

Daily Insight

Liquidity down as cash declines

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NBU portfolio expected to restructure bonds 2

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MONDAY, 10 APRIL 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 7 April 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 7 April 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	13.40	+100bp	+280bp
Banks reserves (UAHm)	40,697	-2.00	-19.80
Deposit certificates* (UAHm)	74,982	-1.75	+18.37
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.9600	-0.24	-0.52
Total trade volume (US\$m)	191.21	+16.42	+12.73
UAH index PCI-based	102.030	+0.74	-1.75
UAH index PPI-based	161.375	+0.74	-1.75
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	620bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,355.54	-0.08	+5.21
MSCI EM	961.61	-0.17	+11.52
US dollar index (DXY)	101.180	+0.51	-1.01
EUR / USD	1.0591	-0.50	+0.70
Crude oil WTI (US\$/bbl)	52.24	+1.04	-2.76
Crude oil BRENT (US\$/bbl)	55.24	+0.64	-2.78
CRB, commodities index	187.11	+0.17	-2.81
Gold (US\$/ounce)	1,254.45	+0.20	+8.87

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity down as cash declines

As expected, the Treasury paid no VAT refund last Thursday, but expenditures offset UAH3.7bn of funds received. The net impact of Treasury and DGF operations of UAH0.18bn, combined with cash down a significant UAH1.01bn, had a net negative impact of non-monetary operations of UAH0.89bn.

Under the pressure of non-monetary operations, banking sector liquidity slid UAH0.89bn to UAH106.43bn, as banks' correspondent accounts with the NBU declined UAH0.01bn to UAH40.70bn and total CDs outstanding fell UAH0.88bn to UAH65.73bn. Last Thursday, banks increased purchases of 14-day CDs by UAH1.39bn, while the amount of ON CDs fell UAH2.28bn.

Investment implications: *As the new mechanism for VAT refunds postponed outflows from the budget for some time, the Treasury is not expected to provide large inflows into the banking system anytime soon, particularly as it attempts to maintain a balance between revenues and expenditures. Because of this, we do not anticipate high volatility in liquidity over the next few days.*

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

NBU portfolio expected to restructure bonds

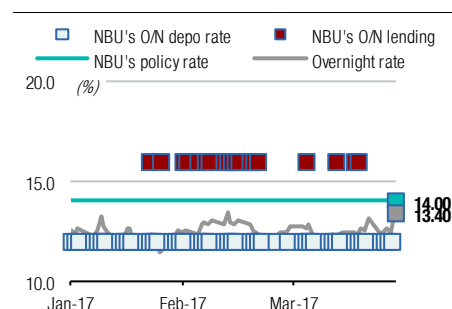
Last week, the Minister of Finance and the Prime Minister announced the conclusion of negotiations between the MoF and NBU. Following an external audit, the Minister of Finance expects to launch a bond portfolio restructuring.

As no specific details of new bonds were released, based on earlier reports the NBU stated intentions to issue inflation-linked bonds. Legally, a restructuring must be agreed upon between the MoF and NBU to exchange only NBU portfolio bonds for new government bonds.

Investment implications: *Based on our estimates, the NBU is scheduled to receive at least UAH30bn in bonds and service significant debt this year. A restructuring will postpone these payments for a few years, thus flattening the current year's debt repayment schedule, enabling the budget to raise more funds this year. UAH15bn will be allocated for road infrastructure repairs through the end of 2017.*

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Interest rates in the banks' reserves market (three months through 7 April 2017)



Source: Bloomberg, ICU.

Key indicators (as of 7 April 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	13.40	+100bp	+30bp	+100bp	+280bp
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	40,697	-2.00	-5.99	+2.46	-19.80
DepCerts ³	74,982	-1.75	+4.59	+0.68	+18.37
Total	115,679	-1.84	+0.62	+1.30	+1.41
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	381,089	+0.00	-0.50	-0.91	+7.00
Banks	285,872	-0.10	+0.37	+3.93	+65.88
Residents	23,183	+0.36	-0.13	+4.91	+47.87
Non-res ⁴	5,432	-0.21	+0.46	-7.88	-14.48
Total	695,576	-0.03	-0.13	+1.15	+26.35
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	12.88	-161bp	+78bp	-51bp	-953bp
6 months	18.55	+1bp	+8bp	+6bp	+8bp
9 months	18.22	+2bp	+8bp	+1bp	+21bp
1 year	17.28	+2bp	+6bp	+0bp	+28bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	620	+0bp	-9bp	+13bp	+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.

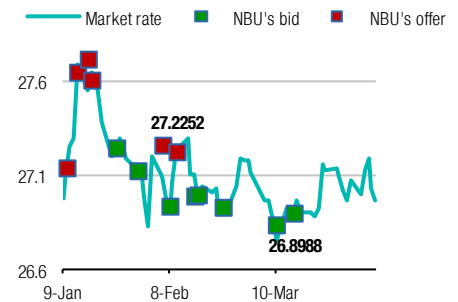
Foreign exchange markets

Key indicators (as of 7 квітня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.9600	-0.24	-0.41	-0.02	-0.52
USD ¹	101.180	+0.51	+0.83	-0.62	-1.01
EUR	1.0591	-0.50	-0.57	+0.24	+0.70
JPY	111.0900	+0.25	-0.27	-2.54	-5.02
GBP ²	1.2371	-0.79	-1.43	+1.40	+0.25
CNY	6.9005	+0.04	+0.19	-0.03	-0.64
RUB	57.2650	+1.70	+1.81	-1.59	-6.94

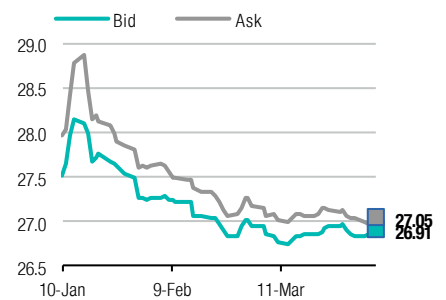
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 7 April 2017)



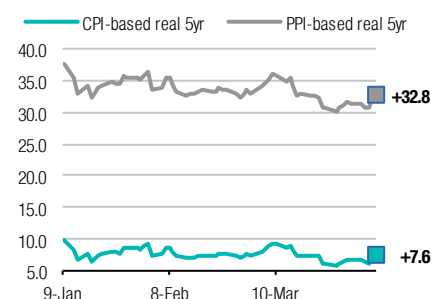
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 7 April 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 7 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)

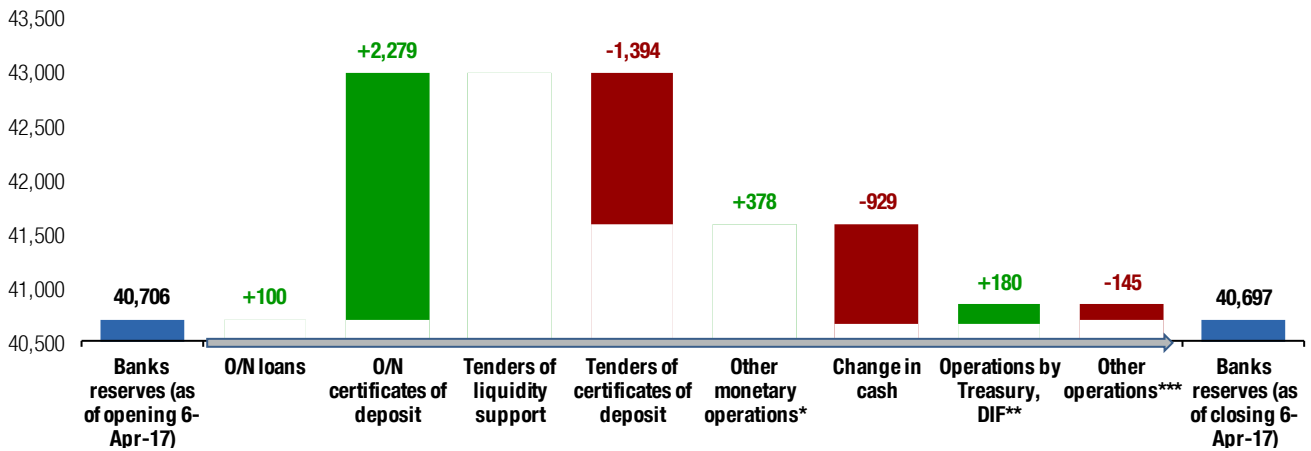
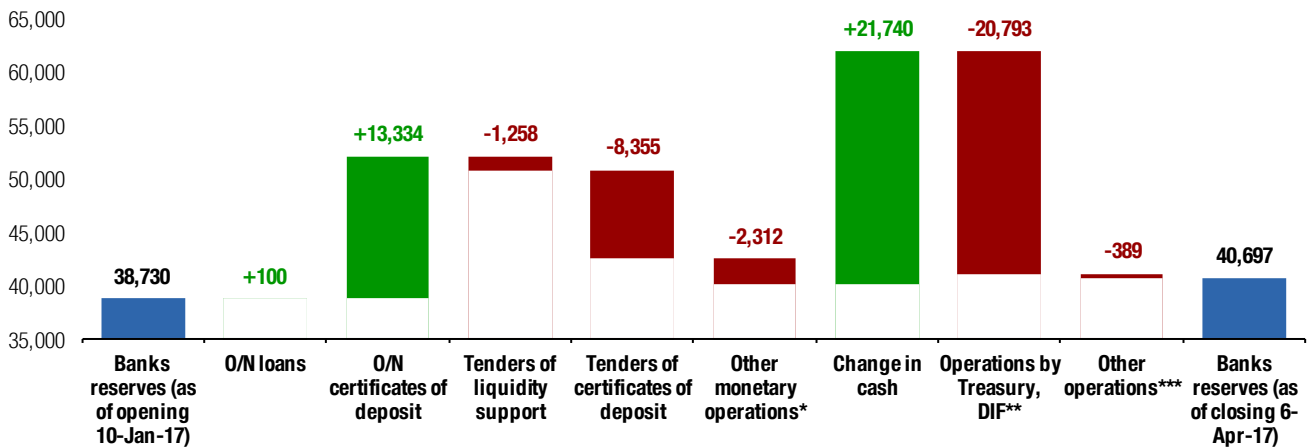
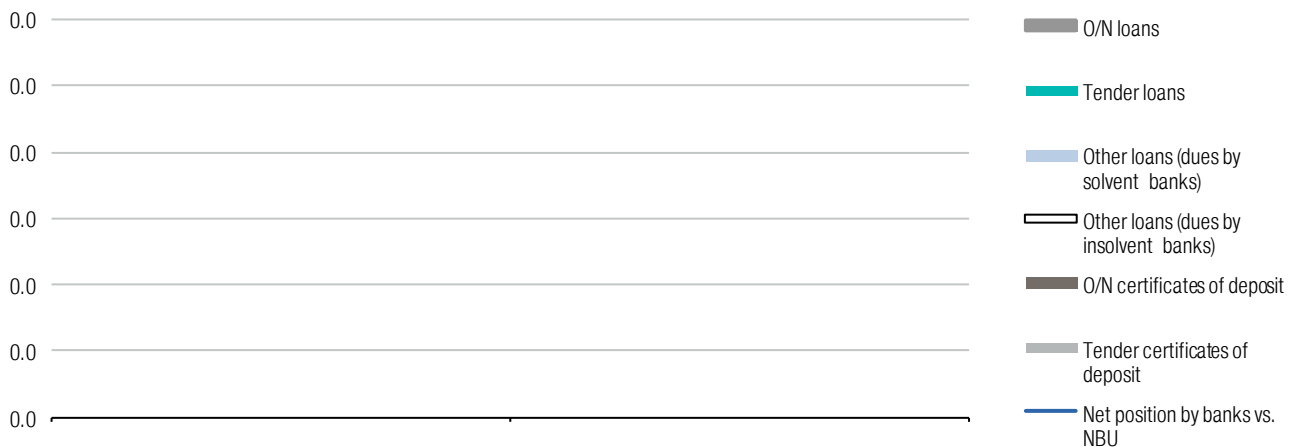


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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