

Daily Insight

Liquidity recovery slight

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Liquidity recovery slight 2

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Interest rates decline further 2

Yesterday, the MoF continued to reject the most expensive bids (nearly half of those submitted) as it decreased cut-off rates. Out of UAH2.20bn of total demand, the MoF accepted UAH1.93bn of demand (par value) and today will receive only UAH2.42m less than par value.

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WEDNESDAY, 24 MAY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 23 May 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 23 May 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.00	+0bp	-100bp
Overnight rate (interbank)	12.60	+20bp	+200bp
Banks reserves (UAHm)	44,187	-0.58	-11.66
Deposit certificates* (UAHm)	59,016	-5.44	-10.34
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.2450	-0.31	-3.15
Total trade volume (US\$m)	183.38	+26.06	+8.12
UAH index PCI-based	108.590	+0.47	+0.55
UAH index PPI-based	167.363	+0.47	-0.60
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	595bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,398.42	+0.18	+7.13
MSCI EM	1,004.47	+0.08	+16.49
US dollar index (DXY)	97.351	+0.38	-4.75
EUR / USD	1.1183	-0.48	+6.33
Crude oil WTI (US\$/bbl)	51.47	+0.66	-4.19
Crude oil BRENT (US\$/bbl)	54.15	+0.52	-4.70
CRB, commodities index	185.06	-0.55	-3.87
Gold (US\$/ounce)	1,251.16	-0.75	+8.58

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity recovery slight

Following the conclusion of quarterly tax payments, total banking system liquidity recovered a slight UAH1.27bn to UAH103.20bn, as lower Treasury outflows were offset by UAH0.66bn in NBU inflows and a UAH0.52bn increase in cash.

CDs outstanding and banks' accounts at the NBU caused liquidity to rise. Total CDs outstanding were up UAH 0.30bn to UAH59.02bn yesterday while banks' correspondent accounts with the NBU rose UAH0.97bn to UAH44.19bn.

Investment implications: *Following month-end tax payments that could cause liquidity to decline, lower outflows to Treasury accounts and sufficient inflows from other sources allowed liquidity to stay above UAH100bn this Monday. Yesterday's UAH1.32bn inflow from the NBU via FX auction could cause liquidity to recover further, but today's outflow via new bond purchases will cause new outflows. Liquidity should remain above UAH100bn with high volatility.*

Interest rates decline further

Yesterday, the MoF continued to reject the most expensive bids (nearly half of those submitted) as it decreased cut-off rates. Out of UAH2.20bn of total demand, the MoF accepted UAH1.93bn of demand (par value) and today will receive only UAH2.42m less than par value.

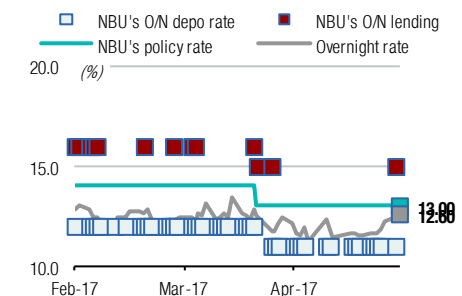
Demand for zero-coupon bonds was just UAH205m, including UAH75m for 6-month bonds and UAH130m for 12-month bonds. Half-year bonds were sold at 14.00%, 3bp lower than a week ago and the weighted average interest rate, while the MoF rejected UAH30m of 12-month bonds at 14.50%, the recent cut-off rate, and set a new cut-off rate at 14.44%, the last weighted-average interest rate.

Most of yesterday's demand was seen for 2-year bonds, with 13 bids at UAH1.99bn at 14.60% to 14.85%, from which the MoF accepted competitive bids at 14.60% as well as all non-competitive bids. Compared with previous similar bonds, interest rates fell 48bp from the last time these bonds were sold at the beginning of April, prior to the last key monetary rate cut.

Investment implications: *Over the last two months, the key monetary rate has been cut 100bp and primary market rates have declined 30-48bp for all bonds sold: 6-month bonds down 30bp from February (no demand seen until May); 12-month bonds down 41bp over one month; 3-year bonds down 30bp in April (not offered in May); and 2-year bonds down 48bp. If the key rate is not reduced further, we could see 3-month bond rates decline in June by 20bp to 14.70-14.75% while other bond rates decline should fall insufficiently.*

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Interest rates in the banks' reserves market (three months through 23 May 2017)



Source: Bloomberg, ICU.

Key indicators (as of 23 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	12.60	+20bp	+100bp	+20bp	+200bp
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	44,187	-0.58	-5.34	-13.65	-11.66
DepCerts ³	59,016	-5.44	-20.61	-14.48	-10.34
Total	103,203	-3.36	-14.54	-14.12	-10.93
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	377,915	+0.00	+0.00	+0.00	+6.11
Banks	280,031	-0.04	-1.03	-1.45	+62.49
Residents	22,041	+0.22	-1.12	-0.11	+40.58
Non-res ⁴	5,279	-0.11	-0.50	-1.58	-16.89
Total	685,265	-0.01	-0.46	-0.62	+24.48
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	+0bp	+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

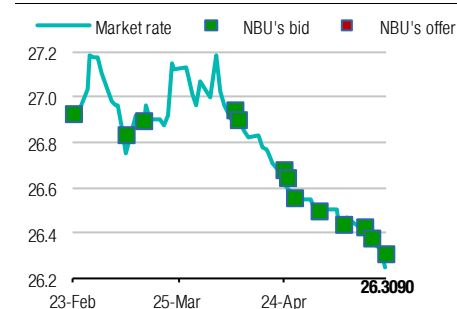
Key indicators (as of 23 травня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.2450	-0.31	-0.70	-1.72	-3.15
USD ¹	97.351	+0.38	-0.77	-2.63	-4.75
EUR	1.1183	-0.48	+0.90	+4.24	+6.33
JPY	111.7800	+0.43	-1.18	+2.47	-4.43
GBP ²	1.2961	-0.30	+0.34	+1.12	+5.03
CNY	6.8852	-0.02	-0.02	-0.01	-0.86
RUB	56.3222	-0.56	-0.46	-0.61	-8.47

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

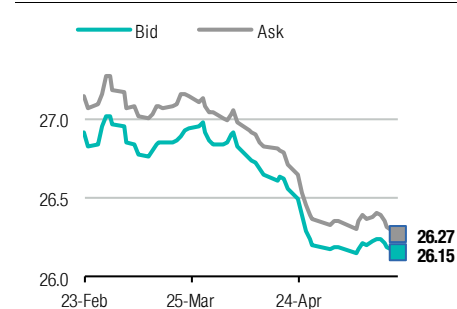
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 23 May 2017)



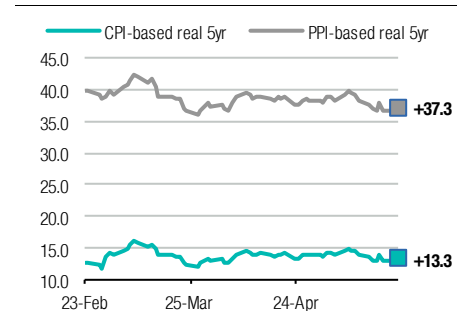
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 23 May 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 23 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)

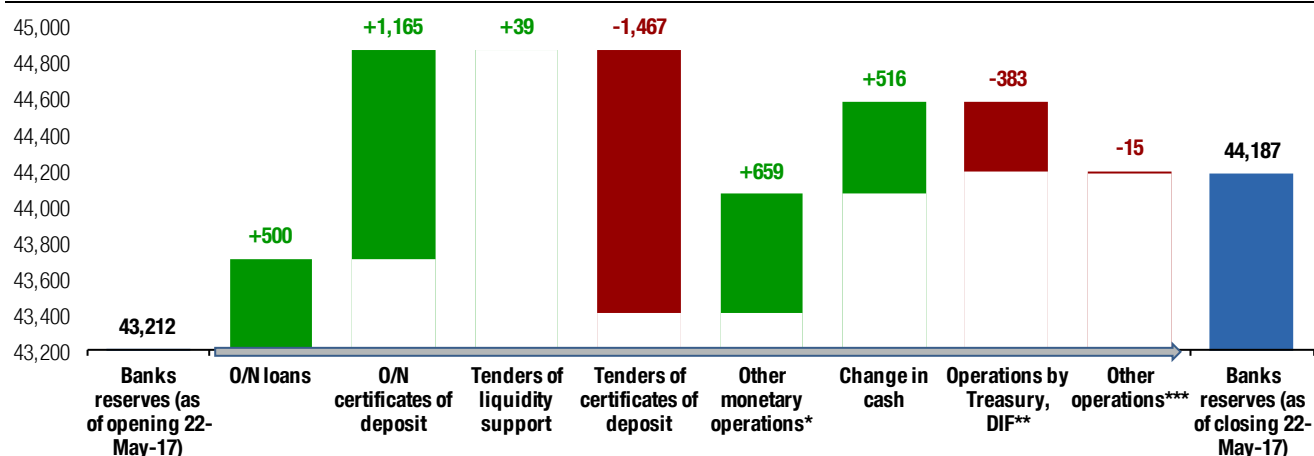
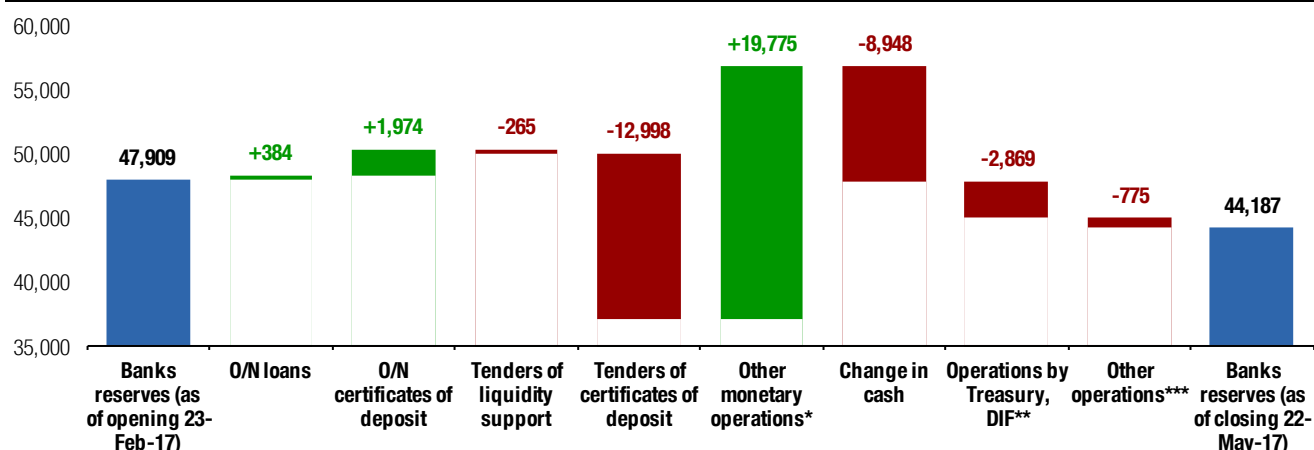


Chart 2. Banks reserves usages over last 90-day period (UAHm)

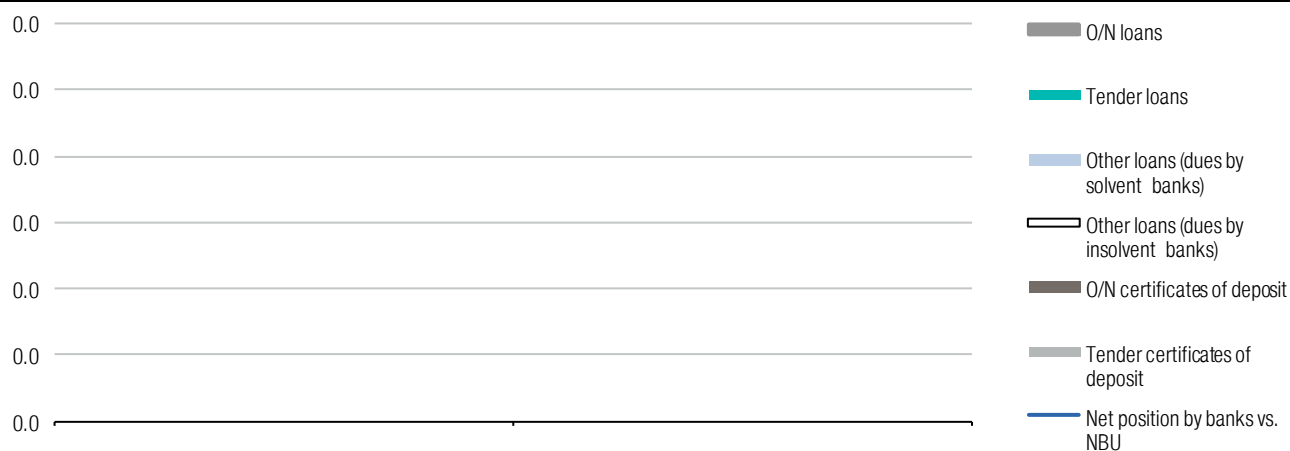


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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