

Daily Insight

Euro near 2.5 year high

Key messages of the today's comments

Domestic liquidity 2

Liquidity continues to decline 2

As of Wednesday morning, liquidity was UAH97.29bn, down UAH1.62bn from the previous day, as a result of Treasury operations that were offset by cash inflows. Investments in ON and 14-day CDs declined as funds at accounts with the NBU increased.

Foreign exchange markets 3

Euro near 2.5 year high 3

The DXY on Wednesday traded in the 92.574-93.158 range, and reached new 15-month low. Non-farm private employment rose by 178,000 and below the expectations of 185,000. Investors await the non-farm payroll report on Friday for indications about further Fed policy. The greenback remains under pressure on the uncertainty about the implementation of economic reforms by the Trump administration. By the end of Wednesday, the DXY declined 0.2% to 92.84.

Appendix #1: Domestic liquidity 4

THURSDAY, 3 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 2 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 2 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	10.80	-10bp	+20bp
Banks reserves (UAHm)	45,187	+0.78	-9.14
Deposit certificates* (UAHm)	52,108	-3.65	-16.28
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9450	+0.39	-4.26
Total trade volume (US\$m)	N/A		
UAH index CPI-based	108.271	-0.50	+0.25
UAH index PPI-based	166.871	-0.50	-0.89
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	560bp	+0bp	-93bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,477.57	+0.05	+10.66
MSCI EM	1,069.97	+0.09	+24.09
US dollar index (DXY)	92.836	-0.22	-9.17
EUR / USD	1.1856	+0.46	+12.73
Crude oil WTI (US\$/bbl)	49.59	+0.87	-7.69
Crude oil BRENT (US\$/bbl)	52.36	+1.12	-7.85
CRB, commodities index	181.98	+0.68	-5.47
Gold (US\$/ounce)	1,266.65	-0.17	+9.93

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to decline

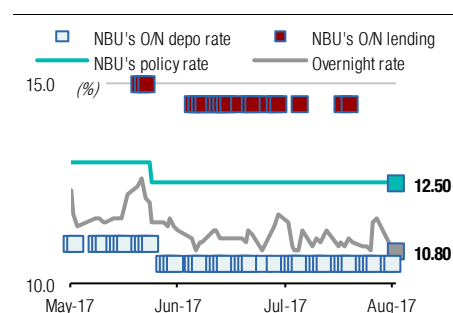
As of Wednesday morning, liquidity was UAH97.29bn, down UAH1.62bn from the previous day, as a result of Treasury operations that were offset by cash inflows. Investments in ON and 14-day CDs declined as funds at accounts with the NBU increased.

Banks' correspondent accounts with the NBU rose UAH0.35bn while total CDs outstanding fell UAH1.97bn. Banks decreased investments in 14-day CDs by UAH0.57bn while ON CDs fell by UAH1.4bn. Overall, investments in CDs declined by the largest amount in almost two weeks. Outflows to the Treasury's accounts were UAH2.35bn as the NBU had no operations. The impact from the change in cash offset outflows for the week by UAH0.73bn, leaving UAH1.62bn in liquidity outflows that arose from autonomous non-monetary operations.

Investment implications: Despite UAH0.35bn in VAT refunds, the Treasury's operations' balance was negative and significantly increased versus that on Monday. As a result, liquidity failed to stabilize and continued to decline for the fifth day in a row. Yesterday's debt payments mostly went to the NBU, with only a mere UAH100m went to banks' accounts. Considering UAH483.9m of yesterday's auction proceeds, the debt payments' balance is likely to be negative, which may cause liquidity to fall even further.

Taras Kotovych, Kyiv, (044) 220-0120 ext.724
Artem Gladchenko, Kyiv, (044) 220-0120 ext.737

Interest rates in the banks' reserves market (three months through 2 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 2 August 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	10.80	-10bp	+0bp	-90bp	+20bp
ON \$ swap	11.73	-2bp	+21bp	+4bp	+26bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	45,187	+0.78	-12.75	-16.29	-9.14
DepCerts ³	52,108	-3.65	-3.02	+0.44	-16.28
Total	97,295	-1.64	-7.80	-8.09	-13.11
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 (%)					
1 month	4.42	-471bp	-259bp	-14ppt	-18ppt
3 months	9.27	-158bp	-114bp	-210bp	-13ppt
6 months	10.45	-72bp	-77bp	-367bp	-760bp
1 year	11.02	-39bp	-26bp	-393bp	-497bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	560	+0bp	-25bp	-25bp	-93bp

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

Euro near 2.5 year high

The DXY on Wednesday traded in the 92.574-93.158 range, and reached new 15-month low. Non-farm private employment rose by 178,000 and below the expectations of 185,000. Investors await the non-farm payroll report on Friday for indications about further Fed policy. The greenback remains under pressure on the uncertainty about the implementation of economic reforms by the Trump administration. By the end of Wednesday, the DXY declined 0.2% to 92.84.

The euro rose 1% on Monday evening. On Wednesday, it reached a 32-month high of 1.1909 EUR/USD, supported by strong macroeconomic data and indications of the possible start of tapering the stimulus program. Also, Eurozone citizens' support of the single currency reached the highest level since 2004. By the end of Wednesday, the euro traded in the 1.1794 - 1.1909 range, and rose 0.5% to 1.1856.

The hryvnia continued to decline on Wednesday, down 0.2% to 25.9042 USD/UAH, per data from the NBU, despite the decline in liquidity in the banking sector for the fifth day in a row. Obviously, demand on the dollar is growing. The UAH sold for 25.85 USD/UAH versus 25.70 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.5% to 108.27, while in year-on-year terms, this index was up 6.5% from 101.27 last year.

The downward trend continued on Wednesday for the ruble as investors await the new set of sanctions to be implemented. Rising oil prices last week surprisingly had little influence on the ruble. Pressure on the ruble is supported by speculative traders who are closing their sell positions, but the RUB/USD didn't exceed 61. After Donald Trump signed the sanctions into law, the ruble traded in the 60.37-60.84 range and finished the day at 60.59 RUB/USD, having depreciated 0.4%.

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

Artem Gladchenko, Kyiv, (044) 220-0120 ext.737

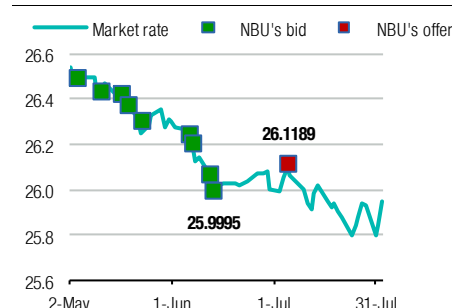
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 2 сентября 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9450	+0.39	+0.25	-0.23	-4.26
USD ¹	92.836	-0.22	-0.89	-2.92	-9.17
EUR	1.1856	+0.46	+1.04	+3.76	+12.73
JPY	110.7200	+0.33	-0.41	-1.49	-5.34
GBP ²	1.3223	+0.15	+0.77	+1.52	+7.16
CNY	6.7217	+0.06	-0.48	-0.87	-3.22
RUB	60.5617	+0.36	+1.92	+2.87	-1.59

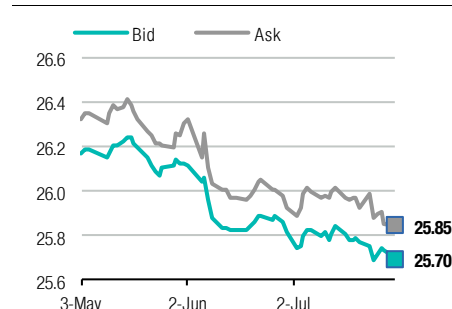
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 2 August 2017)



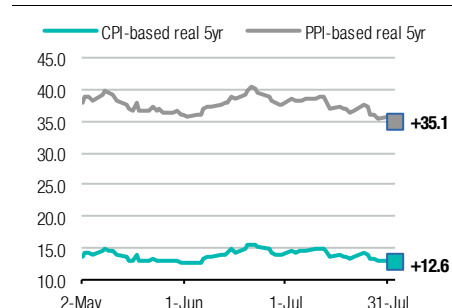
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 2 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 2 August 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)

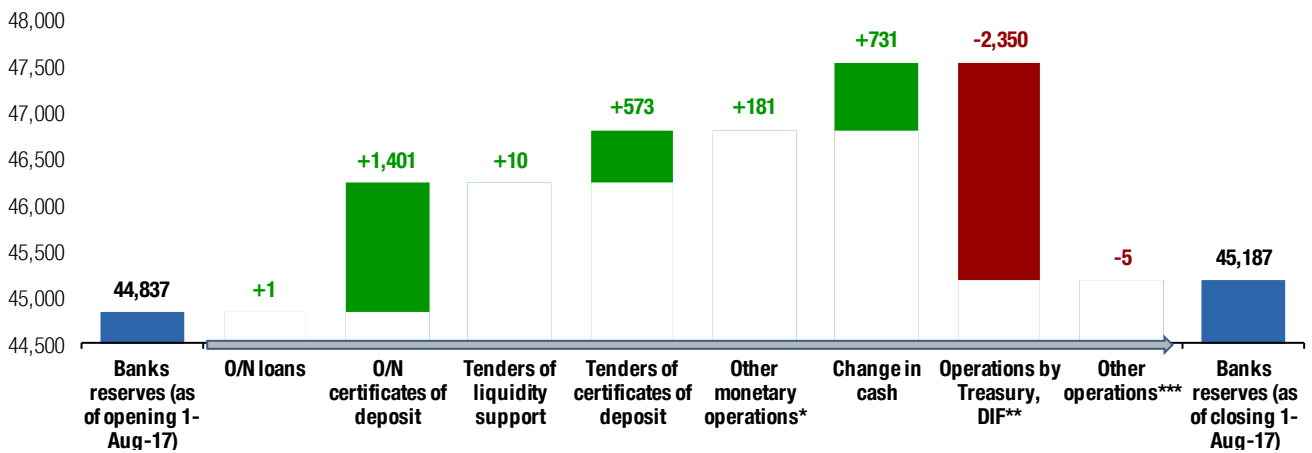
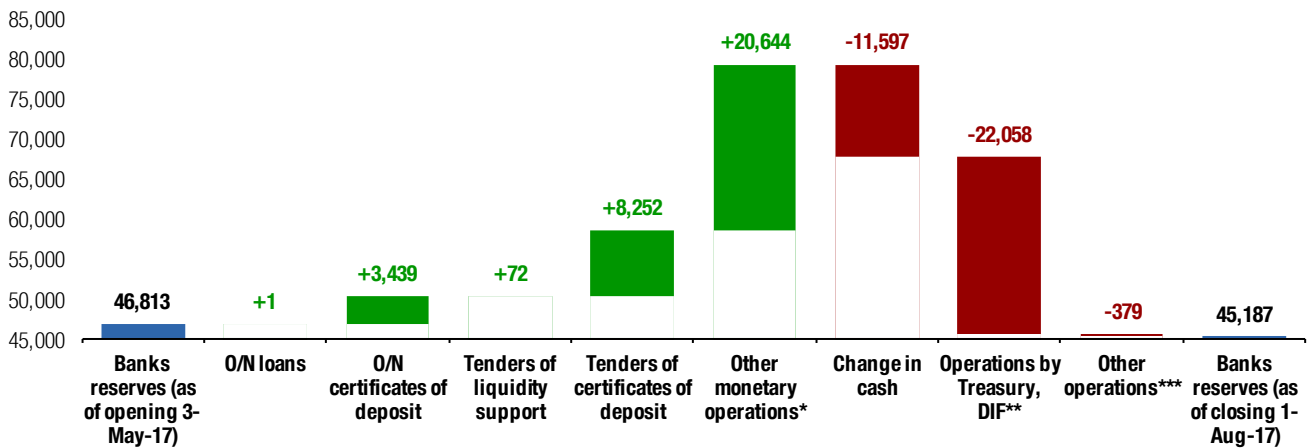
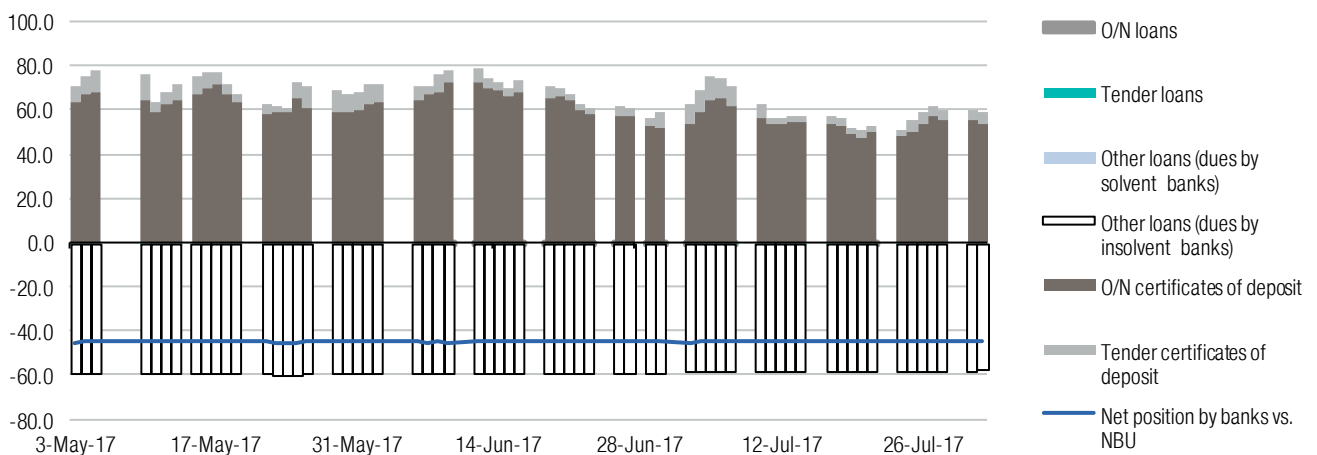


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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.