

Daily Insight

Liquidity continues to decline

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Liquidity continues to decline 2

Total banking sector liquidity fell UAH2.87bn to UAH107.35bn due to outflows caused by autonomous non-monetary operations. Banks' correspondent accounts with the NBU fell UAH2.65bn to UAH48.01bn while total CDs outstanding slid a mere UAH0.22bn to UAH59.34bn. At Monday's tender, banks increased purchases of 14-day CDs while decreasing the amount of ON CDs.

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After the NBU decreased its key monetary rate, interest rates are expected to decline. Yesterday, the interest rate for 6-month bonds slid 12bp.

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WEDNESDAY, 31 MAY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 30 May 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 30 May 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	48,011	-5.24	-3.46
Deposit certificates* (UAHm)	59,336	-20.16	-23.88
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.2800	-0.28	-3.03
Total trade volume (US\$m)	194.22	+112.65	+14.51
UAH index PCI-based	108.372	+0.22	+0.34
UAH index PPI-based	167.027	+0.22	-0.80
UKRAINE SOVEREIGN EUROBOOND MARKET			
CDS 5yr	595bp	+0bp	+0bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,412.91	-0.12	+7.78
MSCI EM	1,011.77	-0.34	+17.34
US dollar index (DXY)	97.280	-0.17	-4.82
EUR / USD	1.1186	+0.20	+6.36
Crude oil WTI (US\$/bbl)	49.66	+0.00	-7.56
Crude oil BRENT (US\$/bbl)	51.84	-0.86	-8.76
CRB, commodities index	181.33	-0.37	-5.81
Gold (US\$/ounce)	1,263.15	-0.50	+9.62

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to decline

Total banking sector liquidity fell UAH2.87bn to UAH107.35bn due to outflows caused by autonomous non-monetary operations. Banks' correspondent accounts with the NBU fell UAH2.65bn to UAH48.01bn while total CDs outstanding slid a mere UAH0.22bn to UAH59.34bn. At Monday's tender, banks increased purchases of 14-day CDs while decreasing the amount of ON CDs.

Out of UAH2.87bn of outflows via non-monetary operations, the Treasury absorbed UAH3.92bn of funds against total revenues of UAH6.4bn this Monday. This absorption was partially offset by a UAH1.05bn increase in cash. The NBU provided no funds in liquidity this Monday, but only changed the liquidity structure.

Investment implications: The Treasury returned only a portion of the received revenues to liquidity. As revenues should have declined yesterday and be insignificant today, next week we could see liquidity recover above UAH110bn.

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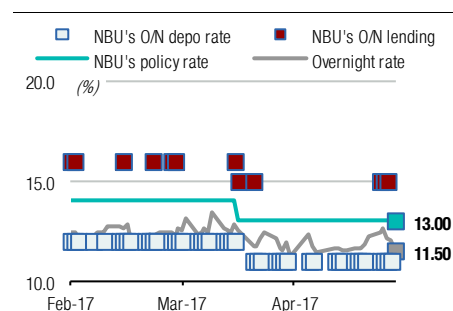
Interest rates expected to decline

After the NBU decreased its key monetary rate, interest rates are expected to decline. Yesterday, the interest rate for 6-month bonds slid 12bp.

At the auction, the MoF offered two bonds, with 6-month and 12-month maturities, but the 12-month received no bids while the 6-month received one bid at 12.00% and another at 14.00% for a total of UAH80m. The MoF decided to accept both bids, leaving the cut-off rate unchanged from last week at 14.00%. A weighted average rate was set at 13.88% at the 12% bid was very small at about UAH5m, having an insufficient impact. The interest rate fell 12bp, close to our anticipations, as demand was small and mostly at 14%.

Investment implications: Next week, the MoF should offer bonds similar to those offered yesterday as well as 2-year bonds which should attract the most demand. Yesterday's auction followed the yield curve movements which should decline by about 15-20bp for 1-year maturity and probably up to 30bp for 2-year bonds.

Interest rates in the banks' reserves market (three months through 30 May 2017)



Source: Bloomberg, ICU.

Key indicators (as of 30 May 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	N/A	N/A	N/A	N/A	N/A
Overnight	N/A	N/A	N/A	N/A	N/A
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	48,011	-5.24	+8.65	+6.35	-3.46
DepCerts ³	59,336	-20.16	-19.73	-39.94	-23.88
Total	107,347	-12.43	-8.91	-24.21	-16.04
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	376,165	+0.00	-0.46	-0.46	+5.62
Banks	281,431	+0.06	+0.50	-0.70	+63.30
Residents	22,685	-0.09	+2.92	+2.25	+44.69
Non-res ⁴	5,287	+0.16	+0.16	-0.64	-16.76
Total	685,567	+0.02	+0.04	-0.47	+24.53
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	595	+0bp	+0bp	-17bp	+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.

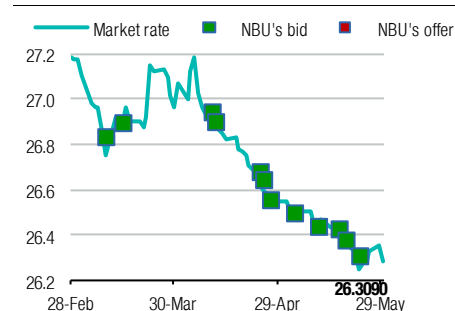
Source: Bloomberg, ICU.

Foreign exchange markets

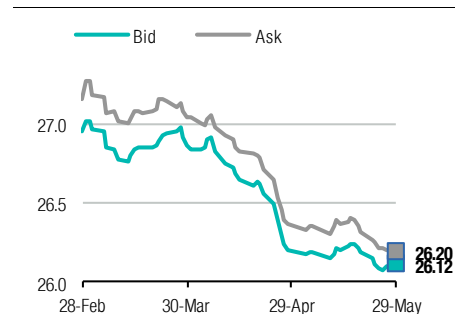
Key indicators (as of 30 травня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.2800	-0.28	+0.13	-1.00	-3.03
USD ¹	97.280	-0.17	-0.07	-1.79	-4.82
EUR	1.1186	+0.20	+0.03	+2.67	+6.36
JPY	110.8500	-0.38	-0.83	-0.57	-5.22
GBP ²	1.2859	+0.15	-0.79	-0.71	+4.21
CNY	N/A	N/A	N/A	N/A	N/A
RUB	56.5681	+0.12	+0.44	-0.63	-8.08

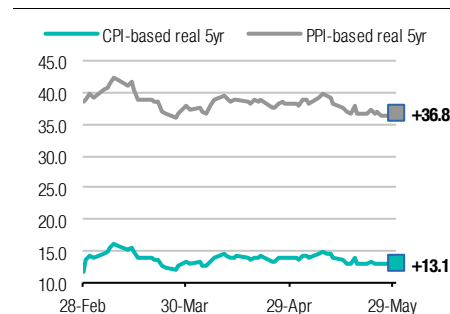
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 30 May 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 30 May 2017)


Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 30 May 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)

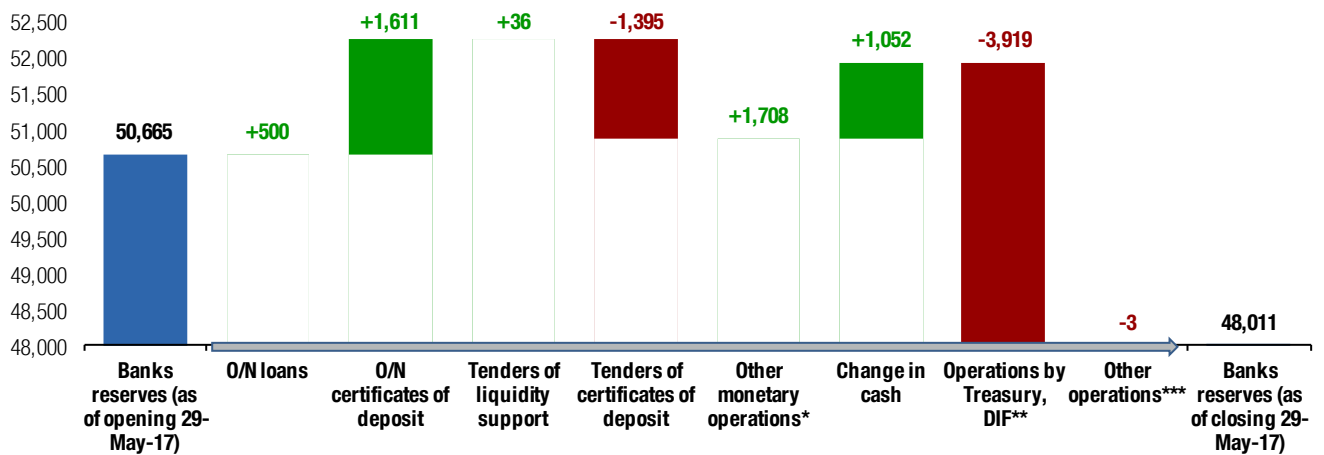
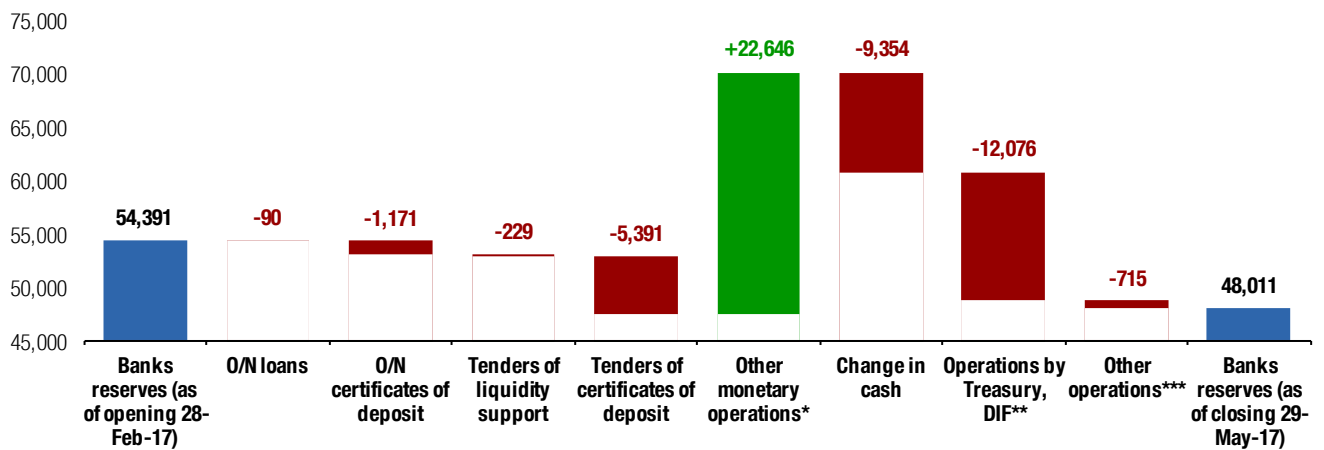
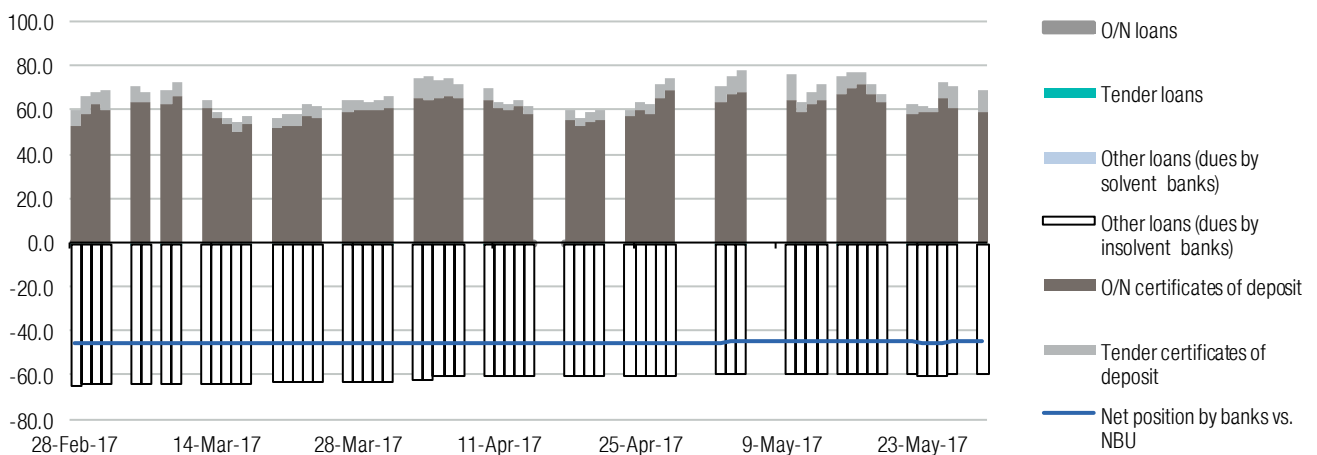


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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