

Daily Insight

Liquidity continues to recover

Key messages of the today's comments

WEDNESDAY, 20 SEPTEMBER 2017

Domestic liquidity

2

Liquidity continues to recover

This Monday, total banking sector liquidity continued to recover, but only by a paltry UAH0.29bn. The increase was supported by a UAH0.76bn exchange of cash into reserves, but Treasury operations and other non-monetary operations caused outflows of UAH0.35bn and UAH0.12bn, respectively. The NBU had no operations affecting liquidity, but they did have an impact the liquidity structure.

2

The MoF fixed rates

At yesterday's auction, the MoF fixed its new interest rates for 12-month and 3-year bonds: the 12-month at 14.35% and the 3-year rate at 14.50%, the lowest levels compared to those at previous auctions for similar bonds. The MoF also decreased the cut-off rate for the 12-month bond last week, while the 3-year bond cut-off rate was at 14.54% for a few weeks while demand was mostly lower. All demand yesterday was low and the MoF had to decrease rates.

2

Foreign exchange markets

3

The UAH extends gains

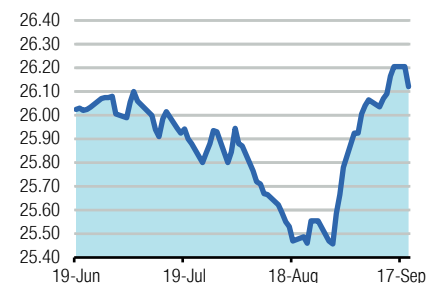
The hryvnia strengthened another 0.2% to 26.1264 USD/UAH on Tuesday. The Ukrainian currency got support on news that Ukraine successfully issued a Eurobond due in 2032 with a par value of US\$3bn. Meanwhile, the State Statistics Agency reported that real GDP grew 2.3% YoY in 2Q17. While the first estimate was 2.4% YoY growth, this data did not have a significant impact on the UAH. In the Ukrainian cash market, the hryvnia sold for 26.05 USD/UAH versus 26.22 to buy. Its CPI-based real trade-weighted index rose 0.38% to 106.12; in year-on-year terms, up 7.1% from 99.08 last year.

3

Appendix #1: Domestic liquidity

4

Ukraine's hryvnia exchange rate per US dollar (three months through 19 September 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 19 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)	51,076	-2.13	+2.70
Deposit certificates* (UAHm)	26,465	+5.61	-57.48
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.1200	-0.32	-3.62
Total trade volume (US\$m)	203.11	+35.34	+19.75
UAH index CPI-based	106.117	+0.38	-1.74
UAH index PPI-based	163.551	+0.38	-2.86
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	405bp	-6bp	-248bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,506.65	+0.11	+11.96
MSCI EM	1,109.63	-0.30	+28.69
US dollar index (DXY)	91.793	-0.10	-10.19
EUR / USD	1.1994	+0.44	+14.04
Crude oil WTI (US\$/bbl)	49.48	-1.00	-7.89
Crude oil BRENT (US\$/bbl)	55.14	-0.99	-2.96
CRB, commodities index	182.58	-0.63	-5.16
Gold (US\$/ounce)	1,311.10	-0.40	+13.78

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to recover

This Monday, total banking sector liquidity continued to recover, but only by a paltry UAH0.29bn. The increase was supported by a UAH0.76bn exchange of cash into reserves, but Treasury operations and other non-monetary operations caused outflows of UAH0.35bn and UAH0.12bn, respectively. The NBU had no operations affecting liquidity, but they did have an impact the liquidity structure.

The NBU offered only ON CDs at its CD tender as we saw a reallocation from 2-week CDs to ON CDs, with an additional amount from reserves. As a result, total CDs outstanding rose UAH1.41bn to UAH26.47bn and ON CDs increased UAH2.55bn. Meanwhile, banks' correspondent accounts balance with the NBU slid UAH1.11bn to UAH51.08bn.

ICU view: Liquidity this Monday stabilized with a slight increase similar to the amount of the VAT refund, up UAH0.27bn. The VAT refund remained the main source for liquidity as the Treasury paid UAH4.99bn yesterday. If the balance of Treasury operations remains close to zero, liquidity should rise above UAH80bn. Also, we could see that additional funds were divided between reserves and CDs as well as through an increase in 14-day CDs sold at yesterday's tender.

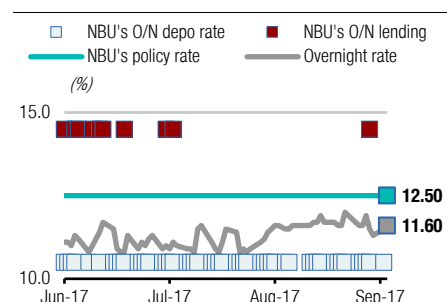
The MoF fixed rates

At yesterday's auction, the MoF fixed its new interest rates for 12-month and 3-year bonds: the 12-month at 14.35% and the 3-year rate at 14.50%, the lowest levels compared to those at previous auctions for similar bonds. The MoF also decreased the cut-off rate for the 12-month bond last week, while the 3-year bond cut-off rate was at 14.54% for a few weeks while demand was mostly lower. All demand yesterday was low and the MoF had to decrease rates.

Yesterday's demand amounted to UAH640m (par value), one-third of which was for the 1-year bond. Two bids came in for the 12-month bond at 14.35% and only one bid for the 3-year bond at 14.50%. As there was a lack of competition at the auction, the MoF accepted all bids and received UAH645.65m of budget proceeds. Demand for the 3-year bond could have come partially from non-residents, but most likely bonds were purchased for local investors.

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

Interest rates in the banks' reserves market (three months through 19 September 2017)



Source: Bloomberg, ICU.

Key indicators (as of 19 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	+0bp	+0bp	+100bp
ON \$ swap	12.09	+21bp	-35bp	+0bp	+62bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	51,076	-2.13	+8.24	+26.44	+2.70
DepCerts ³	26,465	+5.61	-11.89	-32.37	-57.48
Total	77,541	+0.38	+0.41	-2.50	-30.75
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	362,235	+0.00	-0.34	-0.67	+1.71
Banks	307,101	-0.05	+0.28	+0.71	+78.20
Residents	23,467	-0.02	+0.66	+3.80	+49.67
Non-res ⁴	2,237	+0.00	+28.97	+374.8	-64.79
Total	695,039	-0.02	+0.04	+0.34	+26.25
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.45	-483bp	+210bp	+29bp	-11ppt
3 months	12.02	-48bp	+71bp	+15bp	-10ppt
6 months	12.09	-28bp	+37bp	+25bp	-596bp
1 year	11.63	-26bp	+21bp	-4bp	-436bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	405	-6bp	-40bp	-143bp	-248bp

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

The UAH extends gains

The hryvnia strengthened another 0.2% to 26.1264 USD/UAH on Tuesday. The Ukrainian currency got support on news that Ukraine successfully issued a Eurobond due in 2032 with a par value of US\$3bn. Meanwhile, the State Statistics Agency reported that real GDP grew 2.3% YoY in 2Q17. While the first estimate was 2.4% YoY growth, this data did not have a significant impact on the UAH. In the Ukrainian cash market, the hryvnia sold for 26.05 USD/UAH versus 26.22 to buy. Its CPI-based real trade-weighted index rose 0.38% to 106.12; in year-on-year terms, up 7.1% from 99.08 last year.

The US dollar traded lower against other major currencies being negatively influenced by weak domestic statistics. The US current account deficit expended more than expected in August, while the US housing sector posted weak data. Investors are looking forward to the outcome of the Fed meeting scheduled on Wednesday. On Tuesday, the DXY index declined 0.3% to 91.79, trading within 91.58 – 92.05 during the day.

The euro appreciated for the sixth consecutive trading session, having closed up 0.3% to 1.1994 EUR/USD. The renminbi fell for the seventh time in eight days. The CNY weakness was driven by concerns of the central bank of China that the currency is too strong. At the same time, large Chinese enterprises continue buying dollars to pay stock dividends. On Tuesday, the renminbi weakened 0.1% to 6.5835 USD/CNY.

The Russian ruble remained stable against the USD on Tuesday as oil prices, which traditionally support the Russian currency, remained steady. At the same time, Russian exporters started preparing for the September tax period to begin next week -- this gave some support to the Russian currency. The ruble weakened 0.02% to 58.1145 USD/RUB.

Alexander Valchyshen, Kyiv, (044) 377-7040 ext.721
Dmytro Dyachenko, Kyiv, (044) 377-7040 ext.738

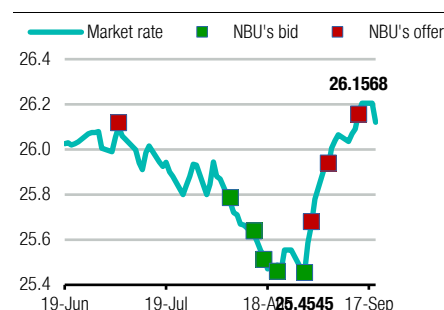
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 19 September 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.1200	-0.32	+0.19	+2.55	-3.62
USD ¹	91.793	-0.10	-0.10	-1.76	-10.19
EUR	1.1994	+0.44	+0.23	+1.98	+14.04
JPY	111.5900	+0.31	+1.29	+2.21	-4.59
GBP ²	1.3503	-0.64	+1.66	+4.92	+9.42
CNY	6.5835	+0.44	+0.74	-1.30	-5.21
RUB	58.1145	+0.72	+0.78	-1.42	-5.56

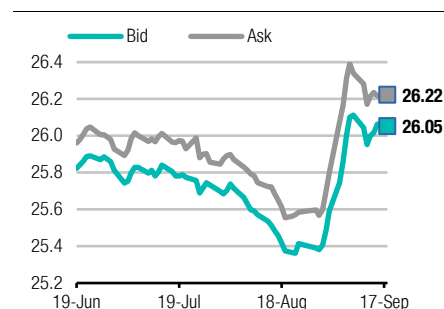
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 19 September 2017)



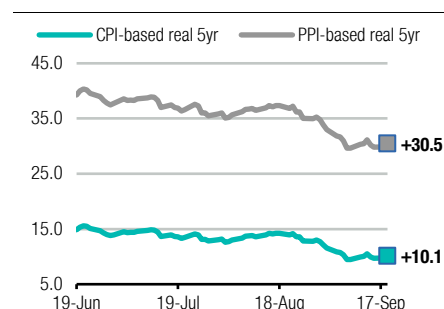
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 19 September 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 19 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)

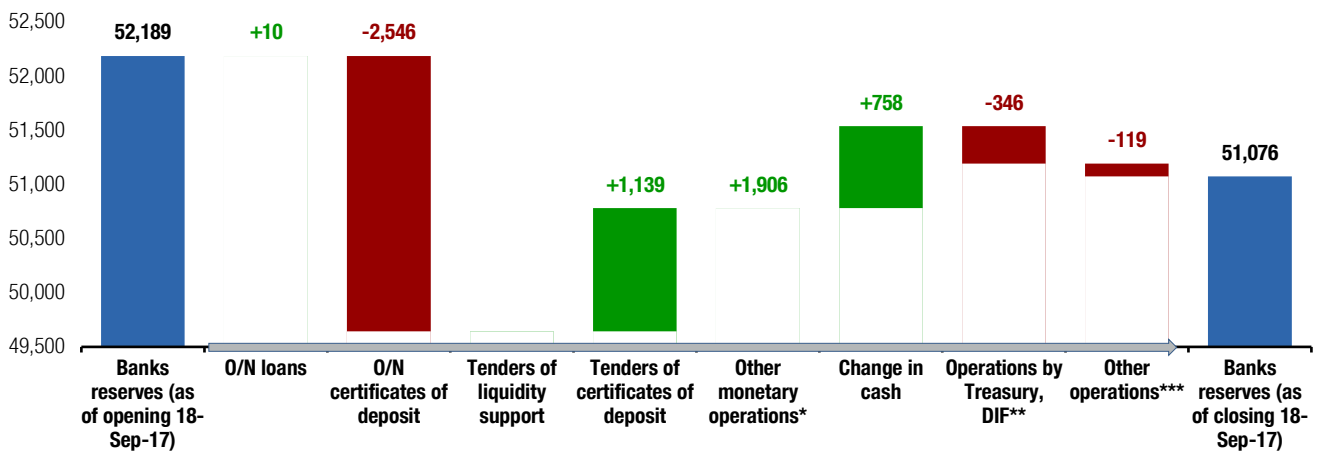
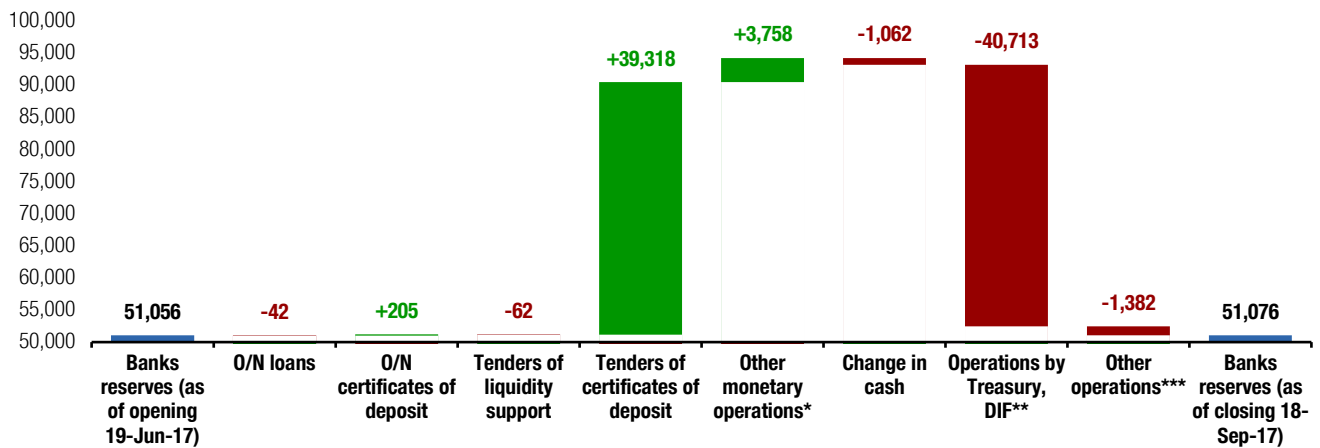
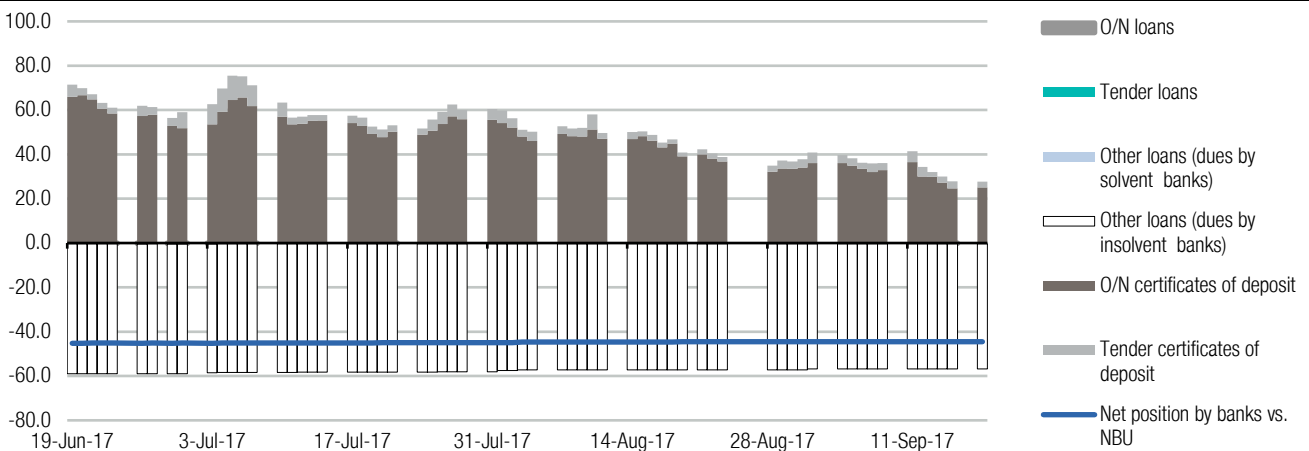


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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

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.

