

Daily Insight

Liquidity fell due cash outflows

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Liquidity fell due cash outflows 2

At the end of last week was seen significant outflow via cash amount decline, UAH3.5bn during two days. Last Friday outflow via cash was amounted to UAH1.97bn but Treasury operations were close to balance at zero, so there was not any source for compensation. The NBU also did not provide any funds via monetary operations. So, autonomous non-monetary operations caused liquidity decline by UAH2.0bn to UAH99.97bn, the first time below UAH100bn since end of February, 2017.

Primary auction today 2

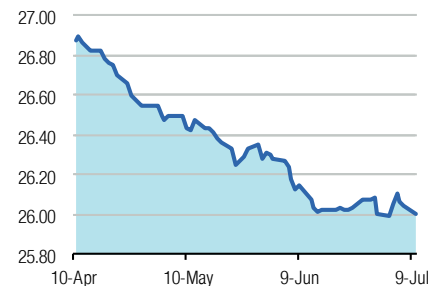
The Ministry of Finance announced for today offering of only one bond with 3-year maturity. Other three bonds with maturities from six months and up to two year from pre-announcement were excluded after consultations with primary dealers.

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TUESDAY, 11 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 10 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 10 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	10.90	-40bp	+30bp
Banks reserves (UAHm)	42,960	+7.08	-13.62
Deposit certificates* (UAHm)	57,010	-7.82	-8.40
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9988	-0.18	-4.06
Total trade volume (US\$m)	110.96	-41.06	-34.58
UAH index PCI-based	110.241	+0.14	+2.07
UAH index PPI-based	169.908	+0.14	+0.91
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	-68bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,427.43	+0.09	+8.42
MSCI EM	1,009.29	+0.68	+17.05
US dollar index (DXY)	96.022	+0.01	-6.05
EUR / USD	1.1399	-0.02	+8.39
Crude oil WTI (US\$/bbl)	44.40	+0.38	-17.35
Crude oil BRENT (US\$/bbl)	46.88	+0.36	-17.49
CRB, commodities index	172.74	+0.11	-10.27
Gold (US\$/ounce)	1,214.42	+0.10	+5.39

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity fell due cash outflows

At the end of last week was seen significant outflow via cash amount decline, UAH3.5bn during two days. Last Friday outflow via cash was amounted to UAH1.97bn but Treasury operations were close to balance at zero, so there was not any source for compensation. The NBU also did not provide any funds via monetary operations. So, autonomous non-monetary operations caused liquidity decline by UAH2.0bn to UAH99.97bn, the first time below UAH100bn since end of February, 2017.

Within the liquidity there was significant reallocation of funds from CDs to banks' accounts. Banks' correspondent accounts with the NBU were up UAH2.84bn, receiving funds from CDs, as total CDs outstanding fell UAH4.84bn, providing funds for banks' accounts increase and outflow via cash.

Investment implications: Liquidity decline was unexpected and this could be short-lived if there will be inflows from Treasury side. We do not anticipate significant further decline, as liquidity should recovers slightly during following two weeks prior the month-end tax payments period.

Primary auction today

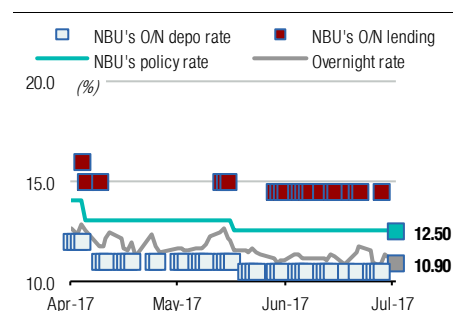
The Ministry of Finance announced for today offering of only one bond with 3-year maturity. Other three bonds with maturities from six months and up to two year from pre-announcement were excluded after consultations with primary dealers.

Potential investors also were not interested in 12-month bond with high YTM. Probably, their funds invested for better conditions while there lack of free long money for new investments at the market.

Investment implications: The most likely today's auction will be cancelled at all due lack of demand. There will be small debt interest payments this week, which could be invested at secondary market. Also there will be no p[principal repayments which could be the source for demand for new bonds.

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Interest rates in the banks' reserves market (three months through 10 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 10 July 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	10.90	-40bp	-60bp	-10bp	+30bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	42,960	+7.08	-15.43	+8.57	-13.62
DepCerts ³	57,010	-7.82	+6.48	-21.50	-8.40
Total	99,970	-1.96	-4.19	-10.90	-10.72
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	371,007	+0.00	+0.00	-0.79	+4.17
Banks	270,403	-0.04	-3.83	-3.78	+56.90
Residents	21,509	+0.06	-7.09	-4.77	+37.19
Non-res ⁴	6	-0.53	-98.24	-91.14	-99.91
Total	662,924	-0.02	-1.88	-2.17	+20.42
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	14.99	+2bp	-114bp	+23bp	-732bp
3 months	14.56	+2bp	-38bp	+11bp	-750bp
6 months	13.54	+2bp	-20bp	+9bp	-450bp
1 year	14.64	+1bp	-14bp	-28bp	-135bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	585	+0bp	+0bp	+35bp	-68bp

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.

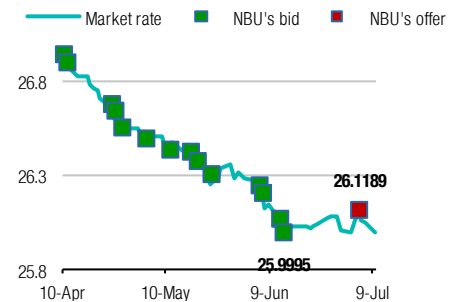
Foreign exchange markets

Key indicators (as of 10 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9988	-0.18	+0.03	-0.56	-4.06
USD ¹	96.022	+0.01	-0.20	-1.29	-6.05
EUR	1.1399	-0.02	+0.31	+1.82	+8.39
JPY	114.0400	+0.11	+0.58	+3.37	-2.50
GBP ²	1.2881	-0.07	-0.46	+1.06	+4.38
CNY	6.8036	-0.03	+0.05	+0.08	-2.04
RUB	60.2441	-0.23	+1.72	+5.62	-2.10

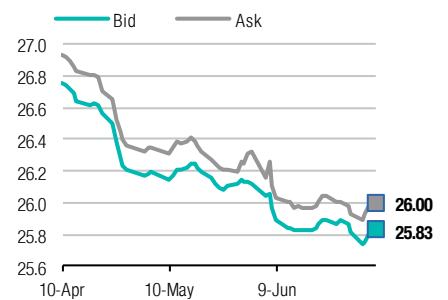
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 10 July 2017)



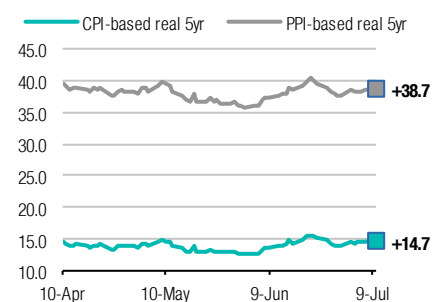
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 10 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 10 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)

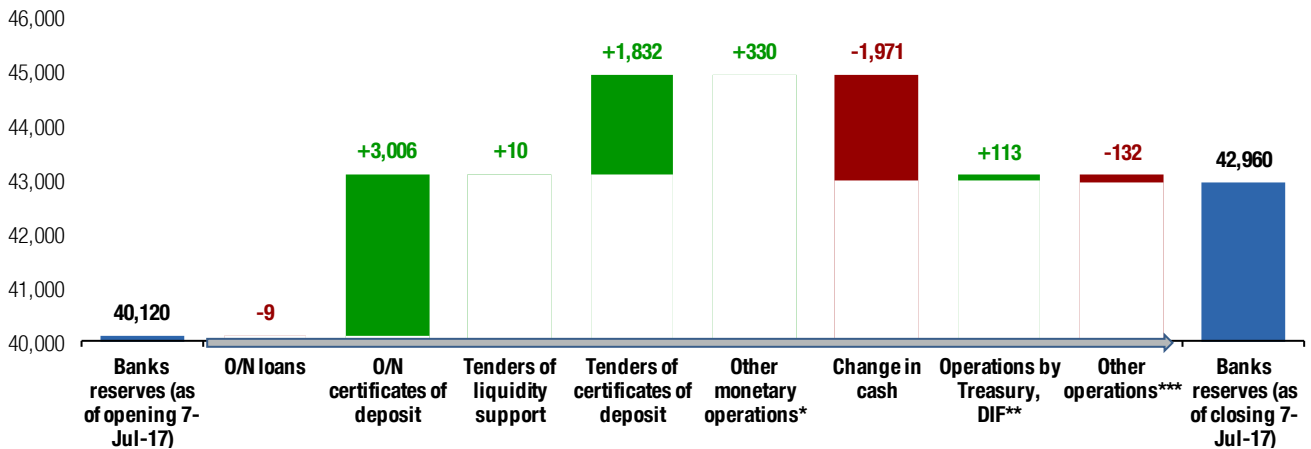
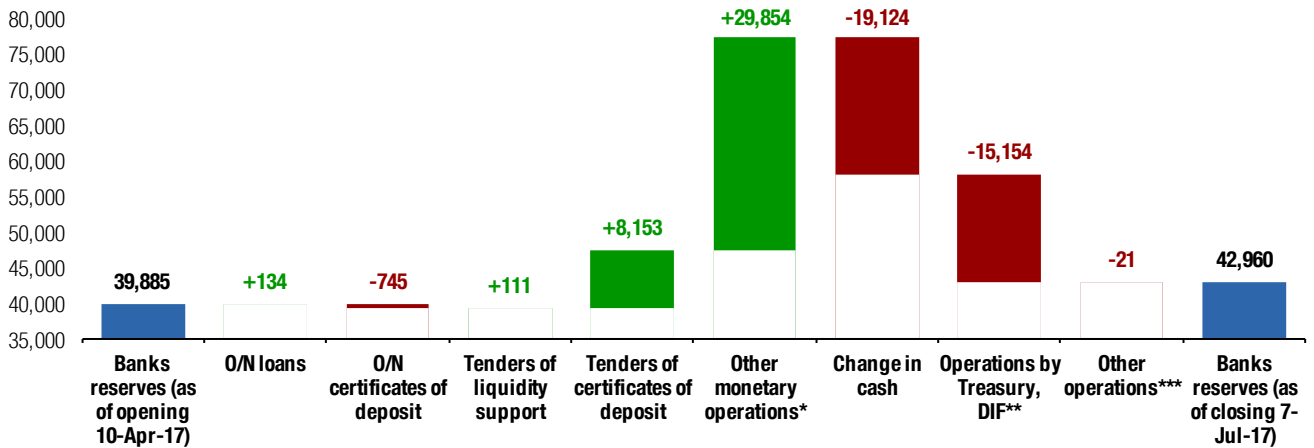
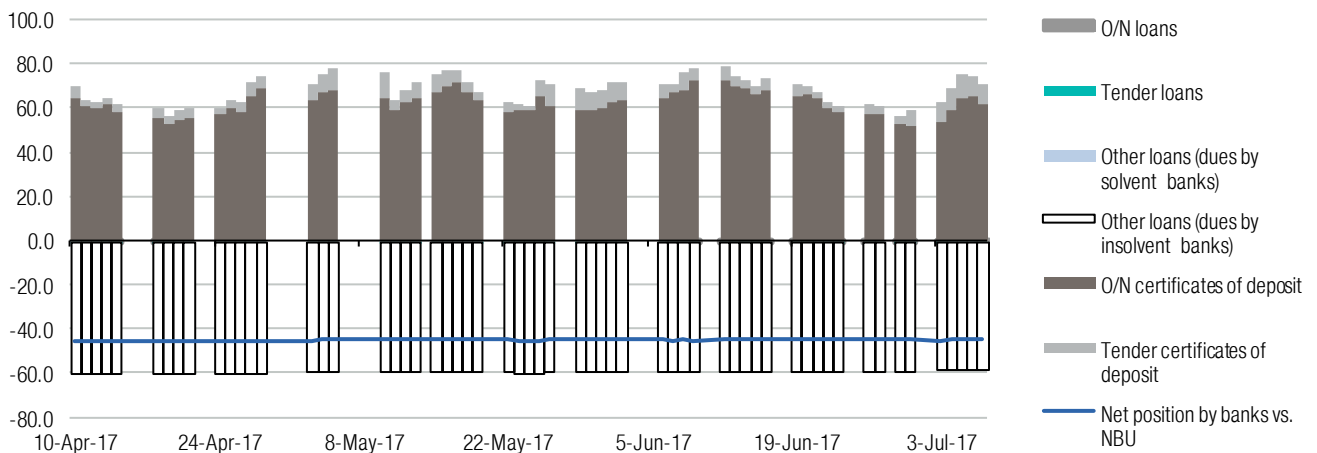


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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