

Daily Insight

UAH weakens

Key messages of the today's comments

Domestic liquidity **2**

Liquidity slight decline.....2

This Tuesday liquidity continued to move down, but insufficiently. Amount of banking sector liquidity (except govt bonds portfolio) slid by less than UAH0.50bn, but to new low of this year and since December 2016, to UAH76.73bn. Total CDs outstanding also slid to its new low of this year, and also since June 2015, down UAH0.24bn to UAH29.79bn. Banks' correspondent accounts with the NBU declined UAH0.25bn to UAH46.94bn this day. **2**

Foreign exchange markets **3**

UAH weakens3

The hryvnia continued to decline on Wednesday, down 0.2% to 26.0796 USD/UAH, caused by excess demand for the US dollar in the local FX market amid the USD's strengthening globally. At the same time, the decreasing liquidity level (see comment on liquidity above), which hit fresh year's low on Tuesday, did not help the hryvnia to recover recent losses. In the Ukrainian cash market, it sold for 25.95 USD/UAH versus 26.17 to buy. Its CPI-based real trade-weighted index rose 0.45% to 106.45; in year-on-year terms, it is up 9.3% from 97.39 last year. **3**

Appendix #1: Domestic liquidity **4**

THURSDAY, 14 SEPTEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 13 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 13 September 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.90	+30bp	+130bp
Banks reserves (UAHm)	46,934	-0.54	-5.63
Deposit certificates* (UAHm)	29,792	-0.81	-52.13
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.0900	+0.08	-3.73
Total trade volume (US\$m)	192.41	+4.80	+13.44
UAH index CPI-based	106.445	+0.45	-1.44
UAH index PPI-based	164.058	+0.45	-2.56

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	445bp	+0bp	-208bp
---------	-------	------	--------

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,498.37	+0.08	+11.59
MSCI EM	1,099.46	-0.25	+27.51
US dollar index (DXY)	92.520	+0.69	-9.48
EUR / USD	1.1885	-0.69	+13.01
Crude oil WTI (US\$/bbl)	49.30	+2.22	-8.23
Crude oil BRENT (US\$/bbl)	55.16	+1.64	-2.92
CRB, commodities index	182.88	+0.81	-5.00
Gold (US\$/ounce)	1,323.24	-0.64	+14.84

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity slight decline

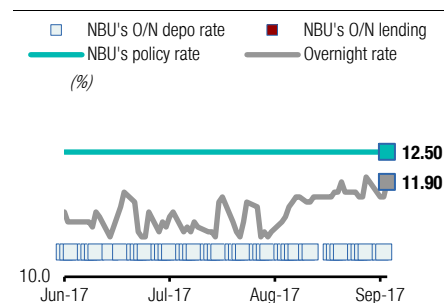
This Tuesday liquidity continued to move down, but insufficiently. Amount of banking sector liquidity (except govt bonds portfolio) slid by less than UAH0.50bn, but to new low of this year and since December 2016, to UAH76.73bn. Total CDs outstanding also slid to its new low of this year, and also since June 2015, down UAH0.24bn to UAH29.79bn. Banks' correspondent accounts with the NBU declined UAH0.25bn to UAH46.94bn this day.

The main impact on liquidity was from treasury operations, resulted in outflow amounted to 0.43bn while other non-monetary operations also had negative impact amounted to UAH0.06bn at all. NBU did not have any deals with FX, the same as there were not any cash flows on NBU loans in any direction. At the same time, banks expectedly reallocated a portion of funds from ON CDs to 14-day instruments, at UAH1.83bn this Tuesday.

ICU view: *The Treasury had a negative balance in its operations despite a steady amount of collected revenues and less amount of expenditures. Also, the VAT refund remains insufficient, rise since the month beginning just to UAH0.37bn. Current level of liquidity is standard over the last few years, and now we can see the stabilization of liquidity with possible slight decline. At the end of next week pressure from Treasury will rise again due month-end tax payments.*

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

Interest rates in the banks' reserves market (three months through 13 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 13 September 2017)

	Last	Daily	Weekly	Monthly	YT
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	11.90	+30bp	+30bp	+100bp	+130bp
ON \$ swap	12.58	+17bp	-4bp	+99bp	+111bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	46,934	-0.54	-6.13	-3.54	-5.63
DepCerts ³	29,792	-0.81	-11.08	-36.60	-52.13
Total	76,726	-0.64	-8.12	-19.78	-31.48
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	363,485	+0.00	+0.00	-0.61	+2.06
Banks	306,091	-0.05	+0.00	+3.39	+77.67
Residents	23,376	+0.27	+0.83	+3.90	+49.09
Non-res ⁴	1,834	+5.74	+213.4	+17,102.2	-71.13
Total	694,785	+0.00	+0.21	+1.54	+26.27
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.49	+214bp	-48bp	+29bp	-11pp
3 months	12.03	+72bp	-6bp	+65bp	-10pp
6 months	12.08	+36bp	-4bp	+27bp	-596bp
1 year	11.65	+22bp	+1bp	-1bp	-434bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	445	+0bp	-30bp	-105bp	-208bp

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 weakens

The hryvnia continued to decline on Wednesday, down 0.2% to 26.0796 USD/UAH, caused by excess demand for the US dollar in the local FX market amid the USD's strengthening globally. At the same time, the decreasing liquidity level (see comment on liquidity above), which hit fresh year's low on Tuesday, did not help the hryvnia to recover recent losses. In the Ukrainian cash market, it sold for 25.95 USD/UAH versus 26.17 to buy. Its CPI-based real trade-weighted index rose 0.45% to 106.45; in year-on-year terms, it is up 9.3% from 97.39 last year.

The USD traded lower against other major currencies in the first part of the trading session as US producer prices rose less than expected in August (0.2% MoM versus the forecast of 0.3% MoM growth). Despite this, the USD turned to growth after the US House Speaker said that a tax plan backed by tax writing committees will be released on September 25. By the end of the trading session, the USD trimmed some gains, while the DXY index closed up 0.7% to 92.52.

The US dollar's strength had an opposite effect on other major world and EM currencies. The euro, which moved upward prior to the statement about the US tax plan, plunged 0.9% to 1.1875 EUR/USD. However, it managed to recover some losses by the end of the trading session and closed down 0.7% to 1.1885 EUR/USD. In the same situation was the Chinese renminbi which weakened 0.1% against the US dollar to 6.5415 USD/CNY.

The Russian ruble was influenced by two opposing factors on Wednesday. The Russian currency was bolstered by renewed growth of oil prices. On the other hand, the strengthening of the ruble was constrained by a worldwide decrease in investor's interest in the EM currencies, including the ruble, as well as expectations that the central bank of Russia will cut the key policy rate at a meeting on Friday. On Wednesday, the Russian currency closed down 0.5% to 57.9393 USD/RUB.

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

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

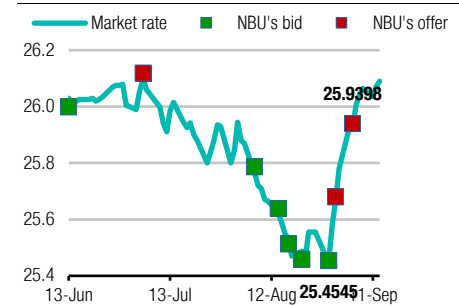
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 13 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.0900	+0.08	+0.33	+1.66	-3.73
USD ¹	92.520	+0.69	+0.25	-0.59	-9.48
EUR	1.1885	-0.69	-0.27	+0.54	+13.01
JPY	110.4900	+0.29	+1.16	+1.19	-5.53
GBP ²	1.3211	-0.54	+1.29	+1.51	+7.06
CNY	6.5415	+0.09	+0.27	-1.83	-5.81
RUB	57.9393	+0.47	+0.98	-3.17	-5.85

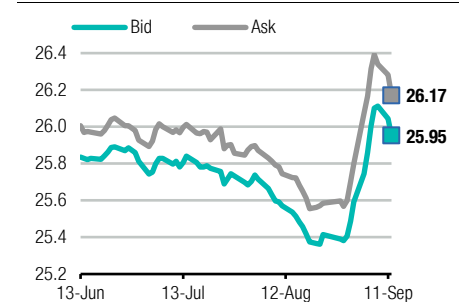
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 13 September 2017)



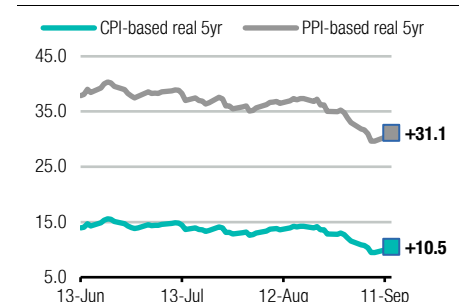
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 13 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 13 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)

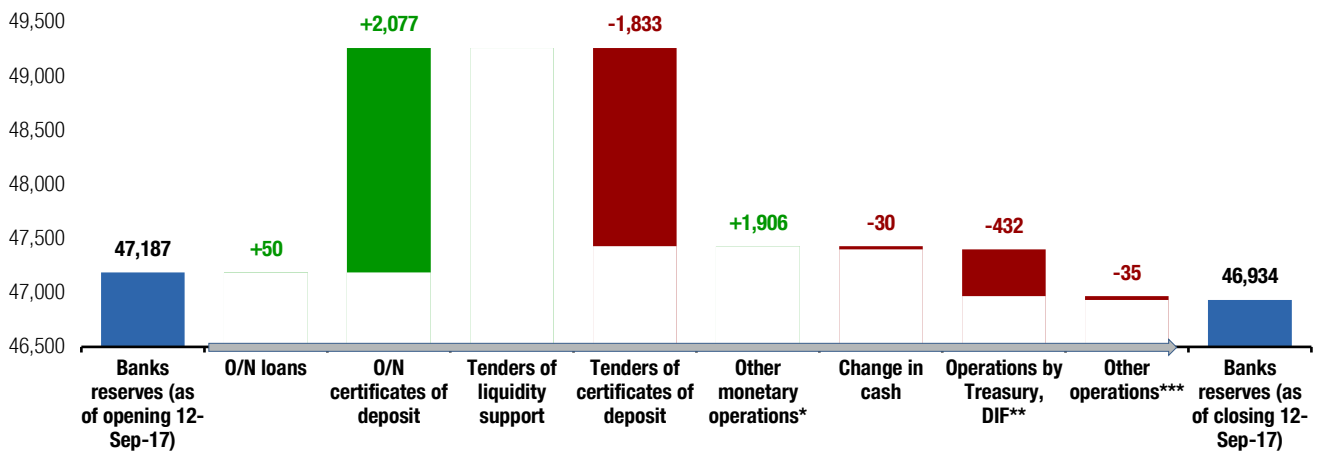
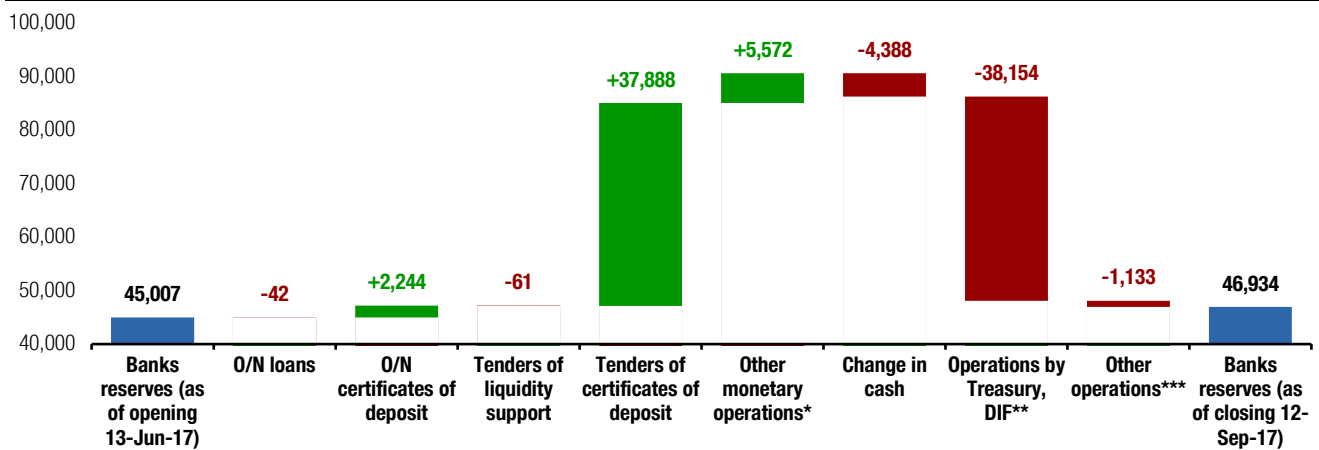
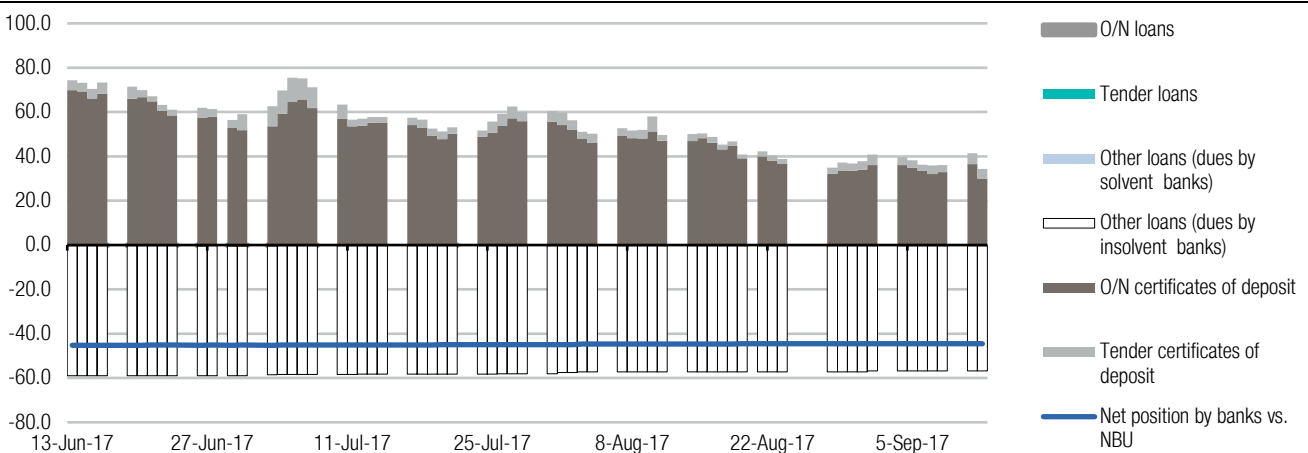


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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.

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

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

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.

