

Daily Insight

Slight volatility in liquidity

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Slight volatility in liquidity 2

The last day of March started from UAH103.61bn in banking sector liquidity, up UAH1.10bn from the previous day, near the month's average daily level of UAH103.14bn. While at the beginning of the month, liquidity fell a significant UAH4.39bn, later movements were less dramatic amidst more exaggerated fund reallocations from banks' accounts to CDs. All in all, total liquidity remained steady for the most part. With no fund reallocations last Thursday, banks' correspondent accounts with the NBU rose UAH0.06bn to UAH42.42bn while total CDs outstanding increased UAH1.05bn to UAH61.18bn.

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Current-account deficit amounted to US\$399m in February 3

The current-account deficit amounted to US\$399m in February, down from the US\$502m deficit seen in the same month a year ago. In annual terms, the current-account deficit amounted to US\$3.5bn (3.6% of GDP), down from US\$3.8bn (4% of GDP) as of December 2016.

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MONDAY, 3 APRIL 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 31 March 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 31 March 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	N/A		
Overnight rate (interbank)	N/A		
Banks reserves (UAHm)	42,425	+7.05	-8.68
Deposit certificates* (UAHm)	70,435	-18.40	-7.65
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.0700	+0.39	-0.11
Total trade volume (US\$m)	128.98	-35.46	-23.96
UAH index PCI-based	100.956	-0.25	-2.79
UAH index PPI-based	159.676	-0.25	-2.79
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	629bp	+14bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,362.72	-0.23	+5.53
MSCI EM	958.37	-1.14	+11.15
US dollar index (DXY)	100.350	-0.06	-1.82
EUR / USD	1.0652	-0.21	+1.28
Crude oil WTI (US\$/bbl)	50.60	+0.50	-5.81
Crude oil BRENT (US\$/bbl)	53.53	+1.08	-5.79
CRB, commodities index	185.88	+0.20	-3.44
Gold (US\$/ounce)	1,249.35	+0.54	+8.43

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Slight volatility in liquidity

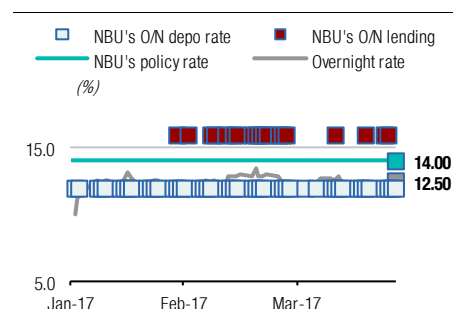
The last day of March started from UAH103.61bn in banking sector liquidity, up UAH1.10bn from the previous day, near the month's average daily level of UAH103.14bn. While at the beginning of the month, liquidity fell a significant UAH4.39bn, later movements were less dramatic amidst more exaggerated fund reallocations from banks' accounts to CDs. All in all, total liquidity remained steady for the most part. With no fund reallocations last Thursday, banks' correspondent accounts with the NBU rose UAH0.06bn to UAH42.42bn while total CDs outstanding increased UAH1.05bn to UAH61.18bn.

The impact from non-monetary operation was insufficient, just UAH0.73bn, mostly from an increase in cash, while that from Treasury operations had none. Also, liquidity was supported by other monetary operations from the NBU which were not detailed in statistics, but could include REPOs, operations with government bonds, FX or specific loans.

Investment implications: For the first time this week, Treasury operations were close to zero, which is positive, taking into the account that daily revenues exceeded UAH6bn. After three days of Treasury driven fund outflows, this is significant. Currently, April could start without outflows, and most likely the Treasury could support liquidity with additional expenditures.

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

Interest rates in the banks' reserves market (three months through 31 March 2017)



Source: Bloomberg, ICU.

Key indicators (as of 31 March 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	42,425	+7.05	-1.77	-16.50	-8.68
DepCerts ³	70,435	-18.40	-12.70	+8.91	-7.65
Total	112,860	-8.83	-8.19	-3.99	-8.11
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	383,022	+0.00	-0.27	+0.25	+7.55
Banks	284,813	-0.16	-0.32	+4.31	+65.26
Residents	23,214	+0.88	+1.72	-3.57	+48.06
Non-res ⁴	5,407	-0.24	-0.24	-8.40	-14.87
Total	696,456	-0.04	-0.23	+1.66	+26.51
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	12.09	-148bp	-709bp	+105bp	-10ppt
6 months	18.47	-7bp	+3bp	+5bp	+1bp
9 months	18.15	-6bp	+3bp	+5bp	+14bp
1 year	17.22	-5bp	+3bp	+6bp	+22bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	629	+14bp	+14bp	+13bp	+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

Current-account deficit amounted to US\$399m in February

The current-account deficit amounted to US\$399m in February, down from the US\$502m deficit seen in the same month a year ago. In annual terms, the current-account deficit amounted to US\$3.5bn (3.6% of GDP), down from US\$3.8bn (4% of GDP) as of December 2016.

Growth of export and import of goods decelerated compared with the previous month. Export of goods rose 20.9% YoY in February, compared with January's reading of 52.9% YoY and amounted to US\$3bn. Import of goods amounted to US\$3.8bn. Energy imports rose 53.3% YoY compared with growth of 74.5% in February. Non-energy imports grew 8.5% YoY in February and 21.1% YoY in January. The current-account deficit amounted to US\$541m or 4.3% of GDP in January through February.

Net borrowing amounted to US\$395m in February 2017 versus US\$477m in February 2016. Net inflow of foreign direct investment amounted to US\$45m in February. In January through February 2016, net inflow of foreign direct investment amounted to US\$62m, while it was US\$963m in January through February 2016. The deficit of the current account of Ukraine's balance of payments rose 18 times to US\$3.4bn or 3.6% of GDP in 2016, compared with US\$186m or 0.2% of GDP in 2015.

Investment implications: The current-account deficit has been slowing down in 1Q17; it dropped to 3.6% from 4% of GDP over the two-month period of January–February. Remarkably, the size of net FDI contracted to US\$2.5bn (2.6% of GDP) down from US\$3.4bn (3.7% of GDP) as of December 2016. The so-called broad current account (current account plus FDI) turned deeper into negative territory over the past two months to -1% from -0.4% of GDP. This suggests two future possibilities: either (1) authorities maintain tight policy stance to prevent current-account deterioration, or (2) flexibility of FX rate is allowed and UAH's weakness corrects the trade deficit.

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

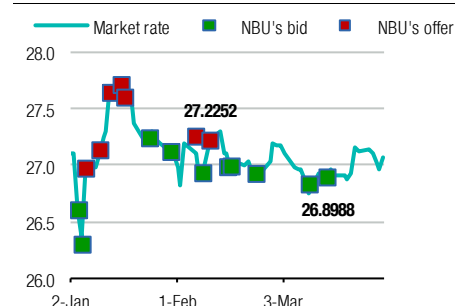
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 31 березня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.0700	+0.39	-0.20	-0.42	-0.11
USD ¹	100.350	-0.06	+0.73	-0.76	-1.82
EUR	1.0652	-0.21	-1.35	+0.72	+1.28
JPY	111.3900	-0.47	+0.04	-1.22	-4.76
GBP ²	1.2550	+0.66	+0.62	+1.37	+1.70
CNY	6.8872	-0.03	+0.05	+0.29	-0.83
RUB	56.2447	+0.25	-1.21	-3.66	-8.60

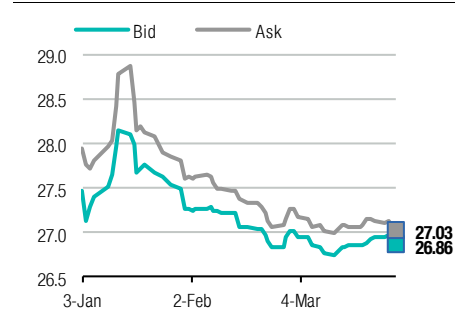
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 31 March 2017)



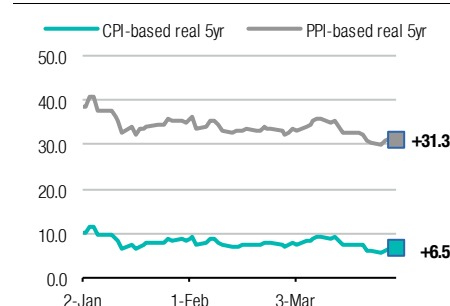
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 31 March 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 31 March 2017)



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

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

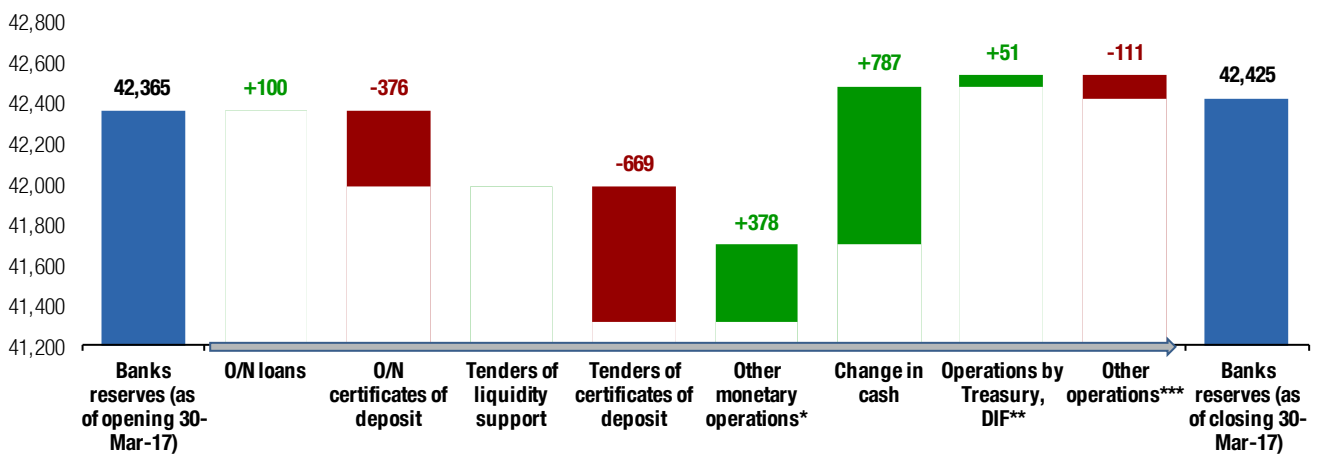
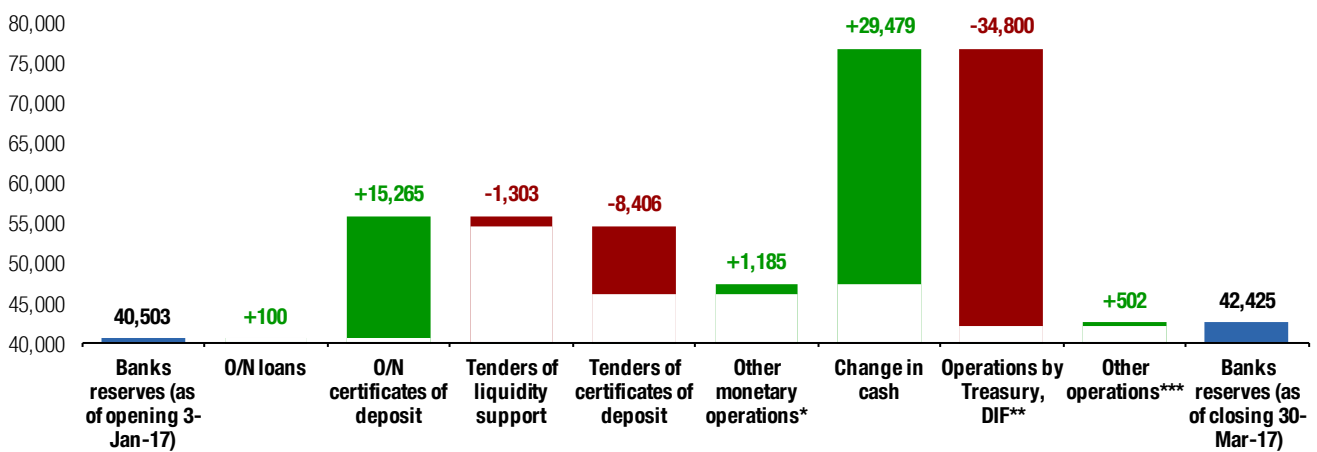
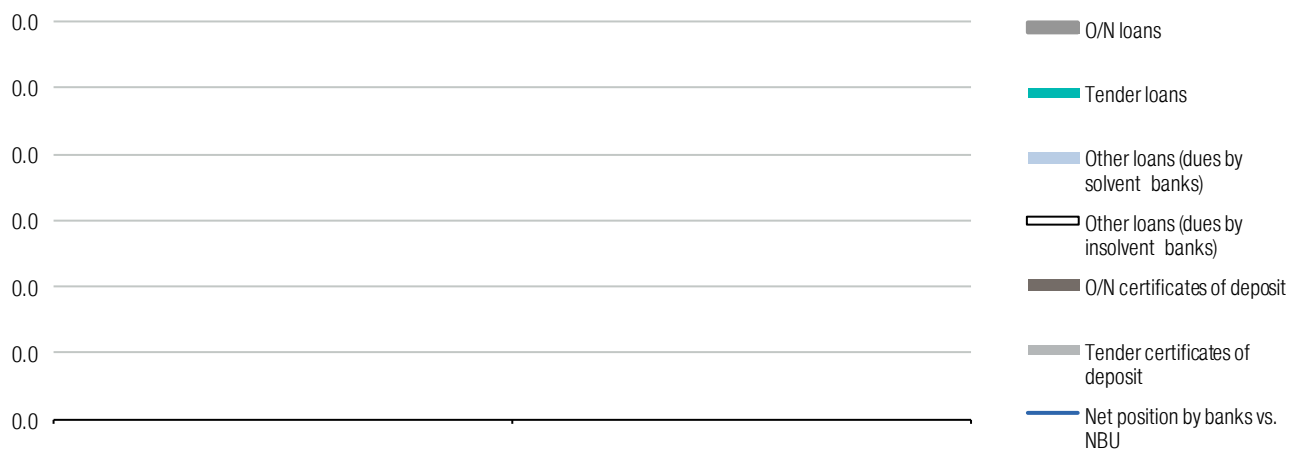


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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