

Daily Insight

Liquidity remains steady

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Liquidity remains steady 2

Last Thursday, liquidity was down a slight UAH0.37bn to UAH111.13bn following a significant reallocation of CDs to banks' accounts. Banks' correspondent accounts with the NBU rose UAH4.20bn to UAH50.14bn while total CDs outstanding fell UAH4.57bn to UAH60.99bn.

Primary auction announcement 2

Tomorrow, the MoF will offer only zero-coupon bonds with maturities this November and next May, without restrictions on volumes to be sold. There will be re-openings of bonds sold last week at 14.00% and 14.44%, respectively, of 6-month bonds (UAH0.56bn par value sold over last two weeks) and 12-month bonds (UAH0.10bn par value sold only last week).

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MONDAY, 29 MAY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 26 May 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 26 May 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	50,144	+9.15	+0.83
Deposit certificates* (UAHm)	60,986	-6.98	-2.01
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.3300	+0.17	-2.84
Total trade volume (US\$m)	200.95	+28.87	+18.47
UAH index PCI-based	108.155	-0.18	+0.14
UAH index PPI-based	166.693	-0.18	-1.00
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	595bp	+0bp	+0bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,415.82	+0.03	+7.91
MSCI EM	1,017.00	+0.24	+17.94
US dollar index (DXY)	97.442	+0.20	-4.66
EUR / USD	1.1183	-0.24	+6.33
Crude oil WTI (US\$/bbl)	49.80	+1.84	-7.30
Crude oil BRENT (US\$/bbl)	52.15	+1.34	-8.22
CRB, commodities index	182.00	+0.47	-5.46
Gold (US\$/ounce)	1,266.90	+0.89	+9.95

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity remains steady

Last Thursday, liquidity was down a slight UAH0.37bn to UAH111.13bn following a significant reallocation of CDs to banks' accounts. Banks' correspondent accounts with the NBU rose UAH4.20bn to UAH50.14bn while total CDs outstanding fell UAH4.57bn to UAH60.99bn.

Non-monetary operations caused UAH0.10bn of outflows, as cash increased UAH0.30bn, covering the main portion (UAH0.40bn) of Treasury's absorption of funds; UAH0.27bn of the outflows was to an ON loan repayment.

Investment implications: The Treasury balanced revenues and expenditures as net outflows decreased significantly. Prior to the key monetary rate cut decision, the NBU did not sell 14-day CDs, banks increased ON CDs in place of the 14-day CDs that were redeemed, depositing the remainder of funds in banks' accounts. Month-end tax payments could cause new outflows, but CDs outstanding should remain the same.

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Primary auction announcement

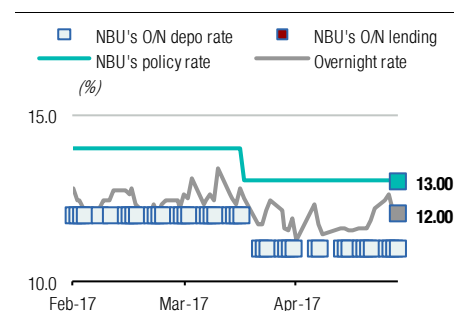
Tomorrow, the MoF will offer only zero-coupon bonds with maturities this November and next May, without restrictions on volumes to be sold. There will be re-openings of bonds sold last week at 14.00% and 14.44%, respectively, of 6-month bonds (UAH0.56bn par value sold over last two weeks) and 12-month bonds (UAH0.10bn par value sold only last week).

Finally, demand at the first two auctions for zero-coupon bonds was sufficient over the recent two weeks. On 16 May, the MoF sold UAH0.48bn of 6-month bonds and UAH0.93bn of 12-month bonds, while last week volumes were UAH0.08bn and UAH0.10bn, respectively.

Investment implications: We anticipate low demand tomorrow, as payments to the market should be low after large demand over the last two weeks was mostly satisfied. At the same time, following a key monetary rate cut, interest rates at the primary market could slide 15-20bp to 13.80% for 6-month bonds and 15-25bp to 14.40% for 12-month bonds.

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Interest rates in the banks' reserves market (three months through 26 May 2017)



Source: Bloomberg, ICU.

Key indicators (as of 26 May 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	N/A	N/A	N/A	N/A	N/A
Overnight	N/A	N/A	N/A	N/A	N/A
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	50,144	+9.15	+6.89	+0.91	+0.83
DepCerts ³	60,986	-6.98	-4.39	-10.13	-2.01
Total	111,130	-0.33	+0.39	-5.46	-0.75
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	376,165	+0.00	-0.46	-0.46	+5.62
Banks	281,052	-0.08	+0.44	-0.95	+63.08
Residents	22,676	+1.18	+2.93	+2.72	+44.63
Non-res ⁴	5,265	+0.05	-0.46	-1.36	-17.11
Total	685,157	+0.01	+0.01	-0.57	+24.46
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	9.88	+23bp	-31bp	-41bp	-13ppt
6 months	13.46	+2bp	+3bp	-205bp	-501bp
9 months	14.24	+0bp	+1bp	-238bp	-377bp
1 year	15.44	-1bp	+1bp	-200bp	-156bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	595	+0bp	-2bp	-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.

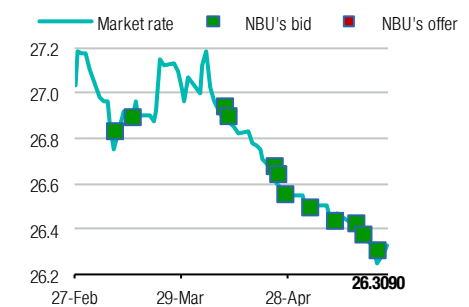
Foreign exchange markets

Key indicators (as of 26 травня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.3300	+0.17	-0.12	-0.94	-2.84
USD ¹	97.442	+0.20	+0.31	-1.62	-4.66
EUR	1.1183	-0.24	-0.21	+2.56	+6.33
JPY	111.3300	-0.46	+0.06	+0.24	-4.81
GBP ²	1.2804	-1.07	-1.78	-0.34	+3.76
CNY	6.8555	-0.19	-0.43	-0.54	-1.29
RUB	56.5146	-0.66	-0.66	-1.07	-8.16

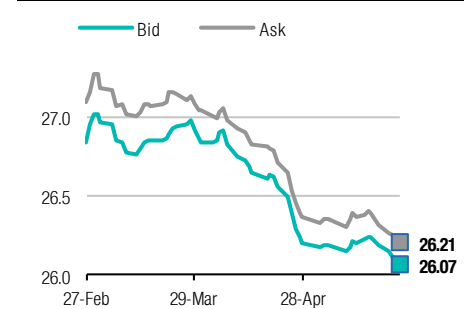
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 26 May 2017)



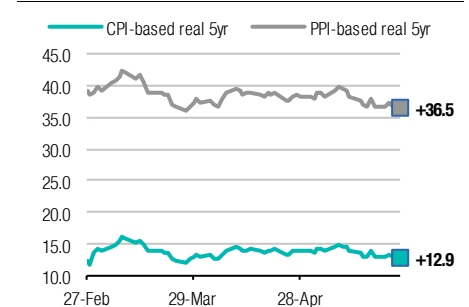
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 26 May 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 26 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)

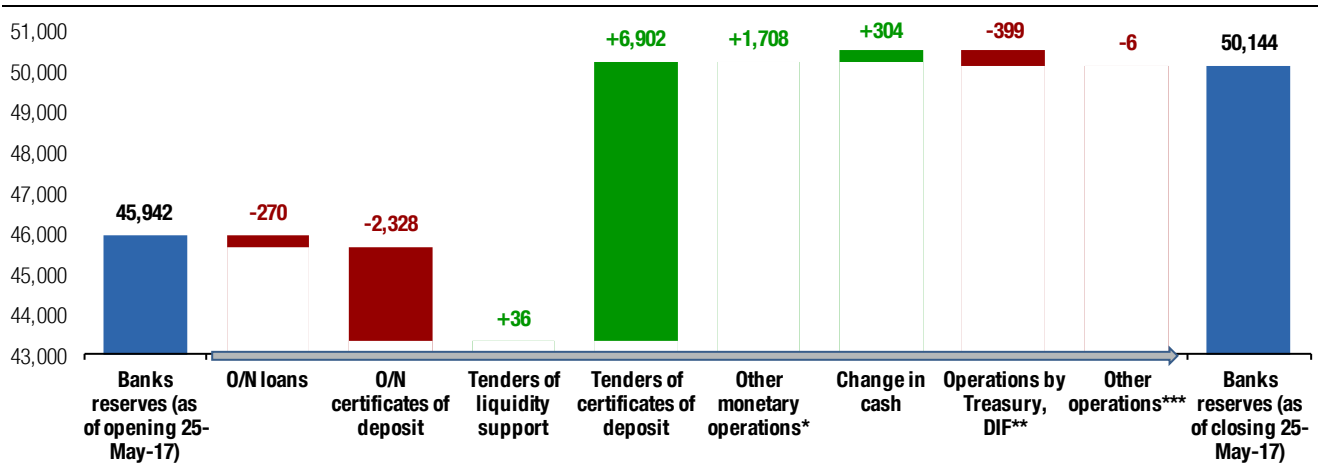
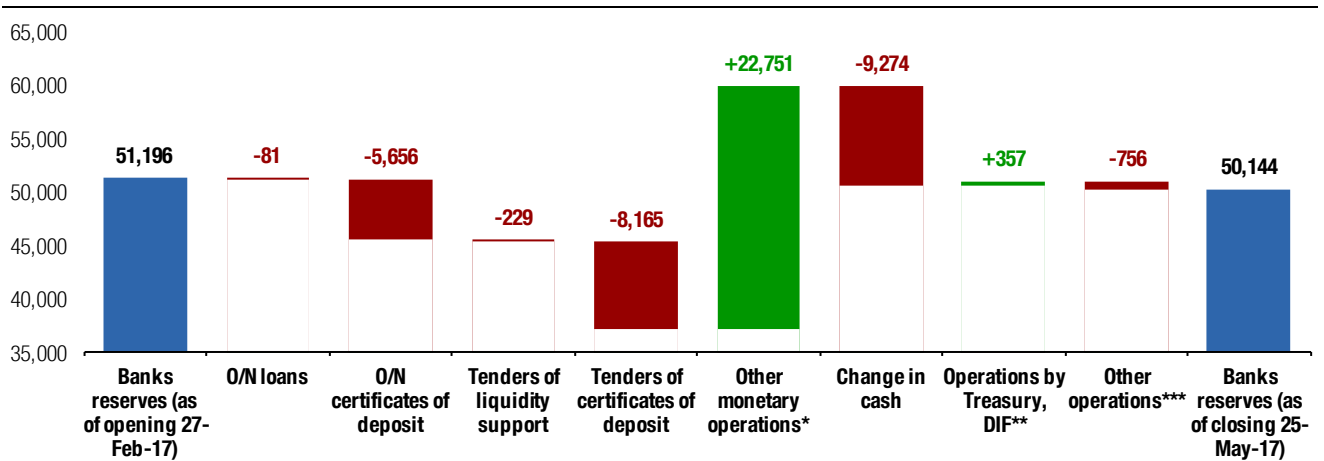
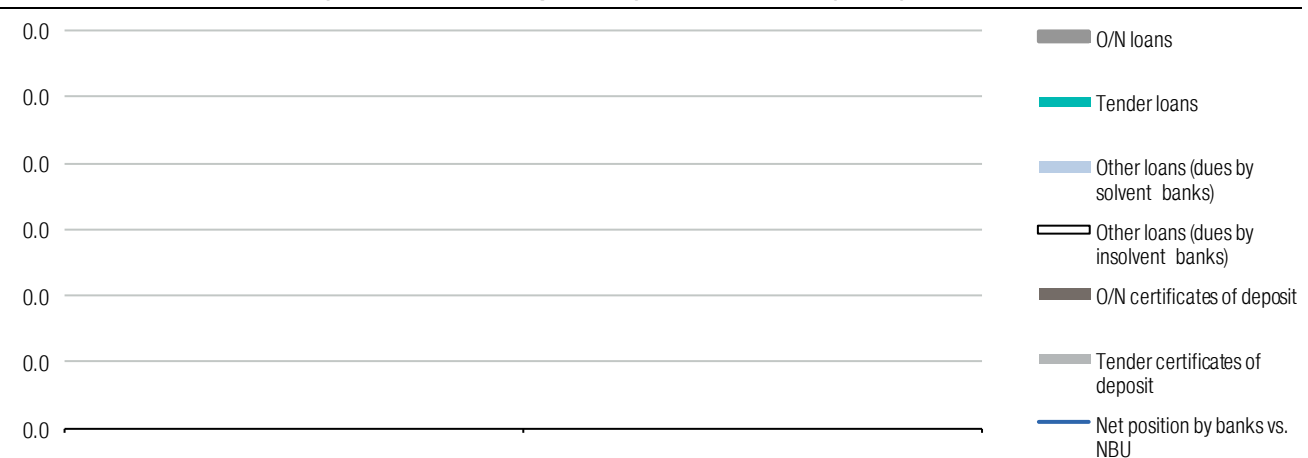


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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