

Daily Insight

Slight decline in liquidity

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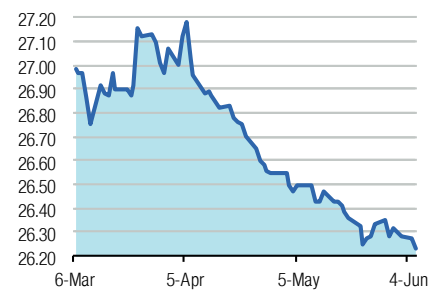
After the end of month-end tax payments in May, the Treasury's impact on liquidity was positive, without liquidity outflows. However, cash began to decline from the beginning of the month. Last Friday, Treasury net inflows of UAH0.46bn against a cash decline of UAH1.12bn resulted in a decline of UAH0.64bn. Only a small inflow from the NBU reduced this impact to a total banking sector liquidity decline of UAH0.56bn to UAH108.75bn.

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WEDNESDAY, 7 JUNE 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 6 June 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 6 June 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	43,709	-3.36	-12.11
Deposit certificates* (UAHm)	65,046	-13.34	-9.43
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.2350	-0.14	-3.19
Total trade volume (US\$m)	146.27	-13.71	-13.76
UAH index PCI-based	107.982	+0.01	-0.02
UAH index PPI-based	166.426	+0.01	-1.16
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	595bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,429.33	-0.28	+8.51
MSCI EM	1,015.89	-0.17	+17.82
US dollar index (DXY)	96.636	-0.17	-5.45
EUR / USD	1.1277	+0.20	+7.23
Crude oil WTI (US\$/bbl)	48.19	+1.67	-10.29
Crude oil BRENT (US\$/bbl)	50.12	+1.31	-11.79
CRB, commodities index	178.08	+0.44	-7.50
Gold (US\$/ounce)	1,294.17	+1.14	+12.31

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Slight decline in liquidity

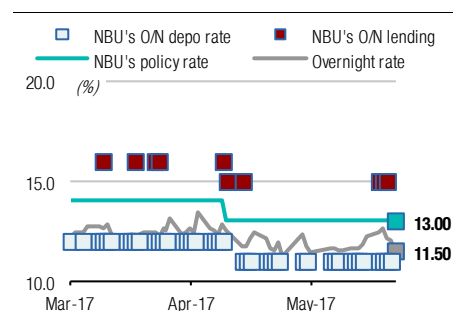
After the end of month-end tax payments in May, the Treasury's impact on liquidity was positive, without liquidity outflows. However, cash began to decline from the beginning of the month. Last Friday, Treasury net inflows of UAH0.46bn against a cash decline of UAH1.12bn resulted in a decline of UAH0.64bn. Only a small inflow from the NBU reduced this impact to a total banking sector liquidity decline of UAH0.56bn to UAH108.75bn.

At the same time, banks increased purchases of CDs prior to three non-business days. Total CDs outstanding rose UAH0.96bn to UAH65.05bn, while banks preferred to purchase of longer-term CDs last Friday as ON CDs slid UAH1.64bn while new 14-day CDs purchased exceeded redemptions by UAH2.60bn.

Investment implications: Despite the decline in liquidity, banks prefer longer term CDs even despite yesterday's decline. As the largest amount of 14-day CDs should be redeemed today, there could be a reallocation funds back to ON CDs. At the same time, we do not anticipate significant outflows from liquidity prior to month-end tax payments.

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Interest rates in the banks' reserves market (three months through 6 June 2017)



Source: Bloomberg, ICU.

Key indicators (as of 6 June 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	43,709	-3.36	-8.96	+0.41	-12.11
DepCerts ³	65,046	-13.34	-5.00	-17.07	-9.43
Total	108,755	-7.99	-6.78	-10.25	-10.63
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	375,131	+0.00	-0.27	-0.74	+5.33
Banks	281,210	+0.02	-0.08	-0.66	+63.17
Residents	22,609	-0.03	-0.33	+1.88	+44.21
Non-res ⁴	5,266	+0.04	-0.40	-0.79	-17.10
Total	684,217	+0.01	-0.20	-0.62	+24.29
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	+0bp	-3bp	+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

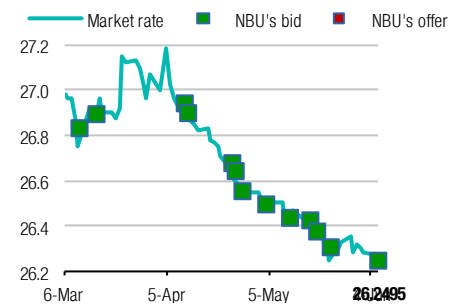
Key indicators (as of 6 червня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.2350	-0.14	-0.17	-1.00	-3.19
USD ¹	96.636	-0.17	-0.66	-2.04	-5.45
EUR	1.1277	+0.20	+0.81	+2.54	+7.23
JPY	109.4100	-0.94	-1.30	-2.93	-6.46
GBP ²	1.2911	+0.05	+0.40	-0.55	+4.63
CNY	6.7952	-0.13	-0.88	-1.56	-2.16
RUB	56.4979	-0.21	-0.12	-2.48	-8.19

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

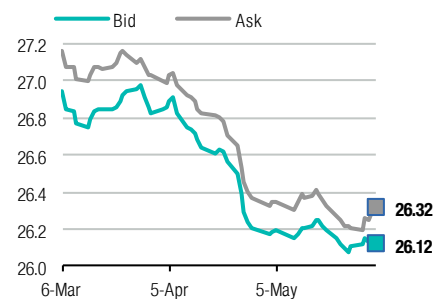
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 6 June 2017)



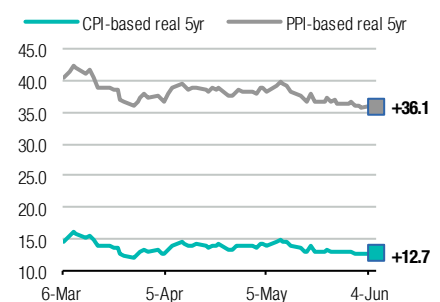
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 6 June 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 6 June 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)

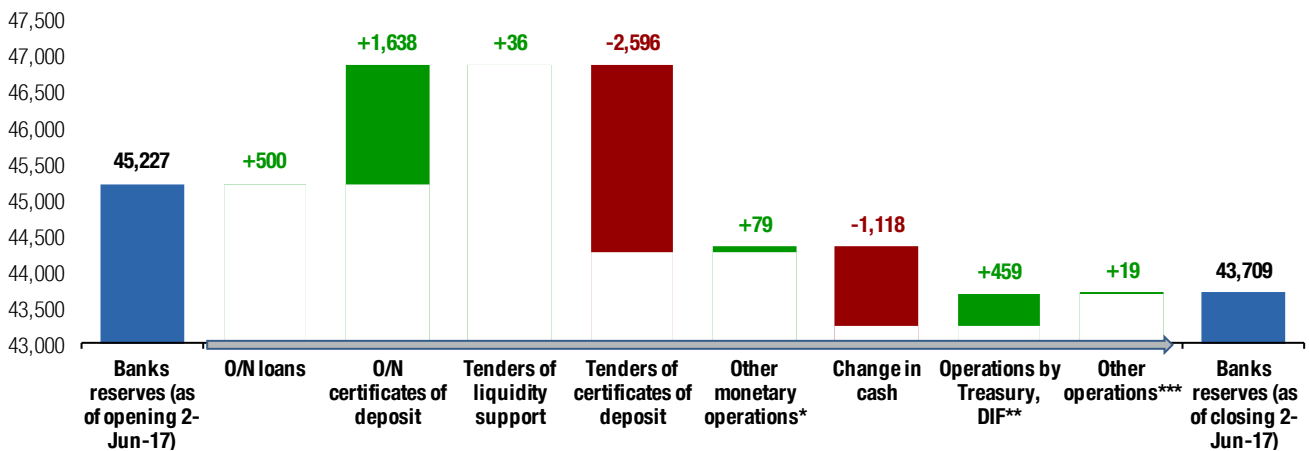
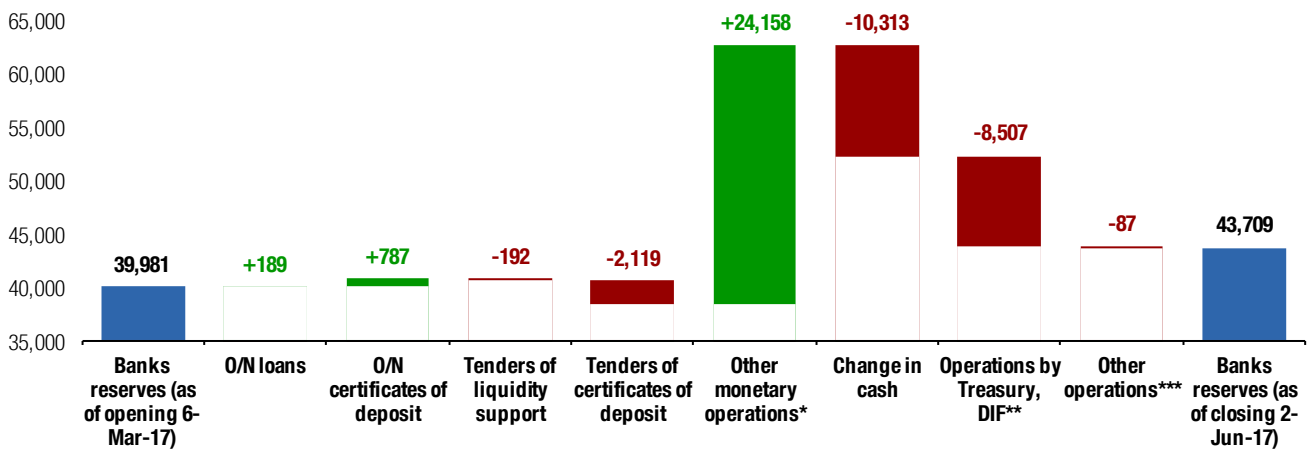
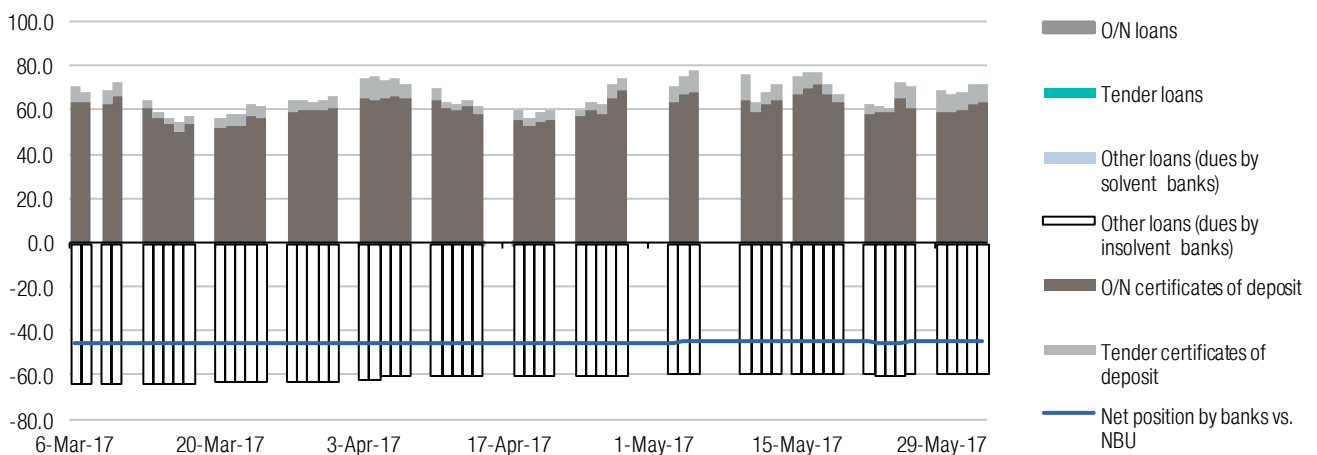


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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