



Focus
Ukraine

Scope
Economics, bonds, equity & FX markets

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Daily Insight

Bondholders' portfolios decline

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FRIDAY, 11 MARCH 2016

UX Index (3 months to 11 Mar 2016)



Source: UX.

Key market indicators (as of 10 Mar 2016)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	25.5500	-1.73	+6.33
USD/UAH (1Y NDF)	29.6000	-1.50	+16.10
EUR/USD	1.1177	+1.62	+2.90
USD/RUB	71.3937	+0.42	-1.55
KievPRIME O/N (%)	19.25	-19bp	+19bp
KievPRIME 1M (%)	22.25	+0bp	+0bp
SOVEREIGN EUROBONDS: yields and spreads			
Ukraine 15, Eurobond (%)	N/A	+0bp	+0bp
Ukraine 17, Eurobond (%)	29.14	+26bp	+0bp
Ukraine 22, Eurobond (%)	12.32	-1bp	+0bp
Ukraine 23, Eurobond (%)	11.85	+0bp	+0bp
Ukraine 5Y CDS	N/A		
EQUITIES			
Stock market indices			
UX (Ukraine)	676.87	+7.69	-1.31
MSCI World	384.94	-0.04	-3.61
MSCI EM	790.74	+0.39	-0.43
RTS (Russia)	834.24	-0.17	+10.20
WIG-20 (Poland)	1,887.31	+0.46	+1.51
S&P 500 (USA)	1,989.57	+0.02	-2.66

Notes: Chg – percentage change, if not otherwise indicated; [1] – total traded volume for stocks listed in green- or red-shaded box means gain or loss, respectively, of the index or security.

Sources: Bloomberg, UX, Investment Capital Ukraine LLC.

Bonds: News & Comments

Liquidity continues to decline

Banking sector liquidity continued to decline yesterday, down UAH3.82bn to UAH96.84bn, as banks' correspondent accounts with the NBU fell UAH1.49bn to UAH35.96bn and total CDs outstanding slid UAH2.33bn to UAH60.88bn.

Investment implications: *Yesterday's decline appears to be partially the result of FX market outflows as total turnover was up recently. At the same time, two banks received a total of UAH0.49bn in loans from the NBU for more than a month.*

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Bondholders' portfolios decline

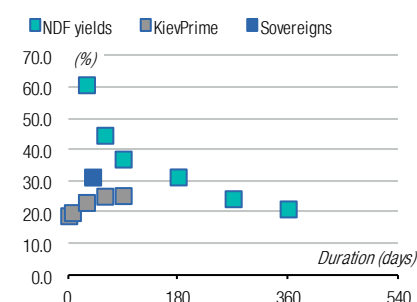
The latest NBU data on bondholders' structure published yesterday shows a UAH2.23bn decrease in total bonds outstanding to UAH237.69bn as well as a decline in the bondholders' groups. The NBU's portfolio declined UAH1.26bn to UAH387.30bn, the banks' portfolio fell UAH0.67bn, the other residents' portfolio slid UAH0.05bn to UAH11.58bn, and the non-residents' portfolio decreased UAH0.26bn to UAH23.51bn.

Investment implications: *These movements were caused by different factors. The banks', other residents' and non-residents' portfolios declined due to local currency strengthening on Wednesday by UAH0.31 to UAH26.1828/USD. As USD-denominated bonds are mostly concentrated in the banks' and non-residents' portfolios, their portfolios are the most sensitive to exchange rate movements. At the same time, the NBU's portfolio declined most likely due to a UAH1.25bn local currency bond redemption made by the MoF on Wednesday, which was possibly an off-market Naftogaz share capital increase issued five years ago. Today, the exchange rate will have a slightly more significant impact on portfolios that are calculated in local currency.*

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Yield curve of the local bond market

(as of market close on 10 Mar 2016)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Bond market indicators (as of 10 Mar 2016)

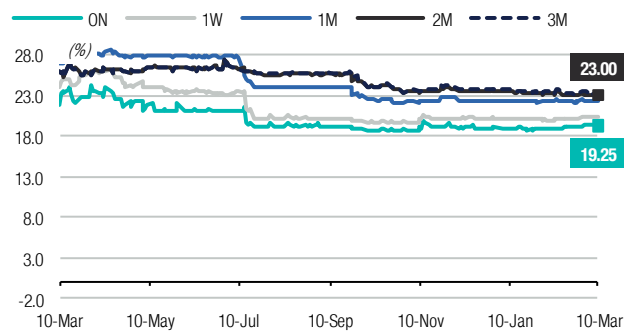
	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
MONEY MARKET KIEV PRIME RATES (%)					
O/n	19.25	-19bp	-5bp	+40bp	+19bp
1wk	20.25	-13bp	-5bp	+25bp	+25bp
1m	22.25	+0bp	-9bp	+5bp	+0bp
2m	23.00	-13bp	-10bp	-10bp	-50bp
3m	23.00	-25bp	-30bp	-30bp	-75bp
LIQUIDITY WIDE MEASUREMENT (UAHm)					
CB acc's ¹	35,964	+1.27	+8.35	+18.56	-5.30
CDs ²	60,877	-19.47	-32.17	-43.05	-43.52
Sovgns ³	3,677	+0.00	-7.29	-40.19	-22.32
Total	100,518	-11.34	-18.87	-27.51	-31.44
HOLDERS OF UAH SOVEREIGN BONDS (UAHm)					
C.bank	387,296	-0.01	-0.33	-0.70	+1.96
Banks	115,307	-1.36	-2.38	-0.49	+39.44
Resid's ⁴	11,577	+0.13	-1.66	+0.25	-44.79
Non-res ⁵	23,508	-2.20	-4.30	-1.55	+3.07
Total	537,688	-0.39	-0.98	-0.67	+6.13
NDF IMPLIED YIELDS (%)					
3m	N/A	N/A	N/A	N/A	N/A
6m	N/A	N/A	N/A	N/A	N/A
9m	N/A	N/A	N/A	N/A	N/A
1yr	N/A	N/A	N/A	N/A	N/A
LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)					
Mar '13	N/A	N/A	N/A	N/A	N/A
Jan '14	N/A	N/A	N/A	N/A	N/A
Aug '15 ⁶	N/A	N/A	N/A	N/A	N/A
EUROBONDS USD SOVEREIGN BOND YIELDS (%)					
CDS 5yr	N/A	N/A	N/A	N/A	N/A
Jun '16	67.67	+114bp	+0bp	+0bp	+0bp
Jul '17	29.14	+26bp	+0bp	+0bp	+0bp
Sep '20	14.02	+4bp	+0bp	+0bp	+0bp
Sep '21	14.22	+0bp	+0bp	+0bp	+0bp
Sep '22	12.32	-1bp	+0bp	+0bp	+0bp
Feb '23	11.85	+0bp	+0bp	+0bp	+0bp

Notes: [1] banks' account balance at NBU; [2] certificates of deposits issued by NBU; [3] UAH sovereign bonds due next 30 days; [4] residents; [5] non-residents; [6] VAT bond.

Sources: Bloomberg, Investment Capital Ukraine LLC.

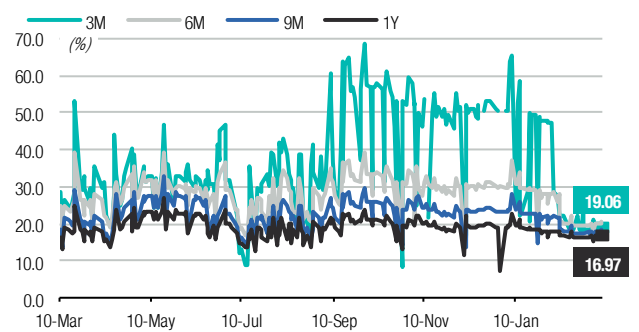
Chart page: Local bond market & Eurobond markets

Chart 1. Kiev Prime rates (%), last 12-month period



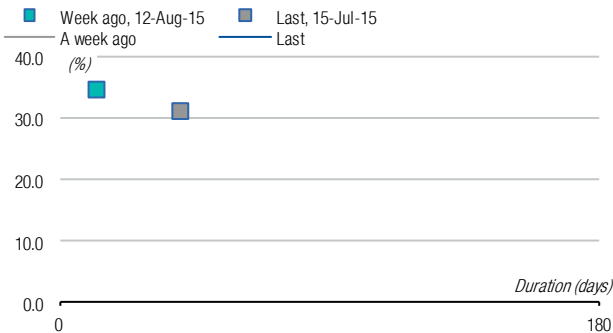
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 2. UAH NDF implied yields (%), last 12-month period



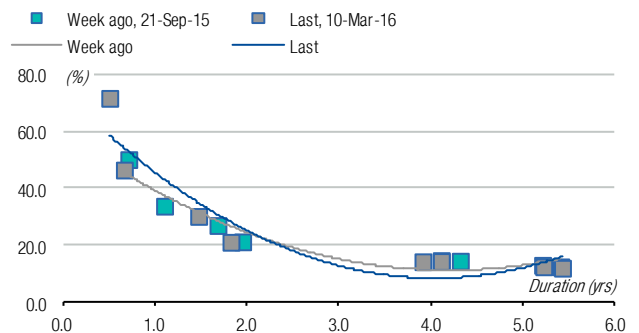
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 10 Mar 2016



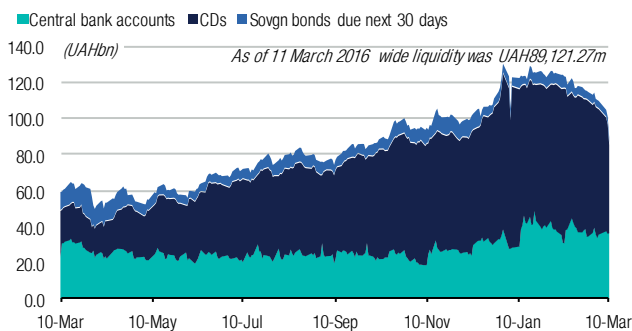
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. USD sovereign yield curve (%) as of 10 Mar 2016



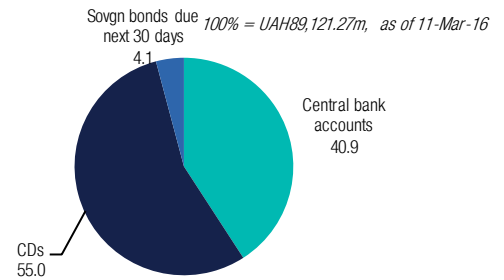
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 5. Banking sector liquidity (UAHbn), last 12-month period



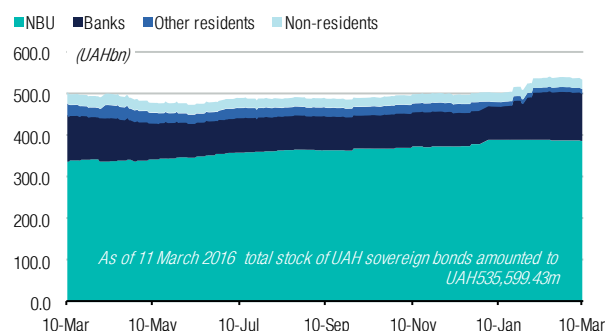
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 10 Mar 2016



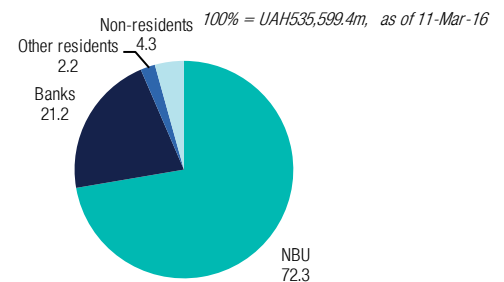
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 7. Holders of sovereign bonds (UAHbn), last 12 months



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 8. Domestic sovereign debt (%) as of 10 Mar 2016

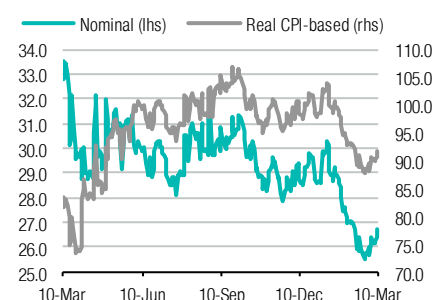


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

FX: News & Comments

ICU's UAH trade-weighted indices

(Last 12-month history to 11 Mar 2016)



Source: Investment Capital Ukraine LLC.

FX market indicators (as of 10 Mar 2016)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/UAH MARKET (HRYVNIA per US DOLLAR)					
Spot mkt	25.5500	-1.73	-2.67	-1.54	+6.33
NBU avg	25.5192	-2.53	-2.65	-1.63	+7.27
Ttl vlm ¹	419.19	+52.89	+45.47	+92.02	+15.40
\$ volume ²	266.83	+33.83	+20.53	+75.17	+6.28
NDF 3M	26.7500	-1.65	-3.04	-2.19	+0.00
NDF 6M	28.1000	-1.58	-1.42	-1.40	+2.08
NDF 1Y	29.6000	-1.50	-1.17	-1.33	+16.10
TRADE-WEIGHTED INDICES (TWIs, points)					
UAH nom'l	26.683	+1.20	+1.19	-1.02	-6.69
UAH real CPI	91.777	+1.20	+1.19	-1.02	-6.33
UAH real PPI	121.526	+1.20	+1.19	-1.02	-6.69
USD nom'l	96.066	-1.14	-1.56	+0.19	-2.60
FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs					
USD/RUB	71.3937	+0.42	-2.30	-9.92	-1.55
EUR/USD	1.1177	+1.62	+2.01	-1.02	+2.90
USD/CNY	6.5085	-0.07	-0.40	-1.00	+0.23
USD/PLN	3.8798	-1.24	-2.07	-0.62	-1.10
USD/TRY	2.8914	-0.02	-0.59	-1.03	-0.88
USD/BYR	20,830.00	-0.71	-2.60	-5.21	+11.83
USD/KZT	344.2400	-0.13	-0.39	-4.40	+1.07
OTHER MAJOR CURRENCIES					
USD/JPY	113.1900	-0.14	-0.44	-0.14	-5.85
GBP/USD	1.4281	+0.45	+0.73	-1.66	-3.09
USD/CHF	0.9850	-1.23	-0.73	+1.16	-1.71
AUD/USD	0.7454	-0.43	+1.39	+5.06	+2.31
USD/CAD	1.3346	+0.74	-0.43	-4.16	-3.56
USD/BRL	3.6263	-1.72	-4.55	-7.71	-8.45
USD/KRW	1,203.41	-1.05	-0.94	+0.42	+2.41
COMMODITIES					
Gold(\$/oz)	1,272.26	+1.52	+0.64	+6.28	+19.86
WTI crude ³	37.84	-1.18	+9.46	+37.85	+2.16
Brent crd ³	39.39	-1.23	+7.65	+27.27	+10.18
Urals crd ³	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB ⁴	171.89	-0.19	+4.15	+9.90	-2.42

Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#) and Bloomberg (type: ALLX UTWI <GO>).

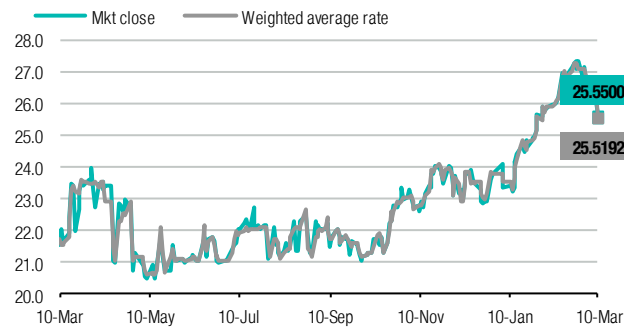
Section on FX market is continued on next page.

Notes: [1] trading volume in all foreign currencies (US\$m); [2] trading volume in the pair USD/UAH (US\$m); [3] crude oil price (USD per barrel); [4] the Thomson Reuters/Jefferies CRB Index. A green-/red-shaded box means gain or loss, respectively, of the investment into the asset. Currencies are gaining when their exchange rates strengthen versus USD.

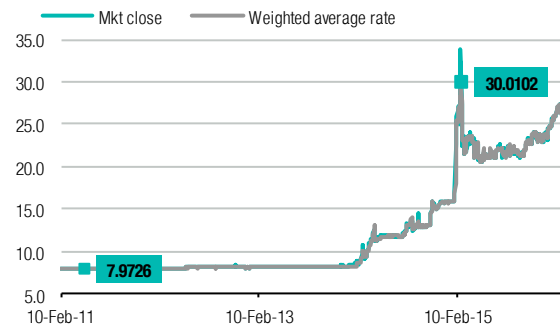
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart page #1: Foreign-exchange market

Chart 9. Spot market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

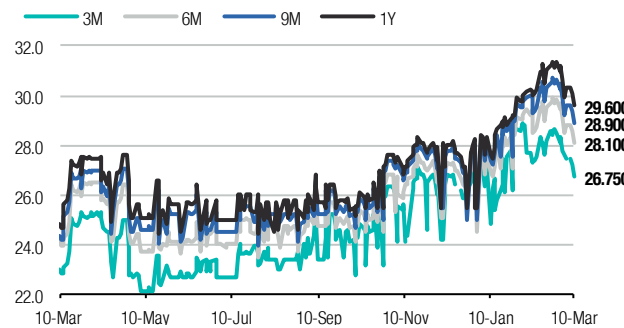


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

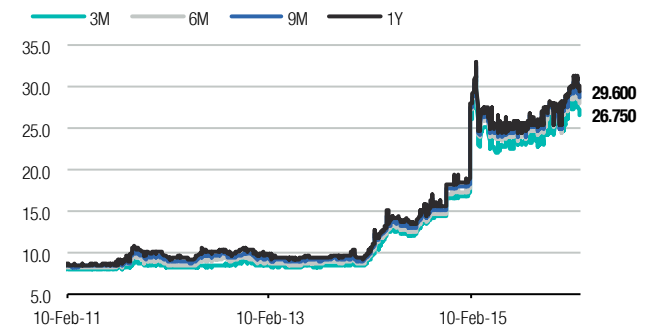


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 10. NDF market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)

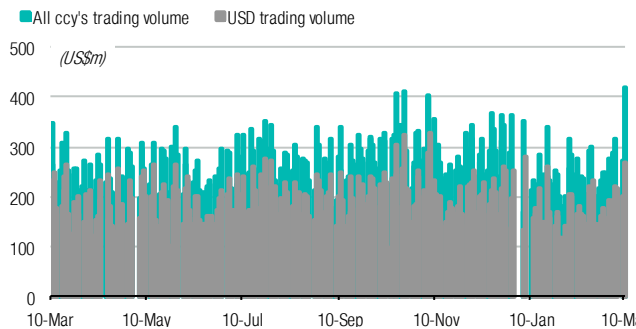


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

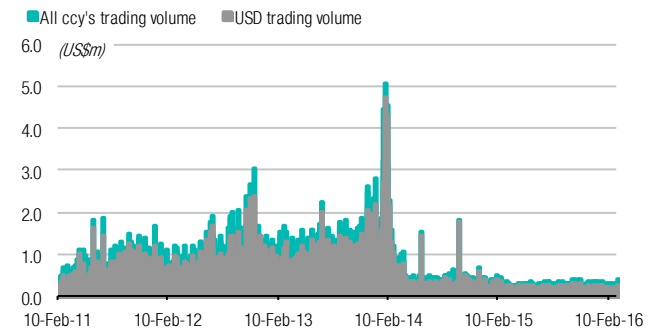


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 11. Trading volume: last 12-month and 5-year periods (US\$m, left and right respectively)

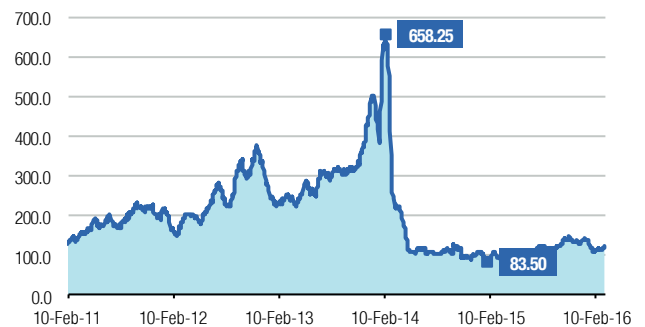


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 12. 30D MA* ratio of FX market turnover to merchandise trade: last 12m and 5yr periods (% , left and right respectively)

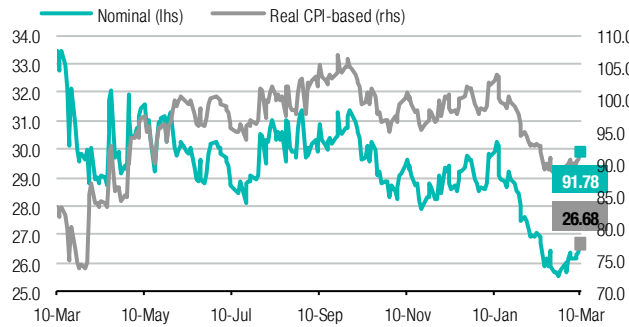


Note: * 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

Chart page #2: ICU's UAH trade-weighted indices

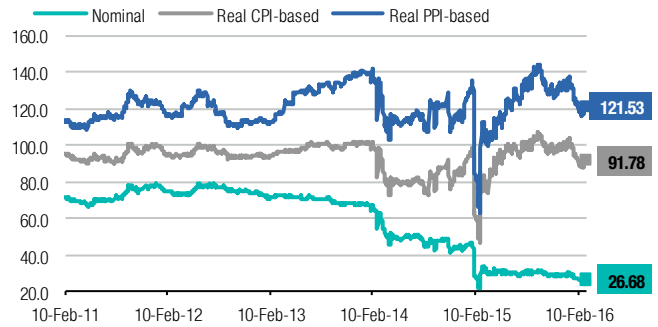
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology (for more details visit <http://www.icu.ua/en/research/currency-indices>).

Chart 13. Nominal and CPI-based real TWIs of UAH, history of last 12-month period



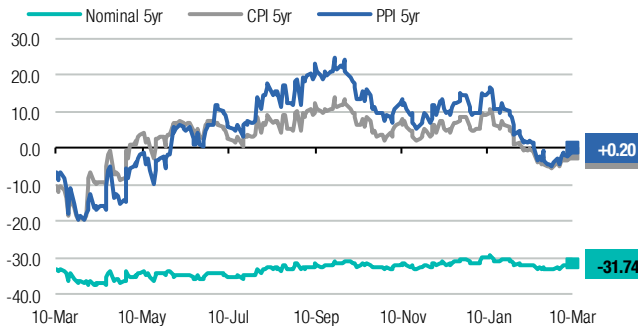
Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

Chart 14. Nominal, CPI- and PPI-based TWIs of UAH, history of last 5-year period

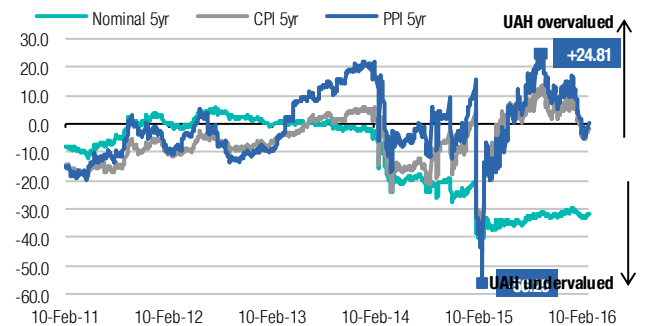


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

Chart 15. Deviation of UAH trade-weighted indices from their 5-year moving averages: last 12-month and 5-year periods (% , left and right respectively)

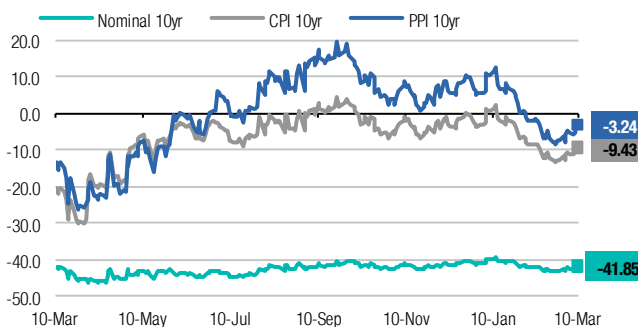


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

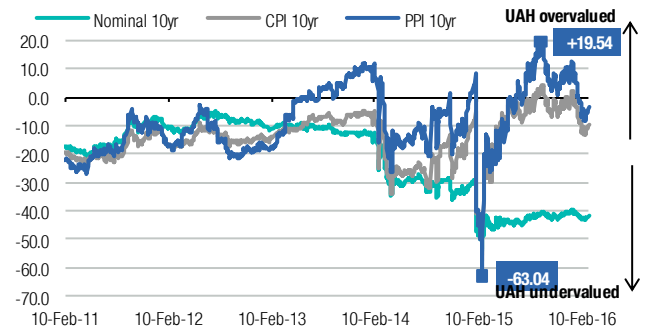


Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

Chart 16. Deviation of UAH trade-weighted indices from their 10-year moving averages: last 12-month and 5-year periods (% , left and right respectively)



Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.



Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

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Disclosures

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This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

EQUITY RATING DEFINITIONS

Buy: Forecasted 12-month total return greater than 20%

Hold: Forecasted 12-month total return 0% to 20%

Sell: Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

DEBT RATING DEFINITIONS

Buy: Forecasted 12-month total return significantly greater than that of relevant benchmark

Hold: Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

Sell: Forecasted 12-month total return significantly less than that of relevant benchmark



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