

Daily Insight

2017 debut primary auction

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2017 debut primary auction 2

Despite high banking system liquidity, the debut auction of 2017 is not expected to be very active. Although the debut auction was scheduled for last week, the schedule was changed due to specific business days between holidays. Today, the MoF will offer bonds with maturities from three months to two years.

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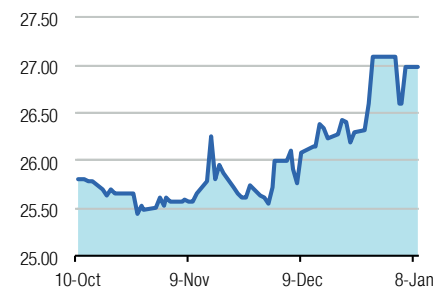
After banking sector liquidity rose to above UAH119bn at the end of last year, this year it declined slightly, but at the end of last week it remained above UAH112bn, mostly concentrated in CDs.

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TUESDAY, 10 JANUARY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 9 January 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 9 January 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	N/A		
Deposit certificates* (UAHm)	N/A		
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.9750	+0.00	-0.46
Total trade volume (US\$m)	N/A		
UAH index PCI-based	96.657	+0.15	+0.01
UAH index PPI-based	127.631	+0.15	+0.01
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	653bp	-72bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,268.90	-0.35	+1.34
MSCI EM	878.44	-0.30	+1.88
US dollar index (DXY)	101.930	-0.28	-0.27
EUR / USD	1.0574	+0.40	+0.54
Crude oil WTI (US\$/bbl)	51.96	-3.76	-3.28
Crude oil BRENT (US\$/bbl)	54.94	-3.78	-3.31
CRB, commodities index	190.60	-1.52	-0.99
Gold (US\$/ounce)	1,181.06	+0.70	+2.50

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

2017 debut primary auction

Despite high banking system liquidity, the debut auction of 2017 is not expected to be very active. Although the debut auction was scheduled for last week, the schedule was changed due to specific business days between holidays. Today, the MoF will offer bonds with maturities from three months to two years.

Investment implications: Low demand is expected despite high banking system liquidity. With mostly short-term debt in place, banks most likely already used their limits for government bonds. As any new demand could come from small investors for trading or replacement of other bonds which were sold and could be not found in the secondary market, demand should be small with interest rates at previous levels.

Liquidity above UAH110bn

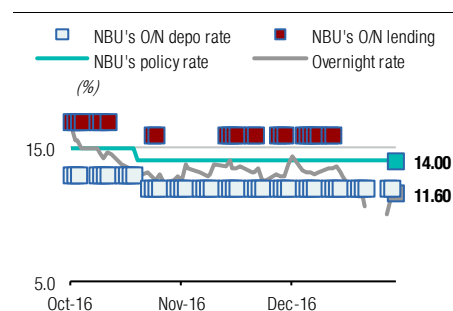
After banking sector liquidity rose to above UAH119bn at the end of last year, this year it declined slightly, but at the end of last week it remained above UAH112bn, mostly concentrated in CDs.

Last Friday, banking sector liquidity amounted to UAH112.83bn, with banks' correspondent accounts with the NBU at UAH39.22bn and total CDs outstanding at UAH73.1bn.

Investment implications: Significant fund inflows from the state budget at the end of last year caused a significant decline in the state treasury account balance to UAH14.26bn, nearly two times lower than at the beginning of December 2016. Although revenue collection was significant, budget expenditures exceeded revenues, causing liquidity to accumulate in the banking system. Liquidity should decline slightly during 1Q7, as occurred last year, as inflows from the budget will be less significant than in December. The record level of liquidity seen at the end of 2015 will not be beat.

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

Interest rates in the banks' reserves market (three months through 9 January 2017)



Source: Bloomberg, ICU.

Key indicators (as of 9 January 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	N/A	N/A	N/A	N/A	N/A
DepCerts ³	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	N/A	N/A	N/A	N/A	N/A
Banks	N/A	N/A	N/A	N/A	N/A
Residents	N/A	N/A	N/A	N/A	N/A
Non-res ⁴	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A
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	653	-72bp	+0bp	-67bp	+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.

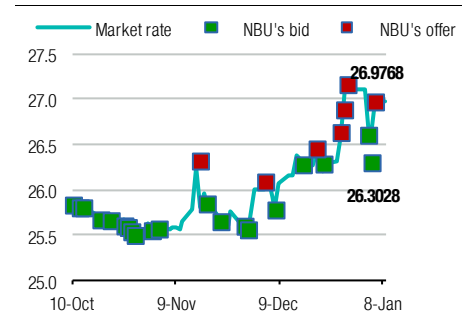
Foreign exchange markets

Key indicators (as of 9 січня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.9750	+0.00	-0.46	+3.45	-0.46
USD ¹	101.930	-0.28	-0.83	+0.33	-0.27
EUR	1.0574	+0.40	+1.14	+0.12	+0.54
JPY	116.0300	-0.85	-1.29	+0.62	-0.80
GBP ²	1.2163	-1.01	-0.94	-3.25	-1.43
CNY	6.9375	+0.19	-0.11	+0.43	-0.11
RUB	60.1397	+0.86	-1.65	-3.72	-2.27

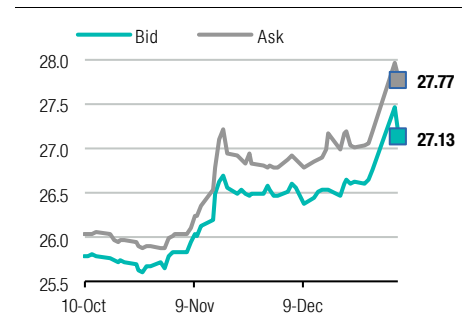
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 9 January 2017)



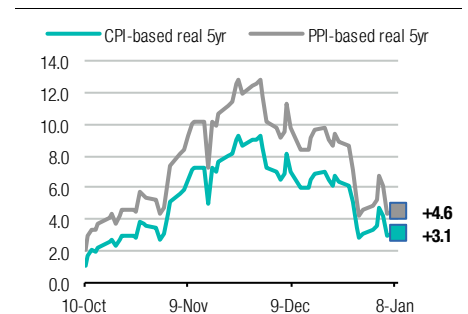
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 9 January 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 9 January 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)

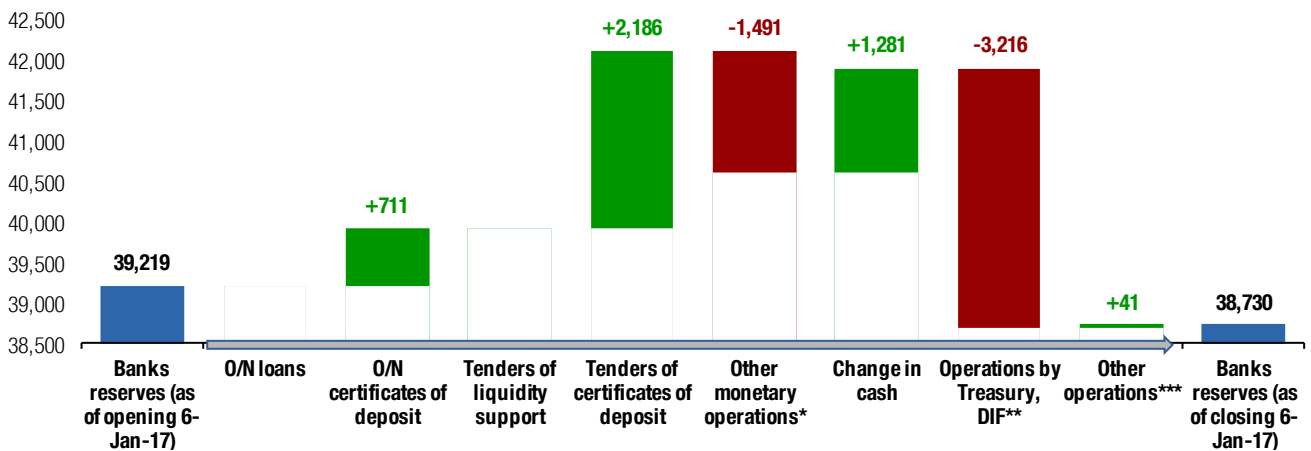
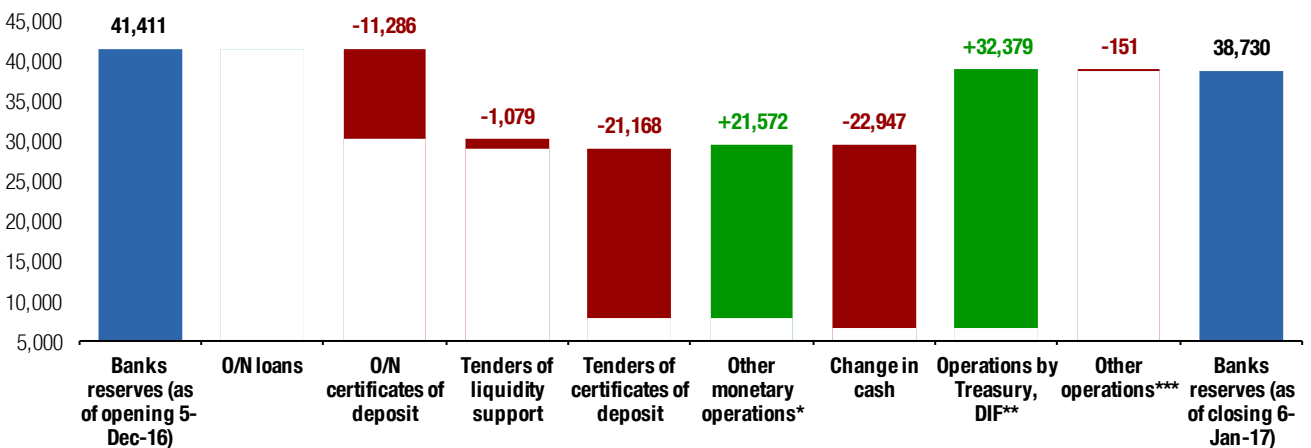
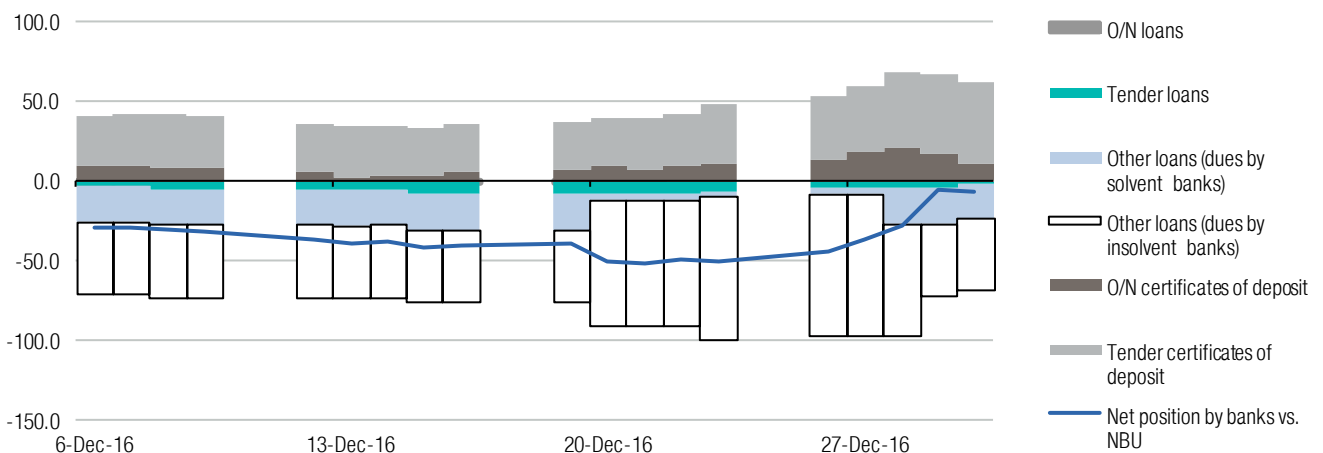


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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

WEB www.icu.ua    [@ICU-UA](https://twitter.com/ICU-UA)

CORPORATE FINANCE

Makar Paseniuk, CFA, Managing Director
makar.paseniuk@icu.ua

Ivan Shvydanenko, Director
ivan.shvydanenko@icu.ua

Roman Nikitov, ACCA Director
roman.nikitov@icu.ua

Yuriy Kamarytskyi, Vice President
yuriy.kamarytskyi@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

Ruslan Patlavsky, Director
ruslan.patlavsky@icu.ua

STRATEGY AND CORPORATE DEVELOPMENT

Vlad Sinani, Director
vlad.sinani@icu.ua

SALES AND TRADING

Konstantin Stetsenko 
Managing Director
konstantin.stetsenko@icu.ua


Liliya Kubytovych 
Asset Management Product Sales
liliya.kubytovych@icu.ua

Sergiy Byelyayev
Fixed-Income Trading
sergiy.byelyayev@icu.ua

Yevgeniya Gryshchenko
Fixed-Income Sales
yevgeniya.gryshchenko@icu.ua


Vitaliy Sivach 
Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

RESEARCH DEPARTMENT

Alexander Valchyshen 
Head of Research
alexander.valchyshen@icu.ua

Taras Kotovych 
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Alexander Martynenko 
Head of corporate research
alexander.martynenko@icu.ua

Mykhaylo Demkiv 
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Bogdan Vorotilin 
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

Lee Daniels, Rolfe Haas
Editors

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