

Daily Insight

Hryvnia strengthens

Key messages of the today's comments

Domestic liquidity **2**

Liquidity continues to decline 2

Since the beginning of the month, liquidity continued to decline, as outflows to Treasury accounts were replaced by outflows to cash and to the NBU via monetary operations. The net impact of non-monetary operations was negative UAH0.43bn as outflows via exchanging reserves into cash of UAH1.20bn was only partially offset by inflows from Treasury of UAH0.76bn. Also, the NBU absorbed UAH0.42bn via monetary operations.

Foreign exchange markets **3**

Hryvnia strengthens 3

On Friday, the hryvnia strengthened 0.2% against the US dollar to 26.7399 USD/UAH, being prompted by a weaker US dollar in global FX markets as well as by actions of the NBU which entered the local FX market with currency auctions. On Wednesday and Thursday, the regulator sold US\$60.5m and satisfied the excess demand for foreign currency, which had a positive impact on the hryvnia. On Friday, in the Ukrainian cash market, the hryvnia sold for 26.82 USD/UAH versus 27.07 to buy. Its CPI-based real trade-weighted index rose 0.12% to 105.18; in year-on-year terms, it is up 3.78% from 101.35 last year.

Appendix #1: Domestic liquidity **4**

MONDAY, 9 OCTOBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 6 October 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 6 October 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.90	+50bp	+130bp
Banks reserves (UAHm)	44,102	+6.48	-11.32
Deposit certificates* (UAHm)	31,990	-9.94	-48.60
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.7600	+0.02	-1.25
Total trade volume (US\$m)	254.16	+7.89	+49.85
UAH index CPI-based	105.180	+0.12	-2.61
UAH index PPI-based	162.108	+0.12	-3.72

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	457bp	+0bp	-196bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,549.33	-0.11	+13.87
MSCI EM	1,103.12	+0.03	+27.93
US dollar index (DXY)	93.800	-0.17	-8.23
EUR / USD	1.1730	+0.16	+11.53
Crude oil WTI (US\$/bbl)	49.29	-2.95	-8.25
Crude oil BRENT (US\$/bbl)	55.62	-2.42	-2.11
CRB, commodities index	180.95	-1.09	-6.00
Gold (US\$/ounce)	1,276.60	+0.72	+10.79

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to decline

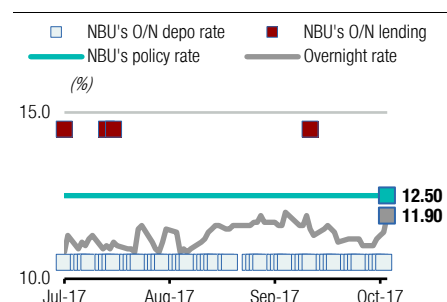
Since the beginning of the month, liquidity continued to decline, as outflows to Treasury accounts were replaced by outflows to cash and to the NBU via monetary operations. The net impact of non-monetary operations was negative UAH0.43bn as outflows via exchanging reserves into cash of UAH1.20bn was only partially offset by inflows from Treasury of UAH0.76bn. Also, the NBU absorbed UAH0.42bn via monetary operations.

As a result, total banking sector liquidity (excluding the government bond portfolio) declined UAH0.85bn with significant fund reallocations. Banks' correspondent accounts with the NBU rose UAH2.68bn to UAH44.10bn while total CDs outstanding fell UAH3.53bn to UAH31.99bn. Banks decreased outstanding ON CDs by the same amount of investments in 14-day CDs.

ICU view: *At the beginning of the month, needs for cash and banks increased the exchange of reserves, causing banking sector liquidity to decline last week. Last Friday, liquidity began to stabilize, but this week it has a chance to recover. According to the prime minister, this week the government will increase payments according to the recently adopted law on pension reform, signaling that inflows from the Treasury could rise, having a positive impact on liquidity.*

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

Interest rates in the banks' reserves market (three months through 6 October 2017)



Source: Bloomberg, ICU.

Key indicators (as of 6 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	11.90	+50bp	+90bp	+30bp	+130bp
ON \$ swap	0.00	-1bp	-12ppt	-13ppt	-11ppt
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	44,102	+6.48	+4.07	-11.80	-11.32
DepCerts ³	31,990	-9.94	-17.98	-4.52	-48.60
Total	76,092	-1.10	-6.50	-8.88	-32.04
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	-0.46	-0.80	+1.24
Banks	309,346	-0.01	+0.34	+1.07	+79.50
Residents	23,423	-0.04	-0.24	+1.04	+49.40
Non-res ⁴	2,800	+0.00	+0.04	+378.4	-55.92
Total	696,142	-0.01	-0.10	+0.41	+26.45
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	11.87	-194bp	+76bp	-10bp	-10ppt
3 months	12.50	-24bp	+79bp	+41bp	-957bp
6 months	12.13	-30bp	+18bp	+1bp	-591bp
1 year	11.66	-7bp	+16bp	+2bp	-433bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	457	+0bp	-5bp	-18bp	-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 strengthens

On Friday, the hryvnia strengthened 0.2% against the US dollar to 26.7399 USD/UAH, being prompted by a weaker US dollar in global FX markets as well as by actions of the NBU which entered the local FX market with currency auctions. On Wednesday and Thursday, the regulator sold US\$60.5m and satisfied the excess demand for foreign currency, which had a positive impact on the hryvnia. On Friday, in the Ukrainian cash market, the hryvnia sold for 26.82 USD/UAH versus 27.07 to buy. Its CPI-based real trade-weighted index rose 0.12% to 105.18; in year-on-year terms, it is up 3.78% from 101.35 last year.

The US dollar appreciated over the last week thanks to strong macroeconomic statistics, which increased the probability of one more interest rate hike this year. However, at the end of the week, the US currency weakened against other major currencies after a report that North Korea was preparing to test a missile that would be able to reach the US west coast. In addition, a mixed jobs report showed US job creation fell last month, being affected by the aftermath of the Harvey and Irma hurricanes, while, despite decrease labor market activity, the jobless rate fell to 4.2%. On Friday, the DXY index fell 0.2% to 93.8.

Last week, the ECB discussed various ways of easing the asset purchasing program. At the same time, the regulator was cautious about the strong euro and low inflation in the Eurozone, which did not support the euro. However, on Friday, the euro gained from the greenback's weakness, closing up 0.2% to 1.173 EUR/USD.

The Russian ruble remained flat against the greenback in the first half of the trading session on Friday. However, after the minister of energy of Saudi Arabia said that he is uncertain as to whether the OPEC agreement to cut oil output will be extended at the November meeting, the Russian currency dropped against the greenback and closed down 0.7% to 58.1461 USD/RUB.

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

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

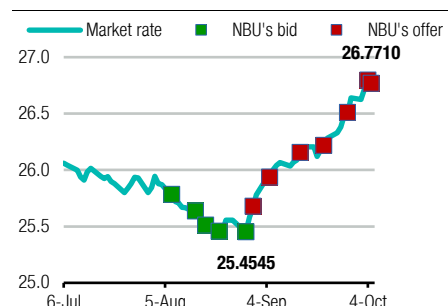
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 6 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.7600	+0.02	+0.45	+2.90	-1.25
USD ¹	93.800	-0.17	+0.78	+1.64	-8.23
EUR	1.1730	+0.16	-0.71	-1.57	+11.53
JPY	112.6500	-0.15	+0.12	+3.14	-3.69
GBP ²	1.3066	-0.40	-2.48	+0.18	+5.88
CNY	N/A	N/A	N/A	N/A	N/A
RUB	58.1461	+0.72	+1.03	+1.34	-5.51

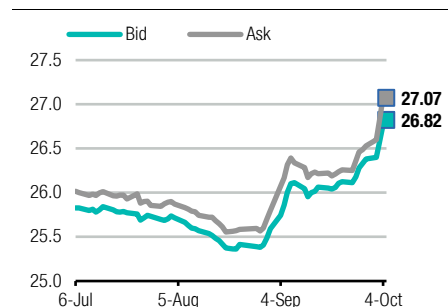
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 6 October 2017)



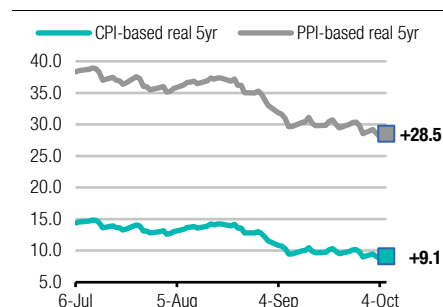
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 6 October 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 6 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)

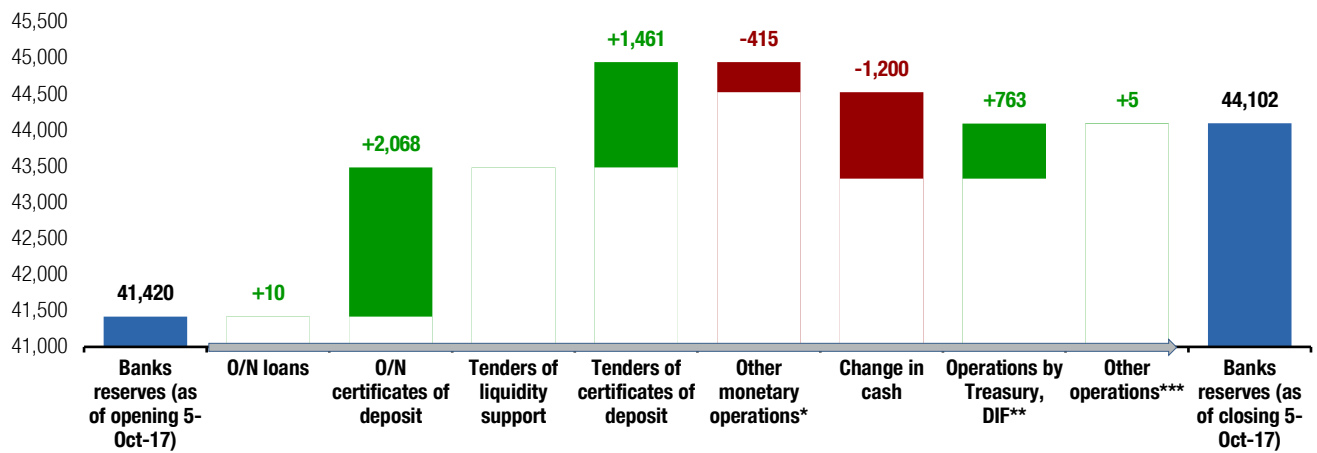
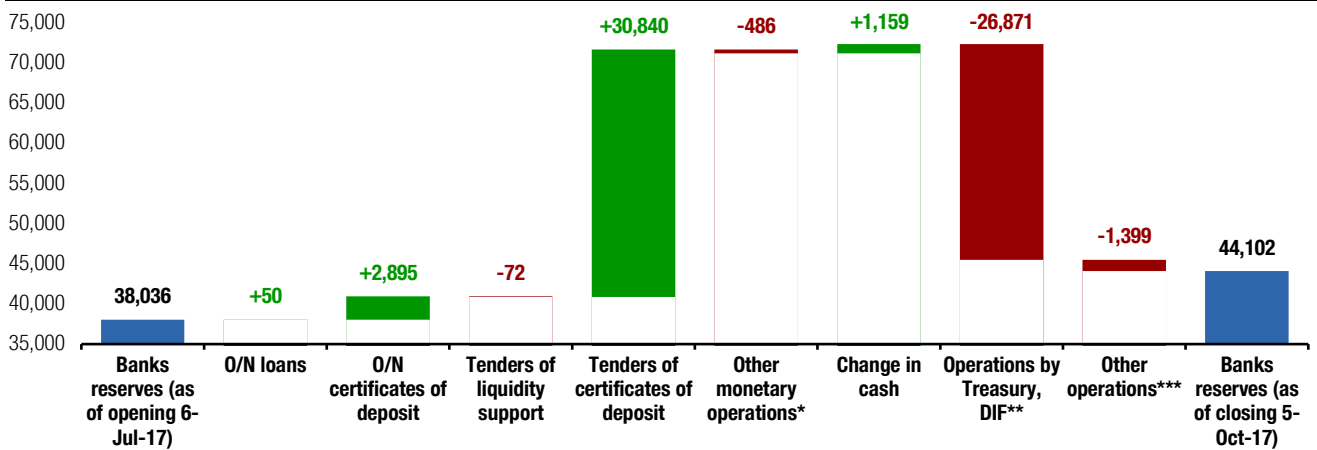
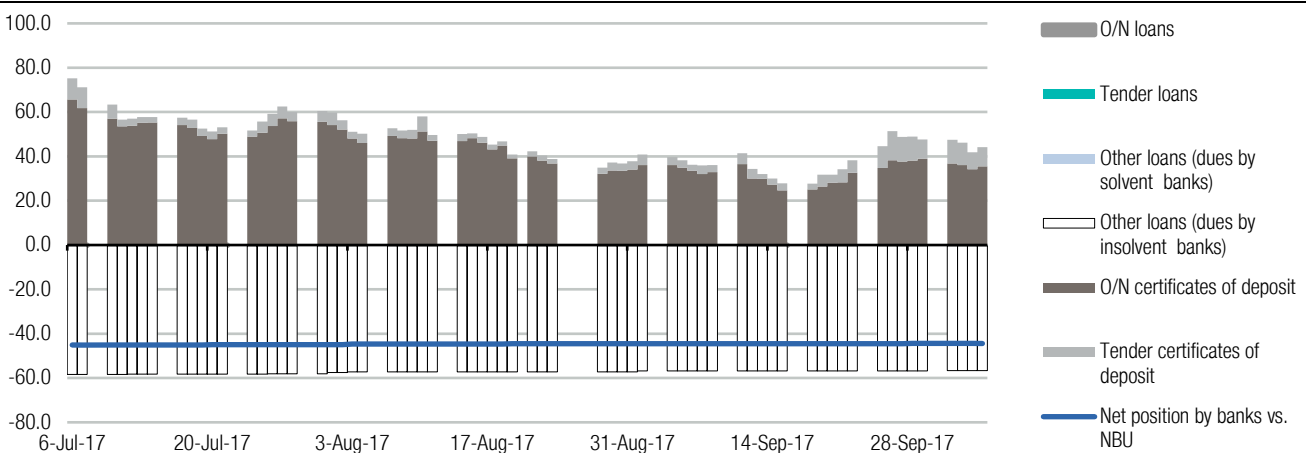


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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.

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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 Kubytyovych
Asset Management Product Sales
liliya.kubytyovych@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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