

Daily Insight

The MoF will offer 3-year bonds

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Liquidity continues to rise 2

Last Thursday, although the Treasury spent UAH2.18bn more than it collected revenues, but with UAH5bn of revenues from the NBU, net inflows offset UAH1.47bn of outflows via cash and caused liquidity to increase UAH0.47bn to UAH112.20bn. Without FX auctions, the NBU injected UAH0.78bn.

The MoF will offer 3-year bonds 2

At the next regular auction tomorrow, the MoF will offer three bonds, two of which will be the usual 6-month and 12-month maturities along with a new 3-year bond which was last sold in April (except for the FX-denominated bonds in May). These bonds could meet large demand after a nearly 2-month break.

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MONDAY, 12 JUNE 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 9 June 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 9 June 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	39,570	+0.86	-19.75
Deposit certificates* (UAHm)	72,628	-21.90	-8.86
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.1450	+0.09	-3.52
Total trade volume (US\$m)	191.72	+65.37	+13.03
UAH index PCI-based	108.901	-0.01	+0.83
UAH index PPI-based	167.843	-0.01	-0.31
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	550bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,431.77	-0.08	+8.62
MSCI EM	1,018.19	-0.09	+18.08
US dollar index (DXY)	97.274	+0.37	-4.83
EUR / USD	1.1195	-0.17	+6.45
Crude oil WTI (US\$/bbl)	45.83	+0.42	-14.69
Crude oil BRENT (US\$/bbl)	48.15	+0.61	-15.26
CRB, commodities index	176.76	+0.38	-8.18
Gold (US\$/ounce)	1,266.63	-0.89	+9.92

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to rise

Last Thursday, although the Treasury spent UAH2.18bn more than it collected revenues, but with UAH5bn of revenues from the NBU, net inflows offset UAH1.47bn of outflows via cash and caused liquidity to increase UAH0.47bn to UAH112.20bn. Without FX auctions, the NBU injected UAH0.78bn.

Banks continued to collect funds in CDs, preferring the 14-day maturity, as total ON CDs fell UAH1.73bn while banks purchased UAH4.19bn of 14-day CDs, increasing total CDs outstanding to UAH72.63bn. Banks' correspondent accounts with the NBU fell UAH2.72bn to UAH39.57bn.

Investment implications: Liquidity remains positive, with funds being reallocated to CDs, as redemptions occurred during the last week of the month. We expect volatility to be low next week and possibly to see new record high in liquidity this year.

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The MoF will offer 3-year bonds

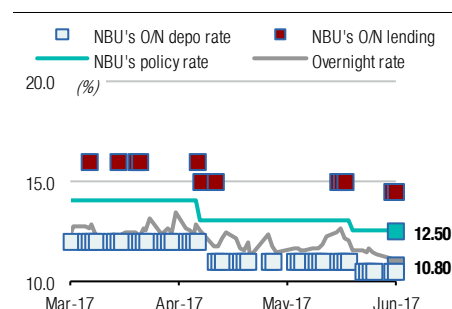
At the next regular auction tomorrow, the MoF will offer three bonds, two of which will be the usual 6-month and 12-month maturities along with a new 3-year bond which was last sold in April (except for the FX-denominated bonds in May). These bonds could meet large demand after a nearly 2-month break.

The April 3-year bonds were sold just after the NBU decreased its key monetary rate 100bp to 13% and the primary market interest rate down 30bp to 14.94% (weighted average). So, tomorrow's impact on the rate could reflect both recent NBU decisions made in April and May. While last week's interest rate for the 2-year bond slid just 14bp, since the beginning of April, it has declined 62bp. As a result, the interest rate for the 3-year bond could move down at least 30bp.

Investment implications: Since the last offering of the 3-year bond, the key rate was reduced significantly in May, enabling the MoF to collect large demand and accept only the lowest rates that were bid. As a result, the MoF could expect a larger decline in 3-year rate than that for the for 2-year bond. While there is a gap for the decline, 14.50% would be very positive if the NBU continues to decrease the key rate even further. Interest rates for zero-coupon bonds should be in the range of 13.8-14.3% tomorrow.

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Interest rates in the banks' reserves market (three months through 9 June 2017)



Source: Bloomberg, ICU.

Key indicators (as of 9 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	39,570	+0.86	-11.75	-8.31	-19.75
DepCerts ³	72,628	-21.90	-11.49	-16.54	-8.86
Total	112,198	-13.87	-11.60	-13.33	-13.70
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	373,943	+0.00	-0.32	-1.05	+5.00
Banks	281,031	-0.05	-0.05	-0.72	+63.07
Residents	22,587	-0.25	-0.13	+1.78	+44.06
Non-res ⁴	64	-98.80	-98.79	-98.80	-99.00
Total	677,624	-0.80	-0.96	-1.58	+23.09
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	14.64	-1bp	+10bp	+505bp	-777bp
6 months	13.59	+251bp	+8bp	-206bp	-488bp
9 months	14.34	-1bp	+5bp	-241bp	-367bp
1 year	15.54	-1bp	+7bp	-200bp	-146bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	550	+0bp	-45bp	-50bp	+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.

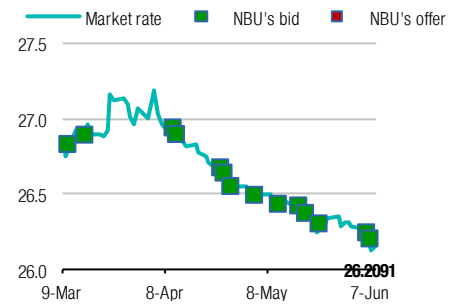
Foreign exchange markets

Key indicators (as of 9 червня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.1450	+0.09	-0.51	-1.34	-3.52
USD ¹	97.274	+0.37	+0.58	-2.39	-4.83
EUR	1.1195	-0.17	-0.74	+2.95	+6.45
JPY	110.3200	+0.27	-0.07	-3.21	-5.68
GBP ²	1.2746	-1.62	-1.10	-1.45	+3.29
CNY	6.7980	-0.03	-0.18	-1.58	-2.12
RUB	57.0381	+0.22	+0.71	-2.36	-7.31

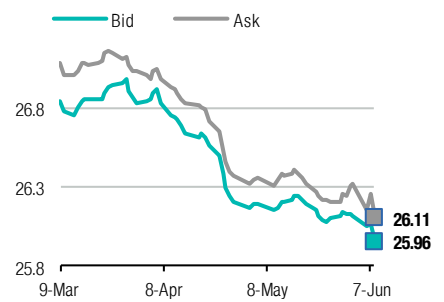
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 9 June 2017)



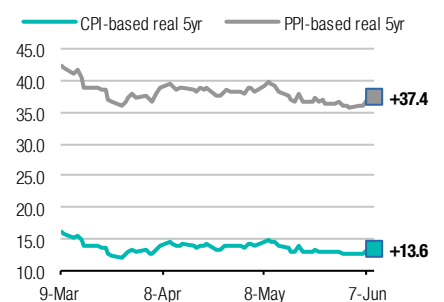
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 9 June 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 9 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)

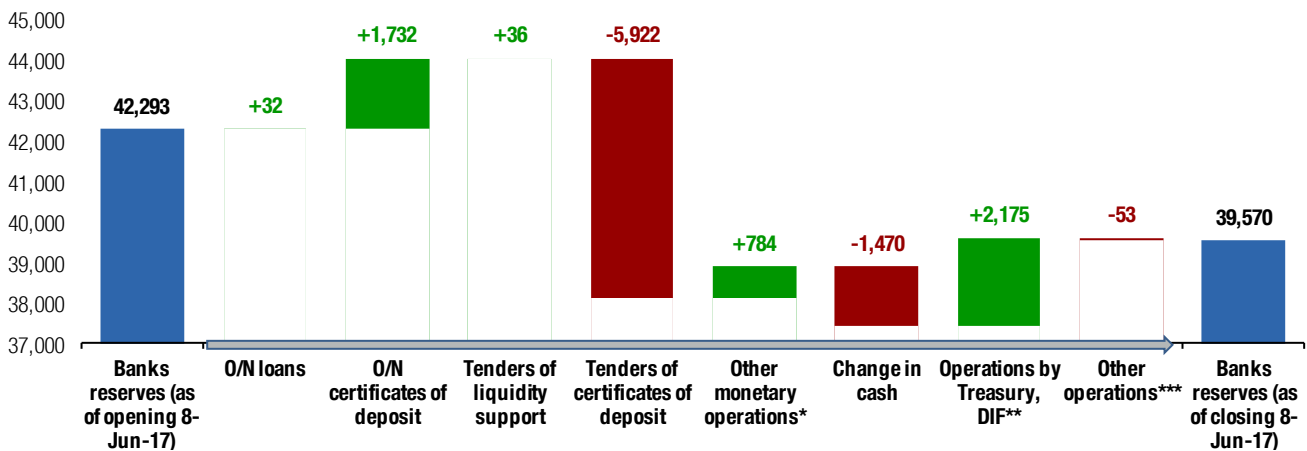
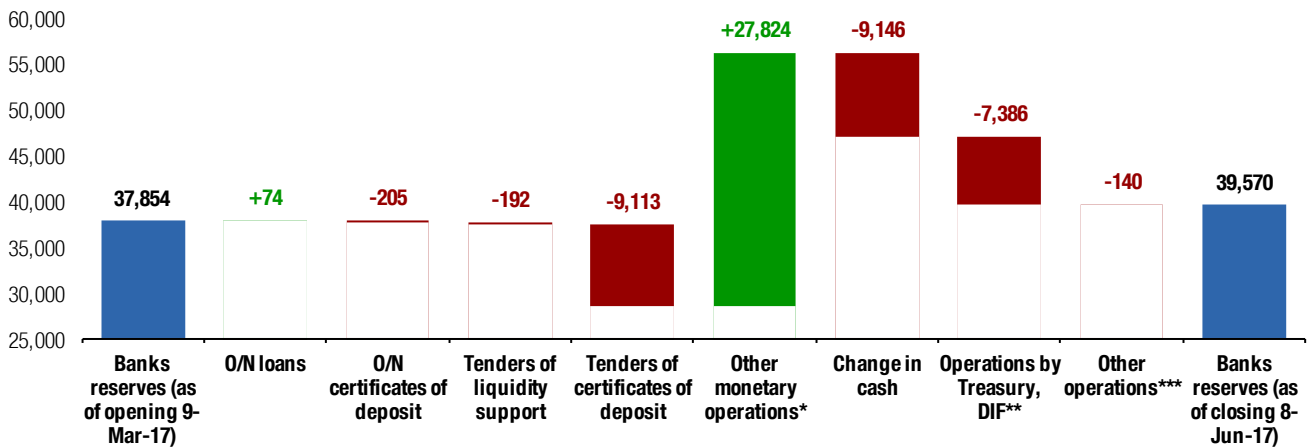
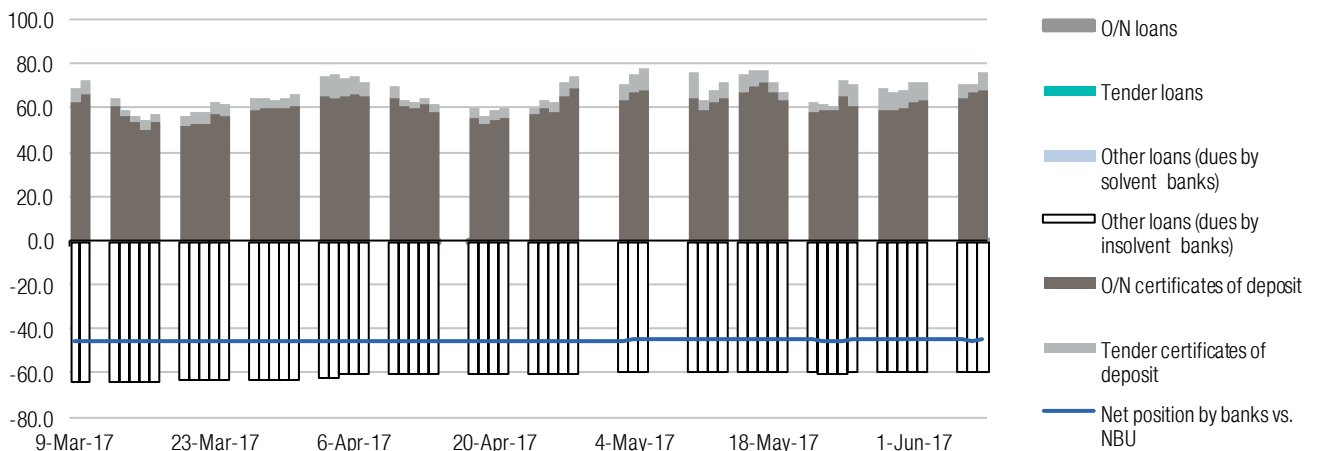


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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