

Daily Insight

MoF needs FX-denominated proceeds

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Liquidity rises above UAH80bn 2

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MoF needs FX-denominated proceeds 2

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S&P affirms Ukraine rating at "B-/B", with a stable outlook 3

S&P Global affirmed its 'B-/B' long- and short-term local and foreign currency sovereign credit ratings on Ukraine. The outlooks on the long-term foreign and local currency ratings are stable. The affirmation reflects the stabilizing macroeconomic picture within Ukraine in 2016, decelerating inflation, and the return to positive economic growth. The government also implemented several key reforms that paved the way for the disbursement of US\$1bn from the IMF in September. S&P expects GDP growth of 2.3% per year in 2016-2019.

Inflation in Ukraine slows to 1.8% MoM in November. 3

Consumer prices in Ukraine rose 1.8% in month-on-month terms in November compared to 2.8% the previous month, as reported by the state statistics service of Ukraine. According to its data, prices of food and alcoholic drinks inched up 1% on average, while dairy products, vegetables, sugar and bread increased by 1.5-7.3%. However, prices of fruits, pork, poultry and fish declined 0.5-4.8%.

TUESDAY, 13 DECEMBER 2016

Ukraine's hryvnia exchange rate per US dollar (three months through 12 December 2016)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 12 December 2016)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	-800bp
Overnight rate (interbank)	13.30	-110bp	-430bp
Banks reserves (UAHm)	44,738	+17.87	+16.32
Deposit certificates* (UAHm)	36,442	-24.58	-68.34
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.1550	+0.31	+8.85
Total trade volume (US\$m)	157.04	-20.79	-56.77
UAH index PCI-based	99.467	-1.05	+1.21
UAH index PPI-based	131.342	-1.05	-0.33
UKRAINE SOVEREIGN EUROBOOND MARKET			
CDS 5yr	720bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,256.96	-0.11	+10.42
MSCI EM	872.24	-0.64	+9.83
US dollar index (DXY)	101.030	-0.55	+2.43
EUR / USD	1.0635	+0.70	-2.09
Crude oil WTI (US\$/bbl)	52.83	+2.58	+42.63
Crude oil BRENT (US\$/bbl)	55.69	+2.50	+55.78
CRB, commodities index	193.35	+0.71	+9.77
Gold (US\$/ounce)	1,162.25	+0.19	+9.50

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity rises above UAH80bn

After declining significantly as a result of the hacker attack on the state treasury, liquidity returned to above UAH80bn yesterday. Rather than being supported by additional loans from the NBU, the state treasury accelerated spending of budget funds to bolster liquidity.

Banking sector liquidity rose UAH2.43bn to UAH81.18bn, with a significant reallocation of funds from CDs to banks' accounts. Total CDs outstanding fell UAH4.36bn to UAH36.44bn while banks' correspondent accounts with the NBU rose UAH6.78bn to UAH44.74bn.

Investment implications: Liquidity rose, mostly concentrated at banks accounts to accumulate funds prior to today's primary bond auction. Today's offering will include a wide range of bonds, including FX-denominated bonds, and funds could be accelerated to participate in this auction.

MoF needs FX-denominated proceeds

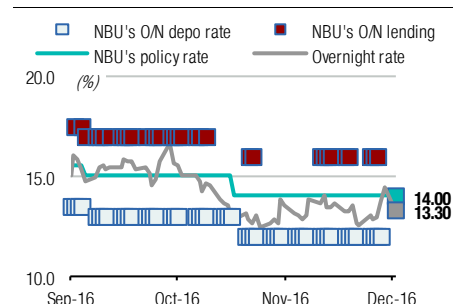
At today's primary auction, the MoF will offer three local currency denominated bonds with maturities from six to 12 months as well as three USD-denominated bonds with 17-month, 18-month and 20-month maturities.

These three FX-denominated bonds should collect the most demand today, allowing the MoF to borrow funds in FX and decrease the negative impact on FX reserves. Although USD-denominated bonds usually collect large demand, over recent months the MoF offered little to no USD-denominated bonds. The last auction of USD-denominated bonds occurred in September when the MoF rejected nearly one-third of demand; in October, it offered an EUR-denominated bond; and last month, the MoF offered no FX-denominated bonds.

Investment implications: Demand today should be concentrated in the FX-denominated bonds which are highly attractive because of recent exchange rate volatility. Bids could be divided between all offered maturities, while interest rates should be similar or slightly below those for the 2-year bond auctioned in September when the MoF sold US\$100m of bonds at 6.15-6.50% and a weighted average interest rate of 6.48%. Most likely, bids could come in above 6.50% while the MoF will most likely accept rates in the range of 6.00-6.30%. This auction of USD-denominated bonds is needed to replenish FX and decrease the impact of FX-repayments on FX-reserves, especially due to the lack of the previously anticipated new tranche from the IMF and the EUR600m loan from the EU.

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Interest rates in the banks' reserves market (three months through 12 December 2016)



Source: Bloomberg, ICU.

Key indicators (as of 12 December 2016)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.00	+0bp	+0bp	+0bp	-800bp
Overnight	13.30	-110bp	+30bp	-20bp	-430bp
KYIV PRIME RATES (%)					
Overnight	13.50	+0bp	+17bp	+17bp	-556bp
1 week	14.50	+0bp	+0bp	-17bp	-550bp
1 month	16.33	-17bp	+0bp	-17bp	-592bp
2 months	18.00	+0bp	+0bp	-17bp	-550bp
3 months	18.17	+17bp	+0bp	-16bp	-558bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	44,738	+17.87	+8.04	+13.95	+16.32
DepCerts ³	36,442	-24.58	-28.16	-36.39	-68.34
Total	81,180	-7.46	-5.71	-8.91	-40.03
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	356,146	+0.00	-0.84	-1.90	-6.23
Banks	156,593	+0.01	-0.20	+0.57	+91.97
Residents	13,956	+1.78	+1.81	+0.97	-33.53
Non-res ⁴	8,922	+0.37	-0.06	-17.21	-60.00
Total	535,617	+0.05	-0.57	-1.42	+6.13
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	720	+0bp	+0bp	+87bp	+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

S&P affirms Ukraine rating at “B-/B”, with a stable outlook

S&P Global affirmed its 'B-/B' long- and short-term local and foreign currency sovereign credit ratings on Ukraine. The outlooks on the long-term foreign and local currency ratings are stable. The affirmation reflects the stabilizing macroeconomic picture within Ukraine in 2016, decelerating inflation, and the return to positive economic growth. The government also implemented several key reforms that paved the way for the disbursement of US\$1bn from the IMF in September. S&P expects GDP growth of 2.3% per year in 2016-2019.

The “B-” rating reflects Ukraine's challenging economic and political situation and the unpredictability of the security situation along the eastern border. In turn, Ukraine has sizable contingent liabilities, and questions relating to the stability of the banking and financial sector.

Inflation in Ukraine slows to 1.8% MoM in November.

Consumer prices in Ukraine rose 1.8% in month-on-month terms in November compared to 2.8% the previous month, as reported by the state statistics service of Ukraine. According to its data, prices of food and alcoholic drinks inched up 1% on average, while dairy products, vegetables, sugar and bread increased by 1.5-7.3%. However, prices of fruits, pork, poultry and fish declined 0.5-4.8%.

Due to higher tariffs on utilities, prices of housing, water electricity, gas and other fuels rose 5.3%, while transport increased 1.1% because of more expensive fuel and oil.

Overall, since the beginning of this year consumer prices have risen 11.4%.

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Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

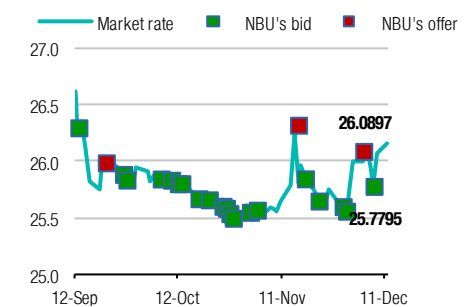
Key indicators (as of 12 грудня 2016)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.1550	+0.31	+0.58	+1.97	+8.85
USD ¹	101.030	-0.55	+0.94	+1.99	+2.43
EUR	1.0635	+0.70	-1.20	-2.03	-2.09
JPY	115.0200	-0.26	+1.03	+7.85	-4.33
GBP ²	1.2679	+0.85	-0.42	+0.66	-13.96
CNY	6.9069	-0.02	+0.37	+1.39	+6.36
RUB	61.0145	-2.32	-4.39	-7.32	-15.87

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

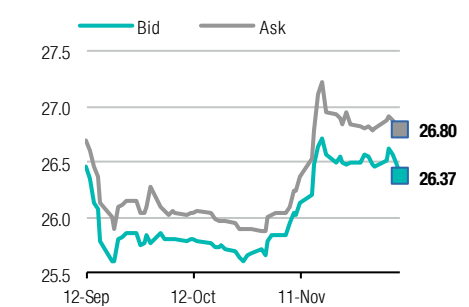
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 12 December 2016)



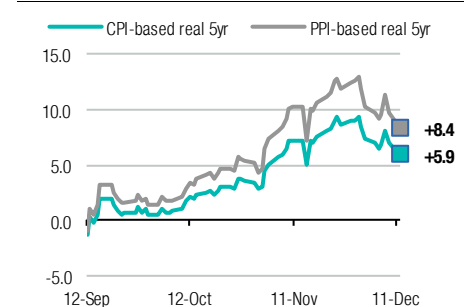
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 12 December 2016)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 12 December 2016)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

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