

# Daily Insight

## Insufficient liquidity, volatility

### Key messages of the today's comments

#### Domestic liquidity ..... 2

##### Insufficient liquidity, volatility ..... 2

This Monday, non-monetary operations supported a slight recovery in liquidity, which was up UAH0.48bn to UAH100.45bn, but with additional reallocation of funds from CDs to banks' accounts. At Monday's tender, banks decreased purchases of new CDs by UAH3.45bn, mostly at ON maturity. These funds were accumulated in banks' correspondent accounts with the NBU, which were up UAH3.93bn to UAH46.89bn.

##### Auction review: Slight increase in demand ..... 2

Yesterday, the MoF offered only three-year bonds, likely after consultations with primary dealers indicating that only this issue would attract demand. Tightening of the offering to one bond supported demand by concentrating on this maturity. But total demand was insufficient compared with last week's auction. Banks submitted only three bids amounting to UAH423m, which was an unexpectedly large due to lack of bond redemptions this week and insufficient payments of interest payments. Bids were submitted with a simple rate, 14.54%, the same as last week's cut-off and weighted-average interest rate.

#### Foreign exchange markets ..... 3

##### UAH inches up on higher USD supply ..... 3

The UAH closed up 0.12% to 25.972 UAH/USD from the previous day on trading volume of US\$222.24m, per data from the NBU. The hryvnia was strengthened for the fifth consecutive trading day. The appreciation is mostly due to an excess supply of USD in the domestic market. The hryvnia's trade-weighted index rose 0.13% to 110.39, while the Russian ruble closed down 0.7% to 60.7397 RUB/USD on the back of falling oil prices.

#### Appendix #1: Domestic liquidity ..... 4

WEDNESDAY, 12 JULY 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 11 July 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 11 July 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.10	+20bp	+50bp
Banks reserves (UAHm)	46,893	+9.16	-5.71
Deposit certificates* (UAHm)	53,556	-6.06	-13.95

<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	25.9400	-0.23	-4.28
Total trade volume (US\$m)	149.17	+34.44	-12.05
UAH index PCI-based	110.388	+0.13	+2.21
UAH index PPI-based	170.135	+0.13	+1.05

<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	585bp	+0bp	-68bp

<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,425.53	-0.08	+8.34
MSCI EM	1,018.20	+0.88	+18.08
US dollar index (DXY)	95.669	-0.37	-6.40
EUR / USD	1.1467	+0.60	+9.03
Crude oil WTI (US\$/bbl)	45.04	+1.44	-16.16
Crude oil BRENT (US\$/bbl)	47.52	+1.37	-16.37
CRB, commodities index	173.92	+0.68	-9.66
Gold (US\$/ounce)	1,217.80	+0.28	+5.69

Notes: \* NBU's short-term bonds.

Source: Bloomberg, ICU.

# Domestic liquidity

## Insufficient liquidity, volatility

This Monday, non-monetary operations supported a slight recovery in liquidity, which was up UAH0.48bn to UAH100.45bn, but with additional reallocation of funds from CDs to banks' accounts. At Monday's tender, banks decreased purchases of new CDs by UAH3.45bn, mostly at ON maturity. These funds were accumulated in banks' correspondent accounts with the NBU, which were up UAH3.93bn to UAH46.89bn.

The Treasury increased its expenditures over collected revenues by UAH0.92bn, and compensated for the outflow via a decline in cash of UAH0.44bn, which caused a positive impact on non-monetary operations, mentioned above. NBU did not hold monetary operations on Monday.

**Investment implications: Liquidity remains slightly volatile at around UAH100bn, and probably will not move significantly. The amount of free liquidity in banks will remain dependent on Treasury operations, as well as NBU monetary operations.**

## Auction review: Slight increase in demand

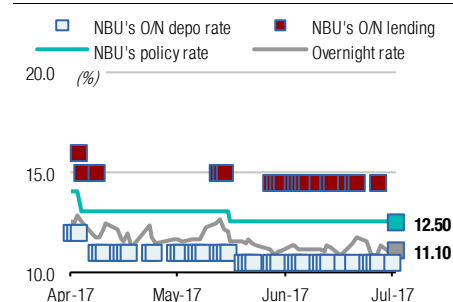
Yesterday, the MoF offered only three-year bonds, likely after consultations with primary dealers indicating that only this issue would attract demand. Tightening of the offering to one bond supported demand by concentrating on this maturity. But total demand was insufficient compared with last week's auction. Banks submitted only three bids amounting to UAH423m, which was an unexpectedly large due to lack of bond redemptions this week and insufficient payments of interest payments. Bids were submitted with a simple rate, 14.54%, the same as last week's cut-off and weighted-average interest rate.

Despite demand for three-year bonds that was nearly three times larger compared with the last auction, demand for the auction was up less than two times. But if we look at demand in June, the average demand was above UAH700m, and the MoF sold three-year bonds at UAH1.44bn at two auctions.

So, the results of yesterday's auction are not remarkable; the interest rate was unchanged and the proceeds were only slightly larger. This demand could have been from investors, who had accumulated additional funds for buying new bonds.

**Taras Kotovych, Kyiv, (044) 220-0120 ext.724**

## Interest rates in the banks' reserves market (three months through 11 July 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 11 July 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.10	+20bp	+20bp	+10bp	+50bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	46,893	+9.16	+6.36	+18.51	-5.71
DepCerts <sup>3</sup>	53,556	-6.06	-9.56	-26.26	-13.95
<b>Total</b>	<b>100,449</b>	<b>+0.48</b>	<b>-2.76</b>	<b>-10.47</b>	<b>-10.29</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	371,007	+0.00	+0.00	-0.79	+4.17
Banks	270,326	-0.03	-3.80	-3.81	+56.86
Residents	21,517	+0.04	-7.27	-4.74	+37.24
Non-res <sup>4</sup>	6	+9.24	-98.08	-90.32	-99.90
<b>Total</b>	<b>662,856</b>	<b>-0.01</b>	<b>-1.88</b>	<b>-2.18</b>	<b>+20.41</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	15.02	+3bp	+10bp	+25bp	-729bp
3 months	11.16	-341bp	+184bp	-330bp	-11ppt
6 months	13.53	-2bp	+1bp	+8bp	-452bp
1 year	14.67	+3bp	+2bp	-25bp	-132bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
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

## UAH inches up on higher USD supply

The UAH closed up 0.12% to 25.972 UAH/USD from the previous day on trading volume of US\$222.24m, per data from the NBU. The hryvnia was strengthened for the fifth consecutive trading day. The appreciation is mostly due to an excess supply of USD in the domestic market. The hryvnia's trade-weighted index rose 0.13% to 110.39, while the Russian ruble closed down 0.7% to 60.7397 RUB/USD on the back of falling oil prices.

The US dollar weakened against major rivals, as Donald Trump, Jr., released emails in which he set up a meeting with a Russian-linked lawyer to obtain potentially damaging information on Hilary Clinton in last year's election campaign. The DXY index was down 0.4% to 95.67. At the same time, investors are awaiting Janet Yellen's semiannual monetary policy report to Congress, which is scheduled for 12 July.

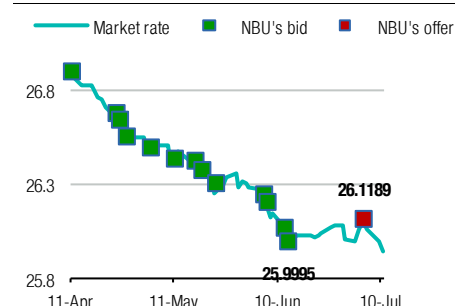
*Alexander Valchyshen, Kyiv, (044) 220-0120 ext.721*

## Key indicators (as of 11 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9400	-0.23	-0.44	-0.78	-4.28
USD <sup>1</sup>	95.669	-0.37	-0.57	-1.65	-6.40
EUR	1.1467	+0.60	+1.07	+2.43	+9.03
JPY	113.9400	-0.09	+0.58	+3.28	-2.58
GBP <sup>2</sup>	1.2848	-0.26	-0.56	+0.80	+4.12
CNY	6.8025	-0.02	+0.03	+0.07	-2.05
RUB	60.8197	+0.96	+2.34	+6.63	-1.17

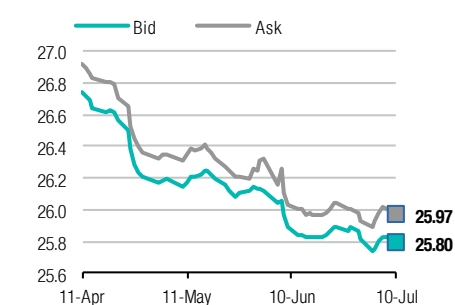
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 11 July 2017)



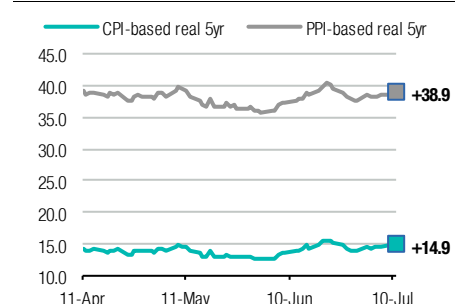
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 11 July 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 11 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)

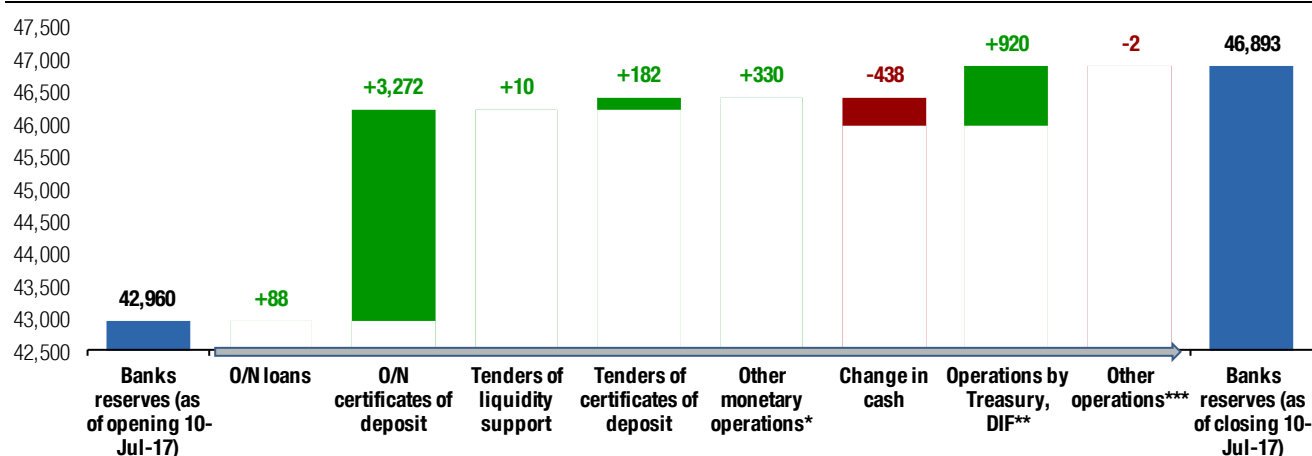
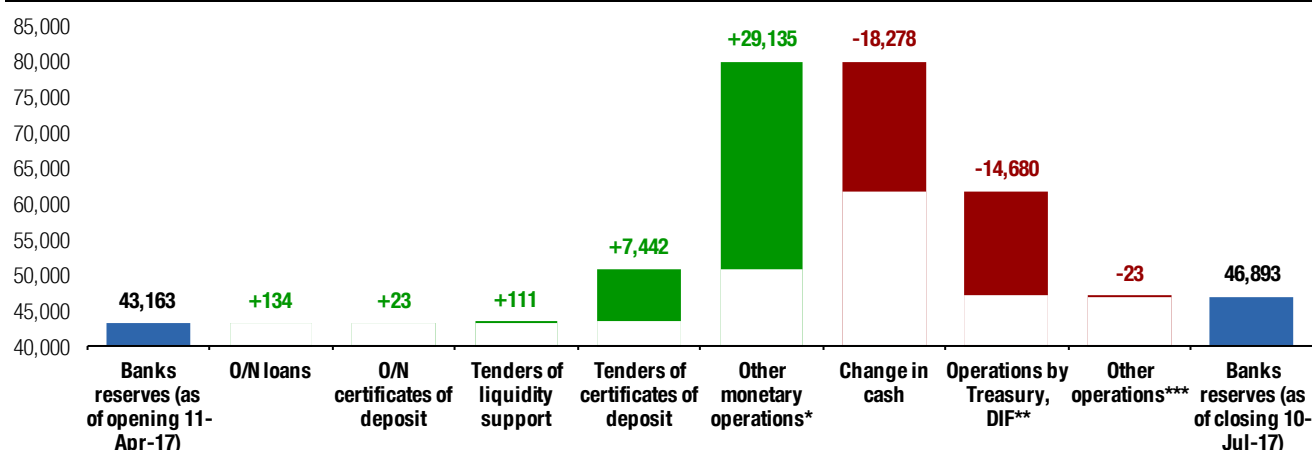


Chart 2. Banks reserves usages over last 90-day period (UAHm)

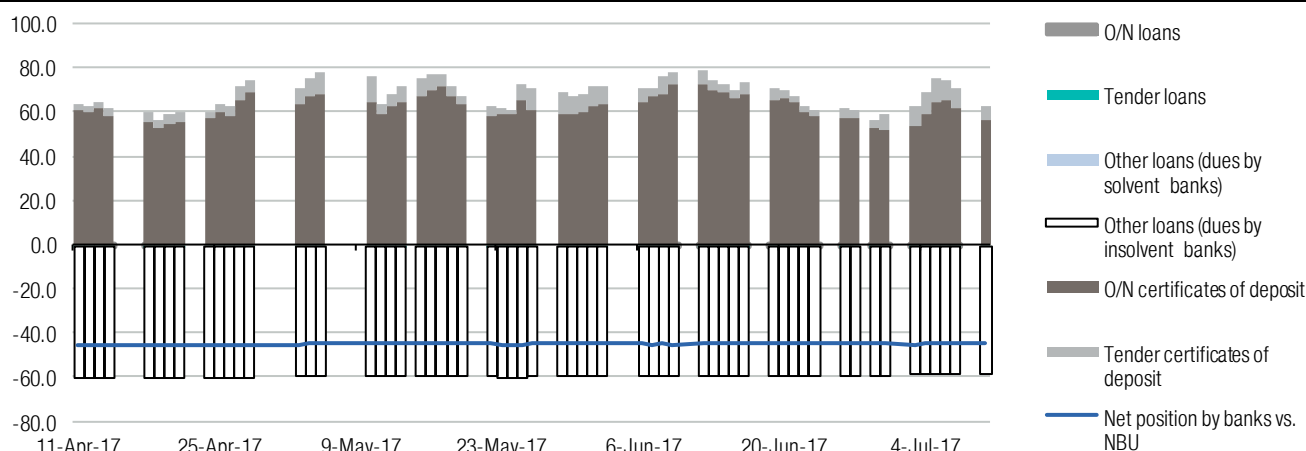


Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142) ;

\* 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.

This page is intentionally left blank



11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kiev, 01030 Ukraine  
Phone/Fax +38 044 2200120

**WEB** [www.icu.ua](http://www.icu.ua)

   [@ICU\\_UA](https://twitter.com/ICU_UA)

## **CORPORATE FINANCE**

**Makar Paseniuk, CFA**, Managing Director  
[makar.paseniuk@icu.ua](mailto:makar.paseniuk@icu.ua)

**Ivan Shvydanenko**, Director  
[ivan.shvydanenko@icu.ua](mailto:ivan.shvydanenko@icu.ua)

**Roman Nikitov, ACCA** Director  
[roman.nikitov@icu.ua](mailto:roman.nikitov@icu.ua)

**Yuriy Kamarytskyi**, Vice President  
[yuriy.kamarytskyi@icu.ua](mailto:yuriy.kamarytskyi@icu.ua)


**Ruslan Kilmukhametov**, Director  
[ruslan.kilmukhametov@icu.ua](mailto:ruslan.kilmukhametov@icu.ua)

**Ruslan Patlavsky**, Director  
[ruslan.patlavsky@icu.ua](mailto:ruslan.patlavsky@icu.ua)

## **STRATEGY AND CORPORATE DEVELOPMENT**

**Vlad Sinani**, Director  
[vlad.sinani@icu.ua](mailto:vlad.sinani@icu.ua)

## **SALES AND TRADING**

**Konstantin Stetsenko**   
Managing Director  
[konstantin.stetsenko@icu.ua](mailto:konstantin.stetsenko@icu.ua)


**Liliya Kubytovyich**   
Asset Management Product Sales  
[liliya.kubytovyich@icu.ua](mailto:liliya.kubytovyich@icu.ua)

**Sergiy Byelyayev**  
Fixed-Income Trading  
[sergiy.byelyayev@icu.ua](mailto:sergiy.byelyayev@icu.ua)

**Yevgeniya Gryshchenko**  
Fixed-Income Sales  
[yevgeniya.gryshchenko@icu.ua](mailto:yevgeniya.gryshchenko@icu.ua)

**Vitaliy Sivach**   
Fixed-Income & FX Trading  
[vitaliy.sivach@icu.ua](mailto:vitaliy.sivach@icu.ua)


## **RESEARCH**

**Alexander Valchyshen**   
Head of Research  
[alexander.valchyshen@icu.ua](mailto:alexander.valchyshen@icu.ua)

**Alexander Martynenko**   
Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Bogdan Vorotilin**   
Financial analyst (Food & Agribusiness)  
[bogdan.vorotilin@icu.ua](mailto:bogdan.vorotilin@icu.ua)

**Taras Kotovych**   
Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Mykhaylo Demkiv**   
Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Lee Daniels, Rolfe Haas**  
Editors

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

## **DISCLAIMER**

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.



**Additional information is available upon request.**