

# Daily Insight

## German trade surplus expands in

### Key messages of the today's comments

#### Domestic liquidity ..... 2

##### Liquidity down 2

This week started with a slight decline in liquidity, down UAH3.39bn to UAH109.44bn yesterday, slightly above last week's low. The largest decline was seen in CDs outstanding.

##### Primary auction: Insufficient proceeds 2

At yesterday's primary auction, the MoF received only UAH129.58m of proceeds from the sales of only 1-year and 2-year bonds, keeping interest rates at the usual levels. Of the UAH440m in total volume in bids, the MoF satisfied only UAH140m (par value), accepting only two bids. Demand and the actual amount of bonds sold was insignificant compared with the most active auctions seen last year.

#### Foreign exchange markets ..... 3

##### German trade surplus expands in November 3

The German trade surplus hit EUR22.6bn in November 2016, beating the forecast by more than EUR2bn. In November 2015, the foreign trade surplus was EUR20.5bn.

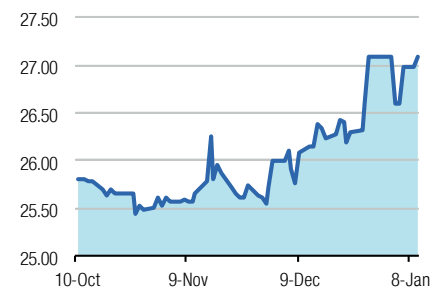
##### German industrial output up 0.4% MoM in November 3

German industrial output is up 0.4% MoM in seasonally adjusted terms, per data from the Ministry of Economy, below expectations of 0.6% growth. The October figures were revised upward from 0.3% to 0.5% growth.

#### Appendix #1: Domestic liquidity ..... 5

### WEDNESDAY, 11 JANUARY 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 10 January 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 10 January 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.50	+90bp	+190bp
Banks reserves (UAHm)	38,730	+27.93	-0.37
Deposit certificates* (UAHm)	70,709	-37.50	-28.99
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	27.1000	+0.46	+0.00
Total trade volume (US\$m)	164.84	+16.83	-2.82
UAH index PCI-based	96.495	-0.17	-0.16
UAH index PPI-based	127.417	-0.17	-0.16
<b>UKRAINE SOVEREIGN EUROBOOND MARKET</b>			
CDS 5yr	653bp	+0bp	+0bp

#### GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,268.90	+0.00	+1.34
MSCI EM	885.70	+0.83	+2.72
US dollar index (DXY)	102.010	+0.08	-0.20
EUR / USD	1.0554	-0.19	+0.35
Crude oil WTI (US\$/bbl)	50.82	-2.19	-5.40
Crude oil BRENT (US\$/bbl)	53.64	-2.37	-5.60
CRB, commodities index	191.14	+0.28	-0.71
Gold (US\$/ounce)	1,187.75	+0.57	+3.08

Notes: \* NBU's short-term bonds.

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity down

This week started with a slight decline in liquidity, down UAH3.39bn to UAH109.44bn yesterday, slightly above last week's low. The largest decline was seen in CDs outstanding.

Banks' correspondent accounts with the NBU slid UAH0.49bn to UAH38.73bn while total CDs outstanding fell UAH2.90bn to UAH70.71bn.

**Investment implications: Liquidity was very volatile due to the holidays and unstable cash flows with the budget. After budget expenditures normalize, liquidity should stabilize and is unlikely to decline below UAH100bn this month.**

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

## Primary auction: Insufficient proceeds

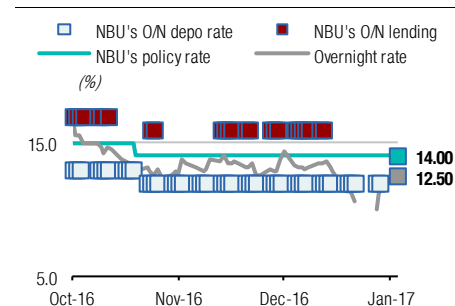
At yesterday's primary auction, the MoF received only UAH129.58m of proceeds from the sales of only 1-year and 2-year bonds, keeping interest rates at the usual levels. Of the UAH440m in total volume in bids, the MoF satisfied only UAH140m (par value), accepting only two bids. Demand and the actual amount of bonds sold was insignificant compared with the most active auctions seen last year.

Demand was submitted for four of the five bonds offered, but the MoF rejected the bids for the 3-month and 9-month bonds because the interest rates were higher than recent previously accepted bids. As a result, the MoF sold UAH80m (par value) of 12-month bonds and UAH60m of 2-year bonds, maintaining routine conditions, with low proceeds to the budget.

**Investment implications: Over the next few weeks, auctions should remain the same, as demand should continue to be insignificant. The next large redemptions are scheduled in March when the MoF will have to redeem bonds issued in 2014 and 2016.**

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

## Interest rates in the banks' reserves market (three months through 10 January 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 10 January 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	12.50	+90bp	+0bp	-190bp	+190bp
<b>KYIV PRIME RATES (%)</b>					
Overnight	13.00	+8bp	+0bp	-50bp	+0bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.25	-8bp	-25bp	-25bp	-25bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	+0bp	+0bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	38,730	+27.93	+22.33	+30.54	-0.37
DepCerts <sup>3</sup>	70,709	-37.50	-35.05	+8.33	-28.99
<b>Total</b>	<b>109,439</b>	<b>-14.34</b>	<b>-13.64</b>	<b>+19.03</b>	<b>-16.28</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
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 <sup>4</sup>	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
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
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	653	+0bp	-72bp	-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

## EUR: German trade surplus expands in November

The German trade surplus hit EUR22.6bn in November 2016, beating the forecast by more than EUR2bn. In November 2015, the foreign trade surplus was EUR20.5bn.

Exports rose 5.6% YoY and reached EUR108.5bn and imports increased 4.5% YoY to EUR85.8bn in November, as reported by the Federal Statistical Office (Destatis). In seasonally adjusted terms, exports grew 3.9% MoM, exceeding expectations of 0.4% MoM, while imports expanded 3.5% from October 2016. The key driver of this increase was a big turnover in exports to countries outside the European Union, which grew 7.6% YoY to EUR45.2bn, while imports from those countries rose 3.9% YoY to EUR28.9bn in November 2016. German exports to the EU member countries increased 4.3% YoY to EUR63.2bn, and imports rose 4.8% YoY to EUR56.9bn.

Meanwhile, the Deutsche Bundesbank reported that the current account showed a surplus of EUR 24.6bn in November 2016 versus EUR24.9bn in November 2015.

**Alexander Valchyshen, Kyiv, (044) 220-0120 ext.721**

## EUR: German industrial output up 0.4% MoM in November

German industrial output is up 0.4% MoM in seasonally adjusted terms, per data from the Ministry of Economy, below expectations of 0.6% growth. The October figures were revised upward from 0.3% to 0.5% growth.

The key driver of this growth was construction output, which increased 1.5% MoM. Mining and manufacturing production both were up 0.4% MoM, while energy output decreased 0.4%. The production of intermediate goods increased 0.9% MoM and production of consumer goods rose 0.3% MoM. The production of capital goods was down 0.1% MoM.

Industrial production increased 2.2% YoY versus the 1.9% forecast.

**Alexander Valchyshen, Kyiv, (044) 220-0120 ext.721**

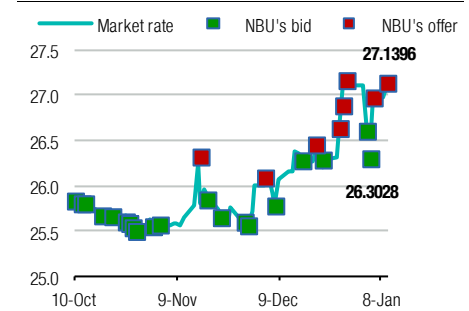
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

## Key indicators (as of 10 січня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	27.1000	+0.46	+0.00	+3.93	+0.00
USD <sup>1</sup>	102.010	+0.08	-1.16	+0.41	-0.20
EUR	1.0554	-0.19	+1.43	-0.07	+0.35
JPY	115.7700	-0.22	-1.68	+0.39	-1.02
GBP <sup>2</sup>	1.2177	+0.12	-0.49	-3.14	-1.32
CNY	6.9215	-0.23	-0.61	+0.20	-0.34
RUB	60.1560	+0.03	-1.25	-3.69	-2.24

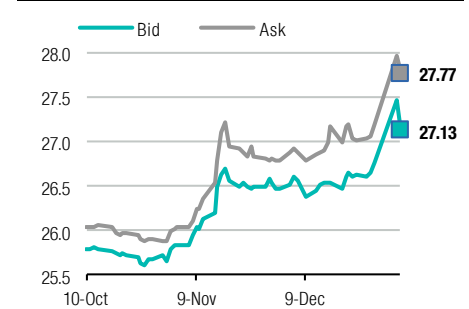
Notes: [1] DXY, US dollar index; [2] British pound.  
Source: Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 10 January 2017)



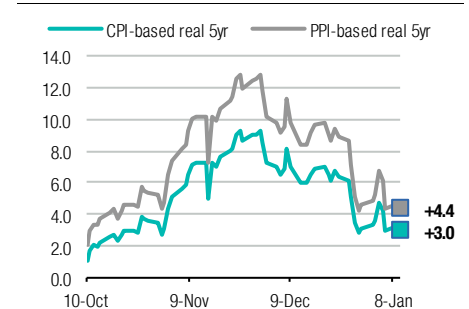
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 10 January 2017)



Source: NBU.

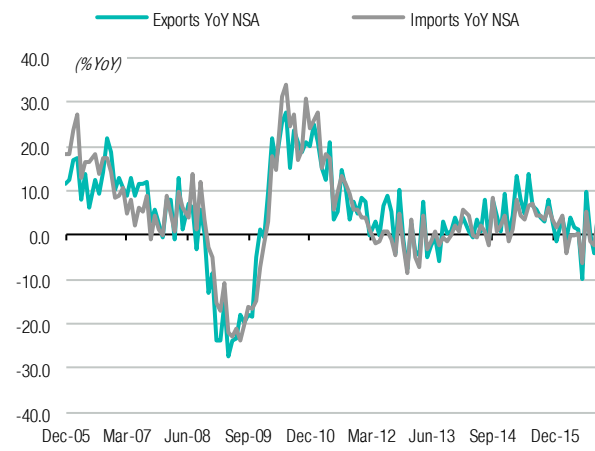
## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 10 January 2017)



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

**Chart 1. Growth rates of Germany's exports and imports (%YoY)**

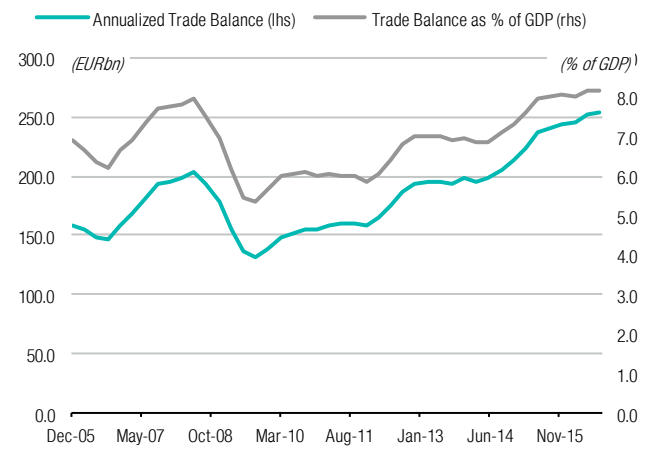
History from January 2005 through November 2016



Source: Bloomberg.

**Chart 2. Germany's foreign trade balance**

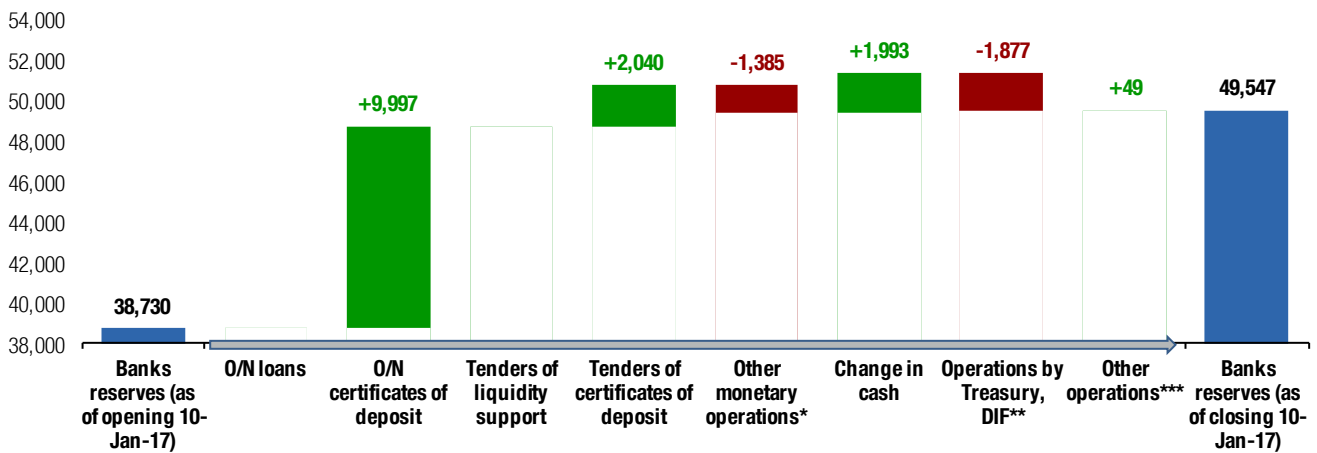
History from 1Q 2005 through 3Q 2016



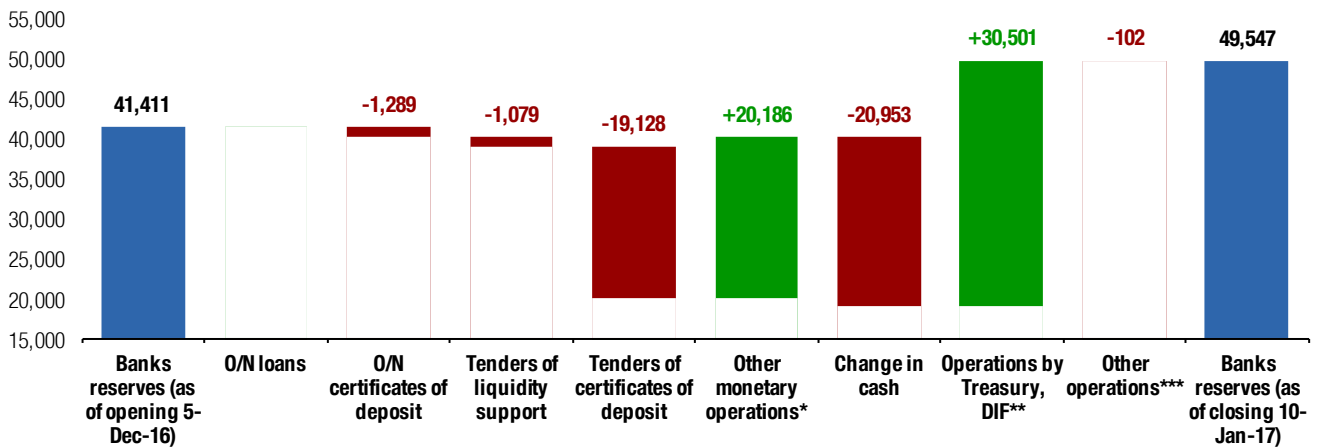
Source: Bloomberg.

# Appendix #1: Domestic liquidity

**Chart 3. Banks reserves usages over last reporting date (UAHm)**

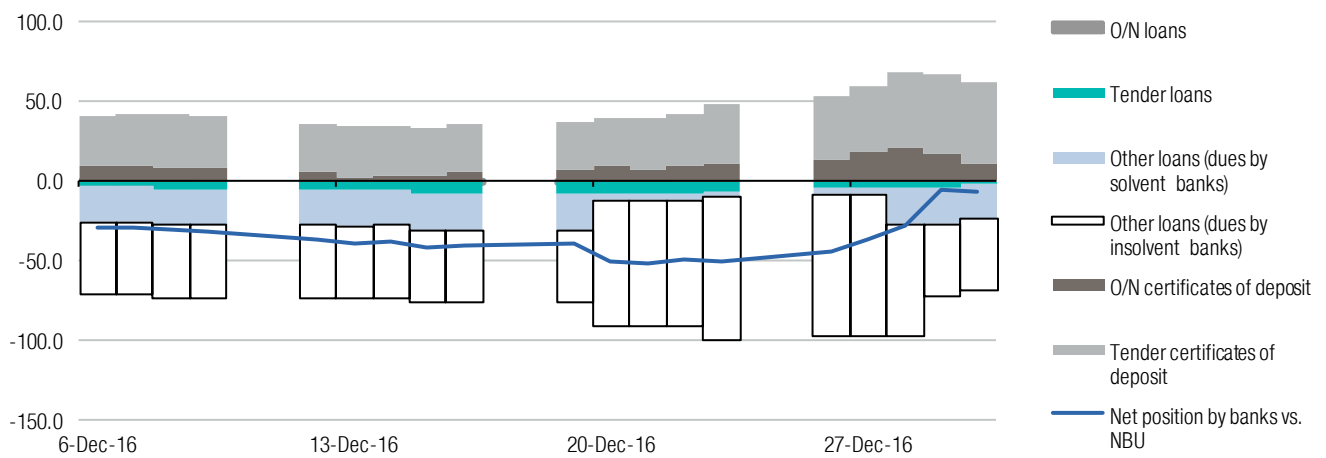


**Chart 4. Banks reserves usages over last 30-day period (UAHm)**



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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 5. Stocks of NBU's monetary instruments and net position by banks versus NBU (UAHbn)**



Source: NBU, ICU.

This page is intentionally left blank



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

**WEB** [www.icu.ua](http://www.icu.ua)    [@ICU\\_UA](https://twitter.com/ICU_UA)

## CORPORATE FINANCE

**Makar Paseniuk, CFA**, Managing Director  
[makar.paseniuk@icu.ua](mailto:makar.paseniuk@icu.ua)

**Ivan Shvydanenko**, Director  
[ivan.shvydanenko@icu.ua](mailto:ivan.shvydanenko@icu.ua)

**Roman Nikitov, ACCA** Director  
[roman.nikitov@icu.ua](mailto:roman.nikitov@icu.ua)

**Yuriy Kamarytskyi**, Vice President  
[yuriy.kamarytskyi@icu.ua](mailto:yuriy.kamarytskyi@icu.ua)


**Ruslan Kilmukhametov**, Director  
[ruslan.kilmukhametov@icu.ua](mailto:ruslan.kilmukhametov@icu.ua)

**Ruslan Patlavsky**, Director  
[ruslan.patlavsky@icu.ua](mailto:ruslan.patlavsky@icu.ua)

## STRATEGY AND CORPORATE DEVELOPMENT

**Vlad Sinani**, Director  
[vlad.sinani@icu.ua](mailto:vlad.sinani@icu.ua)

## SALES AND TRADING

**Konstantin Stetsenko**   
Managing Director  
[konstantin.stetsenko@icu.ua](mailto:konstantin.stetsenko@icu.ua)


**Liliya Kubytovych**   
Asset Management Product Sales  
[liliya.kubytovych@icu.ua](mailto:liliya.kubytovych@icu.ua)

**Sergiy Byelyayev**  
Fixed-Income Trading  
[sergiy.byelyayev@icu.ua](mailto:sergiy.byelyayev@icu.ua)


**Yevgeniya Gryshchenko**  
Fixed-Income Sales  
[yevgeniya.gryshchenko@icu.ua](mailto:yevgeniya.gryshchenko@icu.ua)


**Vitaliy Sivach**   
Fixed-Income & FX Trading  
[vitaliy.sivach@icu.ua](mailto:vitaliy.sivach@icu.ua)

## RESEARCH DEPARTMENT

**Alexander Valchyshen**   
Head of Research  
[alexander.valchyshen@icu.ua](mailto:alexander.valchyshen@icu.ua)

**Taras Kotovych**   
Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Alexander Martynenko**   
Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Mykhaylo Demkiv**   
Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Bogdan Vorotilin**   
Financial analyst (Food & Agribusiness)  
[bogdan.vorotilin@icu.ua](mailto:bogdan.vorotilin@icu.ua)

**Lee Daniels, Rolfe Haas**  
Editors

Investment Capital Ukraine LLC is regulated by Securities and Stock Market State Commission of Ukraine (license numbers: dealer activity AE 263019, broker activity AE 263018, underwriting activity AE 263020 dated 11 April 2013).

## DISCLAIMER

This research publication has been prepared by Investment Capital Ukraine LLC solely for information purposes for its clients. It does not constitute an investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, Investment Capital Ukraine makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of Investment Capital Ukraine LLC. All rights are reserved. Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this report. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this report.



**Additional information is available upon request.**