



Focus
Ukraine

Scope
Economics, bonds, equity & FX markets

Research team
Taras Kotovych

Daily Insight

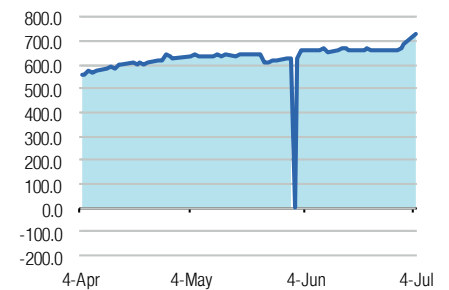
Auction schedule update

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TUESDAY, 5 JULY 2016

UX Index (3 months to 5 Jul 2016)



Source: UX.

Key market indicators (as of 4 Jul 2016)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	24.8200	-0.01	+3.30
USD/UAH (1Y NDF)	28.8700	-0.01	+13.23
EUR/USD	1.1154	+0.16	+2.69
USD/RUB	64.1265	+0.55	-11.58
KievPRIME O/N (%)	15.08	-5bp	-398bp
KievPRIME 1M (%)	18.67	+17bp	-358bp
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	744bp	+0bp	+0bp
EQUITIES			
Stock market indices			
UX (Ukraine)	730.82	+6.12	+6.56
MSCI World	401.41	+0.08	+0.51
MSCI EM	843.42	+0.50	+6.21
RTS (Russia)	940.85	+0.81	+24.28
WIG-20 (Poland)	1,724.50	-1.15	-7.24
S&P 500 (USA)	2,102.95	+0.19	+2.89

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

Auction schedule update

The MoF updated its auctions schedule yesterday as it replaced some offerings of 3-year bonds with 5-year bonds which will be offered in 3Q16 four times. 5-year bonds were sold twice this year in June, amounting to UAH4.32bn (par value) at 16.75%, most likely purchased by banks. Earlier, 5-year bonds were sold in 2014 under the domestic QE program when banks sold long-term bonds into the NBU's portfolio.

Investment implications: 5-year bonds appear to have been purchased this year mostly by state-owned banks, which have large free liquidity and could invest funds in long-term bonds. On the other hand, the MoF is interested in longer-term borrowings to decrease short-term debt refinancing needs. So, these bonds are meant to provide banks with long-term bonds at interest rate which should be acceptable for both sides. We do not see the 5-year bond rates to exceed 15.5% at today's auction.

Primary auction announcement

Today, the MoF will offer three zero-coupon bonds with 6-month, 9-month and 12-month maturities in addition to 5-year bonds. Zero-coupon bonds were sold at the end of May and in June at 16.25%, 16.75% and 16.85%, respectively, for 6-month, 9-month and 12-month bonds. 5-year bonds were sold at 16.75%.

Investment implications: As the NBU decreased its key rate to 16.50% at the end of June, interest rates for government bonds could move down at least by 1pp to below 16% at tomorrow's auction. At the same time, demand could be significant with attempts to not allow interest rates to decline by as much as the key rate as current conditions should remain unchanged through the end of July. The market should try to purchase bonds at rates higher than they could be a month from now.

Liquidity reallocates to CDs

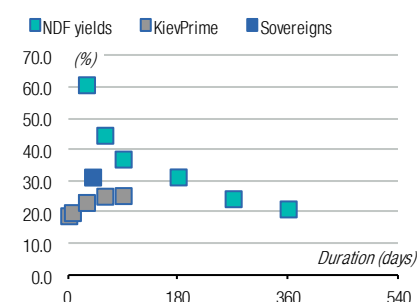
Banking sector liquidity recovered UAH0.78bn to UAH95.87bn yesterday as UAH1.51bn was reallocated from banks' accounts to CDs. Banks' correspondent accounts with the NBU declined UAH1.51bn to UAH43.07bn while total CDs outstanding rose UAH2.29bn to UAH52.80bn yesterday.

Investment implications: Liquidity recovered slightly with fund reallocations to CDs, per routine at the beginning of the month, but should decline at the end of this week. Banks purchased ON CDs mostly at the end of last week and should favor purchasing new government bonds today at interest rates higher than they expected to be in a month as the NBU could decrease its key rate once more at the end of July.

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Yield curve of the local bond market

(as of market close on 4 Jul 2016)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Bond market indicators (as of 4 Jul 2016)

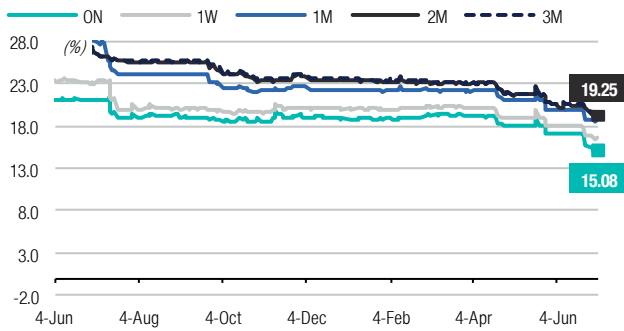
	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
MONEY MARKET KIEV PRIME RATES (%)					
O/n	15.08	-5bp	-67bp	-192bp	-398bp
1wk	16.67	+17bp	-8bp	-133bp	-333bp
1m	18.67	+17bp	-8bp	-133bp	-358bp
2m	18.92	+4bp	-133bp	-158bp	-458bp
3m	19.25	-13bp	-100bp	-142bp	-450bp
LIQUIDITY WIDE MEASUREMENT (UAHm)					
CB acc's ¹	43,069	-3.38	+14.67	+15.43	+11.98
CDs ²	52,801	+4.53	-12.19	-8.50	-39.17
Sovgns ³	11,238	+12.52	-2.97	+27.09	+137.4
Total	107,107	+1.93	-1.98	+3.13	-17.60
HOLDERS OF UAH SOVEREIGN BONDS (UAHm)					
C.bank	377,285	+0.00	-0.37	-0.37	-0.67
Banks	133,091	+0.00	-0.38	-0.18	+63.16
Resid's ⁴	14,465	+0.03	-2.19	+3.18	-31.11
Non-res ⁵	22,292	+0.00	-0.23	-0.74	-0.07
Total	547,132	+0.00	-0.42	-0.25	+8.41
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	744	+0bp	+0bp	+49bp	+0bp
Jun '16	N/A	+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.

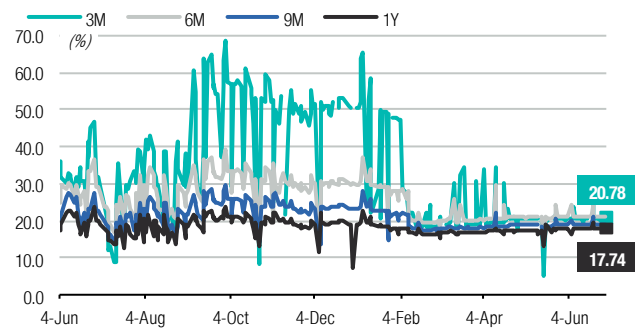
Chart page: Local bond market & Eurobond markets

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



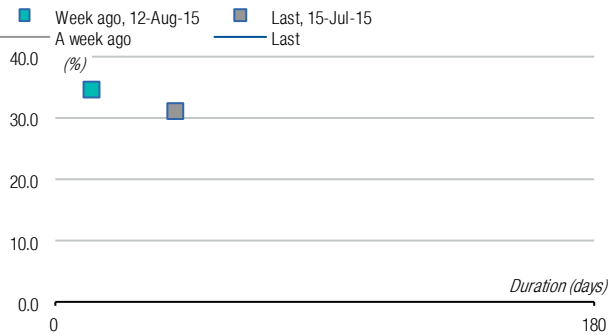
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



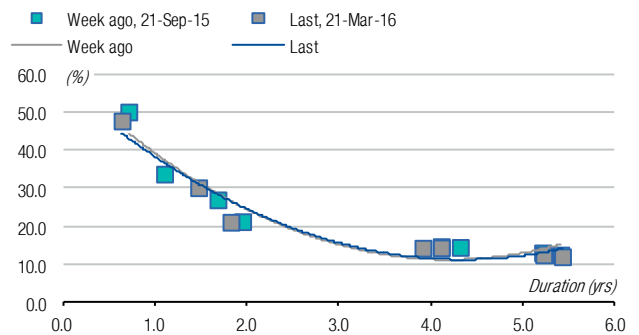
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 4 Jul 2016



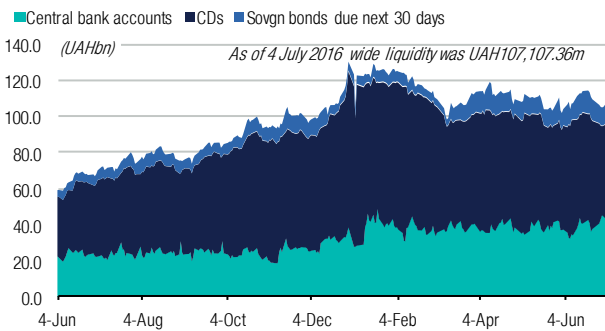
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



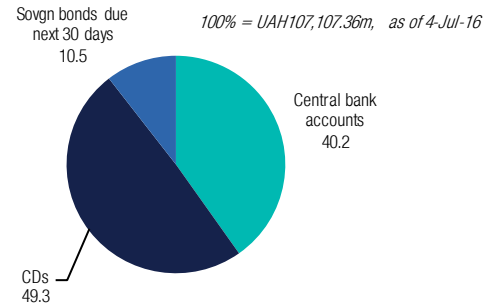
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



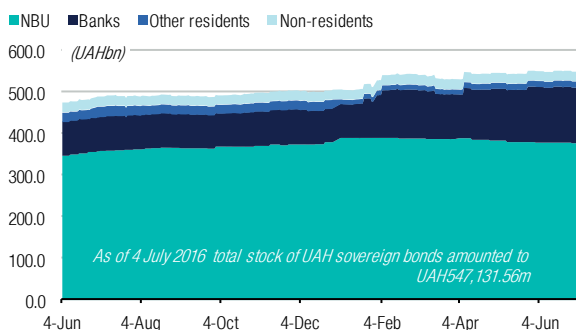
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 4 Jul 2016



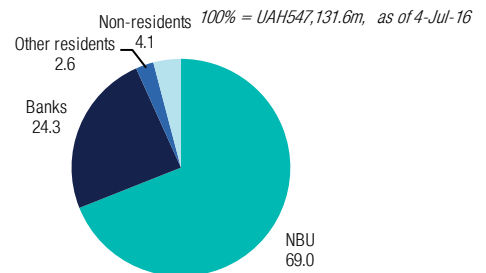
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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 4 Jul 2016



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

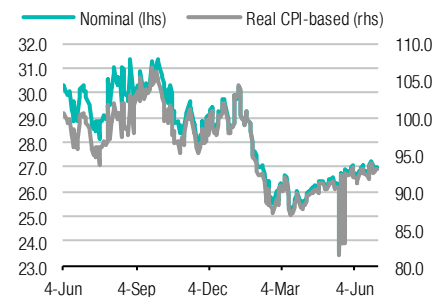
Table 1. Ukrainian stocks (closing prices as of 4-Jul-2016)

Company	Bloomberg Ticker	Listing	Share price performance (% change)				Valuation (US\$)			Free float (FF) & Liquidity					P/E			EV/EBITDA			EV/Sales			Ratios	
			Last price	Daily	MoM	YTD	YoY	Last price	Market cap (m)	EV (m)	FF (%)	FF mkt cap (US\$m)	Last day turnover (US\$ 000)	3M avg. turnover (US\$ 000)	FF share traded (%)	FF turnover (days)	2014	2015E	2016E	2014	2015E	2016E	2014	2015E	2016E

FX: News & Comments

ICU's UAH trade-weighted indices

(Last 12-month history to 5 Jul 2016)



Source: Investment Capital Ukraine LLC.

FX market indicators (as of 4 Jul 2016)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/UAH MARKET (HRYVNIA per US DOLLAR)					
Spot mkt					
NBU avg					
Ttl vlm ¹					
\$ volume ²					
NDF 3M					
NDF 6M					
NDF 1Y					
TRADE-WEIGHTED INDICES (TWIs, points)					
UAH nom'l					
UAH real CPI					
UAH real PPI					
USD nom'l					
FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs					
USD/RUB					
EUR/USD					
USD/CNY					
USD/PLN					
USD/TRY					
USD/BYR					
USD/KZT					
OTHER MAJOR CURRENCIES					
USD/JPY					
GBP/USD					
USD/CHF					
AUD/USD					
USD/CAD					
USD/BRL					
USD/KRW					
COMMODITIES					
Gold(\$/oz)					
WTI crude ³					
Brent crd ³					
Urals crd ³					
TR/J CRB ⁴					

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>).

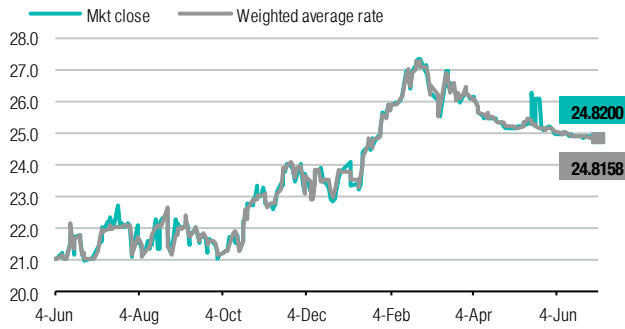
Section on FX market is continued on next page.

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.

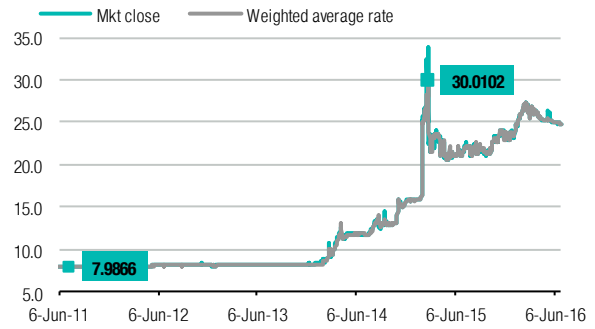
Sources: Bloomberg, Investment Capital Ukraine LLC.

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)

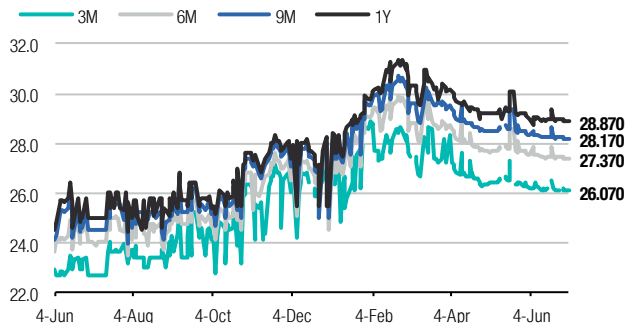


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

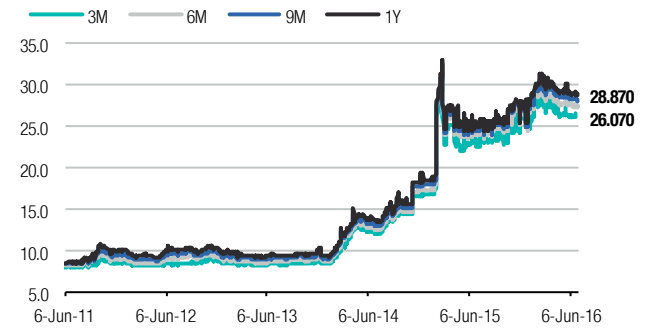


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

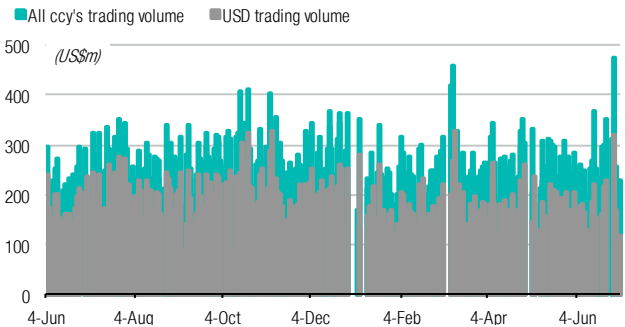


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

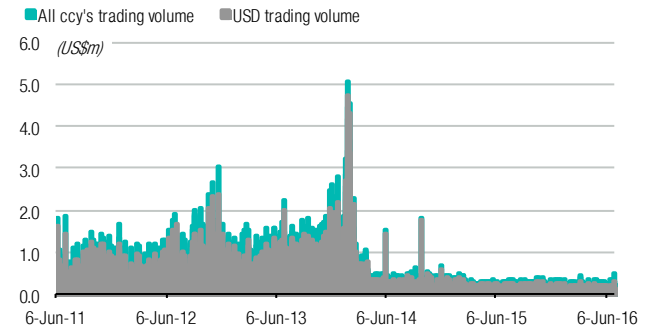


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

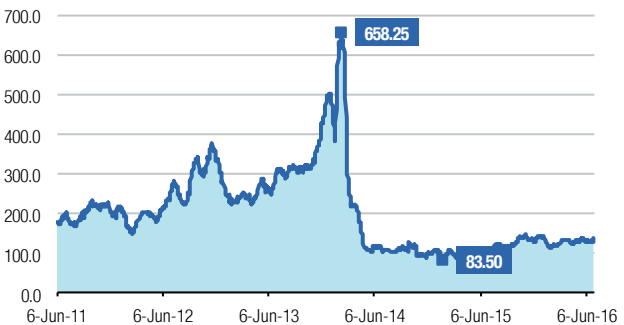
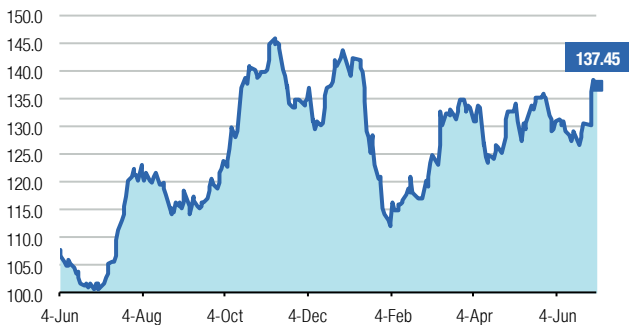


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



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)

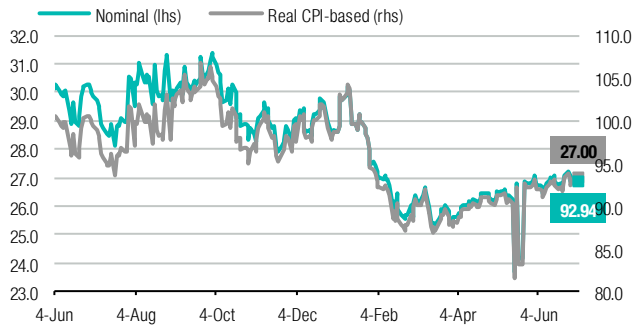


Note: * 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

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

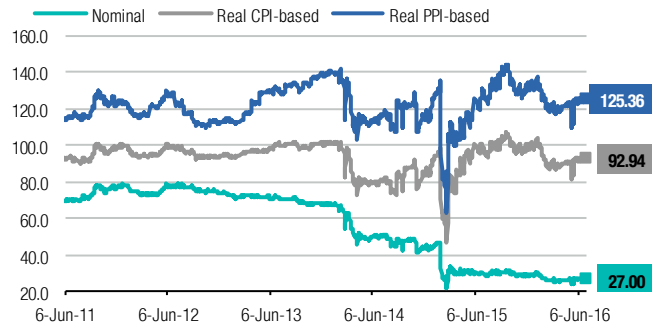
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology (for more details visit <http://www.icu.ua/en/research/currency-indices>).

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



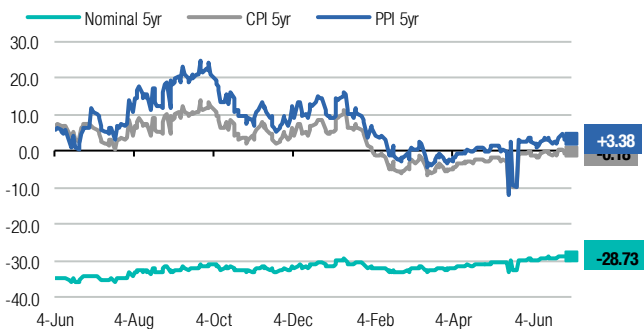
Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

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

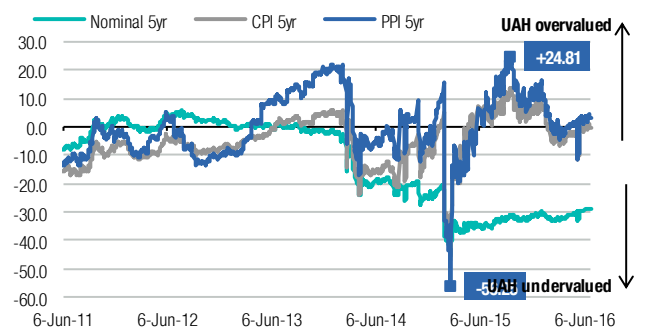


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

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)

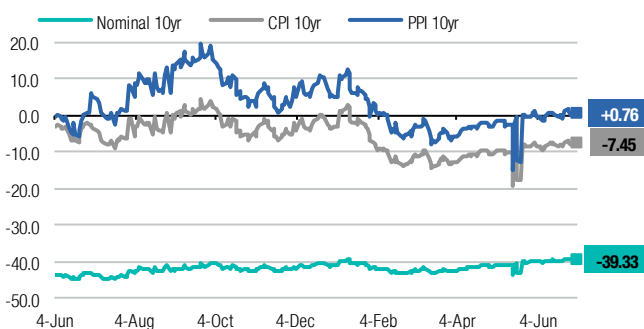


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

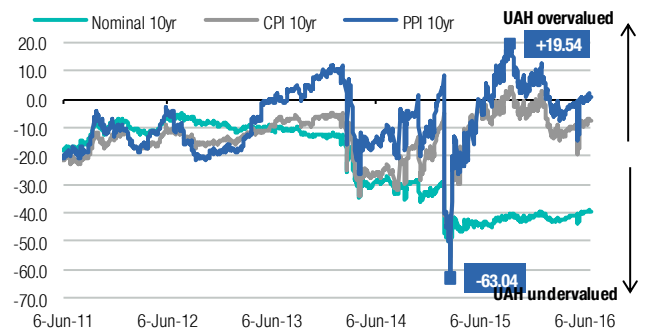


Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

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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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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