

Daily Insight

Liquidity stable on VAT refund

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Last Thursday, TGA Treasury made the largest VAT refund this month of over UAH2.0bn. As budget revenues declined, the positive impact of the Treasury's operations amounted to UAH0.56bn as this inflow covered outflows via a cash decline and other operations. The positive impact of non-monetary operations amounted to UAH0.35bn.

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MONDAY, 26 JUNE 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 23 June 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 23 June 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.20	-10bp	+60bp
Banks reserves (UAHm)	49,407	+8.84	+8.13
Deposit certificates* (UAHm)	58,531	-21.65	-26.31
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.0338	+0.03	-3.93
Total trade volume (US\$m)	N/A		
UAH index PCI-based	110.507	-0.36	+2.32
UAH index PPI-based	170.317	-0.36	+1.16
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,438.30	+0.16	+8.91
MSCI EM	1,011.67	+0.28	+17.33
US dollar index (DXY)	97.264	-0.34	-4.84
EUR / USD	1.1194	+0.38	+6.44
Crude oil WTI (US\$/bbl)	43.01	+0.63	-19.94
Crude oil BRENT (US\$/bbl)	45.54	+0.71	-19.85
CRB, commodities index	167.74	+0.75	-12.87
Gold (US\$/ounce)	1,256.75	+0.50	+9.07

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity stable on VAT refund

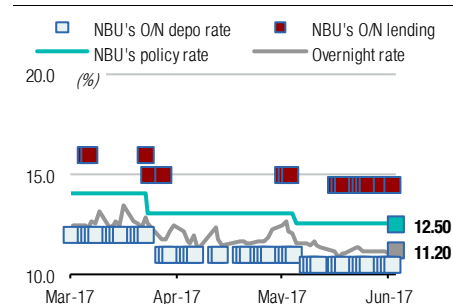
Last Thursday, TGA Treasury made the largest VAT refund this month of over UAH2.0bn. As budget revenues declined, the positive impact of the Treasury's operations amounted to UAH0.56bn as this inflow covered outflows via a cash decline and other operations. The positive impact of non-monetary operations amounted to UAH0.35bn.

Despite liquidity stabilizing, banks continued to decrease investments in CDs. Total CDs outstanding fell UAH2.14bn to UAH58.53bn, as purchases of new 14-days CDs were below the amount redeemed. Banks' correspondent accounts with the NBU were up UAH2.51bn to UAH49.41bn. Finally, banking sector liquidity was up UAH0.37bn, including a small ON loan from NBU.

Investment implications: Liquidity stabilization appears to be short-lived as Treasury policy remains unpredictable, especially in regard to VAT refunds. Next week should remain volatile due to month-end tax payments and unstable budget expenditures, but liquidity should stay above UAH100bn.

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Interest rates in the banks' reserves market (three months through 23 June 2017)



Source: Bloomberg, ICU.

Key indicators (as of 23 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	11.20	-10bp	+10bp	-140bp	+60bp
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	49,407	+8.84	+9.73	+21.70	+8.13
DepCerts ³	58,531	-21.65	-32.77	-22.29	-26.31
Total	107,938	-7.69	-15.00	-3.46	-11.02
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	373,007	+0.00	+0.00	-1.30	+4.73
Banks	280,481	-0.08	-0.28	+0.16	+62.75
Residents	23,059	+1.11	+0.67	+4.62	+47.07
Non-res ⁴	320	+0.01	+433.6	-93.93	-94.96
Total	676,867	+0.00	-0.06	-1.23	+22.95
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	14.79	+1bp	+499bp	-39bp	-761bp
6 months	13.71	+0bp	+3bp	-12bp	-476bp
9 months	14.43	+0bp	+2bp	-8bp	-358bp
1 year	15.22	-1bp	-39bp	-43bp	-178bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	585	+0bp	+15bp	-10bp	+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

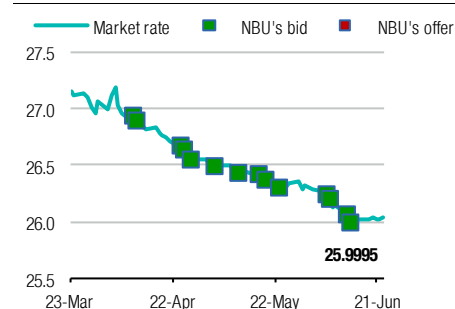
Key indicators (as of 23 червня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.0338	+0.03	+0.03	-0.80	-3.93
USD ¹	97.264	-0.34	+0.10	-0.09	-4.84
EUR	1.1194	+0.38	-0.04	+0.10	+6.44
JPY	111.2800	-0.04	+0.36	-0.45	-4.86
GBP ²	1.2718	+0.28	-0.51	-1.87	+3.06
CNY	6.8366	+0.03	+0.38	-0.71	-1.56
RUB	59.4517	-0.90	+3.16	+5.56	-3.39

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

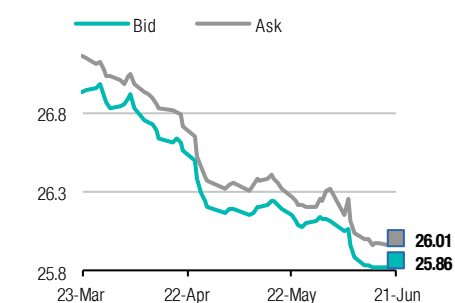
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 23 June 2017)



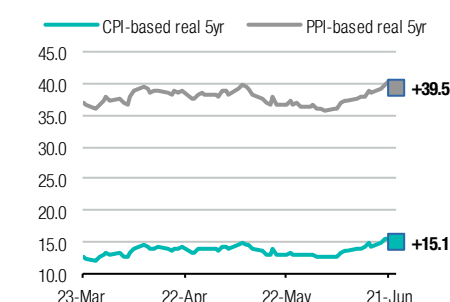
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 23 June 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 23 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)

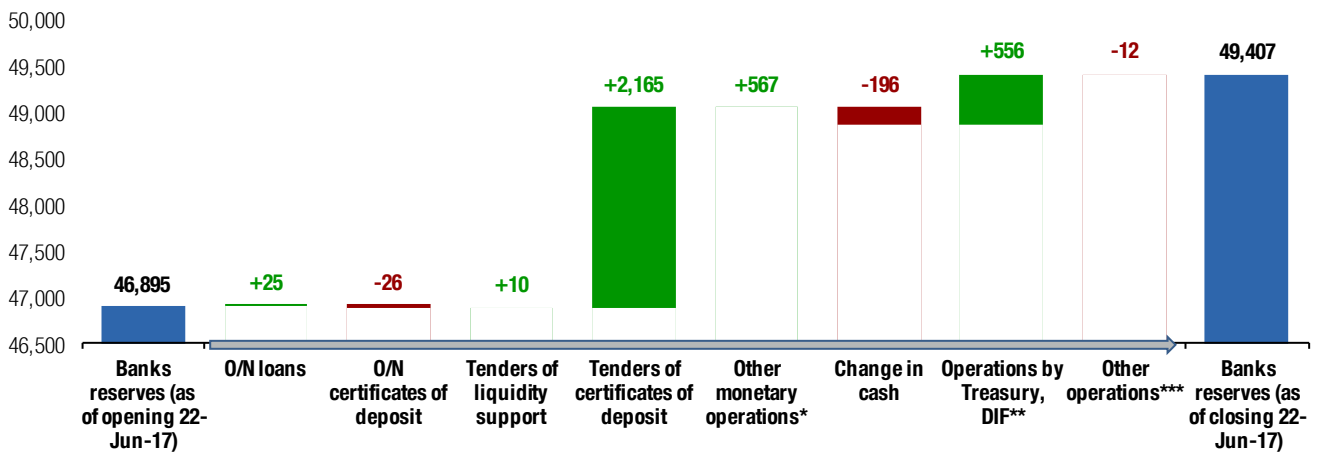
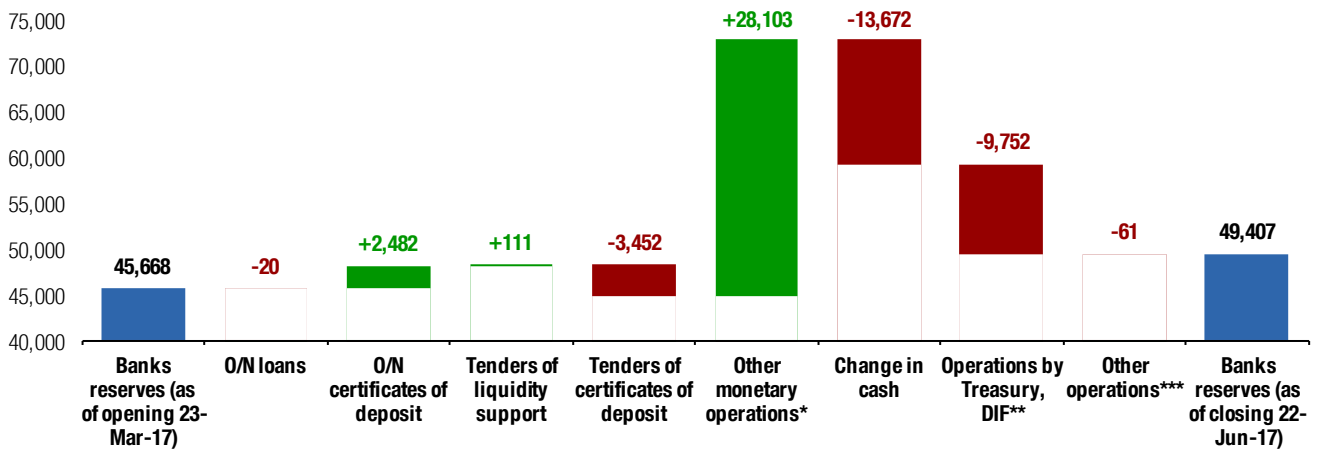


Chart 2. Banks reserves usages over last 90-day period (UAHm)

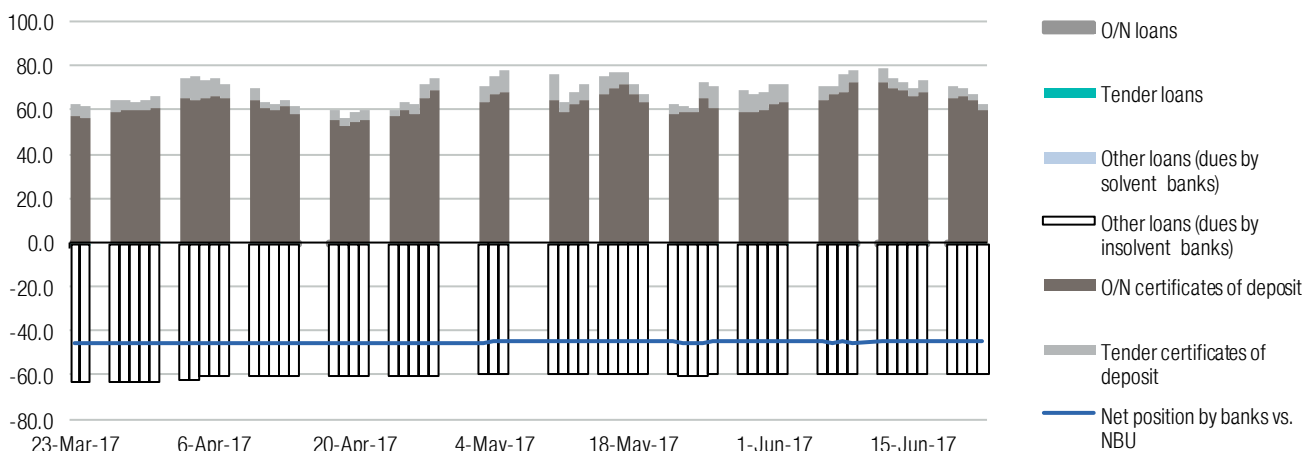


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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