

Daily Insight

Cash-flow directions change

Key messages of the today's comments

FRIDAY, 6 OCTOBER 2017

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



Source: Bloomberg.

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

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.40	+10bp	+80bp
Banks reserves (UAHm)	41,420	-3.86	-16.71
Deposit certificates* (UAHm)	35,519	+3.87	-42.93
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.7550	+0.02	-1.27
Total trade volume (US\$m)	235.56	-3.45	+38.88
UAH index CPI-based	105.058	+0.22	-2.72
UAH index PPI-based	161.920	+0.22	-3.83

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	457bp	+0bp	-196bp
---------	-------	------	--------

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,552.07	+0.56	+13.99
MSCI EM	1,102.76	+0.08	+27.89
US dollar index (DXY)	93.961	+0.54	-8.07
EUR / USD	1.1711	-0.41	+11.35
Crude oil WTI (US\$/bbl)	50.79	+1.62	-5.45
Crude oil BRENT (US\$/bbl)	57.00	+2.15	+0.32
CRB, commodities index	182.94	+0.91	-4.97
Gold (US\$/ounce)	1,267.42	-0.59	+9.99

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

2

Cash-flow directions change.....2

Although the direction of cash flows changed yesterday, banking sector liquidity (except govt bonds) declined once more. Banks' correspondent accounts with the NBU fell UAH1.66bn to UAH41.42bn while total CDs outstanding was up just UAH1.32bn. At the 3-month (69 days) CD tender, the NBU received only UAH0.38bn of demand and satisfied it at 13.50%, significantly above 12.70-12.89% seen earlier for these CDs when the NBU accepted only part of the demand under the limit. 2

Foreign exchange markets

3

Hryvnia up slightly3

The prolonged decrease of the national currency ended on Thursday when the hryvnia appreciated 0.03% to 26.7997 USD/UAH. The NBU, for the second day in a row, entered the market with an auction to sell foreign currency. This time the volume of FX currency sold was less than the day before, amounting to US\$15.5m at the weighted average rate of 26.7710 USD/UAH when total demand reached US\$16.2m. Thus, the regulator sold US\$60.5m in two days. Banking system liquidity declined for the fifth day in a row and is close to a one-month minimum. Thus, the hryvnia sold for 26.77 USD/UAH versus 27.08 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.22% to 105.06; in year-on-year terms, it is up 3.63% from 101.25 last year. 3

Appendix #1: Domestic liquidity

4

Domestic liquidity

Cash-flow directions change

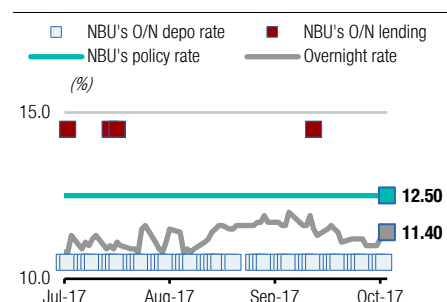
Although the direction of cash flows changed yesterday, banking sector liquidity (except govt bonds) declined once more. Banks' correspondent accounts with the NBU fell UAH1.66bn to UAH41.42bn while total CDs outstanding was up just UAH1.32bn. At the 3-month (69 days) CD tender, the NBU received only UAH0.38bn of demand and satisfied it at 13.50%, significantly above 12.70-12.89% seen earlier for these CDs when the NBU accepted only part of the demand under the limit.

The main reason for such results was fund outflows, but this day not to Treasury accounts. Treasury operations' net inflows was UAH1.02bn for the first time after seven days of outflows. Although other operations also changed their direction and banks exchanged UAH0.24bn of reserves into cash, the main outflow was caused by the NBU via the FX auction.

ICU view: Expectedly, the FX auction caused fund outflows; inflows from the Treasury did not avert this but merely prevented further declines. As declines are becoming less severe, liquidity should recover soon, albeit slightly.

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

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



Source: Bloomberg, ICU.

Key indicators (as of 5 October 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	11.40	+10bp	+20bp	-20bp	+80bp
ON \$ swap	11.54	+24bp	-30bp	-87bp	+7bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	41,420	-3.86	-8.97	-8.78	-16.71
DepCerts ³	35,519	+3.87	-6.64	+1.63	-42.93
Total	76,939	-0.44	-7.91	-4.25	-31.29
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	-0.46	-0.46	-0.80	+1.24
Banks	309,386	+0.05	+0.37	+1.16	+79.52
Residents	23,433	+1.00	+0.28	+0.77	+49.46
Non-res ⁴	2,800	+0.03	+0.89	+378.4	-55.92
Total	696,192	-0.18	-0.06	+0.44	+26.46
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	13.82	-105bp	+92bp	+116bp	-849bp
3 months	12.74	-20bp	+44bp	+36bp	-933bp
6 months	12.44	-11bp	+23bp	+21bp	-561bp
1 year	11.74	-4bp	+7bp	-2bp	-425bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	457	+0bp	-11bp	-42bp	-196bp

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 up slightly

The prolonged decrease of the national currency ended on Thursday when the hryvnia appreciated 0.03% to 26.7997 USD/UAH. The NBU, for the second day in a row, entered the market with an auction to sell foreign currency. This time the volume of FX currency sold was less than the day before, amounting to US\$15.5m at the weighted average rate of 26.7710 USD/UAH when total demand reached US\$16.2m. Thus, the regulator sold US\$60.5m in two days. Banking system liquidity declined for the fifth day in a row and is close to a one-month minimum. Thus, the hryvnia sold for 26.77 USD/UAH versus 27.08 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.22% to 105.06; in year-on-year terms, it is up 3.63% from 101.25 last year.

On Thursday, the USD grew against other major currencies, thanks to positive macroeconomic statistics and comments from US Fed authorities. Initial jobless claims declined to 260,000 against 265,000 as expected. The US trade deficit tightened in August by 2.7% and exports rose 0.4% to the highest level in 2.5 years. Also, the president of the Philadelphia Federal Reserve noted that he expects one key policy rate hike this year and three more in the next year. Thus, this pushed the dollar higher as the DXY index traded at 93.41 - 93.99, closing up 0.5% to 93.961.

The euro moved inversely to the dollar and declined. ECB minutes showed that the bank's authorities considered various possible ways of easing the asset purchasing program and was cautious about the strong euro. They also discussed the weak inflation in the Eurozone despite its accelerating recently. The EUR/USD pair traded within 1.1699 - 1.1779 EUR/USD, having depreciated 0.4% to 1.1711 EUR/USD.

The Russian ruble appreciated during the day on Thursday on the back of strong oil prices despite the increasing dollar as oil prices increased while US inventories declined. Additionally, the ruble was supported by high demand for government bonds at the MoF's auction on Wednesday, which exceeded the supply by four times. However the ruble retreated to the end of trading session. The Russian ruble during the day traded at 57.3852-57.758 USD/RUB, having depreciated 0.1% to 57.729.

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

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

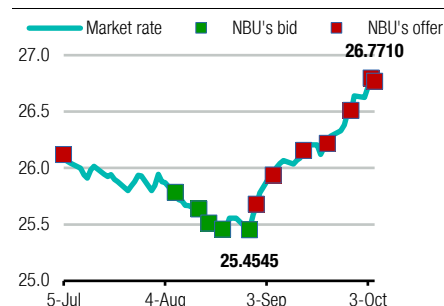
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 5 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.7550	+0.02	+0.98	+3.20	-1.27
USD ¹	93.961	+0.54	+0.94	+1.85	-8.07
EUR	1.1711	-0.41	-0.64	-1.70	+11.35
JPY	112.8200	+0.05	+0.43	+3.69	-3.54
GBP ²	1.3119	-0.97	-2.40	+0.66	+6.31
CNY	N/A	N/A	N/A	N/A	N/A
RUB	57.7290	+0.10	-0.33	+0.35	-6.19

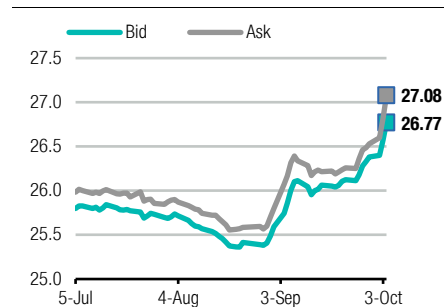
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

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



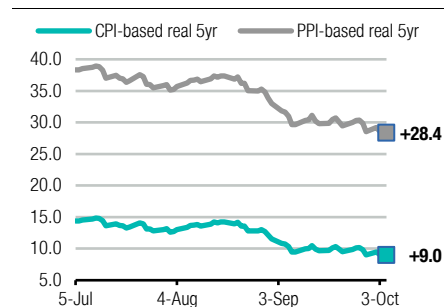
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

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



Source: NBU.

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

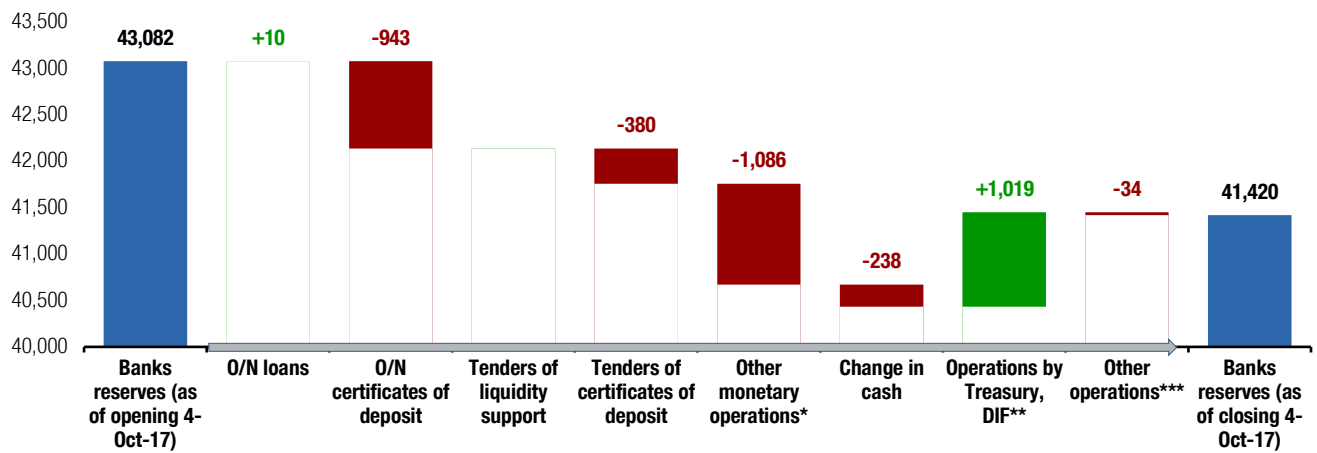
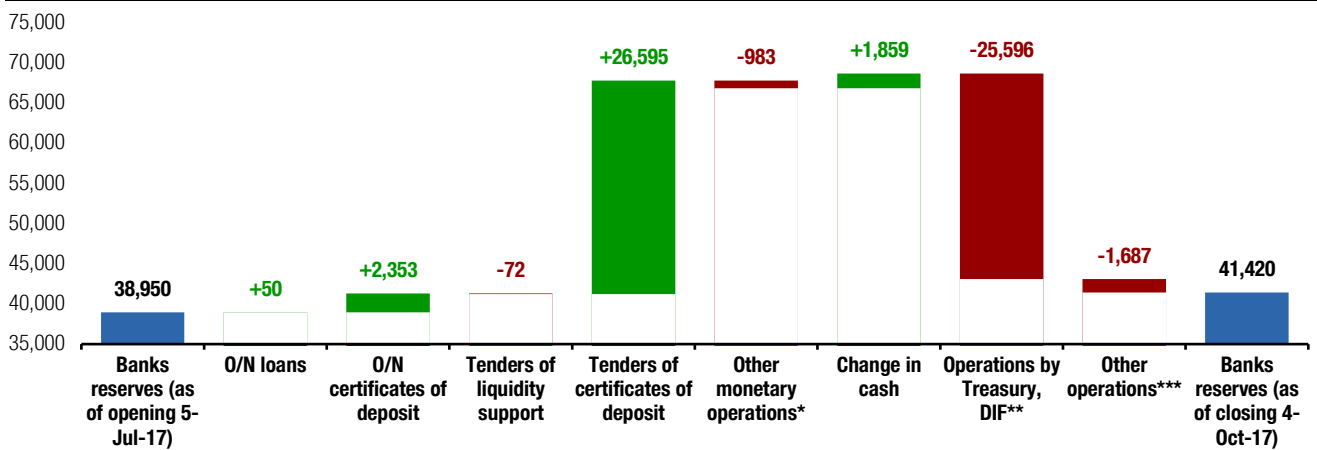
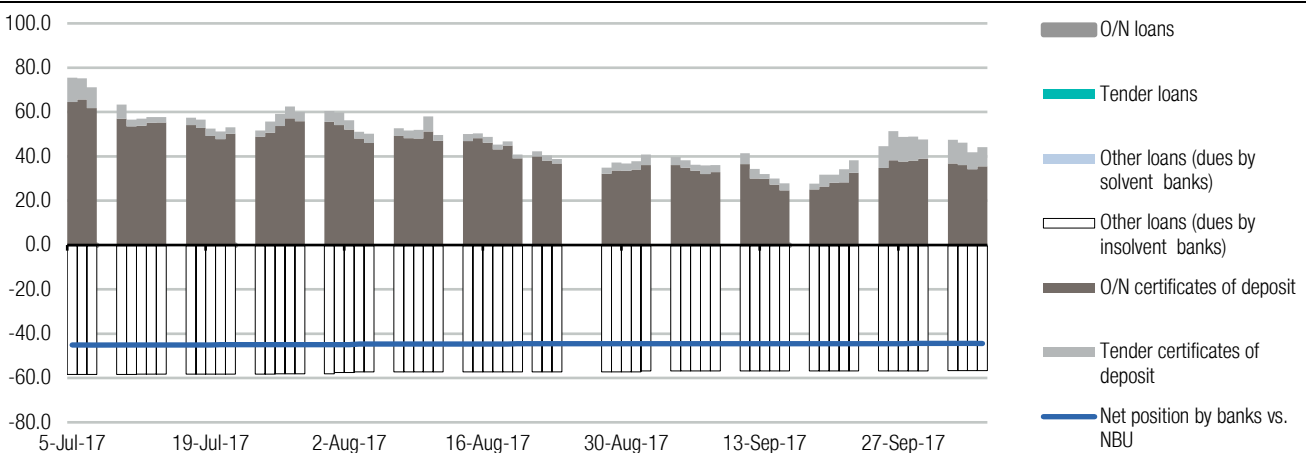


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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.

