

Daily Insight

Liquidity reallocation

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Banking sector liquidity remained unchanged following a significant reallocation of funds. The negative impact of non-monetary operations on liquidity were offset by the NBU utilizing other monetary policy operations. The Treasury collected about UAH3.0bn and provided larger expenditures, and VAT refunds in April remain the same.

Primary auction: low demand 2

The MoF offered 5-month and 11-month zero-coupon bonds at yesterday's auction. While 1-year maturities were sold in recent weeks, mostly in small amounts, half-year bonds were last sold in February. Our tepid expectations of low demand were realized.

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WEDNESDAY, 12 APRIL 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 11 April 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 11 April 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.50	-10bp	+190bp
Banks reserves (UAHm)	43,163	+8.22	-13.21
Deposit certificates* (UAHm)	63,171	-6.83	-5.44
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.8950	+0.06	-0.76
Total trade volume (US\$m)	192.82	+29.22	+13.68
UAH index PCI-based	102.147	-0.23	-1.64
UAH index PPI-based	161.561	-0.23	-1.64
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	620bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,353.78	-0.14	+5.13
MSCI EM	954.44	-0.37	+10.69
US dollar index (DXY)	100.710	-0.31	-1.47
EUR / USD	1.0605	+0.08	+0.84
Crude oil WTI (US\$/bbl)	53.40	+0.60	-0.60
Crude oil BRENT (US\$/bbl)	56.23	+0.45	-1.04
CRB, commodities index	188.00	+0.20	-2.35
Gold (US\$/ounce)	1,274.57	+1.58	+10.61

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity reallocation

Banking sector liquidity remained unchanged following a significant reallocation of funds. The negative impact of non-monetary operations on liquidity were offset by the NBU utilizing other monetary policy operations. The Treasury collected about UAH3.0bn and provided larger expenditures, and VAT refunds in April remain the same.

Treasury transactions were positive at UAH0.44bn, but significantly lower than the decline in cash, resulting in a UAH1.28bn outflow. The net impact of non-monetary operations was UAH0.84bn, mostly offset by the NBU via UAH0.72bn in unclassified other monetary policy operations, causing banking sector liquidity to decline to UAH0.12bn. Total banking sector liquidity slid to UAH104.18bn yesterday as banks' correspondent accounts with the NBU increased UAH3.28bn to UAH43.16bn and total CDs outstanding declined UAH3.40bn to UAH61.02bn.

Investment implications: Outflows from the banking system via cash have decreased but remain the main reason for the decline in liquidity, forcing the NBU to compensate via specific operations. This Monday, the main portion of the NBU's injection was via an FX auction, where the NBU provided UAH0.69bn of funds. As a result, liquidity remained above UAH100bn. Yesterday's FX auction should support liquidity with a UAH1.35bn injection from the NBU.

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

Primary auction: low demand

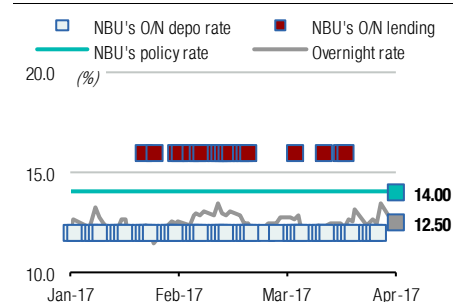
The MoF offered 5-month and 11-month zero-coupon bonds at yesterday's auction. While 1-year maturities were sold in recent weeks, mostly in small amounts, half-year bonds were last sold in February. Our tepid expectations of low demand were realized.

The MoF received and satisfied the sole two bids for 11-month bonds at 14.84-14.85%, or 5-6bp below last week's cut-off rate, selling UAH23.50m (par value) for UAH20.78m in budget proceeds. The 5-month offering received no bids.

As zero-coupon bonds attract little to no market demand, the 2-year and 3-year bonds should attract above UAH500m in demand next week. Interest rates could decrease slightly, with 2-year bonds selling no lower than 15.00% and 3-year bonds no lower than 15.20%.

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Interest rates in the banks' reserves market (three months through 11 April 2017)



Source: Bloomberg, ICU.

Key indicators (as of 11 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	12.50	-10bp	+10bp	-20bp	+190bp
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	43,163	+8.22	-3.55	+23.38	-13.21
DepCerts ³	63,171	-6.83	-20.97	-22.74	-5.44
Total	106,334	-3.98	-14.36	-8.15	-8.82
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	381,089	+0.00	-0.50	-0.91	+7.00
Banks	285,317	-0.06	+0.16	+3.80	+65.56
Residents	23,088	-0.04	-0.90	+4.90	+47.26
Non-res ⁴	5,399	-0.15	-0.34	-8.09	-15.00
Total	694,893	-0.03	-0.25	+1.10	+26.23
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	620	+0bp	-9bp	+5bp	+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

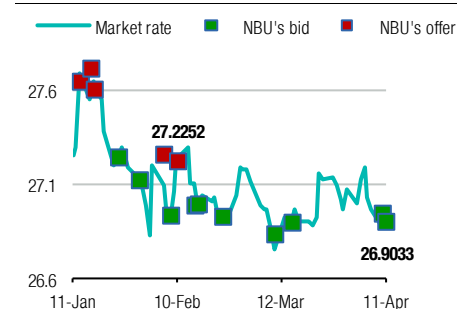
Key indicators (as of 11 квітня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.8950	+0.06	-0.83	+0.54	-0.76
USD ¹	100.710	-0.31	+0.17	-0.53	-1.47
EUR	1.0605	+0.08	-0.65	-0.64	+0.84
JPY	109.6200	-1.19	-1.01	-4.50	-6.28
GBP ²	1.2491	+0.61	+0.41	+2.66	+1.22
CNY	6.8921	-0.16	+0.07	-0.25	-0.76
RUB	56.9628	-0.37	+1.70	-3.42	-7.43

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

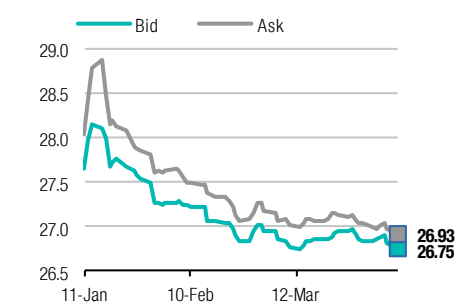
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 11 April 2017)



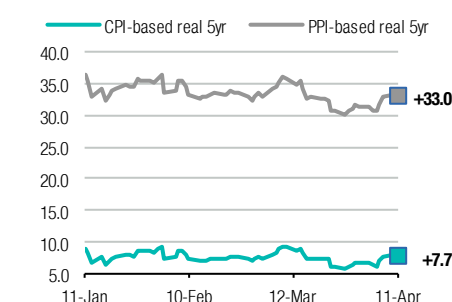
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 11 April 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 11 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)

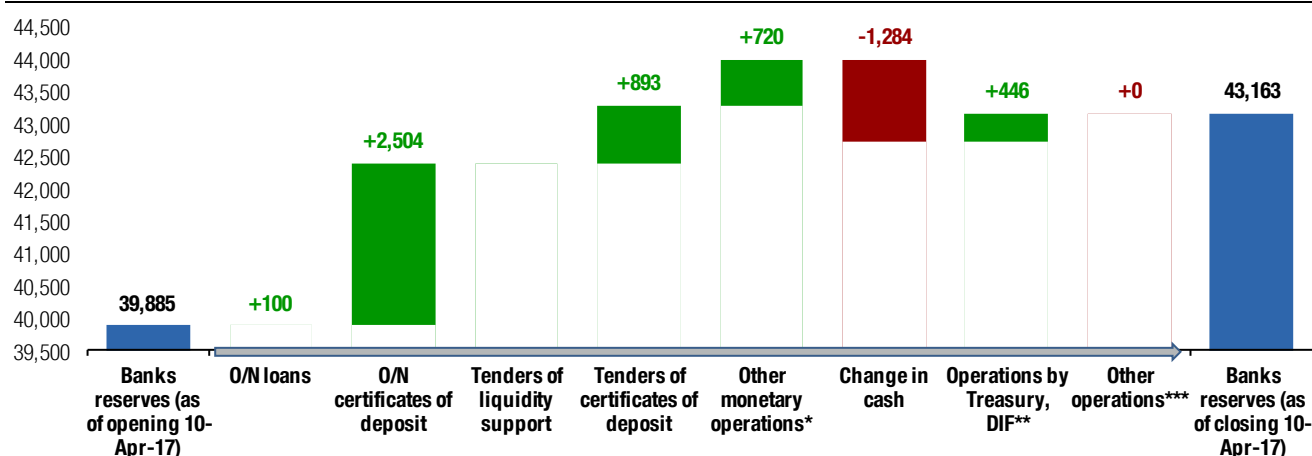
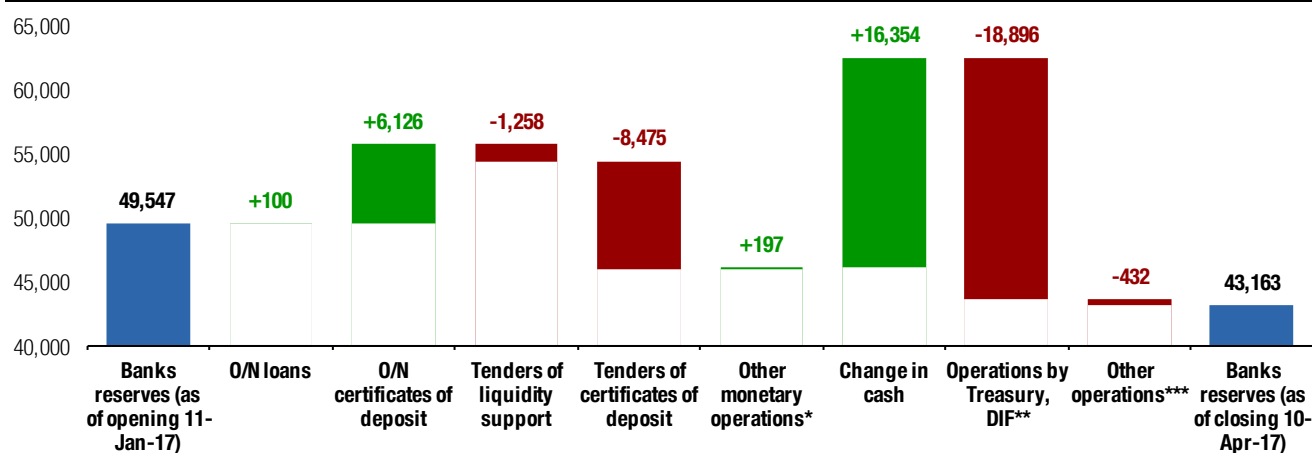


Chart 2. Banks reserves usages over last 90-day period (UAHm)

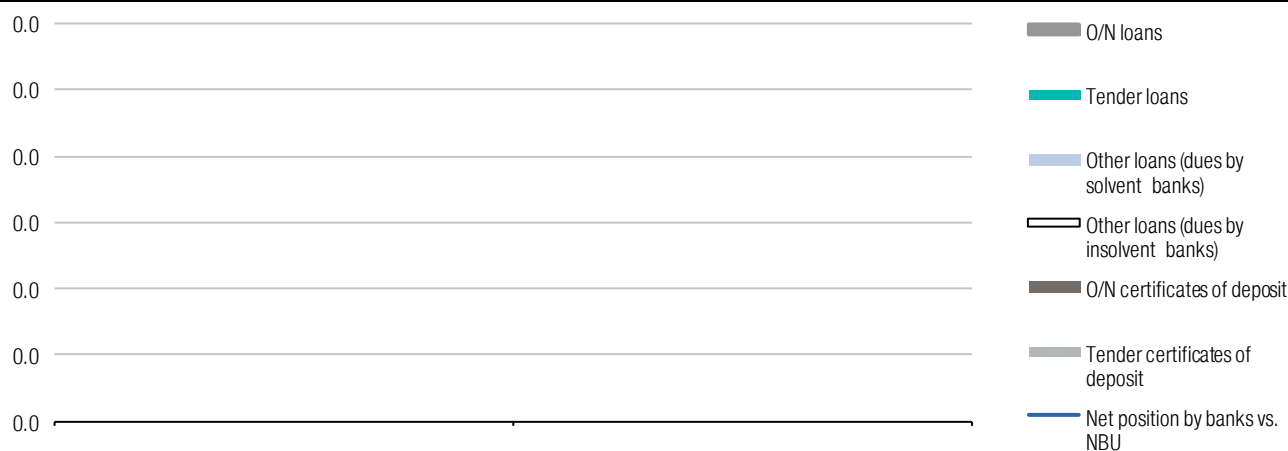


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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