

Daily Insight

Liquidity recovers slightly

Key messages of the today's comments

WEDNESDAY, 23 AUGUST 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 22 August 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 22 August 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.50	+0bp	+90bp
Banks reserves (UAHm)	44,126	+7.12	-11.27
Deposit certificates* (UAHm)	38,037	-4.92	-38.89
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.4600	-0.11	-6.05
Total trade volume (US\$m)	186.55	-3.87	+9.99
UAH index CPI-based	109.997	+0.25	+1.85
UAH index PPI-based	169.532	+0.25	+0.69
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	520bp	-30bp	-133bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,452.51	+0.99	+9.54
MSCI EM	1,072.52	+0.83	+24.38
US dollar index (DXY)	93.545	+0.48	-8.48
EUR / USD	1.1762	-0.45	+11.84
Crude oil WTI (US\$/bbl)	47.83	+0.97	-10.96
Crude oil BRENT (US\$/bbl)	51.87	+0.41	-8.71
CRB, commodities index	176.73	+0.10	-8.20
Gold (US\$/ounce)	1,285.14	-0.52	+11.53

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

2

Liquidity recovers slightly

Following Monday's transactions, banking sector liquidity (excluding government bond portfolios) rose UAH0.96bn to UAH82.16bn with funds reallocations. Total CDs outstanding declined UAH1.97bn to UAH38.04bn due lower investments in 14-day CDs. At the same time, banks' correspondent accounts with the NBU rose UAH2.93bn to UAH44.13bn, mostly due to NBU and Treasury transactions.

2

Inactive auction.....

Yesterday, the MoF offered only an 11-month bond at the primary auction. Maturing July 2018, the bond debuted in 2016 with a 16.62% coupon. Although the YTM has risen to about 14.96%, this did not increase demand for it significantly.

2

Foreign exchange markets

3

Hryvna almost flat.....

The hryvna slightly depreciated against the dollar on Tuesday. The stronger dollar and gradual recovery in liquidity also fueled the decline. On Tuesday, the hryvnia fell 0.03% to 25.4517 UAH/USD. The UAH sold for 25.37 USD/UAH versus 25.56 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index increased 0.25% to 109.99; in year-on-year terms, it is up 12.14% from 98.08 last year.

3

Appendix #1: Domestic liquidity

4

Domestic liquidity

Liquidity recovers slightly

Following Monday's transactions, banking sector liquidity (excluding government bond portfolios) rose UAH0.96bn to UAH82.16bn with funds reallocations. Total CDs outstanding declined UAH1.97bn to UAH38.04bn due lower investments in 14-day CDs. At the same time, banks' correspondent accounts with the NBU rose UAH2.93bn to UAH44.13bn, mostly due to NBU and Treasury transactions.

After the positive impact from last Saturday, this Monday the Treasury absorbed UAH0.68bn despite the UAH0.53bn VAT refund that was paid that day. Following a conversion of cash into reserves, net non-monetary operations were minus UAH0.33bn. The increase in liquidity was caused and supported by the NBU which purchased US\$50.9m at an FX auction, paying nearly UAH1.30bn for it.

ICU view: Liquidity, under the pressure of tax payments, rose only because of FX purchasing by the NBU. With no new FX auctions or large VAT refunds scheduled, liquidity could decline below UAH80bn.

Inactive auction

Yesterday, the MoF offered only an 11-month bond at the primary auction. Maturing July 2018, the bond debuted in 2016 with a 16.62% coupon. Although the YTM has risen to about 14.96%, this did not increase demand for it significantly.

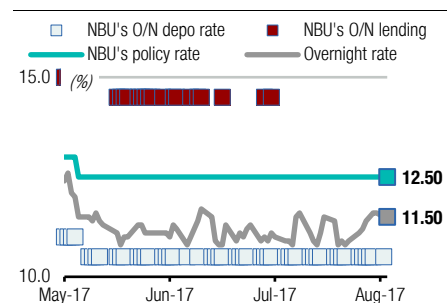
Only one bank participated in the auction with one bid which was calculated to not exceed UAH100m. Bank requested 96,477 bonds, raising budget proceeds of a mere UAH625 below the UAH100m. This bid was submitted at the usual 14.40%.

Last week, liquidity fell significantly, mostly as the result of outflows to the budget, and new funds were injected by the NBU through FX auctions, although too little and too late. Also, today's debt repayments to the market of UAH200m, half of which was refinanced at the auction, had little impact.

ICU view: Without a long-term source of funds and liquidity falling after tax payments, the auction was quite inactive. Most likely, a dealer participated on behalf of its client who should get debt repayments today or has an accumulated portion of new funds. This situation could continue next week, and could slightly improve in September when debt repayments to the market should rise slightly.

Taras Kotovych, Kyiv, (044) 377-7040 ext.724

Interest rates in the banks' reserves market (three months through 22 August 2017)



Source: Bloomberg, ICU.

Key indicators (as of 22 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	11.50	+0bp	+30bp	+50bp	+90bp
ON \$ swap	12.44	+7bp	+58bp	+84bp	+97bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	44,126	+7.12	-5.38	-5.99	-11.27
DepCerts ³	38,037	-4.92	-21.02	-24.35	-38.89
Total	82,163	+1.19	-13.33	-15.49	-26.62
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	364,685	+0.00	-0.28	-0.88	+2.40
Banks	304,552	-0.14	+2.90	+4.01	+76.72
Residents	22,837	+1.11	+1.82	+5.27	+45.66
Non-res ⁴	471	+0.00	+4.1k	+38.2k	-92.58
Total	692,546	-0.02	+1.23	+1.48	+25.80
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.38	+36bp	+13bp	-371bp	-11ppt
3 months	11.70	+11bp	+2bp	+58bp	-10ppt
6 months	11.78	+9bp	+2bp	-118bp	-627bp
1 year	11.66	+6bp	+8bp	-12bp	-433bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	520	-30bp	-30bp	-65bp	-133bp

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

Hryvna almost flat

The hryvna slightly depreciated against the dollar on Tuesday. The stronger dollar and gradual recovery in liquidity also fueled the decline. On Tuesday, the hryvnia fell 0.03% to 25.4517 UAH/USD. The UAH sold for 25.37 USD/UAH versus 25.56 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index increased 0.25% to 109.99; in year-on-year terms, it is up 12.14% from 98.08 last year.

The US dollar rebounded on Tuesday versus declining the previous day. The greenback was supported by profit-taking after declining on Monday and anticipations of this week's annual meeting of top central bankers and economists in Jackson Hole, including Fed and ECB, when they outline further developments. ECB head Mario Draghi could discuss the end of quantitative easing. On the other hand, FRS chair Yellen will talk about macro perspectives of US economy and definitely she will mention inflation which is less than 2% target. Markets continue to await hints about further rate hike strategies (will she increase rates in remained term as a Fed's chair, before Trump decide whether to keep her on this position or not). By Tuesday's close, the DXY traded within 93.061 - 93.577 and finished the day at 93.545, having appreciated 0.5%. The euro traded in the 1.1745 - 1.1824 range and accordingly depreciated 0.5%, finishing the day at 1.1762.

On Tuesday, the ruble appreciated against the dollar, despite the strengthening USD, It was supported by tax payments and oil prices, although the latter was controversial as oil prices rose on anticipations of US stock data. The ruble traded within 58.92-59.15 and finished the day at 59.07, up 0.1%.

Alexander Valchyshen, Kyiv, (044) 377-7040 ext.721

Artem Gladchenko, Kyiv, (044) 377-7040 ext.737

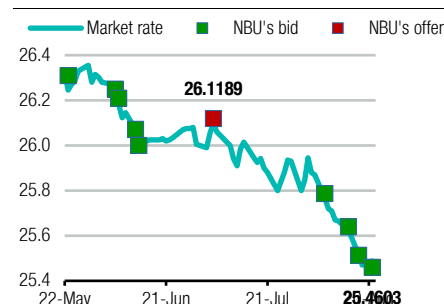
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 22 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.4600	-0.11	-0.51	-1.62	-6.05
USD ¹	93.545	+0.48	-0.33	-0.33	-8.48
EUR	1.1762	-0.45	+0.23	+0.85	+11.84
JPY	109.5700	+0.54	-0.99	-1.40	-6.32
GBP ²	1.2824	-0.59	-0.35	-1.33	+3.92
CNY	6.6624	-0.05	-0.35	-1.54	-4.07
RUB	59.0750	-0.12	-1.06	-0.48	-4.00

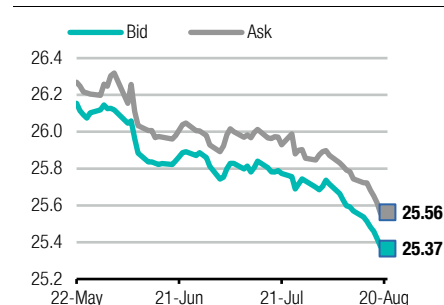
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 22 August 2017)



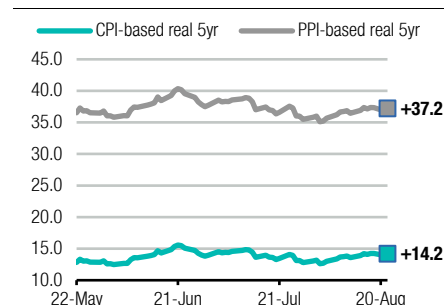
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 22 August 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 22 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)

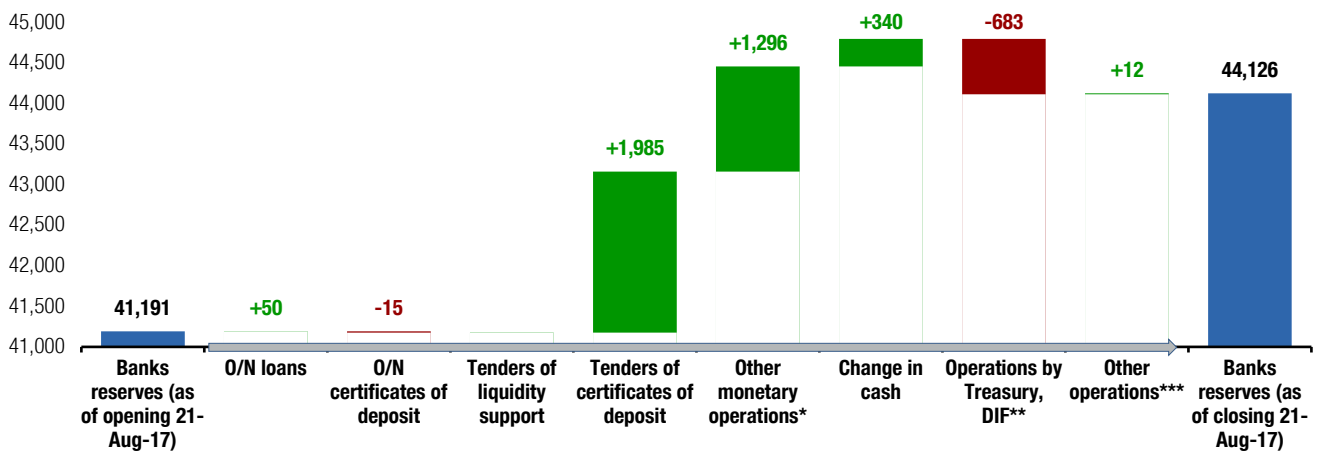
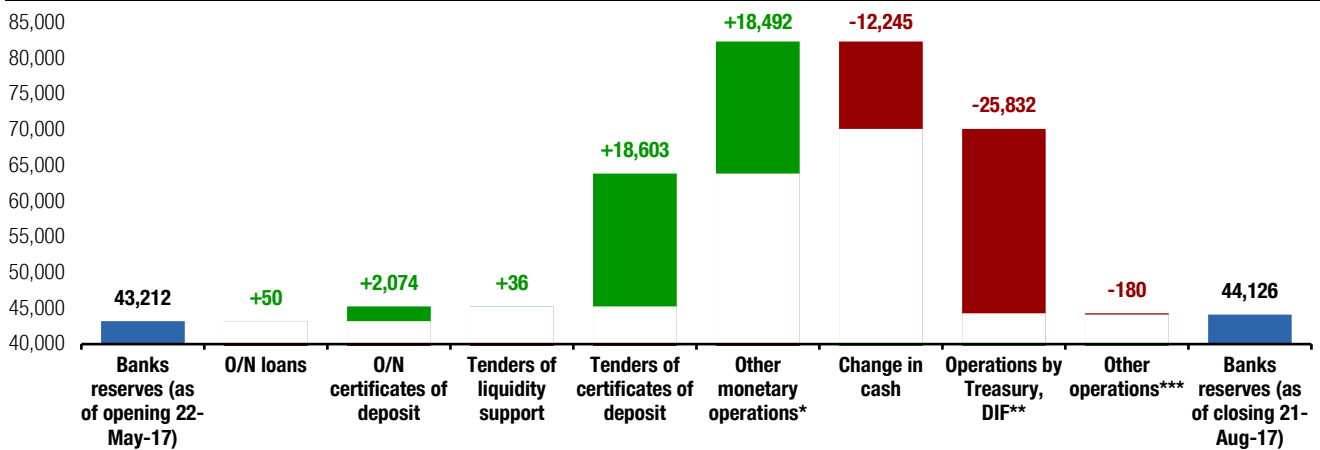
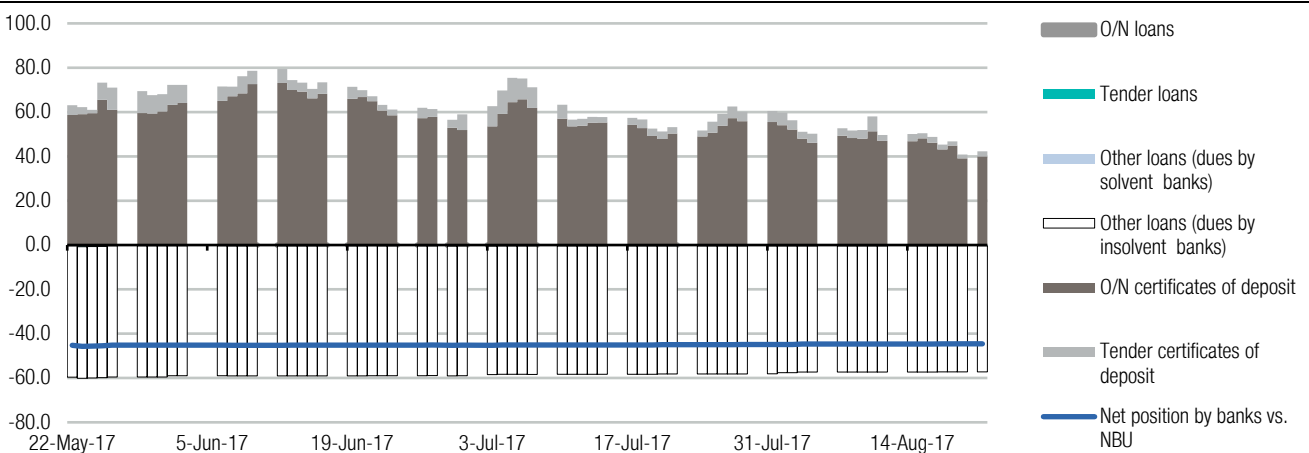


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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.

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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

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

Bogdan Vorotilin
Financial analyst (Food & Agribusiness)
bogdan.vorotilin@icu.ua

RESEARCH

Alexander Valchyshen
Head of Research
alexander.valchyshen@icu.ua

Alexander Martynenko
Head of corporate research
alexander.martynenko@icu.ua

Taras Kotovych
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

Mykhaylo Demkiv
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

Lee Daniels, Rolfe Haas
Editors

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