

Daily Insight

Primary auction: 42-day bond offering

Key messages of the today's comments

Domestic liquidity 2

Liquidity declines 2

After rising significantly last week, liquidity fell UAH9.63bn to UAH102.67bn as a result of large outflows last Friday, most likely attributable to FX-market purchases and loan repayments to the NBU.

Primary auction: 42-day bond offering 2

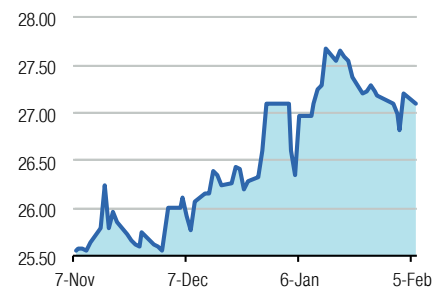
For the second consecutive week, the MoF is offering only zero-coupon bonds with maturities up to 12 months. The shortest maturity is 42 days, which could be a good alternative to CDs. Last week, the MoF offered the same bond with maturity on March 22 which attracted no demand.

Foreign exchange markets 3

Appendix #1: Domestic liquidity 4

TUESDAY, 7 FEBRUARY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 6 February 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 6 February 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.00	+60bp	+140bp
Banks reserves (UAHm)	42,737	-8.95	-14.07
Deposit certificates* (UAHm)	10,683	-41.21	-89.91
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.0950	-0.39	-0.02
Total trade volume (US\$m)	N/A		
UAH index PCI-based	101.805	+0.35	-1.97
UAH index PPI-based	161.019	+0.35	-1.97
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	621bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,292.56	-0.21	+2.40
MSCI EM	922.99	+0.45	+7.04
US dollar index (DXY)	99.907	+0.04	-2.25
EUR / USD	1.0750	-0.31	+2.22
Crude oil WTI (US\$/bbl)	53.01	-1.52	-1.32
Crude oil BRENT (US\$/bbl)	55.72	-1.92	-1.94
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,235.41	+1.25	+7.22

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity declines

After rising significantly last week, liquidity fell UAH9.63bn to UAH102.67bn as a result of large outflows last Friday, most likely attributable to FX-market purchases and loan repayments to the NBU.

Non-monetary operations pushed liquidity down just UAH0.94bn while banks' correspondent accounts fell UAH4.20bn to UAH42.74bn and total CDs outstanding fell UAH5.43bn to UAH59.94bn.

Investment implications: Despite insufficient outflows to the budget, the decline in liquidity was very significant. As FX purchasing was minimal, especially with no FX auctions held by the NBU, loan repayments to the NBU and other outflows outside the banking system were the main cause - possibly a payment for natural gas with FX purchased directly from the NBU.

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

Primary auction: 42-day bond offering

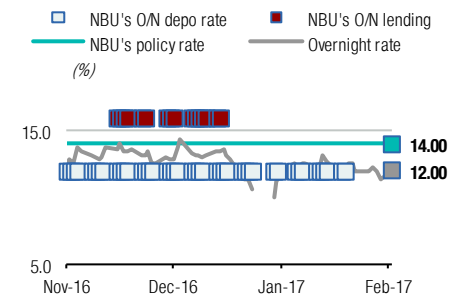
For the second consecutive week, the MoF is offering only zero-coupon bonds with maturities up to 12 months. The shortest maturity is 42 days, which could be a good alternative to CDs. Last week, the MoF offered the same bond with maturity on March 22 which attracted no demand.

The last time the MoF sold 3-month bonds was at the beginning of last December at 15%. The current maturity is significantly shorter. As a result, the interest rate should be lower, but higher than 14%, interest rate for 14-day CDs.

Investment implications: The MoF is competing for short-term liquidity with the NBU, but currently it could be very difficult. The MoF needs to set its interest rate significantly below 15%, but only a few investors could find them attractive enough to diversify investments with CDs. So, this bond could find low demand, if any. Also, 12-month bonds could be sold at 15.30%.

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

Interest rates in the banks' reserves market (three months through 6 February 2017)



Source: Bloomberg, ICU.

Key indicators (as of 6 February 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	12.00	+60bp	+0bp	+40bp	+140bp
KYIV PRIME RATES (%)					
Overnight	12.92	+0bp	-8bp	+0bp	-8bp
1 week	14.50	+0bp	+0bp	+0bp	+0bp
1 month	16.08	+0bp	+8bp	-25bp	-42bp
2 months	18.00	+0bp	+0bp	+0bp	+0bp
3 months	18.00	+0bp	+0bp	+0bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	42,737	-8.95	-7.77	+8.97	-14.07
DepCerts ³	10,683	-41.21	-80.94	-91.47	-89.91
Total	53,420	-15.55	-43.10	-60.01	-59.71
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	383,344	+0.00	+0.00	+0.37	+7.64
Banks	253,893	+0.13	-0.12	+0.75	+47.32
Residents	23,908	-0.13	-0.43	+1.88	+52.49
Non-res ⁴	6,298	+0.29	-0.36	+0.32	-0.84
Total	667,442	+0.05	-0.06	+0.56	+21.24
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	621	+0bp	+25bp	+0bp	+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.

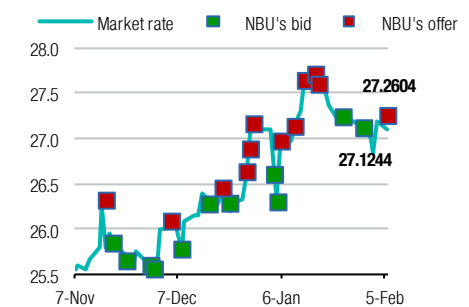
Foreign exchange markets

Key indicators (as of 6 лютого 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.0950	-0.39	-0.09	+0.44	-0.02
USD ¹	99.907	+0.04	-0.52	-2.26	-2.25
EUR	1.0750	-0.31	+0.51	+2.07	+2.22
JPY	111.7400	-0.77	-1.78	-4.51	-4.46
GBP ²	1.2469	-0.12	-0.14	+1.48	+1.05
CNY	6.8630	-0.06	-0.31	-0.88	-1.18
RUB	58.9327	-0.12	-1.63	-1.16	-4.23

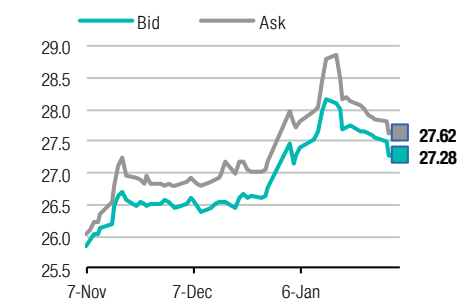
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 6 February 2017)



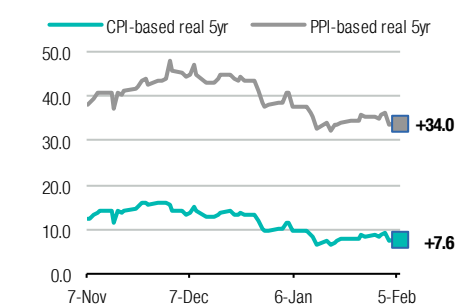
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 6 February 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 6 February 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)

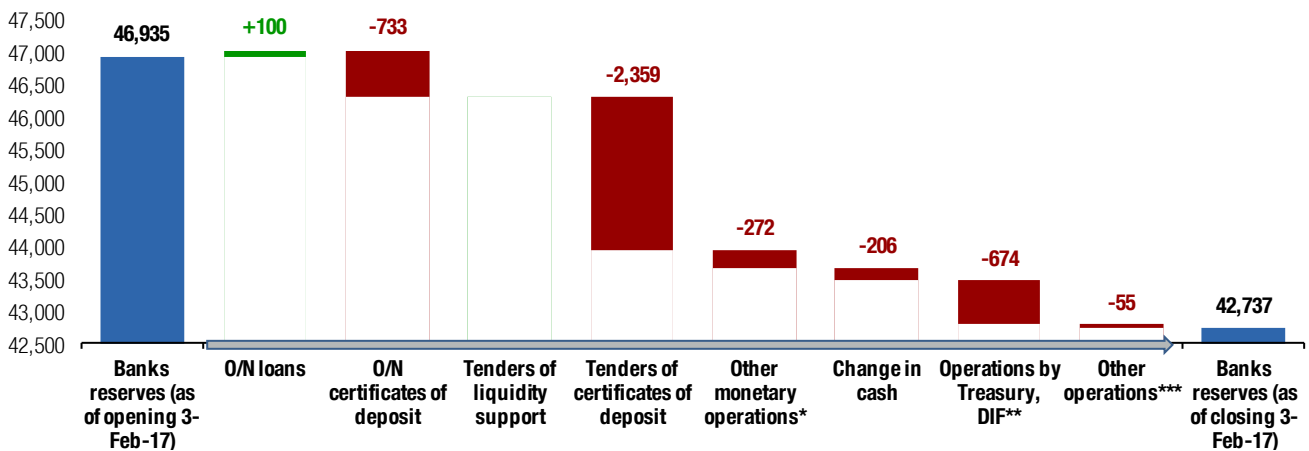
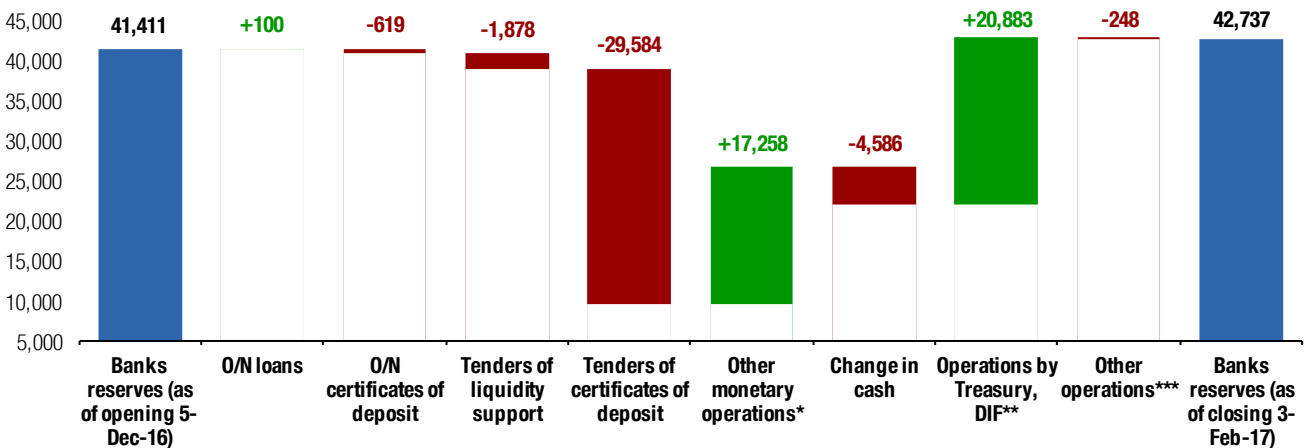
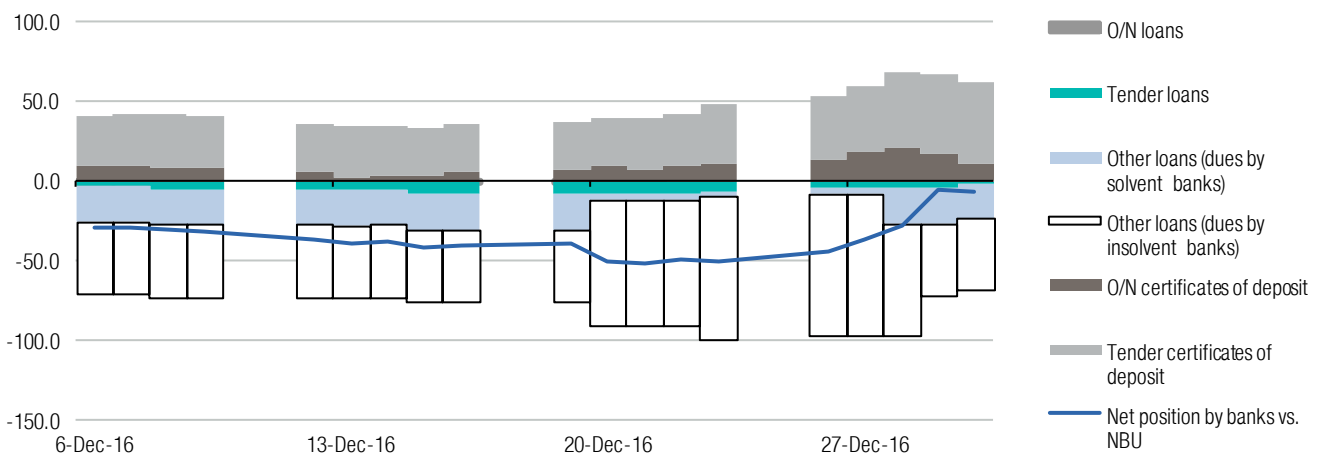


Chart 2. Banks reserves usages over last 30-day period (UAHm)



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.

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    [@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

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.