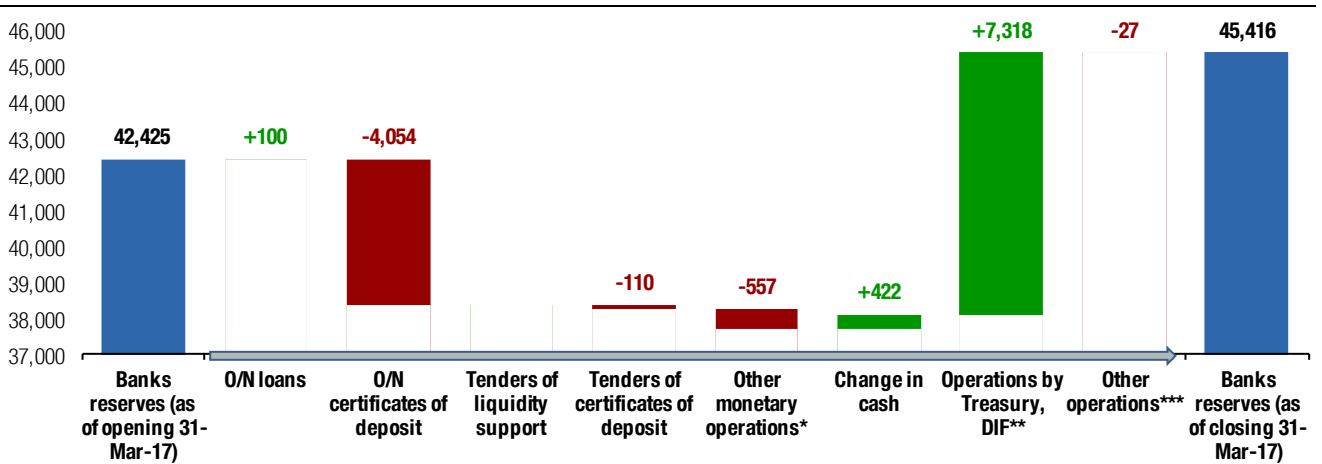
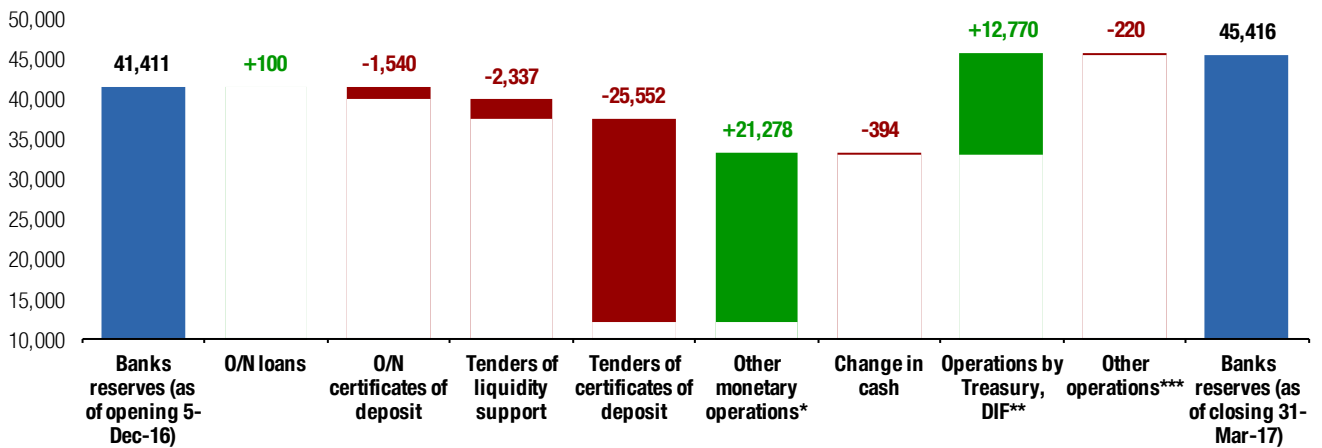
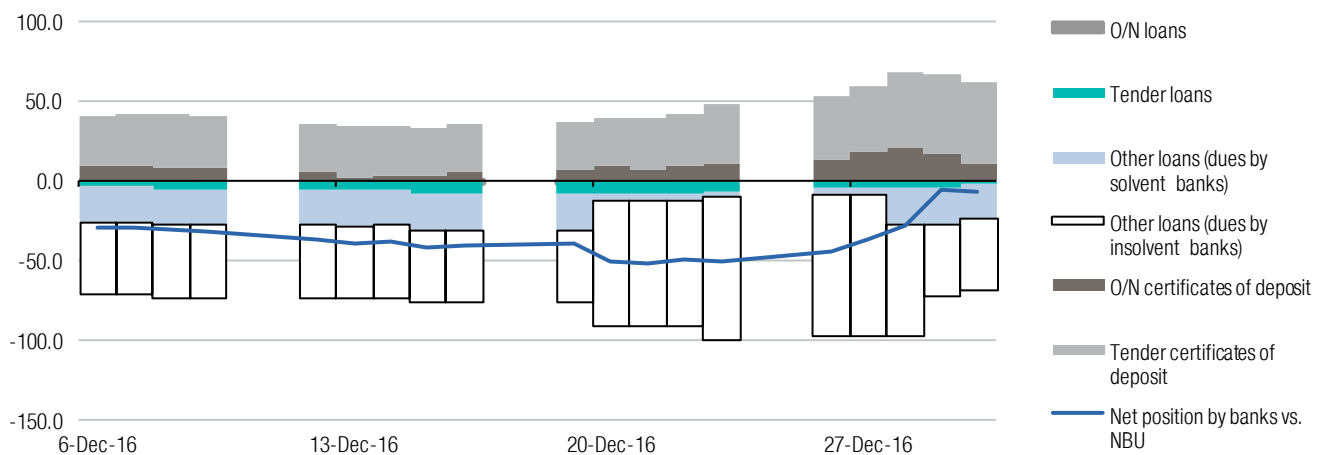


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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