

Daily Insight

Treasury funds absorbed

Key messages of the today's comments

TUESDAY, 23 MAY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 22 May 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 22 May 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.00	+0bp	-100bp
Overnight rate (interbank)	12.40	+20bp	+180bp
Banks reserves (UAHm)	43,212	+2.26	-11.15
Deposit certificates* (UAHm)	58,714	-7.45	-12.69
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.3275	-0.13	-2.85
Total trade volume (US\$m)	145.47	-30.64	-14.23
UAH index PCI-based	108.079	-0.13	+0.07
UAH index PPI-based	166.576	-0.13	-1.07
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	595bp	-2bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,394.02	+0.52	+6.93
MSCI EM	1,003.66	+0.80	+16.40
US dollar index (DXY)	96.984	-0.16	-5.11
EUR / USD	1.1237	+0.28	+6.85
Crude oil WTI (US\$/bbl)	51.13	+1.59	-4.82
Crude oil BRENT (US\$/bbl)	53.87	+0.48	-5.19
CRB, commodities index	186.07	+0.54	-3.34
Gold (US\$/ounce)	1,260.62	+0.38	+9.40

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity 2

Treasury funds absorbed 2

The impact of Treasury operations on liquidity significantly rose last Friday nearly two-fold from the day before, causing fund outflows of UAH8.84bn. The total impact from non-monetary autonomous operations was UAH9.92bn, including cash declines and outflows via other operations. Banks had to decrease investments in CDs and NBU accounts.

Primary auction announcement 2

Today, the MoF will offer 2-year bonds after nearly a month-long break and anticipate demand for this bond. Also, there will be offerings of 6-month and 12-month bonds similar to last week's auction. These two bonds could see demand, too, but less significant than for 2-year bonds.

Foreign exchange markets 3

Appendix #1: Domestic liquidity 4

Domestic liquidity

Treasury funds absorbed

The impact of Treasury operations on liquidity significantly rose last Friday nearly two-fold from the day before, causing fund outflows of UAH8.84bn. The total impact from non-monetary autonomous operations was UAH9.92bn, including cash declines and outflows via other operations. Banks had to decrease investments in CDs and NBU accounts.

Total CDs outstanding fell UAH5.07bn to UAH58.71bn, via decreasing purchases of 14-days CDs UAH6.06bn as ON CDs rose a mere UAH0.99bn. Banks' correspondent accounts with the NBU fell UAH3.70bn to UAH43.21bn.

Investment implications: The Treasury appears to have collected greater revenues over expenditures, causing liquidity to decline UAH8.77bn to UAH101.92bn, the lowest amount since mid-March. If Treasury operations are not balanced in today's data, liquidity could fall below UAH100bn. Yesterday's CD redemptions were not significant, while today no 14-day CD redemptions are planned, but tomorrow banks will receive UAH14.29bn of 14-day CDs for redemption of those sold on 10 May.

Primary auction announcement

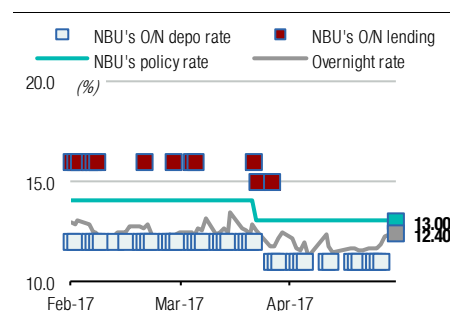
Today, the MoF will offer 2-year bonds after nearly a month-long break and anticipate demand for this bond. Also, there will be offerings of 6-month and 12-month bonds similar to last week's auction. These two bonds could see demand, too, but less significant than for 2-year bonds.

2-year bonds with redemption on April 2019 will be a re-opening of 5-year bonds sold during April-July 2014 at UAH1.65bn with a 14.30% coupon. However, today interest rates should be significantly higher, at around 14.80%, as last week 12-month bonds were sold at a weighted average rate of 14.44% and a cut-off rate of 14.50%. 6-month bonds will see demand at 14.00-14.10% while 12-month bonds could have similar rates as last week, not lower than 14.40%.

Investment implications: Today's demand should be less significant than that seen last week, mostly from investors seeking 2-year bonds. As tomorrow's debt repayments to the market should be insufficient, we anticipate no debt refinancing, just some new purchases.

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Interest rates in the banks' reserves market (three months through 22 May 2017)



Source: Bloomberg, ICU.

Key indicators (as of 22 May 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	13.00	+0bp	+0bp	+0bp	-100bp
Overnight	12.40	+20bp	+80bp	+0bp	+180bp
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	43,212	+2.26	-9.76	-13.14	-11.15
DepCerts ³	58,714	-7.45	-19.60	-16.73	-12.69
Total	101,926	-3.34	-15.47	-15.16	-12.01
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	377,915	+0.00	+0.00	+0.00	+6.11
Banks	280,154	+0.12	-1.02	-1.41	+62.56
Residents	21,993	-0.17	-0.82	-0.33	+40.28
Non-res ⁴	5,284	-0.09	-0.40	-1.48	-16.81
Total	685,346	+0.04	-0.45	-0.60	+24.49
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	595	-2bp	+5bp	-25bp	+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.

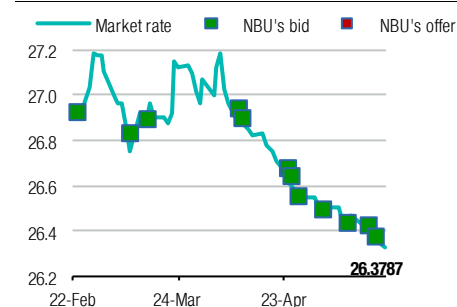
Foreign exchange markets

Key indicators (as of 22 травня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.3275	-0.13	-0.39	-1.41	-2.85
USD ¹	96.984	-0.16	-1.95	-2.99	-5.11
EUR	1.1237	+0.28	+2.39	+4.74	+6.85
JPY	111.3000	+0.04	-2.19	+2.03	-4.84
GBP ²	1.3000	-0.28	+0.81	+1.43	+5.35
CNY	6.8864	+0.02	-0.10	+0.01	-0.84
RUB	56.6366	-0.45	+0.48	-0.05	-7.96

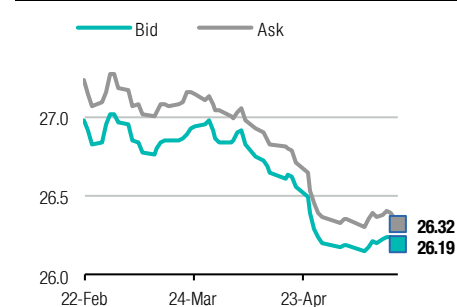
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 22 May 2017)



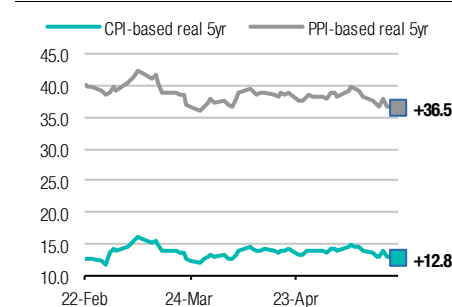
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 22 May 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 22 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)

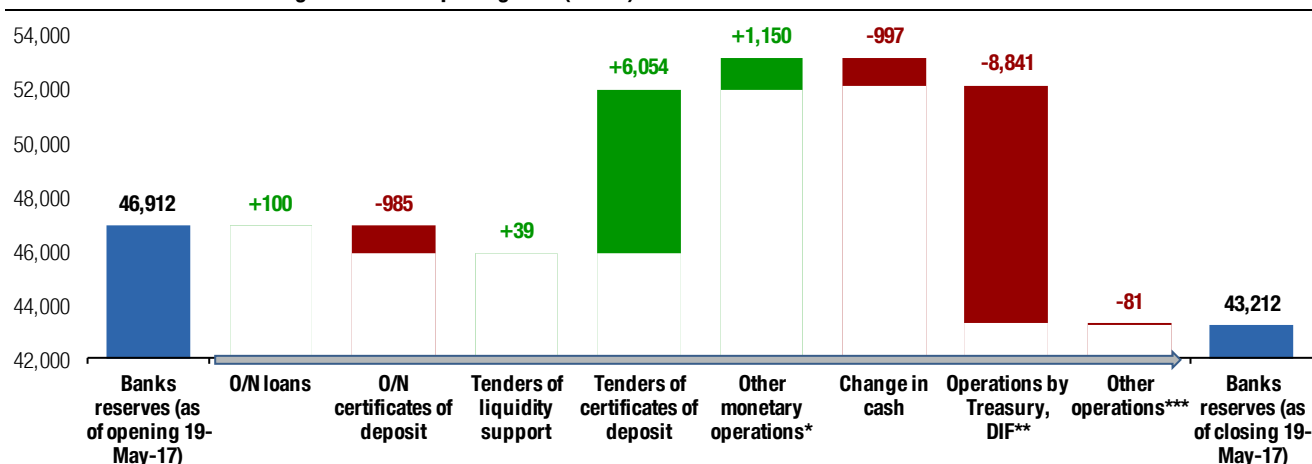
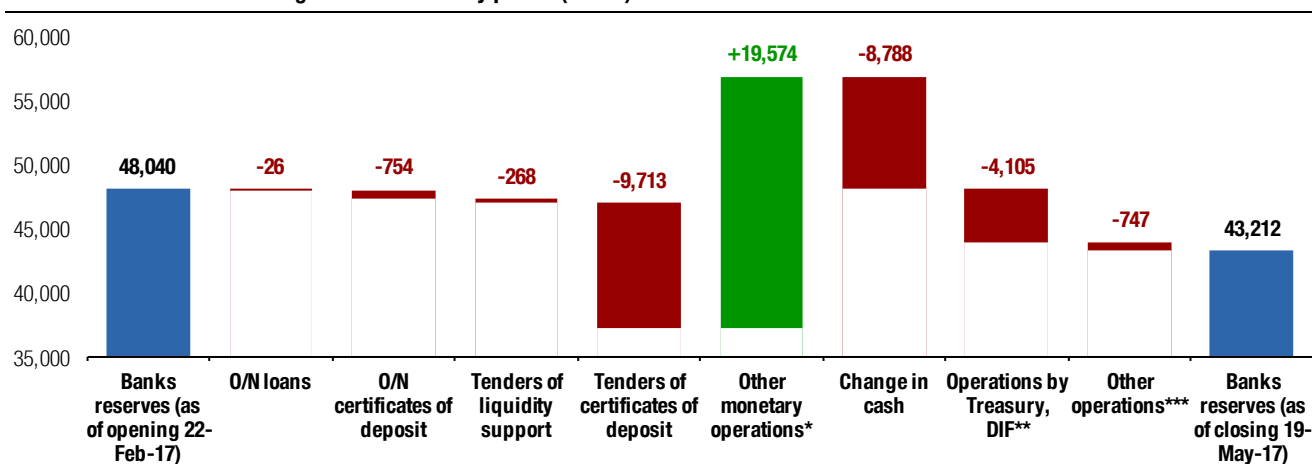
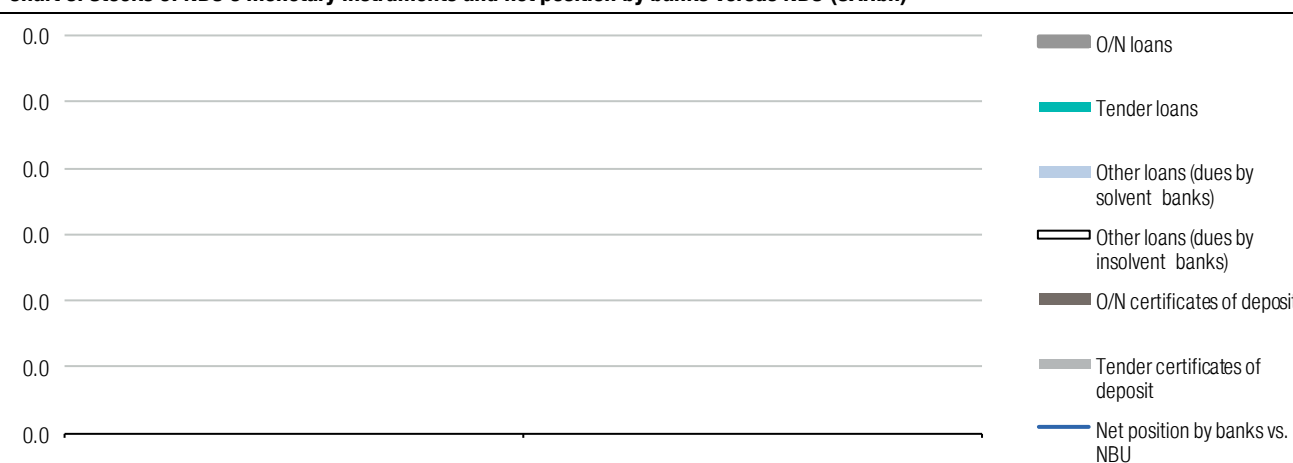


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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