Focus
**Ukraine**

Markets
**Money & bond markets, FX market, macroeconomics**

Research team
**Taras Kotovych**

# Daily Insight

## Liquidity remains steady

**Key messages of the today's comments**

**MONDAY, 29 MAY 2017**



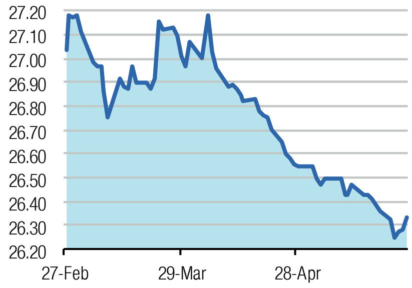
Last Thursday, liquidity was down a slight UAH0.37bn to UAH111.13bn following a significant reallocation of CDs to banks' accounts. Banks' correspondent accounts with the NBU rose UAH4.20bn to UAH50.14bn while total CDs outstanding fell UAH4.57bn to UAH60.99bn.



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).



**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.***

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

## Primary auction announcement

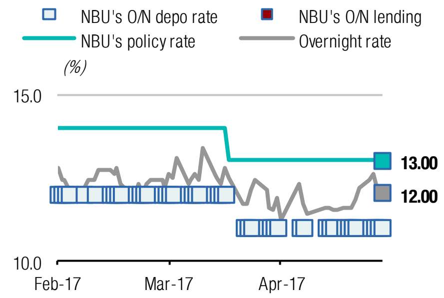
Tomorrow, the MoF will offer only zero-coupon bonds with maturities this November and next May, without restrictions on volumes to be sold. There will be re-openings of bonds sold last week at 14.00% and 14.44%, respectively, of 6-month bonds (UAH0.56bn par value sold over last two weeks) and 12-month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

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

**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 chg (%) | Weekly chg (%) | Monthly chg (%) | YTD 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.

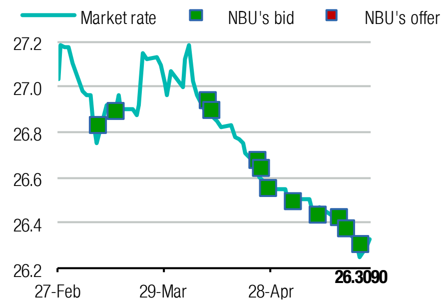
# Foreign exchange markets

**Key indicators (as of 26 травня 2017)**

| | Last | Daily chg (%) | Weekly chg (%) | Monthly chg (%) | YTD 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 |

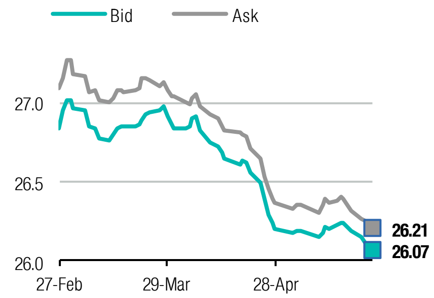
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

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



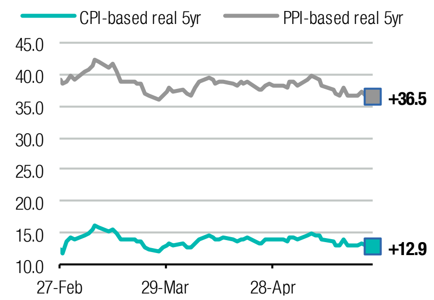

Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

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




Source: NBU.

**UAH exchange rate misalignment[1] from fundamental level[2] (%) (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)**

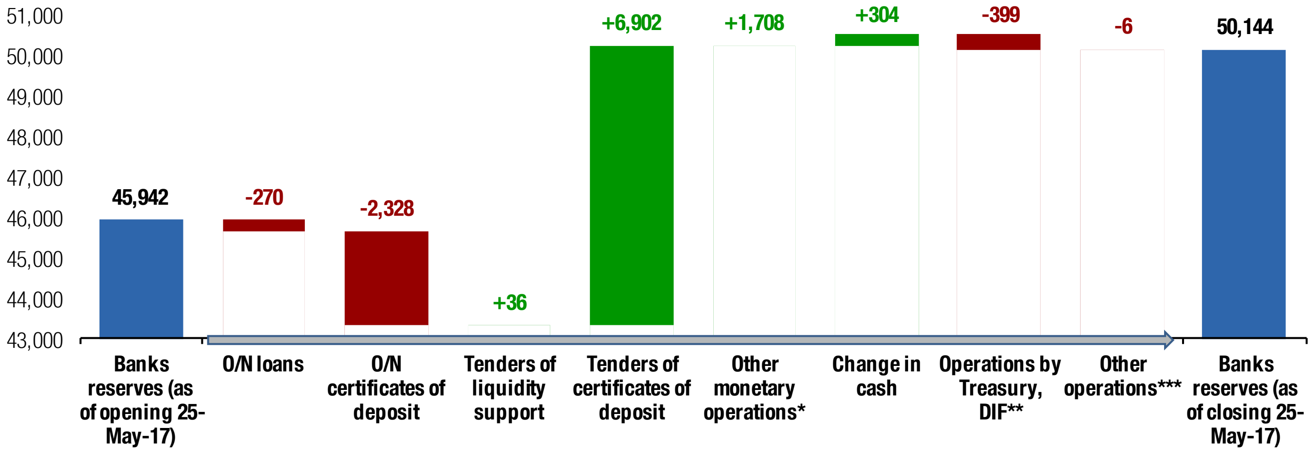
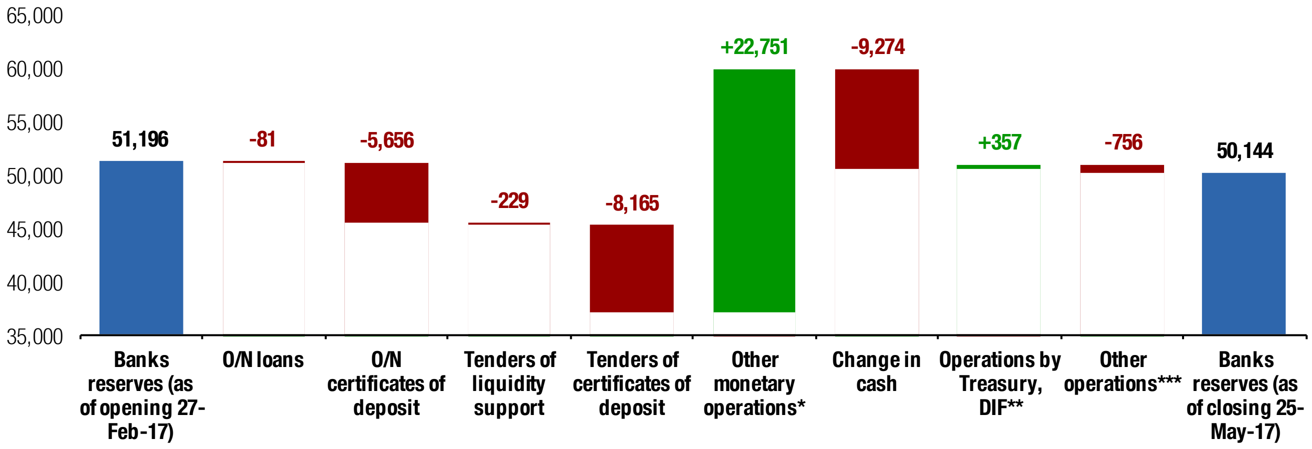



**Chart 2. Banks reserves usages over last 90-day period (UAHm)**




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.

This page is intentionally left blank

11th floor, LEONARDO Business Centre
19-21 Bogdan Khmelnytsky Street
Kiev, 01030 Ukraine
Phone/Fax +38 044 2200120

**WEB** www.icu.ua @ICU_UA

**CORPORATE FINANCE**

**Makar Paseniuk, CFA**, Managing Director
makar.paseniuk@icu.ua

**Roman Nikitov, ACCA** Director
roman.nikitov@icu.ua

**Ruslan Kilmukhametov**, Director
ruslan.kilmukhametov@icu.ua

**Ivan Shvydanenko**, Director
ivan.shvydanenko@icu.ua

**Yuriy Kamarytskyi**, Vice President
yuriy.kamarytskyi@icu.ua

**Ruslan Patlavsky,** Director
ruslan.patlavsky@icu.ua

**STRATEGY AND CORPORATE DEVELOPMENT**

**Vlad Sinani**, Director
vlad.sinani@icu.ua

**SALES AND TRADING**

**Konstantin Stetsenko**
Managing Director
konstantin.stetsenko@icu.ua

**Sergiy Byelyayev**
Fixed-Income Trading
sergiy.byelyayev@icu.ua

**Vitaliy Sivach**
Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

**Liliya Kubytovych**
Asset Management Product Sales
liliya.kubytovych@icu.ua

**Yevgeniya Gryshchenko**
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua

**RESEARCH**

**Alexander Valchyshen**
Head of Research
alexander.valchyshen@icu.ua

**Alexander Martynenko**
Head of corporate research
alexander.martynenko@icu.ua

**Bogdan Vorotilin**
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

**Taras Kotovych**
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

**Mykhaylo Demkiv**
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

**Lee Daniels, Rolfe Haas**
Editors