

Daily Insight

Primary auction announcement

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Total banking sector liquidity last week rose to UAH116.55bn, mostly due to positive impact of Treasury operations. The Treasury mostly provided additional liquidity, with inflows reduced only once by a cash decline. Only one out of four business days last week showed the negative impact of non-monetary operations.

Primary auction announcement 2

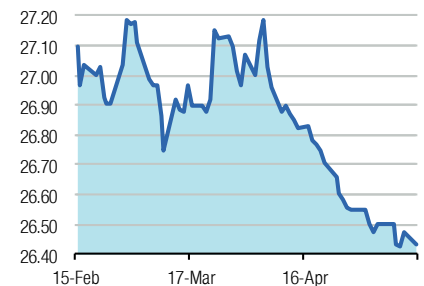
Today, the MoF announced this year's debut FX-denominated bond offering, as scheduled for this week. However, the offering is limited to US\$200m as the MoF received from Oschadbank's confiscated FX, offsetting any needs for funds to repay maturing FX-denominated bonds. The MoF also plans to offer 6-month and 11-month local currency bonds.

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TUESDAY, 16 MAY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 15 May 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 15 May 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	11.60	+10bp	+100bp
Banks reserves (UAHm)	48,964	-5.21	-6.68
Deposit certificates* (UAHm)	67,585	-11.94	-4.38
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.4300	-0.15	-2.47
Total trade volume (US\$m)	160.33	+0.56	-5.48
UAH index PCI-based	108.696	-0.38	+0.64
UAH index PPI-based	167.526	-0.38	-0.50
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	590bp	-1bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,402.32	+0.48	+7.30
MSCI EM	1,010.23	+0.78	+17.16
US dollar index (DXY)	98.911	-0.34	-3.23
EUR / USD	1.0975	+0.40	+4.35
Crude oil WTI (US\$/bbl)	48.85	+2.11	-9.07
Crude oil BRENT (US\$/bbl)	51.82	+1.93	-8.80
CRB, commodities index	182.74	+0.58	-5.08
Gold (US\$/ounce)	1,230.69	+0.21	+6.81

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity rose step-by-step

Total banking sector liquidity last week rose to UAH116.55bn, mostly due to positive impact of Treasury operations. The Treasury mostly provided additional liquidity, with inflows reduced only once by a cash decline. Only one out of four business days last week showed the negative impact of non-monetary operations.

Funds were reallocated to CDs at the end of last week as total CDs outstanding rose UAH2.75bn to UAH67.59bn last Saturday, close to the record high of this month. However, banks' correspondent accounts with the NBU slid UAH0.74bn to UAH48.96bn. Outflows to CDs were offset by extra budget expenditures.

Investment implications: Liquidity remains high, fueled by additional bed get expenditures, as tax payments do not begin until next week. No large VAT refunds have been scheduled this month, and the last two weeks' total has not exceeded UAH0.5bn. As a result, budget expenditures should continue to be the main source for the increase in liquidity and part of these funds should be invested in CDs, especially if the NBU continues to hold FX auctions and purchase FX.

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Primary auction announcement

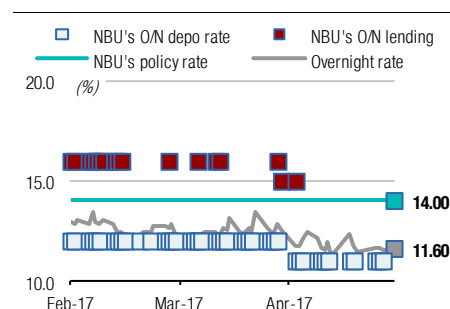
Today, the MoF announced this year's debut FX-denominated bond offering, as scheduled for this week. However, the offering is limited to US\$200m as the MoF received from Oschadbank's confiscated FX, offsetting any needs for funds to repay maturing FX-denominated bonds. The MoF also plans to offer 6-month and 11-month local currency bonds.

The most recent FX-denominated bond offering took place last year, and 3-year bonds have not been offered since 2013, making the bonds more attractive for the market as they help reduce FX risk. However, due to the stable UAH/USD exchange rate over the last few weeks, as well as the recent appreciation of the local currency, the yield for this issue might not be very attractive. Local currency bonds should collect some demand, especially after the three week break, which could cause some postponed bids for 11-month bonds. 6-month bonds most likely will attract no demand.

Investment implications: 11-month bonds could be sold at an interest rate close to last April's auction when 10-month bonds were sold at 14.45-14.50%. Interest rates for USD-denominated bonds could be close to 6% in demand, but the MoF should accept bids starting from the lowest level, particularly as the final rate could be significantly lower.

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Interest rates in the banks' reserves market (three months through 15 May 2017)



Source: Bloomberg, ICU.

Key indicators (as of 15 May 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	11.60	+10bp	+20bp	-90bp	+100bp
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	48,964	-5.21	+6.62	+3.91	-6.68
DepCerts ³	67,585	-11.94	-12.44	-11.58	-4.38
Total	116,550	-9.11	-5.00	-5.40	-5.40
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	377,915	+0.00	+0.00	-0.52	+6.11
Banks	283,029	+0.00	-0.02	-0.71	+64.23
Residents	22,175	-0.03	-0.08	-4.14	+41.44
Non-res ⁴	5,305	+0.00	-0.04	-1.48	-16.47
Total	688,424	+0.00	-0.01	-0.73	+25.05
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	590	-1bp	-10bp	-30bp	+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.

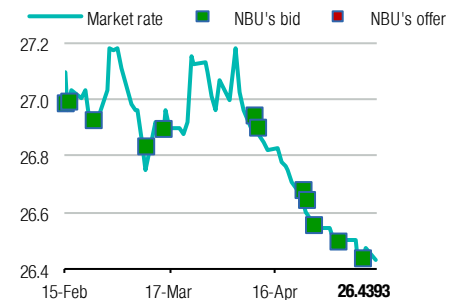
Foreign exchange markets

Key indicators (as of 15 травня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.4300	-0.15	-0.26	-1.45	-2.47
USD ¹	98.911	-0.34	-0.15	-1.59	-3.23
EUR	1.0975	+0.40	+0.47	+3.36	+4.35
JPY	113.7900	+0.36	+0.47	+4.74	-2.71
GBP ²	1.2896	+0.05	-0.34	+2.98	+4.51
CNY	6.8935	-0.09	-0.16	+0.12	-0.74
RUB	56.3669	-1.26	-3.33	+0.33	-8.40

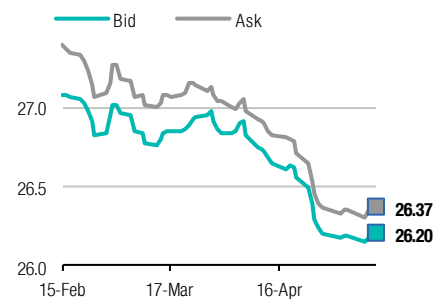
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 15 May 2017)



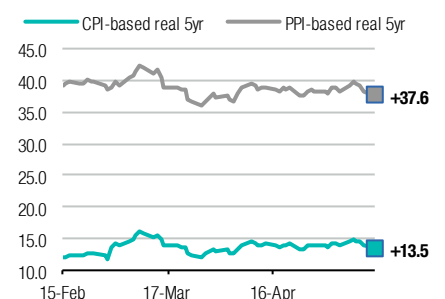
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 15 May 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 15 May 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)

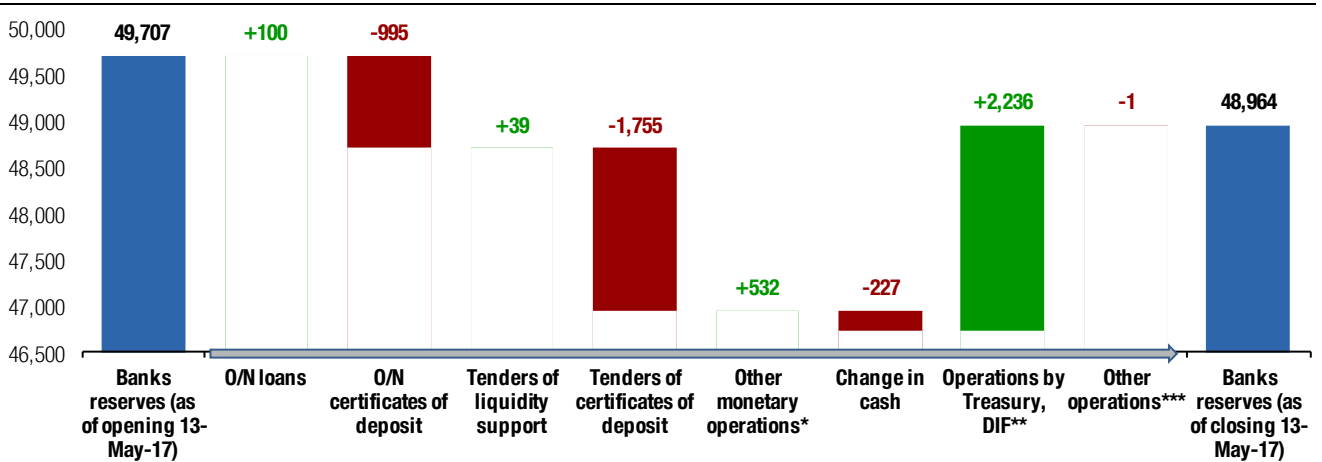
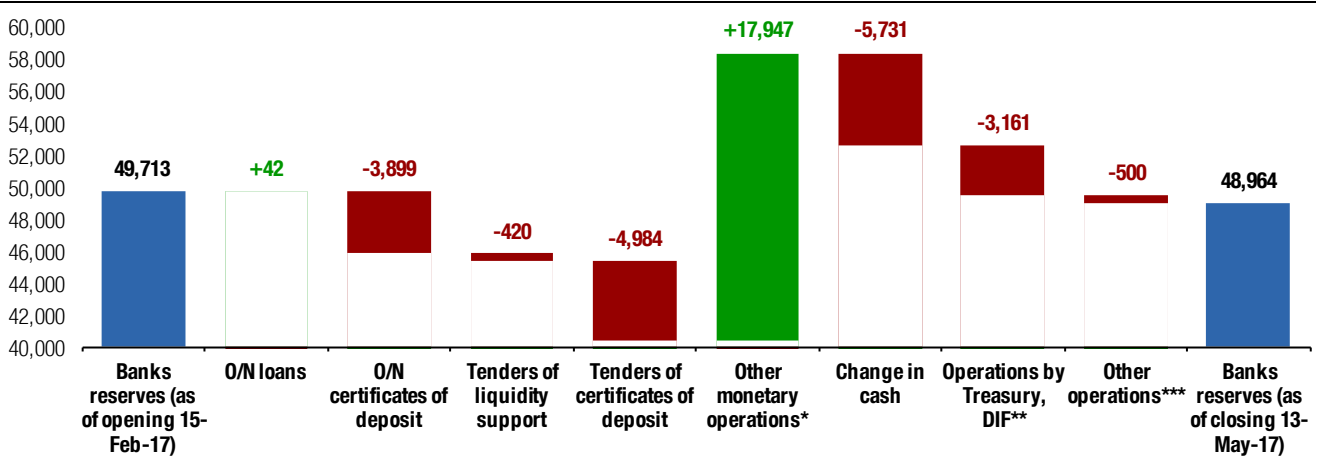
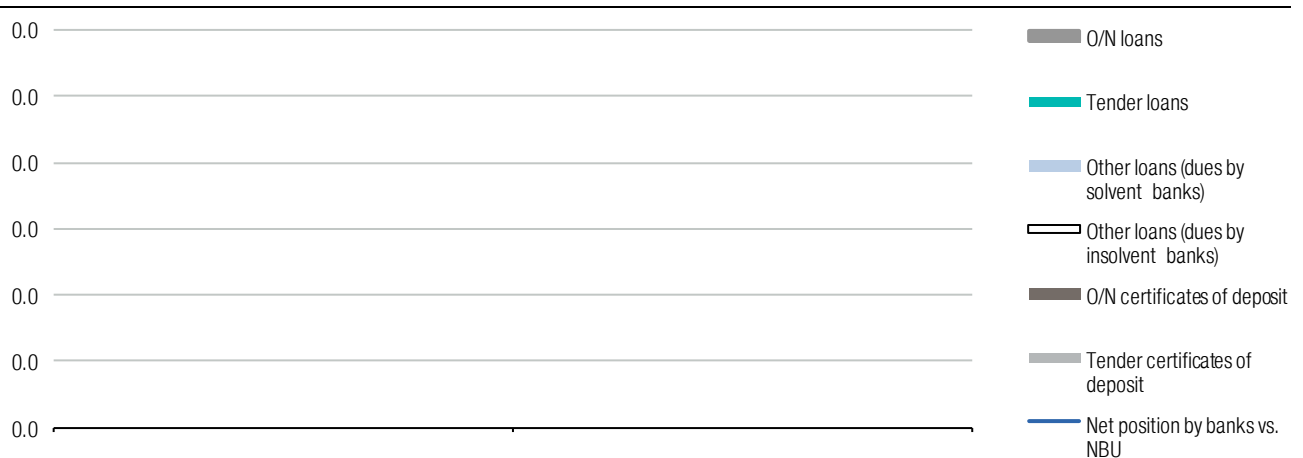


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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