

Daily Insight

Primary auctions in 3Q17

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During the last days of June, the Treasury continued to accumulate funds. At the end of June, it collected UAH45.15bn, which was UAH1.27bn more than a month ago. The main source for this large cash inflow was payments from the NBU and Naftogaz, but there were also sizeable collections of taxes at the end of the last week. During the last two days of June, the balance of Treasury operations was negative, and inflows from other sources were insufficient. So, last Friday, banking-sector liquidity was down UAH1.53bn to UAH104.34bn. Within that liquidity, we saw funds reallocation, with a UAH1.66bn increase in CDs outstanding to UAH53.54bn, and a UAH3.19bn decline in banks' correspondent accounts with the NBU to UAH50.80bn.

Primary auctions in 3Q17 2

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TUESDAY, 4 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 3 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 3 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.50	-20bp	+90bp
Banks reserves (UAHm)	50,796	-13.21	-11.35
Deposit certificates* (UAHm)	53,542	-22.72	-33.52
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9900	-0.06	-4.10
Total trade volume (US\$m)	117.87	-33.50	-30.51
UAH index PCI-based	109.989	+0.51	+1.84
UAH index PPI-based	169.519	+0.51	+0.68
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,429.01	+0.23	+8.49
MSCI EM	1,014.24	+0.34	+17.62
US dollar index (DXY)	96.218	+0.62	-5.86
EUR / USD	1.1364	-0.54	+8.05
Crude oil WTI (US\$/bbl)	47.07	+2.24	-12.38
Crude oil BRENT (US\$/bbl)	49.68	+1.87	-12.57
CRB, commodities index	176.16	+0.79	-8.50
Gold (US\$/ounce)	1,220.13	-1.73	+5.89

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity outflows to budget

During the last days of June, the Treasury continued to accumulate funds. At the end of June, it collected UAH45.15bn, which was UAH1.27bn more than a month ago. The main source for this large cash inflow was payments from the NBU and Naftogaz, but there were also sizeable collections of taxes at the end of the last week. During the last two days of June, the balance of Treasury operations was negative, and inflows from other sources were insufficient. So, last Friday, banking-sector liquidity was down UAH1.53bn to UAH104.34bn. Within that liquidity, we saw funds reallocation, with a UAH1.66bn increase in CDs outstanding to UAH53.54bn, and a UAH3.19bn decline in banks' correspondent accounts with the NBU to UAH50.80bn.

Outflow via Treasury operations amounted to UAH2.58bn, and was partially compensated by an increase in cash of UAH0.51bn: UAH0.09bn via ON loans from NBU and UAH0.46bn via other monetary operations, which also included UAH0.19bn via FX SWAP operations.

Investment implications: NBU kept a low profile in the market, and provided insufficient inflows via its operations. But the Treasury collected more than UAH8bn last Friday, probably via banks, which were closed for a few days after the cyber-attack. However, banks increased investments in CDs, which kept the amount of 14-day CDs unchanged. So, liquidity should recover over the next few days.

Primary auctions in 3Q17

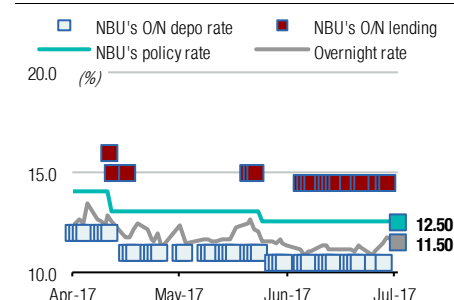
At the end of last week, the MoF published its schedule of primary auctions for 3Q17 with some changes from the previous quarter. The issuer will offer four bonds each week, with 6-month, 12-month, 2-year, and 3-year maturities. The MoF plans to replace only one three-year, local-currency bond with a three-year FX-denominated one.

There was an important footnote in the schedule. The MoF will be able to exclude one or more bonds from the offering after assessing demand from primary dealers prior the auction. The MoF did this for the first time yesterday, when they excluded 12-month bonds from the offering. So, today they will offer six-month, two-year, and three-year bonds.

Investment implications: The MoF likely is trying to decrease auctions that do not receive any bids. How they receive data for the evaluation of demand is unknown, but this could force dealers to make pre-markets with clients before the giving data to the MoF. This will not have impact on interest rates, which could slide a bit today in anticipation of possibly decreasing the key monetary rate this Thursday.

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Interest rates in the banks' reserves market (three months through 3 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 3 July 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
Overnight	11.50	-20bp	+70bp	+20bp	+90bp
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	50,796	-13.21	-18.01	-2.52	-11.35
DepCerts ³	53,542	-22.72	-27.71	-35.44	-33.52
Total	104,338	-18.09	-23.01	-21.82	-23.67
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	371,007	+0.00	-0.54	-1.10	+4.17
Banks	281,175	-0.09	+0.28	+0.00	+63.15
Residents	23,151	-0.08	-0.08	+2.36	+47.66
Non-res ⁴	320	-0.29	-0.03	-93.91	-94.96
Total	675,652	-0.04	-0.18	-1.25	+22.73
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	585	+0bp	+0bp	-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.

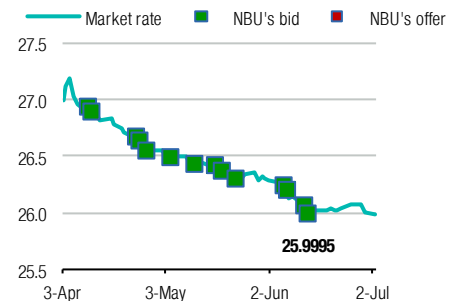
Foreign exchange markets

Key indicators (as of 3 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9900	-0.06	-0.31	-1.10	-4.10
USD ¹	96.218	+0.62	-1.24	-0.51	-5.86
EUR	1.1364	-0.54	+1.63	+0.75	+8.05
JPY	113.3800	+0.88	+1.36	+2.70	-3.06
GBP ²	1.2940	-0.65	+1.71	+0.40	+4.86
CNY	6.8003	+0.29	-0.60	-0.14	-2.08
RUB	59.2236	+0.60	+0.69	+4.57	-3.76

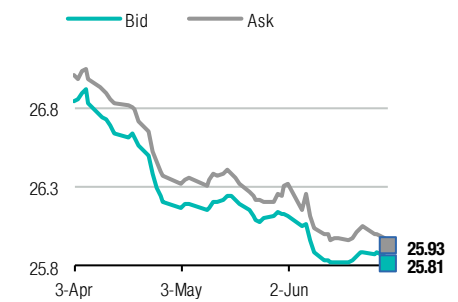
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 3 July 2017)



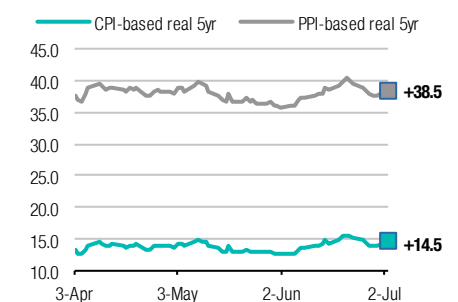
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 3 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 3 July 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)

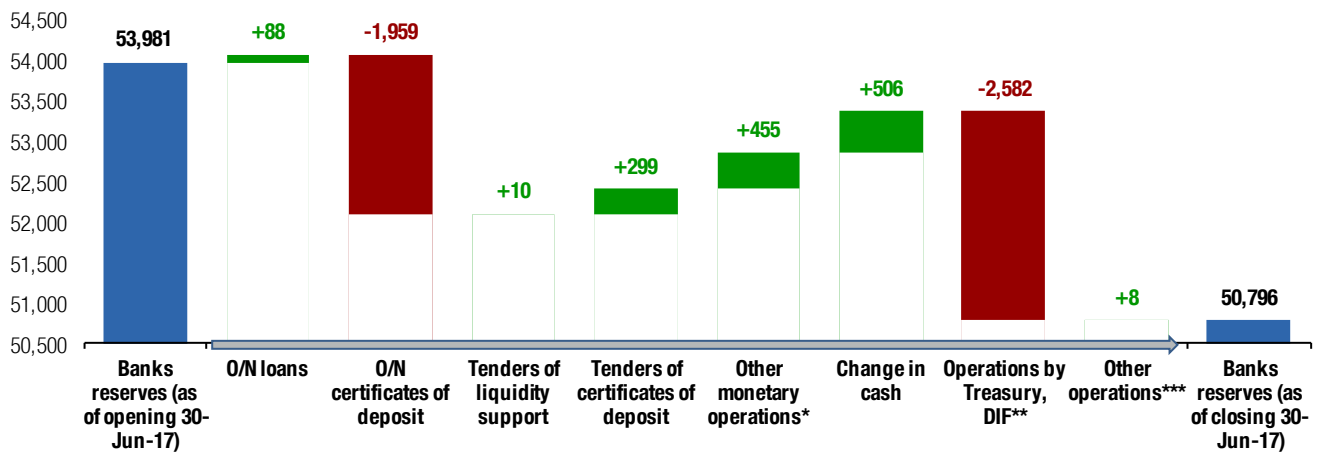
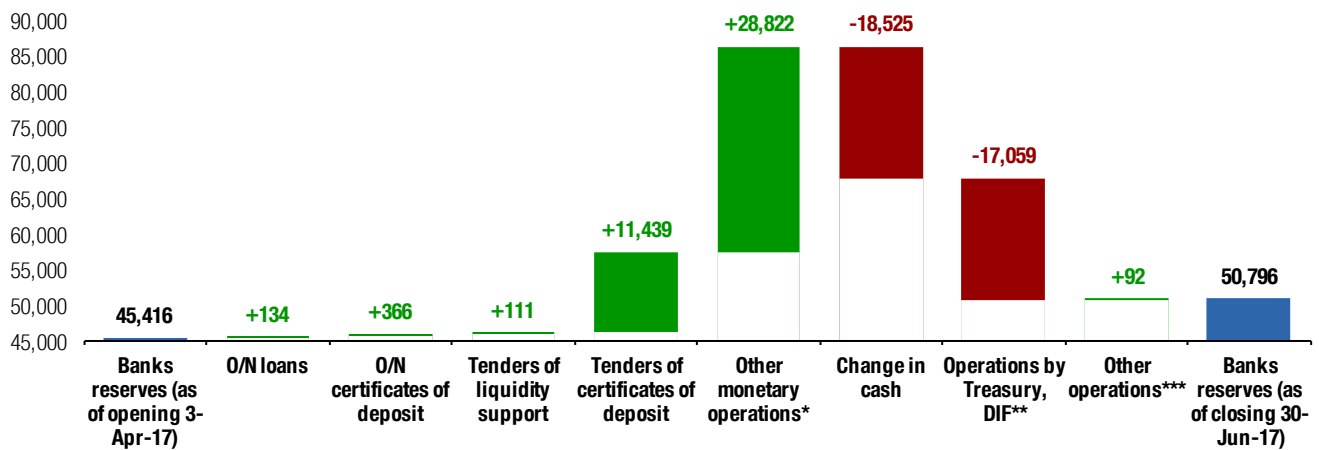
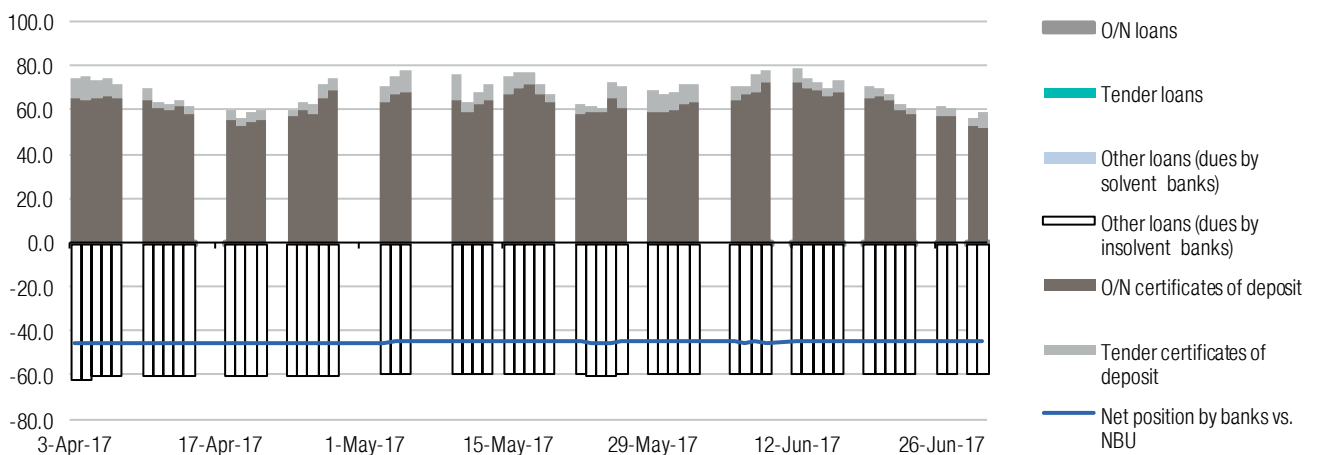


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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