

Daily Insight

Funds absorbed by Treasury

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Funds absorbed by Treasury 2

The Treasury appears to have begun receiving revenues from month-end tax payments in addition to paying low expenditures. As Treasury outflows for operations amounted to UAH3.32bn and cash increased slightly, the impact of autonomous non-monetary operations was UAH3.10bn.

Yields fall slightly 2

As expected, the MoF received little demand at yesterday's auction following last week's high volume of 3-year bond sales and ahead of next week's scheduled auction of the same 3-year maturity. While all three offered bonds received bids, only two issues were sold at slightly lower interest rates.

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WEDNESDAY, 21 JUNE 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 20 June 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 20 June 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.10	+0bp	+50bp
Banks reserves (UAHm)	47,177	-3.03	-8.01
Deposit certificates* (UAHm)	66,764	-14.24	-8.01
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.0300	+0.02	-3.95
Total trade volume (US\$m)	218.84	+86.70	+29.02
UAH index PCI-based	110.754	+0.46	+2.55
UAH index PPI-based	170.698	+0.46	+1.38
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	570bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,437.03	-0.67	+8.85
MSCI EM	1,008.67	-0.42	+16.98
US dollar index (DXY)	97.760	+0.22	-4.35
EUR / USD	1.1134	-0.13	+5.87
Crude oil WTI (US\$/bbl)	43.51	-1.56	-19.01
Crude oil BRENT (US\$/bbl)	46.02	-1.90	-19.01
CRB, commodities index	169.66	-0.95	-11.87
Gold (US\$/ounce)	1,242.99	-0.03	+7.87

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Funds absorbed by Treasury

The Treasury appears to have begun receiving revenues from month-end tax payments in addition to paying low expenditures. As Treasury outflows for operations amounted to UAH3.32bn and cash increased slightly, the impact of autonomous non-monetary operations was UAH3.10bn.

Moreover, banks seem to have increased amount of funds in CDs, as total CDs outstanding rose UAH0.78bn, while banks' correspondent accounts with the NBU amounted to UAH3.88bn.

Investment implications: *Liquidity began its routine month-end decline due to outflows to the budget. This decline should be insignificant, and cut liquidity below UAH100bn. Most likely, as the Treasury receives more revenues, it should increase budget expenditures.*

Yields fall slightly

As expected, the MoF received little demand at yesterday's auction following last week's high volume of 3-year bond sales and ahead of next week's scheduled auction of the same 3-year maturity. While all three offered bonds received bids, only two issues were sold at slightly lower interest rates.

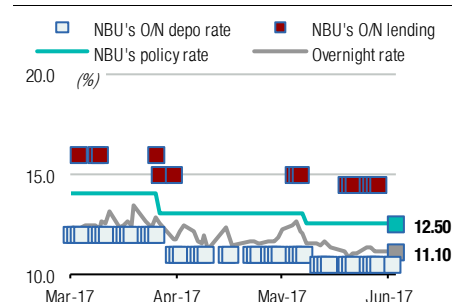
The 6-month bond interest rate received two bids for a total of UAH30m at 14.00%, unchanged from the cut-off rate at the end of May yet 12bp higher than the weighted average rate, which the MoF reasonably rejected. The 12-month bond received one bid for UAH50m at 14.40%, or 4bp lower than that for a similar bond sold in May.

The 2-year bond received bids for UAH251m at interest rates in the same range as traded two weeks ago. The MoF set the cut-off rate 4bp lower than at the beginning of the month, at the same level as the weighted average rate.

Investment implications: *Yesterday, the market purchased a portion of the new bonds, but as next week's 3-year bond offering is highly anticipated, demand was low. As demand next week should be greater and at interest rates similar to actual rates from recent auctions, investors should try to buy bonds at current rates prior the next NBU meeting on the key monetary rate.*

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Interest rates in the banks' reserves market (three months through 20 June 2017)



Source: Bloomberg, ICU.

Key indicators (as of 20 June 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	-50bp	-150bp
Overnight	11.10	+0bp	-20bp	-110bp	+50bp
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	47,177	-3.03	+1.64	-2.48	-8.01
DepCerts ³	66,764	-14.24	-18.12	-10.24	-8.01
Total	113,941	-9.60	-10.38	-6.95	-8.01
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	373,007	+0.00	-0.25	-1.30	+4.73
Banks	281,475	+0.02	+0.28	+0.59	+63.33
Residents	22,773	-0.21	+0.55	+3.37	+45.25
Non-res ⁴	60	+0.02	-5.21	-98.86	-99.05
Total	677,315	+0.00	+0.00	-1.13	+23.03
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	570	+0bp	+20bp	-27bp	+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

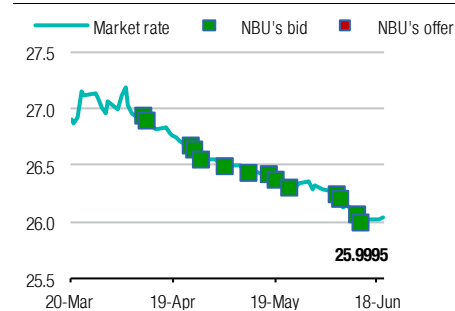
Key indicators (as of 20 червня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.0300	+0.02	+0.00	-1.25	-3.95
USD ¹	97.760	+0.22	+0.81	+0.64	-4.35
EUR	1.1134	-0.13	-0.69	-0.64	+5.87
JPY	111.4500	-0.07	+1.25	+0.17	-4.71
GBP ²	1.2629	-0.85	-0.98	-3.12	+2.34
CNY	6.8292	+0.14	+0.44	-0.81	-1.67
RUB	59.5838	+1.89	+4.54	+4.73	-3.17

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

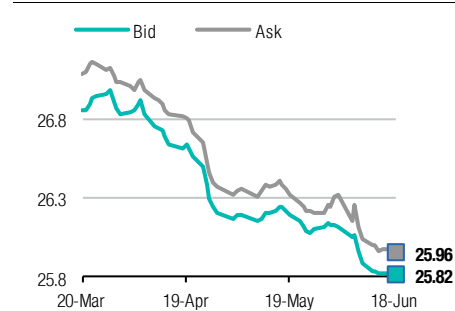
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 20 June 2017)



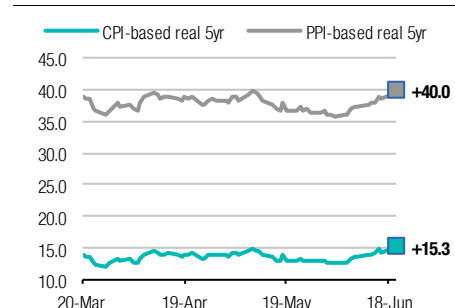
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 20 June 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 20 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)

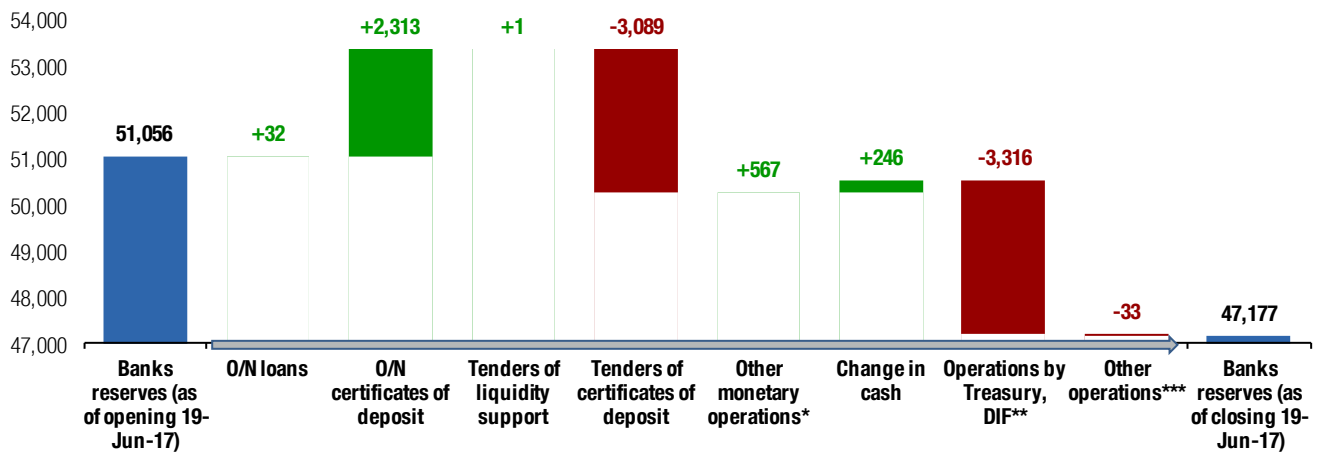
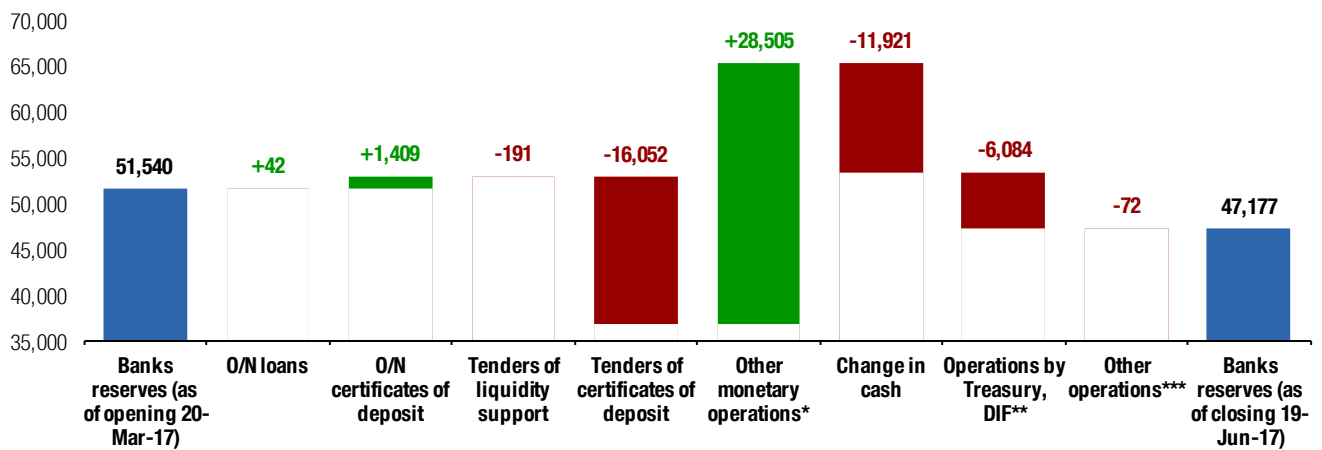


Chart 2. Banks reserves usages over last 90-day period (UAHm)

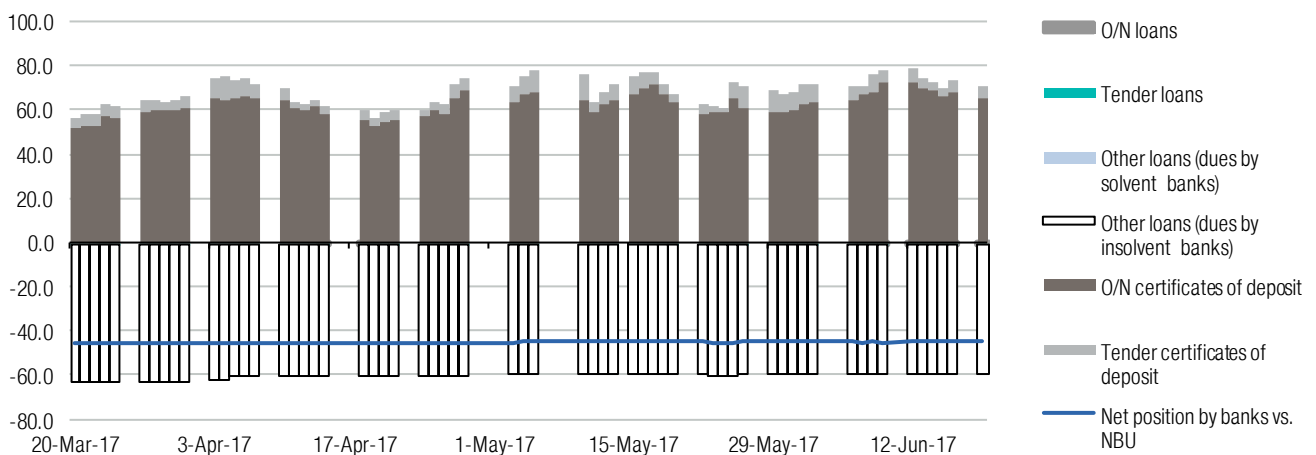


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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