

Daily Insight

Ukraine announces Eurobond buyback

Key messages of the today's comments

FRIDAY, 8 SEPTEMBER 2017

Domestic liquidity **2**

Liquidity continues to decline.....2

After significantly increasing on Tuesday, liquidity declined on Wednesday, down UAH1.47bn as a result of non-monetary operations, mainly by the Treasury. The NBU absorbed UAH0.16bn via monetary operations, probably selling FX, while outflows to Treasury accounts came in at UAH1.29bn. The larger impact most likely the UAH1.2bn of new government bonds sold at auction on Tuesday settled on Wednesday. **2**

Ukraine announces Eurobond buyback.....2

Ukraine announced yesterday its debut buyback purchase of sovereign Eurobonds, namely UKRAIN-19 and UKRAIN-20 with total principal of US\$1.5bn or all of UKRAIN-19. The offering price is set at 106.00% of the principal for UKRAIN-19 and 106.75% for UKRAIN-20. **2**

Foreign exchange markets **3**

Hryvnia down slightly3

Despite the USD's plunge in world FX markets, the UAH weakened 0.1% against the greenback to 26.0032 UAH/USD. The demand for the dollar still exceeds its supply in the domestic FX market, while there are no underlying factors bolstering the hryvnia. On Thursday, the UAH sold for 26.01 UAH/USD versus 26.32 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.79% to 105.39; in year-on-year terms, it is up 10.73% from 95.18 last year. At the same time, it is worth noting that the hryvnia's decline decelerates, the UAH/USD pair is near its short-term equilibrium. However, our calculations of the trade-weighted index show that the Ukrainian currency is a bit overvalued, so we expect some weakening of the UAH in the mid- and long-term. **3**

Appendix #1: Domestic liquidity **4**

Ukraine's hryvnia exchange rate per US dollar (three months through 7 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 7 September 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	12.00	+40bp	+140bp
Banks reserves (UAHm)	49,957	-0.09	+0.45
Deposit certificates* (UAHm)	32,074	-4.27	-48.47
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.0400	+0.13	-3.91
Total trade volume (US\$m)	186.34	-20.28	+9.86
UAH index CPI-based	105.387	-0.79	-2.42
UAH index PPI-based	162.427	-0.79	-3.53
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	475bp	+0bp	-178bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,465.10	-0.02	+10.11
MSCI EM	1,090.10	+0.64	+26.42
US dollar index (DXY)	91.663	-0.68	-10.32
EUR / USD	1.2023	+0.89	+14.32
Crude oil WTI (US\$/bbl)	49.09	-0.14	-8.62
Crude oil BRENT (US\$/bbl)	54.49	+0.54	-4.10
CRB, commodities index	182.87	-0.07	-5.01
Gold (US\$/ounce)	1,349.29	+1.13	+17.10

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to decline

After significantly increasing on Tuesday, liquidity declined on Wednesday, down UAH1.47bn as a result of non-monetary operations, mainly by the Treasury. The NBU absorbed UAH0.16bn via monetary operations, probably selling FX, while outflows to Treasury accounts came in at UAH1.29bn. The larger impact most likely the UAH1.2bn of new government bonds sold at auction on Tuesday settled on Wednesday.

Outflows were covered by funds from CD redemptions. Total CDs outstanding fell UAH1.43bn while banks' correspondent accounts with the NBU slid a mere UAH0.04bn. Banks reallocated a portion of funds from 14-day to ON CDs.

ICU view: *The Treasury had the largest impact with the renewed absorption of funds, but most likely the decline will be short-lived and should recover next week. Banks are increasing the amount of ON CDs most likely in preparation for the debut offering of 3-month CDs next Wednesday.*

Ukraine announces Eurobond buyback

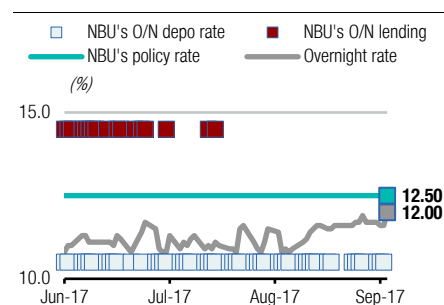
Ukraine announced yesterday its debut buyback purchase of sovereign Eurobonds, namely UKRAIN-19 and UKRAIN-20 with total principal of US\$1.5bn or all of UKRAIN-19. The offering price is set at 106.00% of the principal for UKRAIN-19 and 106.75% for UKRAIN-20.

The issuer will accept tenders from investors until 15 September with settlement date set for 27 September. Investors can subscribe to the new issue, but detailed terms and conditions are as of yet unavailable. Banks just announced the roadshow schedule and that offering will include bonds from 10- to 15-years.

ICU view: *The significant debt burden for these years has necessitated this deal. The offering price is above the current market level (yesterday's last prices were at 105.15 and 106.21 for UKRAIN-19 and UKRAIN-20 respectively). At the same time, there could be situation in which the new issue will not cover all payments and there could be a decline in FX reserves. Regardless, this offering is a very positive step for Ukraine at the bond market. Also very positive is that Ukraine will offer a new, never issued before, 15-year maturity bond.*

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

Interest rates in the banks' reserves market (three months through 7 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 7 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	12.00	+40bp	+10bp	+60bp	+140bp
ON \$ swap	12.84	-4bp	-58bp	+123bp	+137bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	49,957	-0.09	+5.26	+8.25	+0.45
DepCerts ³	32,074	-4.27	-5.98	-34.91	-48.47
Total	82,031	-1.77	+0.56	-14.04	-26.74
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	363,485	+0.00	+0.00	-0.72	+2.06
Banks	306,116	+0.01	+0.44	+3.35	+77.63
Residents	23,317	+0.58	+0.76	+2.97	+48.72
Non-res ⁴	1,734	+196.3	+196.4	+16.38k	-72.71
Total	694,652	+0.19	+0.38	+1.41	+26.18
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.62	+64bp	+126bp	+133bp	-969bp
3 months	12.05	-4bp	-5bp	-37bp	-10ppt
6 months	12.10	-2bp	+2bp	+37bp	-595bp
1 year	11.67	+3bp	+1bp	+2bp	-432bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	475	+0bp	-31bp	-65bp	-178bp

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 down slightly

Despite the USD's plunge in world FX markets, the UAH weakened 0.1% against the greenback to 26.0032 UAH/USD. The demand for the dollar still exceeds its supply in the domestic FX market, while there are no underlying factors bolstering the hryvnia. On Thursday, the UAH sold for 26.01 UAH/USD versus 26.32 to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.79% to 105.39; in year-on-year terms, it is up 10.73% from 95.18 last year. At the same time, it is worth noting that the hryvnia's decline decelerates, the UAH/USD pair is near its short-term equilibrium. However, our calculations of the trade-weighted index show that the Ukrainian currency is a bit overvalued, so we expect some weakening of the UAH in the mid- and long-term.

The greenback fell to a 2-year low and the euro hit its highest level this year just after the ECB meeting. The European regulator kept interest rates and policies on hold and lowered its inflation forecast as a result of the euro's recent appreciation. Mario Draghi indicated that the decision on the future of the QE program will be reconsidered in October. At the same time, the ECB upped the Eurozone's real GDP outlook for the current year to growth of 2.2%, the highest level since 2007. Bolstered by the outcome of the ECB meeting, on Thursday the euro strengthened 0.9 % to 1.2023 USD/EUR.

The euro's strength as well as weak US labour market data pushed the US dollar down. Initial jobless claims rose at the fastest pace since April 2015, which did not support the US currency. Thus, the DXY index fell 0.7% to 91.663, having reached an intraday low of 91.41 (2-year low).

The greenback's plunge supported EM currencies. The renminbi extended its gains and hit a new 16-month high, having strengthened 0.6% to 6.487 CNY/USD, while the Russian ruble hit a 3-month high and rose 0.9% to 56.8913 RUB/USD. Both currencies were also supported by domestic macroeconomic statistics: FX reserves in Russia rose by US\$5.5bn to US\$424bn in August, while FX reserves in China increased for the seventh straight month to US\$3.09tn as of 1 September 2017.

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

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

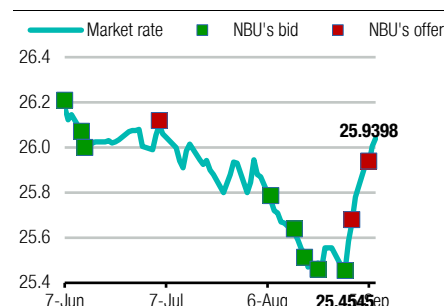
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 7 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.0400	+0.13	+1.46	+1.07	-3.91
USD ¹	91.663	-0.68	-1.08	-1.89	-10.32
EUR	1.2023	+0.89	+0.95	+1.93	+14.32
JPY	108.4500	-0.70	-1.39	-2.08	-7.28
GBP ²	1.3101	+0.44	+1.32	+0.51	+6.17
CNY	6.4870	-0.57	-1.56	-3.49	-6.59
RUB	56.8913	-0.84	-1.97	-5.23	-7.55

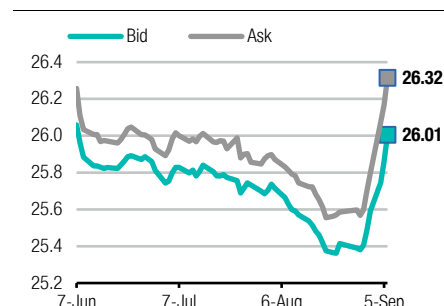
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 7 September 2017)



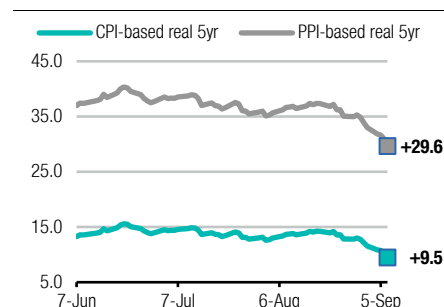
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 7 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 7 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)

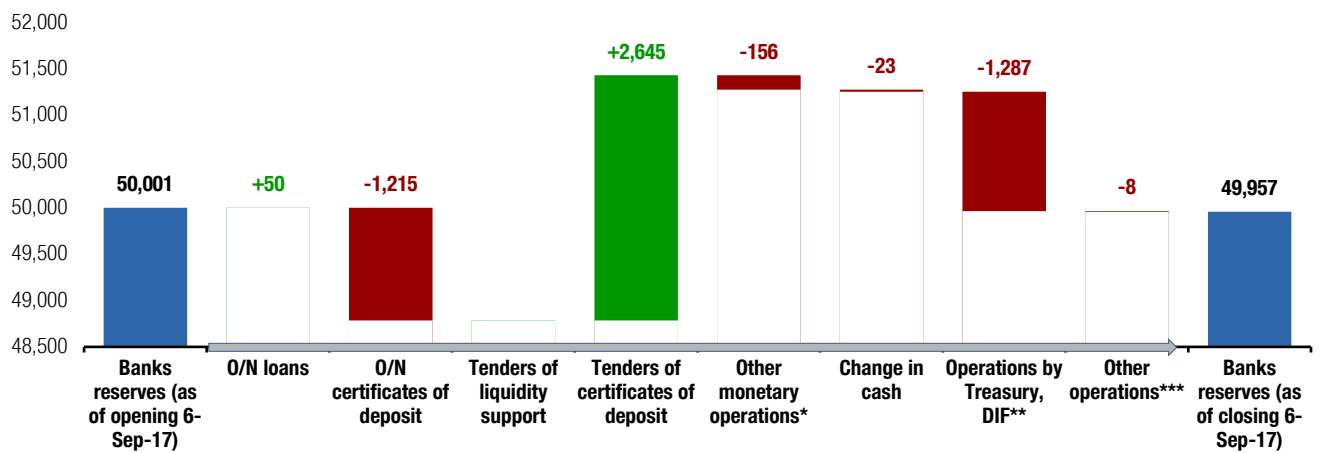
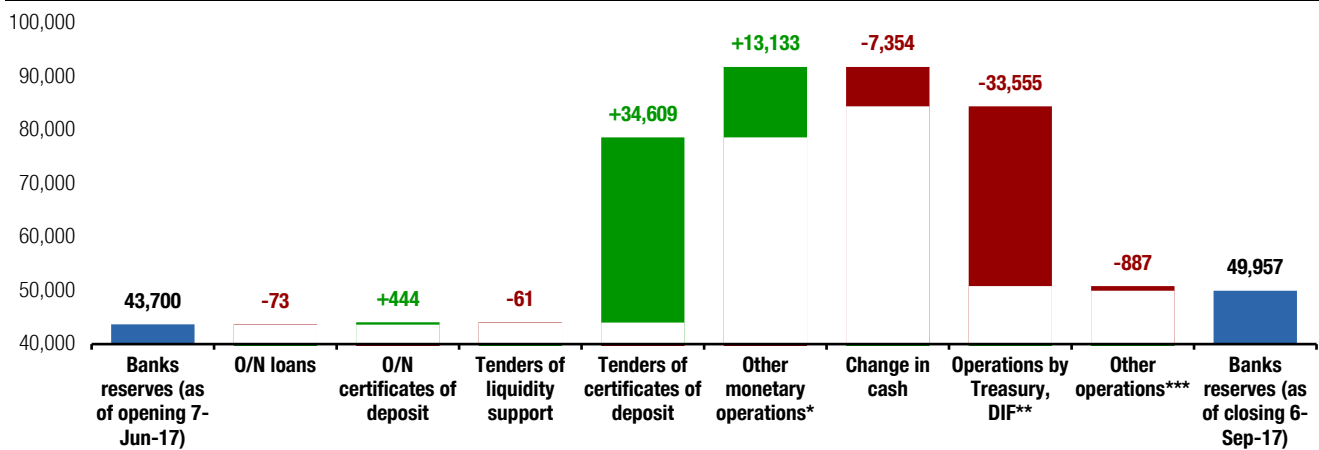
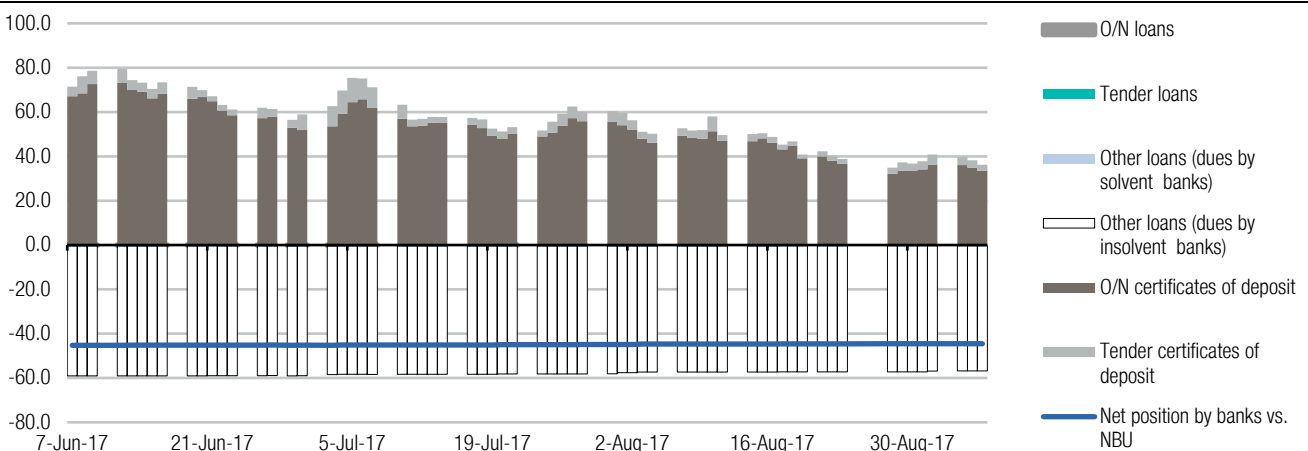


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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