

Daily Insight

Yields decline at primary market

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Yields decline at primary market2

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Liquidity down slightly.....2

At the end of this Monday, banking sector liquidity (except govt bonds) continued to decline, sliding UAH0.29bn to UAH80.36bn, once more as a result of the Treasury's absorption of UAH1.05bn of funds that day. The net impact of non-monetary autonomous operations was minus UAH0.29bn, mainly offset by an increase of cash exchanges for reserves of UAH0.78bn. The NBU had no impact on liquidity, as they had no absorption or injections of funds. 2

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The UAH continued to depreciate against the USD for the seventh consecutive trading session as it approaches 26 UAH/USD. Increasing demand for foreign currency is weighing on the UAH; at the FX auction on Tuesday, the NBU sold USD20.4m with overall demand of USD40m, and the UAH depreciated 0.2% to 25.9543 UAH/USD. It sold for 25.75 USD/UAH versus 26.07 to buy in the Ukrainian cash market and its CPI-based real trade-weighted index fell 0.1% to 106.63; in year-on-year terms, it is up 11.43% from 95.69 last year. 3

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WEDNESDAY, 6 SEPTEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 5 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 5 September 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.60	-10bp	+100bp
Banks reserves (UAHm)	45,406	+1.93	-8.70
Deposit certificates* (UAHm)	30,526	-15.43	-50.95
FOREIGN EXCHANGE MARKET			
UAH per US dollar	25.9250	+0.00	-4.34
Total trade volume (US\$m)	242.22	+44.78	+42.81
UAH index CPI-based	106.634	-0.10	-1.27
UAH index PPI-based	164.348	-0.10	-2.39
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	499bp	-6bp	-154bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,457.85	-0.76	+9.78
MSCI EM	1,084.93	+0.15	+25.82
US dollar index (DXY)	92.252	-0.41	-9.74
EUR / USD	1.1914	+0.15	+13.28
Crude oil WTI (US\$/bbl)	48.66	+0.00	-9.42
Crude oil BRENT (US\$/bbl)	53.38	+1.99	-6.05
CRB, commodities index	182.34	+0.77	-5.28
Gold (US\$/ounce)	1,339.66	+0.55	+16.26

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Yields decline at primary market

Yesterday, the MoF sold 2-year and 3-year bonds at interest rates as low as those last seen in June 2017. Cut-off rates remained unchanged, but the weighted-average rates fell to the lowest level bids at this auction. For the 2-year bond, the weighted-average rate slid 6bp; for the 3-year, down 4bp. The MoF accepted all bids and received UAH1.21bn of proceeds.

Demand for new bonds was submitted at UAH0.67bn and UAH0.54bn for 2-year and 3-year bonds, respectively, and was mainly at the lowest rates, 14.40% and 14.50% respectively, resulting in the new, lower weighted-average rates. YTM's also declined by 6bp and 4bp to 14.97% and 15.07%, respectively, for 2-year and 3-year bonds.

ICU view: During recent weeks, non-residents renewed their interest for domestic bonds in local currency, which could have continued yesterday. Having cheaper funding available, non-residents appear to buy bonds at lower interest rates than local investors will accept themselves. If this continues, next week the MoF could decrease the cut-off rates to yesterday's weighted-average rates, and initiate a new phase of decreasing yields without the NBU key monetary rate being reduced.

Liquidity down slightly

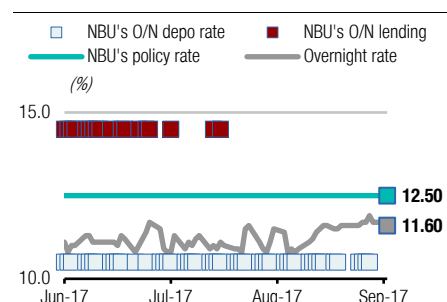
At the end of this Monday, banking sector liquidity (except govt bonds) continued to decline, sliding UAH0.29bn to UAH80.36bn, once more as a result of the Treasury's absorption of UAH1.05bn of funds that day. The net impact of non-monetary autonomous operations was minus UAH0.29bn, mainly offset by an increase of cash exchanges for reserves of UAH0.78bn. The NBU had no impact on liquidity, as they had no absorption or injections of funds.

Banks decreased investments in CDs by UAH1.15bn to UAH34.95bn, and increased the amount of funds at banks' correspondent accounts with the NBU by UAH0.86bn to UAH45.41bn, but this amount remains below the level of required reserves. Banks decreased the amount of ON CDs and 2-week CDs by UAH0.03bn and UAH0.85bn respectively.

ICU view: The Treasury continued to absorb funds through a low level of expenditures over revenues, causing liquidity to decline. Although total liquidity remains above UAH80bn and probably will not decline significantly in the nearest future, yesterday the NBU absorbed more than UAH0.5bn via a FX auction. Without an increase in budget expenditures, we could see liquidity today below UAH80bn.

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

Interest rates in the banks' reserves market (three months through 5 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 5 September 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	11.60	-10bp	-10bp	+10bp	+100bp
ON \$ swap	12.41	-2bp	-8bp	+62bp	+94bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	45,406	+1.93	-6.16	-10.13	-8.70
DepCerts ³	30,526	-15.43	-9.06	-33.78	-50.95
Total	75,932	-5.84	-7.35	-21.41	-32.19
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	363,485	+0.00	+0.00	-0.72	+2.06
Banks	305,841	+0.17	+0.41	+3.25	+77.47
Residents	23,254	+0.19	+0.67	+2.69	+48.32
Non-res ⁴	585	+0.03	-0.21	+5.46k	-90.79
Total	693,165	+0.08	+0.20	+1.20	+25.91
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.66	+258bp	+152bp	+472bp	-965bp
3 months	12.38	+85bp	+76bp	+212bp	-968bp
6 months	12.22	+39bp	+58bp	+118bp	-582bp
1 year	11.76	+24bp	+2bp	+45bp	-423bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	499	-6bp	-21bp	-41bp	-154bp

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

Hryvnia continues to decline

The UAH continued to depreciate against the USD for the seventh consecutive trading session as it approaches 26 UAH/USD. Increasing demand for foreign currency is weighing on the UAH; at the FX auction on Tuesday, the NBU sold USD20.4m with overall demand of USD40m, and the UAH depreciated 0.2% to 25.9543 UAH/USD. It sold for 25.75 USD/UAH versus 26.07 to buy in the Ukrainian cash market and its CPI-based real trade-weighted index fell 0.1% to 106.63; in year-on-year terms, it is up 11.43% from 95.69 last year.

The US dollar was volatile and continued to depreciate against other currencies as it is under pressure of tension between the US and North Korea. Later in the day, an US factory order report pushed the dollar lower as it declined 3.3% MoM SA. On Tuesday, the DXY index was in 92.183 - 92.727 range, closing down 0.4% to 92.252.

On Tuesday, the euro traded in a narrow range as investors cautiously navigated the waters of geopolitical tension just ahead of the scheduled ECB meeting with gusts of a strong euro. At the end of the day, the weak dollar helped the euro appreciate as it traded in a 1.1868 - 1.1941 range and closed at 1.1914 EUR/USD, up 0.15%.

The British pound, despite the UK's service sector hitting an 11-month low, appreciated against US dollar. By the end of Tuesday, the pound increased 0.8% to 1.3033 GBP/USD. This somehow inversely moved the Chinese yuan, which depreciated against the US dollar, despite a new reference rate of 6.5370 CNY/USD by the Chinese central bank, the highest since May 2016. Thus, the renminbi traded at 6.5172 - 6.5563 and depreciated 0.1% to 6.5388 USD/CNY.

During the first half of the day on Tuesday, the Russian ruble depreciated against the US dollar, only to recover at the end of the day. Oil prices, which increased on the back of a recovery of processing enterprises after the hurricane in the US, in addition to the weakened US dollar, helped the ruble to strengthen. Thus, on Tuesday, the ruble traded at 57.22 - 58.115 RUB/USD and closed up 0.6% to 57.52 RUB/USD.

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

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

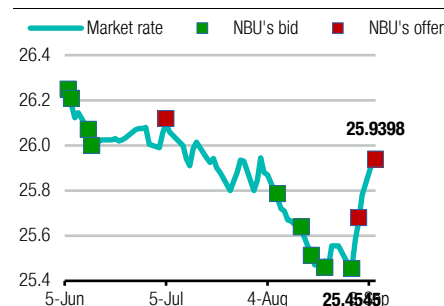
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 5 September 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.9250	+0.00	+1.84	+0.21	-4.34
USD ¹	92.252	-0.41	+0.00	-1.38	-9.74
EUR	1.1914	+0.15	-0.48	+1.20	+13.28
JPY	108.8100	-0.83	-0.82	-1.70	-6.97
GBP ²	1.3033	+0.79	+0.89	-0.05	+5.62
CNY	6.5388	+0.12	-0.87	-2.83	-5.85
RUB	57.5284	-0.52	-2.20	-4.07	-6.51

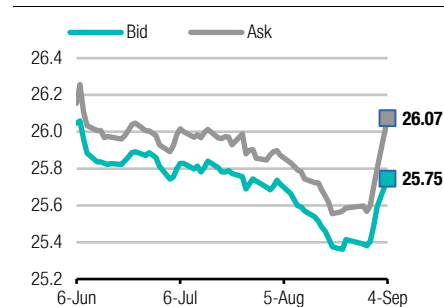
Notes: [1] DXY, US dollar index; [2] British pound. Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 5 September 2017)



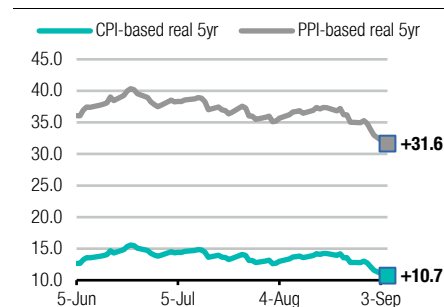
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 5 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 5 September 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)

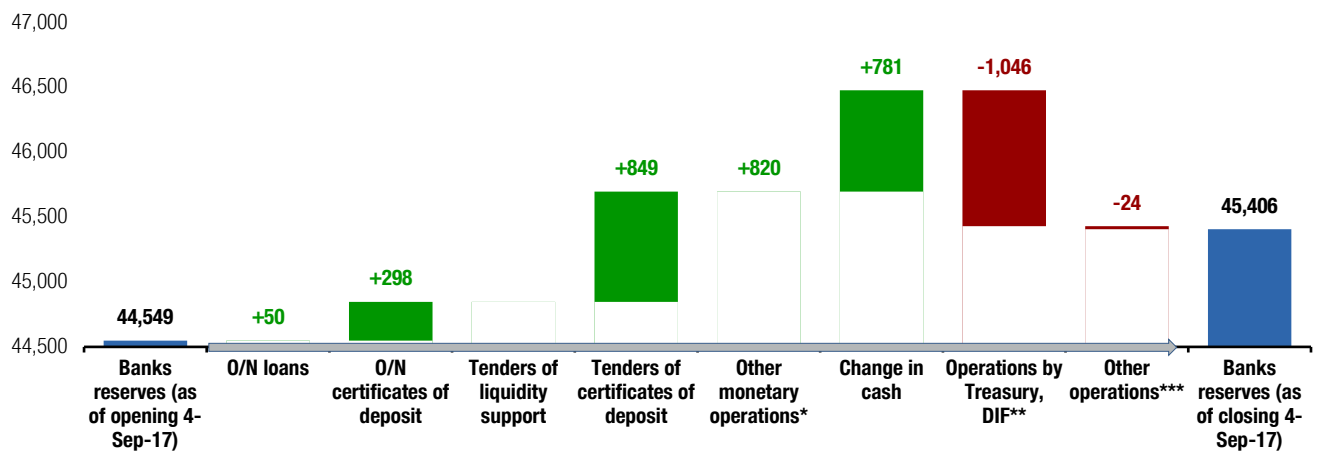
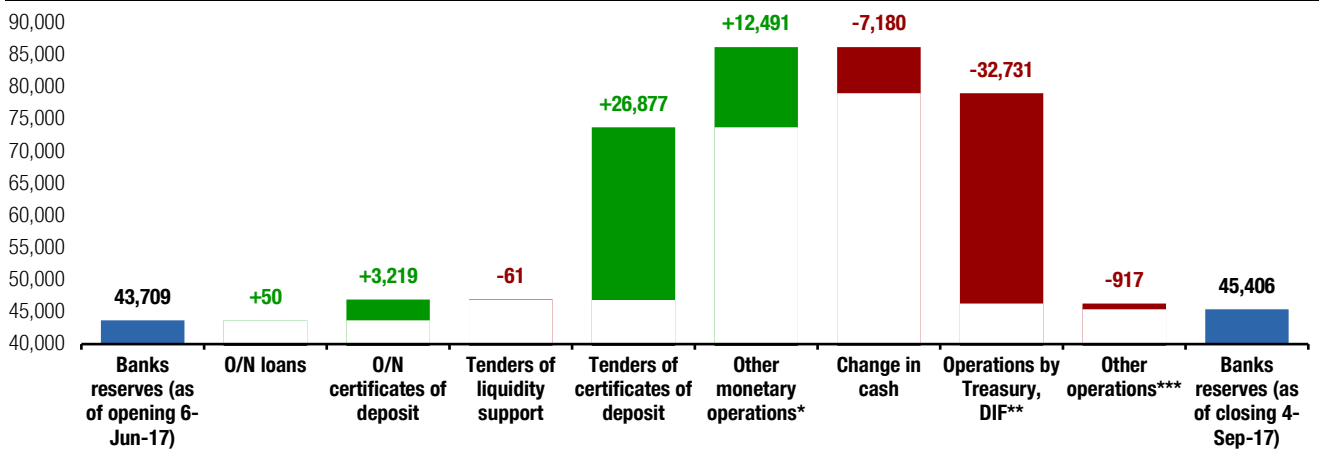
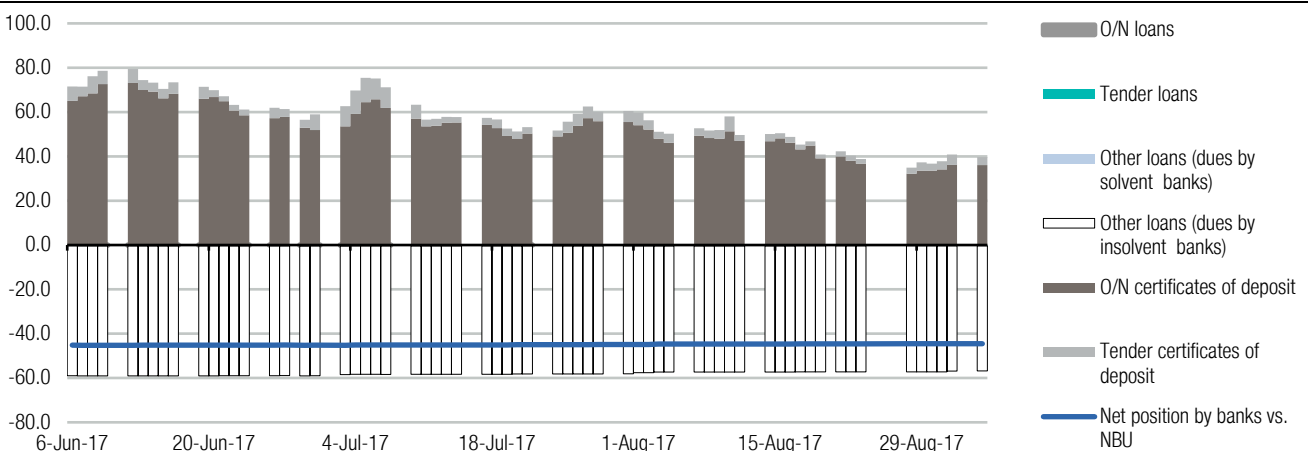


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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