

Daily Insight

Pre-announce of auction

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Liquidity slightly recovers 2

On Wednesday, banking-sector liquidity was up slightly by UAH0.34bn to UAH103.76bn despite UAH2.04bn of inflow from the Treasury. The impact of non-monetary operations amounted to UAH1.26bn, including inflow from the Treasury, which compensated for large outflows via cash and other operations. But this positive impact was cut by outflows caused by the NBU via FX auction and FX purchase, which absorbed UAH0.91bn.

Pre-announce of auction 2

The MoF announced the conditions for bonds that could be offered on Tuesday of next week. Two of the four bonds will be the same as last week, with two-year and three-year maturities. The other two will be reissues, but new for the month.

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FRIDAY, 7 JULY 2017

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



Source: Bloomberg.

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

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	10.80	+0bp	+20bp
Banks reserves (UAHm)	38,036	-2.35	-23.52
Deposit certificates* (UAHm)	65,725	+1.95	+5.60
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.0600	-0.15	-3.84
Total trade volume (US\$m)	163.62	-11.81	-3.54
UAH index PCI-based	109.905	+0.00	+1.76
UAH index PPI-based	169.390	+0.00	+0.60
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,409.75	-0.94	+7.63
MSCI EM	1,006.16	-0.37	+16.69
US dollar index (DXY)	95.802	-0.51	-6.27
EUR / USD	1.1423	+0.63	+8.61
Crude oil WTI (US\$/bbl)	45.52	+0.86	-15.26
Crude oil BRENT (US\$/bbl)	48.11	+0.67	-15.33
CRB, commodities index	174.43	+0.45	-9.39
Gold (US\$/ounce)	1,225.27	-0.14	+6.34

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity slightly recovers

On Wednesday, banking-sector liquidity was up slightly by UAH0.34bn to UAH103.76bn despite UAH2.04bn of inflow from the Treasury. The impact of non-monetary operations amounted to UAH1.26bn, including inflow from the Treasury, which compensated for large outflows via cash and other operations. But this positive impact was cut by outflows caused by the NBU via FX auction and FX purchase, which absorbed UAH0.91bn.

Banks' correspondent accounts with the NBU slid UAH0.91bn to UAH38.04bn, while total CDs outstanding were up UAH1.26bn. Banks showed a preference for 14-day CDs, buying UAH2.78bn, and decreased ON CDs by UAH1.53bn.

Investment implications: *NBU had to satisfy a portion of demand for FX on Wednesday, and absorbed some local-currency liquidity. So, the liquidity increase was insufficient. Banks increased purchases of 14-day CDs instead of ON maturities yesterday, because they anticipated the NBU would decrease the key rate. However, the key rate remained unchanged, so we expect banks to increase ON CDs. Therefore, the Treasury could keep its expenditures above revenues, and support a liquidity recovery, by supporting banks' purchases of 14-day CDs.*

Pre-announce of auction

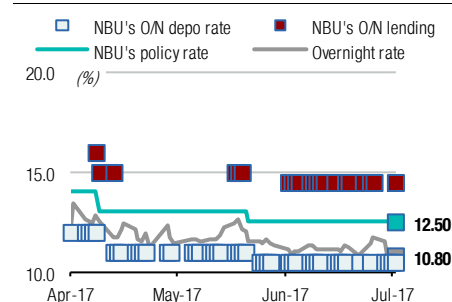
The MoF announced the conditions for bonds that could be offered on Tuesday of next week. Two of the four bonds will be the same as last week, with two-year and three-year maturities. The other two will be reissues, but new for the month.

We expect demand for 12-month bonds, but not for other maturities. The 12-month bond will be a re issuance of two-year bonds that were sold last year, with semi-annual coupon payments. As this bond will be sold at 14.40%, the same interest rate that the 12-month bonds were sold two weeks ago, YTM will be about 14.95%.

Investment implications: *Debt repayments next week will be insufficient without redemptions, and only part will be to the market, not the NBU. Total demand could amount for as much as UAH300m, with concentration in the 12-month maturity. Interest rates will remain steady, as the key monetary rate remains unchanged for another month.*

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



Source: Bloomberg, ICU.

Key indicators (as of 6 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	10.80	+0bp	-60bp	-30bp	+20bp
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	38,036	-2.35	-30.94	-12.98	-23.52
DepCerts ³	65,725	+1.95	+24.25	+1.04	+5.60
Total	103,761	+0.33	-3.90	-4.59	-7.33
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	371,007	+0.00	+0.00	-1.10	+4.17
Banks	270,677	-3.59	-3.54	-3.75	+57.06
Residents	21,501	-7.17	-7.18	-4.90	+37.14
Non-res ⁴	6	-98.12	-98.12	-99.89	-99.90
Total	663,191	-1.79	-1.76	-3.07	+20.47
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	14.44	-32bp	+425bp	+393bp	-763bp
6 months	13.47	-16bp	-317bp	+10bp	-458bp
9 months	N/A	+0bp	+0bp	+0bp	+0bp
1 year	14.61	-6bp	-157bp	-22bp	-138bp
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

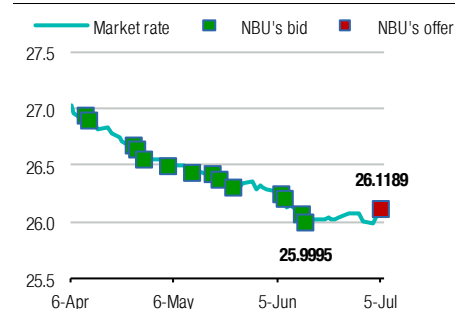
Key indicators (as of 6 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.0600	-0.15	-0.08	-0.67	-3.84
USD ¹	95.802	-0.51	+0.18	-0.86	-6.27
EUR	1.1423	+0.63	-0.16	+1.29	+8.61
JPY	113.2200	-0.04	+0.93	+3.48	-3.20
GBP ²	1.2971	+0.29	-0.28	+0.46	+5.11
CNY	6.8015	-0.01	+0.21	+0.09	-2.07
RUB	60.1374	+0.25	+1.21	+6.44	-2.28

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

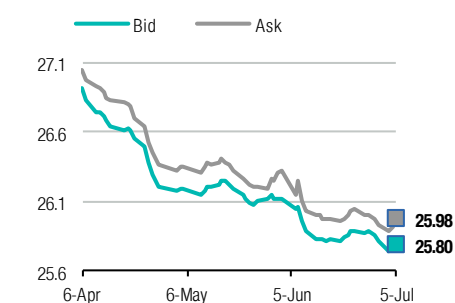
Source: Bloomberg, ICU.

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



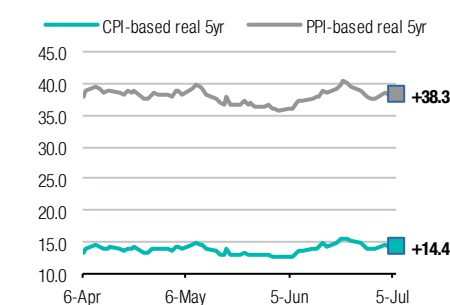
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

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



Source: NBU.

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

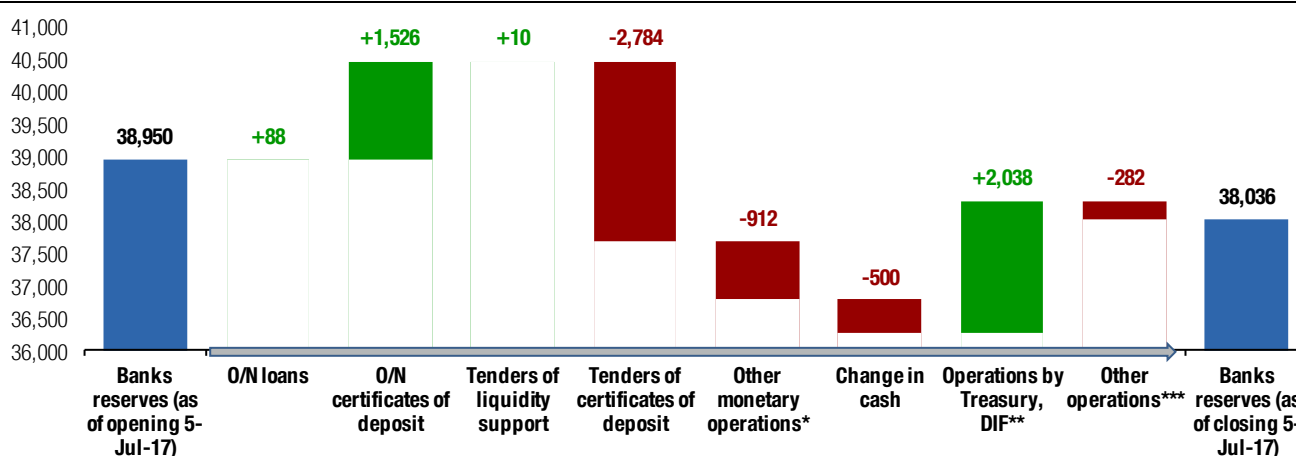
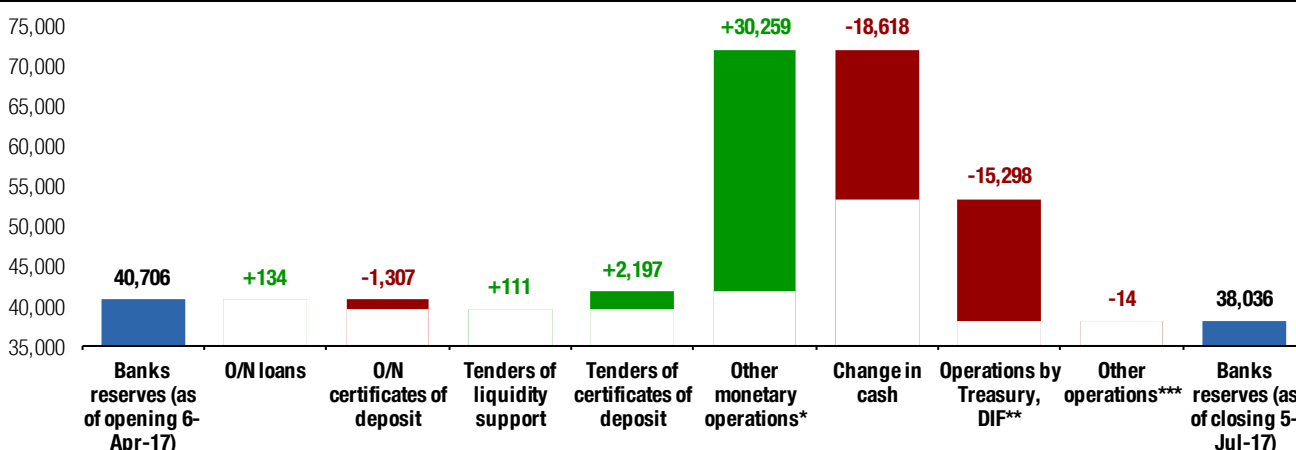


Chart 2. Banks reserves usages over last 90-day period (UAHm)

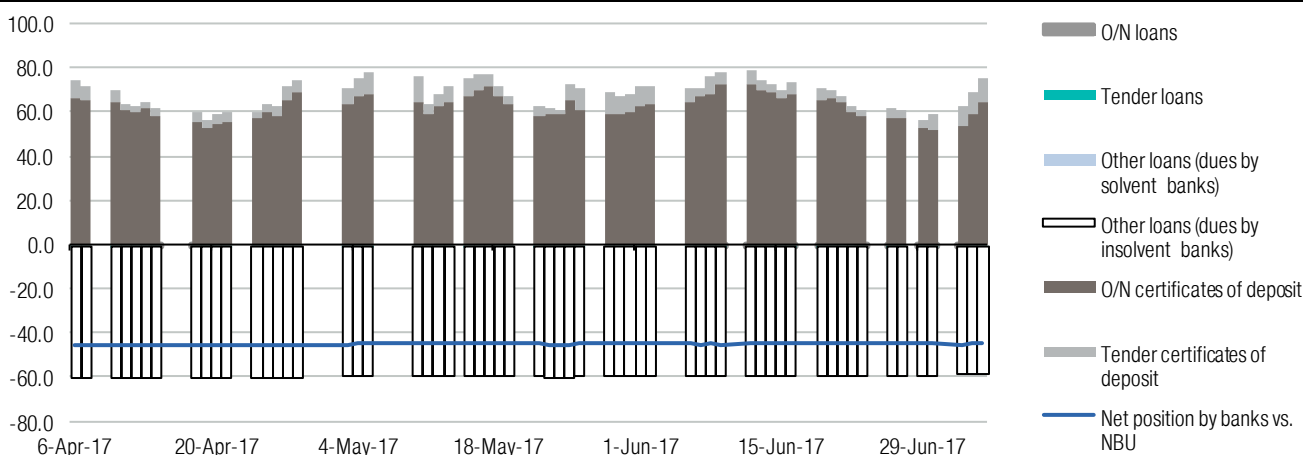


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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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