

Daily Insight

Liquidity recovery started

Key messages of the today's comments

FRIDAY, 1 SEPTEMBER 2017

Domestic liquidity 2

Liquidity recovery started.....2

After all tax payments already paid in August, this changed impact of Treasury operations on liquidity. During Wednesday Treasury collected more than UAH6bn but budget expenditures were made in similar amount, and net impact of Treasury operations was amounted to only UAH0.08bn this day. At the same time, banks the third consecutive day exchanged cash into reserves, UAH1.53bn on Wednesday, caused increase in liquidity and UAH1.46bn of positive impact from non-monetary operating ons. 2

Foreign exchange markets 3

UAH continues to weaken3

The hryvnia declined against the US dollar for the second consecutive trading session, while the USD continues to weaken in world FX markets. On Thursday, the NBU auctioned US\$44.3m on the interbank market to satisfy demand for USD and to decrease volatility. Higher banking sector liquidity and end of August tax collections changed the balance of supply and demand for USD. This did not support the Ukrainian currency, which weakened 0.45% to 25.694 UAH/USD. The UAH sold for 25.45 UAH/USD versus 25.68 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.54% to 108.01; in year-on-year terms, it is up 13.05% from 95.53 last year. 3

Appendix #1: Domestic liquidity 4

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



Source: Bloomberg.

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

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.90	+20bp	+130bp
Banks reserves (UAHm)	47,459	+1.46	-4.57
Deposit certificates* (UAHm)	34,114	+1.78	-45.19
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.6650	+0.31	-5.30
Total trade volume (US\$m)	269.95	+25.73	+59.16
UAH index CPI-based	108.006	-0.54	+0.01
UAH index PPI-based	166.463	-0.54	-1.13

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	506bp	-14bp	-147bp
---------	-------	-------	--------

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,471.65	+0.57	+10.40
MSCI EM	1,087.70	-0.03	+26.14
US dollar index (DXY)	92.668	-0.23	-9.34
EUR / USD	1.1910	+0.22	+13.25
Crude oil WTI (US\$/bbl)	47.23	+2.76	-12.08
Crude oil BRENT (US\$/bbl)	52.86	+3.93	-6.97
CRB, commodities index	180.86	+2.25	-6.05
Gold (US\$/ounce)	1,321.40	+0.98	+14.68

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity recovery started

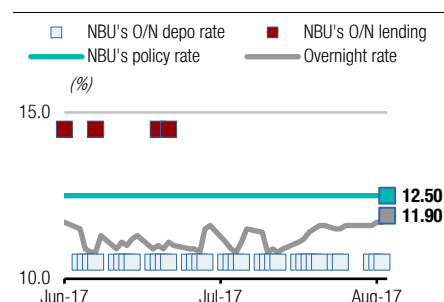
After all tax payments already paid in August, this changed impact of Treasury operations on liquidity. During Wednesday Treasury collected more than UAH6bn but budget expenditures were made in similar amount, and net impact of Treasury operations was amounted to only UAH0.08bn this day. At the same time, banks the third consecutive day exchanged cash into reserves, UAH1.53bn on Wednesday, caused increase in liquidity and UAH1.46bn of positive impact from non-monetary operating ons.

But the NBU's monetary operations had mostly negative impact on liquidity and reserves. Banks insufficiently, but increased amount of CDs outstanding, UAH0.6bn to UAH34.11bn, while via probably FX purchase the NBU absorbed UAH0.18bn of funds in local currency. So, banks' correspondent accounts with the NBU rose only UAH0.68bn to UAH47.46bn and total amount of banking sector liquidity was up UAH1.28bn to UAH81.57bn during Wednesday.

ICU view: As period of tax payments already closed, liquidity should recover, but now we see reversing at FX market (see comment at the next page) and NBU had to sell FX at the auction yesterday. So, we do not anticipate significant recovery in liquidity, as absorption from Treasury side was replaced by absorption from the NBU side via FX auction. So, liquidity should recovers but not very fast.

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

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



Source: Bloomberg, ICU.

Key indicators (as of 31 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	11.90	+20bp	+30bp	+0bp	+130bp
ON \$ swap	13.42	+24bp	+94bp	+0bp	+194bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	47,459	+1.46	-1.32	+0.00	-4.57
DepCerts ³	34,114	+1.78	-7.12	+0.00	-45.19
Total	81,573	+1.59	-3.83	+0.00	-27.15
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	363,485	+0.00	-0.33	+0.00	+2.06
Banks	304,779	+0.11	+0.23	+0.11	+77.05
Residents	23,141	+0.13	+0.77	+0.13	+47.79
Non-res ⁴	585	+0.02	+24.18	+0.02	-90.79
Total	691,990	+0.05	-0.03	+0.05	+25.77
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.35	-15bp	-16bp	+0bp	-11ppt
3 months	12.10	-3bp	+43bp	+0bp	-997bp
6 months	12.08	-3bp	+25bp	+0bp	-596bp
1 year	11.66	+3bp	-5bp	+0bp	-433bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	506	-14bp	-14bp	+0bp	-147bp

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 weaken

The hryvnia declined against the US dollar for the second consecutive trading session, while the USD continues to weaken in world FX markets. On Thursday, the NBU auctioned US\$44.3m on the interbank market to satisfy demand for USD and to decrease volatility. Higher banking sector liquidity and end of August tax collections changed the balance of supply and demand for USD. This did not support the Ukrainian currency, which weakened 0.45% to 25.694 UAH/USD. The UAH sold for 25.45 UAH/USD versus 25.68 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.54% to 108.01; in year-on-year terms, it is up 13.05% from 95.53 last year.

On Thursday the greenback was under the influence of mixed data. US personal spending rose 0.3% MoM in July (below the forecast of 0.4% MoM growth), while the PCE price index rose 1.4% YoY, the lowest growth rate since early 2015. On the other hand, the US dollar was backed by strong labor market data -- the number of people who filed for unemployment assistance rose less than expected last week. The DXY was in 92.56 – 93.35 range, having closed down 0.2% to 92.67.

The euro was influenced by seemingly strong inflation data -- growth of producer prices accelerated to 1.5% YoY in August after 1.3% YoY in July. At the same time, growth was driven by higher prices for energy products while core inflation remained at 1.2%. Moderate core inflation raises investors' concerns that the ECB will unveil the future of QE program. In addition, some ECB officials are wary about the euro strengthening too much, which pushed the single European currency down. However, thanks to the greenback's weakness, the euro rose 0.2% against the greenback to 1.191 USD/EUR.

Oil prices reacted with growth on the aftermath of the hurricane Harvey for the US oil industry and traditionally supported the Russian ruble, which strengthened 0.9% to 58.02 RUB/USD. The Chinese renminbi hit fresh 14-month high, having strengthened 0.1% to 6.59 CNY/USD.

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

Dmytro Dyachenko, Kyiv, (044) 377-7040 ext.738

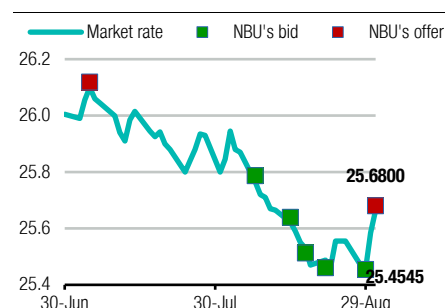
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 31 August 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.6650	+0.31	+0.43	+0.00	-5.30
USD ¹	92.668	-0.23	-0.65	+0.00	-9.34
EUR	1.1910	+0.22	+0.94	+0.00	+13.25
JPY	109.9800	-0.24	+0.38	+0.00	-5.97
GBP ²	1.2930	+0.04	+1.01	+0.00	+4.78
CNY	6.5901	-0.06	-1.08	+0.00	-5.11
RUB	58.0350	-0.82	-1.91	+0.00	-5.69

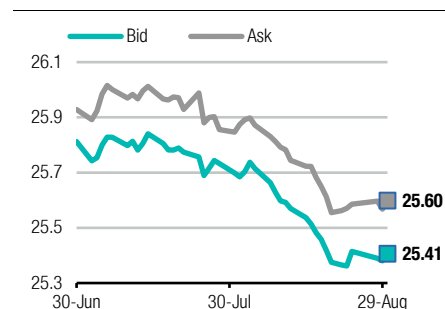
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

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



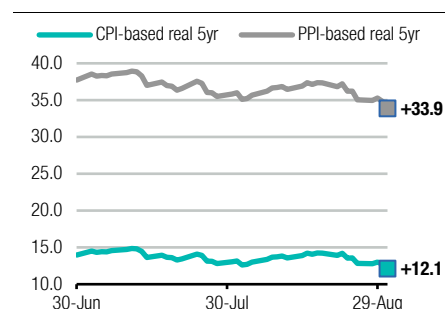
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

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



Source: NBU.

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

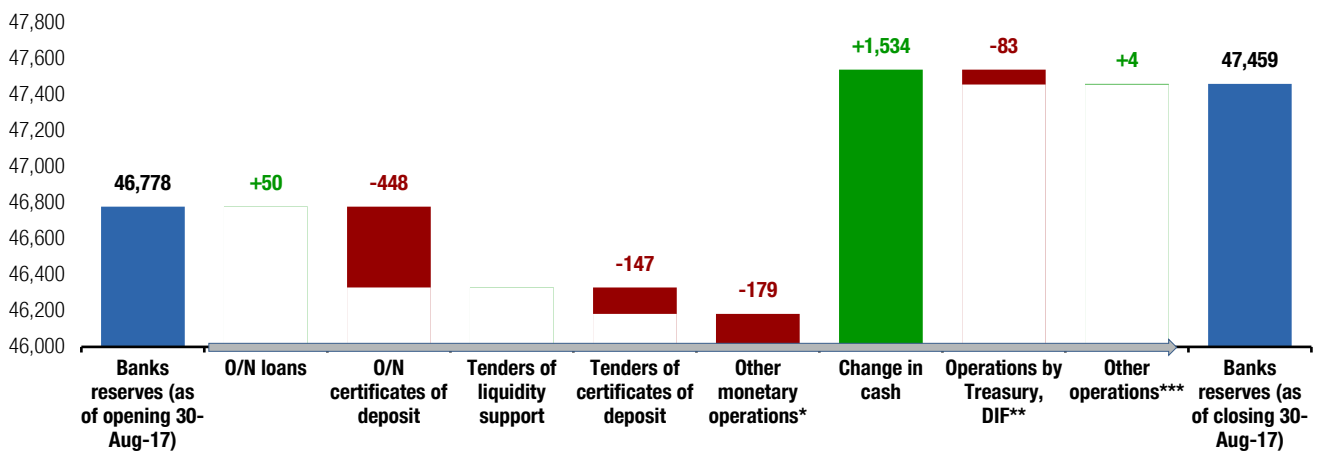
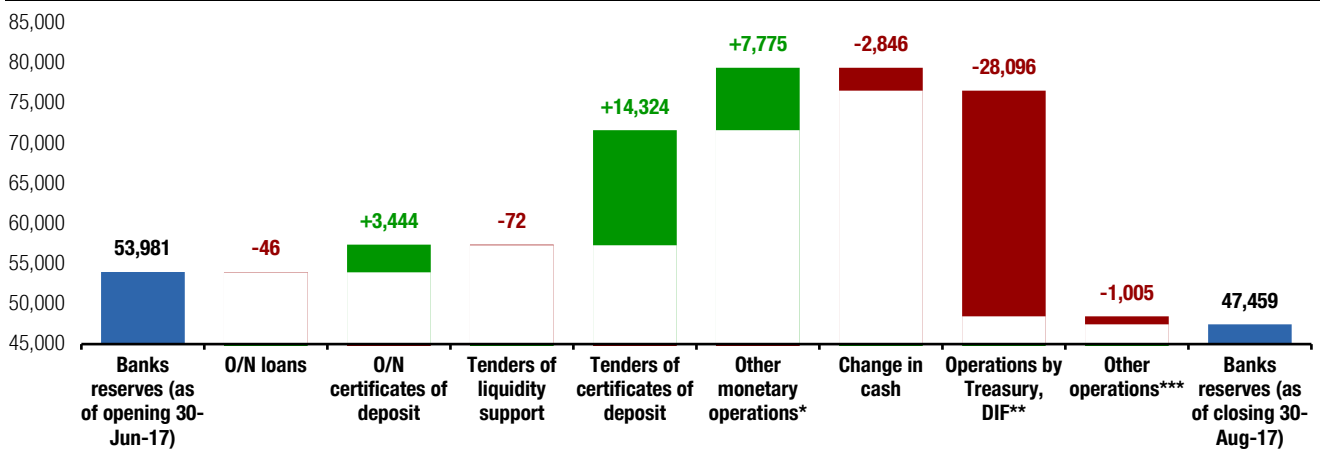
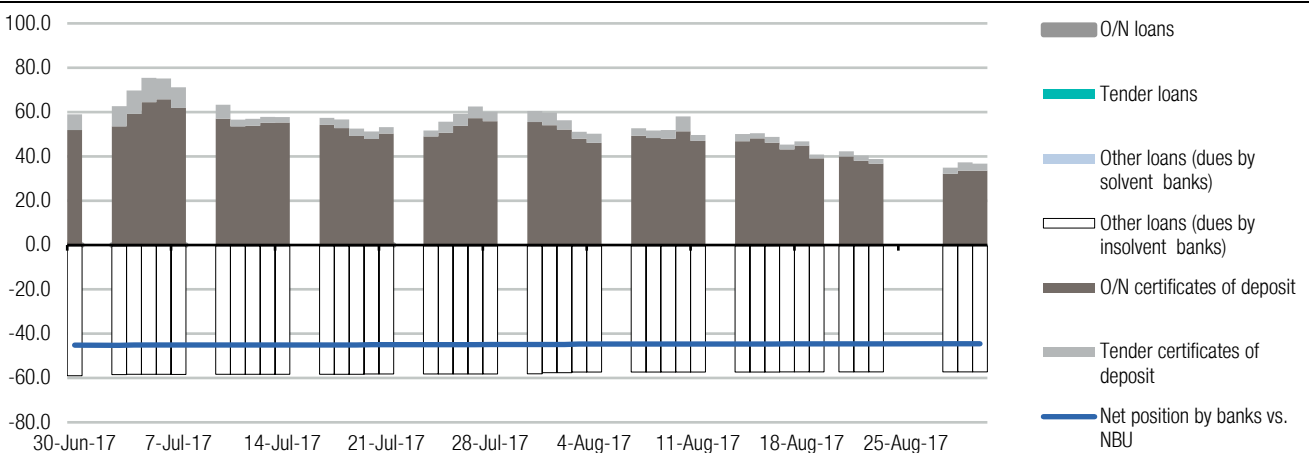


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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](https://www.facebook.com/ICU_UA)

CORPORATE FINANCE

Makar Paseniuk, CFA, Managing Director
makar.paseniuk@icu.ua

Roman Nikitov, ACCA Director
roman.nikitov@icu.ua

Ruslan Kilmukhametov, Director
ruslan.kilmukhametov@icu.ua

Ivan Shvydanenko, Director
ivan.shvydanenko@icu.ua


Yuriy Kamarytskyi, Vice President
yuriy.kamarytskyi@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

Sergiy Byelyayev
Fixed-Income Trading
sergiy.byelyayev@icu.ua


Vitaliy Sivach 
Fixed-Income & FX Trading
vitaliy.sivach@icu.ua

Liliya Kubytovych 
Asset Management Product Sales
liliya.kubytovych@icu.ua

Yevgeniya Gryshchenko
Fixed-Income Sales
yevgeniya.gryshchenko@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

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.

