



Daily Insight

UAH continues to strengthen

Key messages of the today's comments

Domestic liquidity 2

Liquidity under pressure of non-monetary issues 2

Last Friday, outflows from banking sector liquidity decreased but remained under the pressure of non-monetary operations. Outflows via Treasury operations significantly tightened to UAH0.65bn while the negative impact of cash rose to UAH0.31bn. With an insufficient impact of other non-monetary operations, the total negative impact of autonomous operations was UAH0.94bn.

Primary auction announcement 2

Today, the MoF will offer only 2-year bonds, one in local currency and the other denominated in US dollars. Most likely, dealers had no demand for bonds with shorter maturities. Local currency bonds will have maturity date in May 2019 and USD-denominated bonds in July, 2019.

Foreign exchange markets 3

UAH continues to strengthen 3

The hryvnia continues to strengthen on the back of the declining US dollar. The excess supply of USD in the domestic market supports the hryvnia as well. The weighted average exchange rate of the hryvnia rose 0.26% to 25.8226 USD/UAH on trading volume of US\$188.42m as it sold for 25.93 USD/UAH versus 25.77 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index grew 0.6% to 109.7, while on a year-on-year basis this index was up 9.21% from 100.45 last year.

Appendix #1: Domestic liquidity 4

TUESDAY, 25 JULY 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 24 July 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 24 July 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	10.90	-10bp	+30bp
Banks reserves (UAHm)	47,745	+1.72	-4.00
Deposit certificates* (UAHm)	48,969	-2.61	-21.32
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.8000	-0.31	-4.80
Total trade volume (US\$m)	132.03	-25.54	-22.16
UAH index CPI-based	109.700	+0.60	+1.57
UAH index PPI-based	169.074	+0.60	+0.42
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	585bp	+0bp	-68bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,469.91	-0.11	+10.32
MSCI EM	1,064.27	+0.39	+23.43
US dollar index (DXY)	93.977	+0.13	-8.05
EUR / USD	1.1642	-0.18	+10.70
Crude oil WTI (US\$/bbl)	46.34	+1.25	-13.74
Crude oil BRENT (US\$/bbl)	48.60	+1.12	-14.47
CRB, commodities index	176.23	-0.24	-8.46
Gold (US\$/ounce)	1,255.41	+0.03	+8.95

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity under pressure of non-monetary issues

Last Friday, outflows from banking sector liquidity decreased but remained under the pressure of non-monetary operations. Outflows via Treasury operations significantly tightened to UAH0.65bn while the negative impact of cash rose to UAH0.31bn. With an insufficient impact of other non-monetary operations, the total negative impact of autonomous operations was UAH0.94bn.

The above-mentioned outflow was partially offset by the NBU via monetary operations of UAH0.44bn, causing liquidity to decline UAH0.51bn to UAH96.71bn. Banks correspondent accounts with the NBU rose UAH0.81bn to UAH47.74bn and decreased investments in CDs by UAH1.31bn to UAH48.97bn, lowering investments in 14-day CDs.

Investment implications: Liquidity continued to decline despite the Treasury's lower balance of operations which decreased outflows. With the inflow from the NBU, the decline in liquidity was minor. As pressure from tax payments should be seen this week, combined with the negative balance in Treasury operations, liquidity should continue to decline.

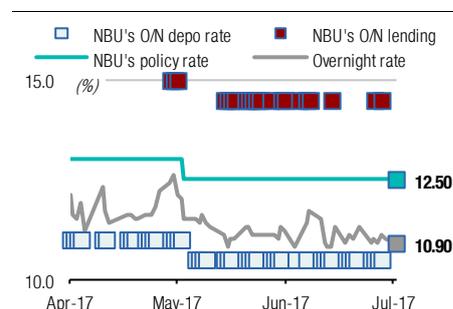
Primary auction announcement

Today, the MoF will offer only 2-year bonds, one in local currency and the other denominated in US dollars. Most likely, dealers had no demand for bonds with shorter maturities. Local currency bonds will have maturity date in May 2019 and USD-denominated bonds in July, 2019.

The MoF sold 2-year bonds in local currency last week at 14.46%, and most likely today bids will be seen at the same level. We anticipate that USD-denominated bonds will remain the same and that the cut-off rate will be unchanged from 5.30%. The range of bids will should be significantly wider.

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

Interest rates in the banks' reserves market (three months through 24 July 2017)



Source: Bloomberg, ICU.

Key indicators (as of 24 July 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	10.90	-10bp	+0bp	-30bp	+30bp
ON \$ swap	11.60	-5bp	+23bp	+39bp	+13bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	47,745	+1.72	+6.92	-3.36	-4.00
DepCerts ³	48,969	-2.61	-9.59	-16.34	-21.32
Total	96,714	-0.52	-2.13	-10.40	-13.63
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	367,907	+0.00	-0.84	-1.37	+3.30
Banks	292,665	-0.05	-0.20	+4.34	+69.82
Residents	21,788	+0.43	+0.98	-5.51	+38.97
Non-res ⁴	1	-5.69	-13.43	-99.64	-99.98
Total	682,361	-0.01	-0.51	+0.81	+23.95
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	10.17	-492bp	-507bp	-465bp	-12ppt
3 months	12.26	+114bp	-997bp	-222bp	-980bp
6 months	11.35	-161bp	-364bp	-215bp	-670bp
1 year	11.52	-26bp	-232bp	-309bp	-447bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	585	+0bp	+0bp	+0bp	-68bp

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

UAH continues to strengthen

The hryvnia continues to strengthen on the back of the declining US dollar. The excess supply of USD in the domestic market supports the hryvnia as well. The weighted average exchange rate of the hryvnia rose 0.26% to 25.8226 USD/UAH on trading volume of US\$188.42m as it sold for 25.93 USD/UAH versus 25.77 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index grew 0.6% to 109.7, while on a year-on-year basis this index was up 9.21% from 100.45 last year.

The US dollar has come under pressure last week amid political turmoil in the USA. Robert Mueller's new round of investigation into allegations that Russia meddled in the 2016 US presidential election put pressure on the US currency. In addition, White House spokesman Sean Spicer resigned on Friday, which pushed the USD down further. Over the last week, it depreciated 1.3%. Strong July manufacturing and services purchasing managers' surveys (PMIs) had positive impact on the US currency – on Monday the DXY index rose 0.1% to 93.98. At the same time, market participants await the Federal Reserve meeting scheduled for July 25-26.

Having surged to a nearly 2-year high on Friday, the euro slightly declined on Monday amid weak macroeconomic data. IHS Markit's Euro Zone Flash Composite PMI for July fell to 55.8 from June's 56.3, the worst reading in six months, meaning that the European economy has slowed at the beginning of 3Q17. The euro declined 0.2% against the US dollar to 1.1642 EUR/USD.

The People's Bank of China has provided CNY220bn of reserves into banks via open market operations on Monday reportedly to maintain financial stability in the country. More than CNY540bn of reverse-repurchase contracts coming due this week will drain reserves from the banks. The Chinese currency strengthened 0.23% against the US dollar to 6.7512 USD/CNY, near the highest level since October 2016, after the regulator set the daily reference rate at 6.741, the strongest level in nine months.

The Russian ruble dropped 1.1% on Monday to 60.005 USD/RUB on the back of geopolitical risks. US congressional leaders have reached an agreement on Friday to advance a bill that will punish Russia for its election meddling in 2016. At the same time, the new legislation will restrict the president's power to suspend or terminate the sanctions. The deal in US Congress overweighed the increase in oil prices due to OPEC's recommendation to extend oil supply restrictions through 2Q18.

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

Dmitriy Dyachenko, Kyiv, (044) 220-0120 ext.738

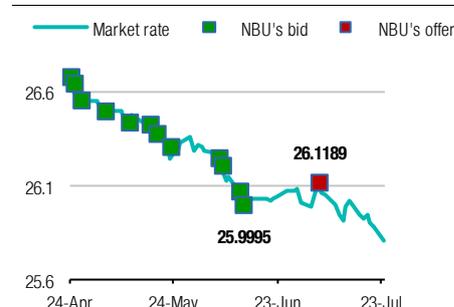
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 24 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.8000	-0.31	-0.56	-0.90	-4.80
USD ¹	93.977	+0.13	-1.21	-3.38	-8.05
EUR	1.1642	-0.18	+1.43	+4.00	+10.70
JPY	111.1000	-0.03	-1.36	-0.16	-5.01
GBP ²	1.3028	+0.24	-0.21	+2.44	+5.58
CNY	6.7512	-0.23	-0.28	-1.25	-2.79
RUB	60.0256	+1.13	+1.16	+0.97	-2.46

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 24 July 2017)



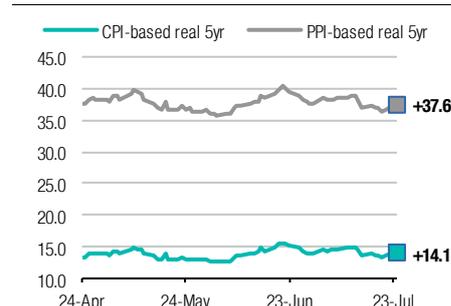
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 24 July 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 24 July 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)

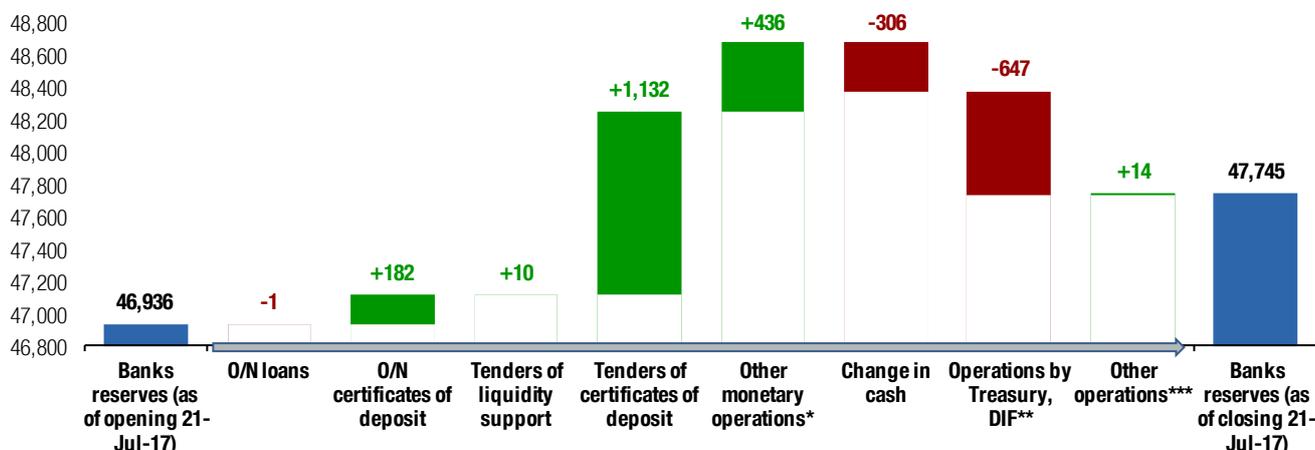
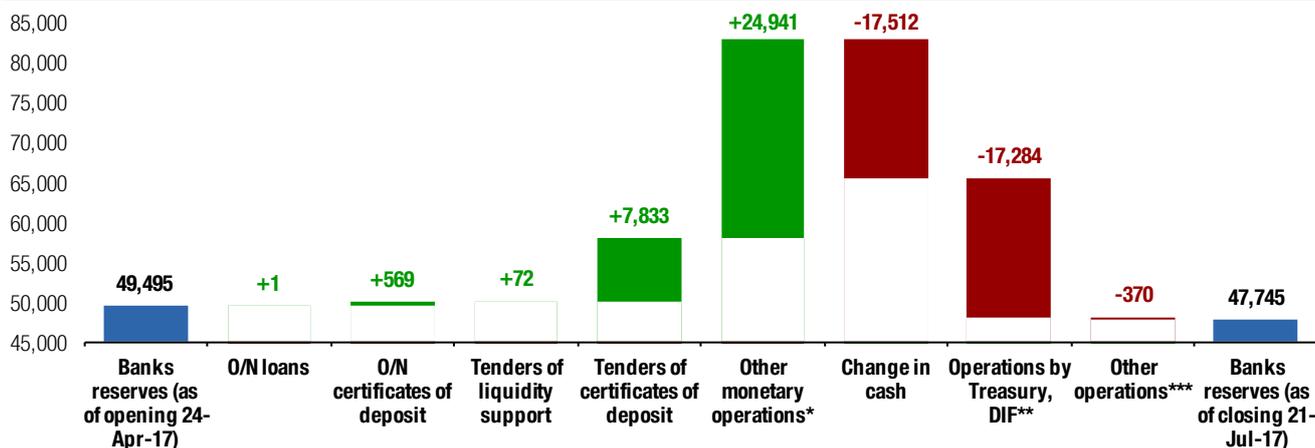
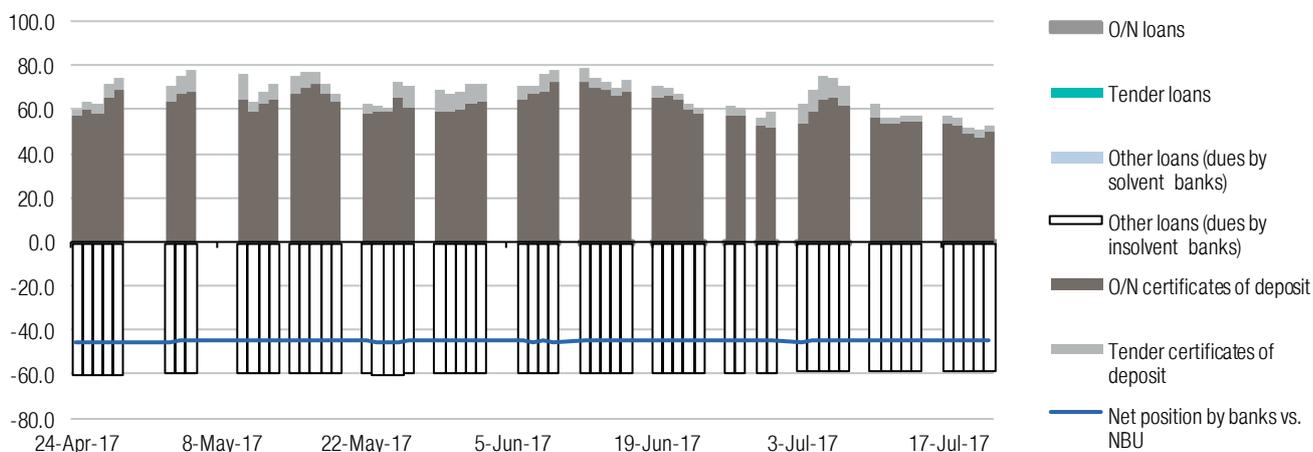


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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.

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

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

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.