

Daily Insight

Hryvnia rising

Key messages of the today's comments

TUESDAY, 10 OCTOBER 2017

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Last Friday, total banking sector liquidity fell to its new year's low, down UAH3.20bn to UAH72.89bn. A significant change in the balance between budget revenues and expenditures as well as cash outflows were the main reasons for the decline. 2

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Last week, the hryvnia was bolstered by the currency auctions held by NBU domestic FX auctions as well as by the global weak US dollar. On Monday, it rose following news that the NBU and MoF reached the deal on the reprofiling of government domestic bonds owned by the NBU with a total nominal volume of UAH219.6bn, which implies the exchange of this debt for new bonds through 2047. In addition, the liquidity in the banking sector reached this year's low (see comment on liquidity), which increased the demand for the hryvnia. Hence, the hryvnia surged 0.7% against the US dollar to 26.5517 USD/UAH, rising for the third consecutive trading session. On Monday, in the Ukrainian cash market, the hryvnia sold for 26.75 USD/UAH versus 26.94 to buy. Its CPI-based real trade-weighted index rose 1.09% to 106.33; in year-on-year terms, it is up 4.67% from 101.59 last year. 3

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Ukraine's hryvnia exchange rate per US dollar (three months through 9 October 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 9 October 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	11.90	+0bp	+130bp
Banks reserves (UAHm)	42,436	-3.78	-14.67
Deposit certificates* (UAHm)	30,455	-4.80	-51.07
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.4850	-1.03	-2.27
Total trade volume (US\$m)	159.10	-37.40	-6.20
UAH index CPI-based	106.326	+1.09	-1.55
UAH index PPI-based	163.874	+1.09	-2.67
UKRAINE SOVEREIGN EUROBOOND MARKET			
CDS 5yr	450bp	-7bp	-203bp

GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,544.73	-0.18	+13.66
MSCI EM	1,100.42	-0.24	+27.62
US dollar index (DXY)	93.675	-0.13	-8.35
EUR / USD	1.1740	+0.09	+11.63
Crude oil WTI (US\$/bbl)	49.58	+0.59	-7.71
Crude oil BRENT (US\$/bbl)	55.79	+0.31	-1.81
CRB, commodities index	180.96	+0.00	-6.00
Gold (US\$/ounce)	1,283.86	+0.57	+11.42

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity hits year's low

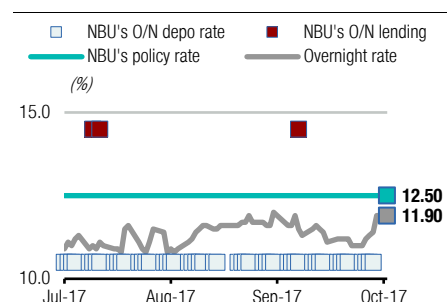
Last Friday, total banking sector liquidity fell to its new year's low, down UAH3.20bn to UAH72.89bn. A significant change in the balance between budget revenues and expenditures as well as cash outflows were the main reasons for the decline.

The Treasury paid UAH1.76bn less than revenues it collected after a few days of inflows, while banks exchanged UAH1.42bn of reserves more into cash than back into reserves. The net impact of non-monetary operations was UAH3.20bn of outflows, divided between reserves and CDs. Banks' correspondent accounts with the NBU fell UAH1.67bn while total CDs outstanding declined UAH1.54bn. NBU operations had no impact on liquidity.

ICU view: *The Treasury returned to absorbing liquidity last Friday, which was increased by outflows to cash. Without other sources to offset these outflows, liquidity fell to its new year's low. This week, liquidity should recover until month-end tax payments begin to avoid declining further.*

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

Interest rates in the banks' reserves market (three months through 9 October 2017)



Source: Bloomberg, ICU.

Key indicators (as of 9 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	+0bp	+90bp	+0bp	+130bp
ON \$ swap	12.62	+27bp	+95bp	+52bp	+115bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	42,436	-3.78	-2.27	-8.83	-14.67
DepCerts ³	30,455	-4.80	-17.15	-7.26	-51.07
Total	72,891	-4.21	-9.09	-8.18	-34.90
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	-0.46	-0.80	+1.24
Banks	309,085	-0.08	+0.11	+0.94	+79.35
Residents	23,455	+0.14	+0.79	+0.57	+49.60
Non-res ⁴	2,800	+0.00	+0.00	+61.49	-55.92
Total	695,913	-0.03	-0.16	+0.17	+26.41
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.39	+51bp	+58bp	+20bp	-992bp
3 months	12.31	-19bp	+3bp	+27bp	-976bp
6 months	12.27	+13bp	+14bp	+11bp	-578bp
1 year	11.63	-3bp	+4bp	-7bp	-436bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	450	-7bp	-7bp	+5bp	-203bp

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 rising

Last week, the hryvnia was bolstered by the currency auctions held by NBU domestic FX auctions as well as by the global weak US dollar. On Monday, it rose following news that the NBU and MoF reached the deal on the reprofiling of government domestic bonds owned by the NBU with a total nominal volume of UAH219.6bn, which implies the exchange of this debt for new bonds through 2047. In addition, the liquidity in the banking sector reached this year's low (see comment on liquidity), which increased the demand for the hryvnia. Hence, the hryvnia surged 0.7% against the US dollar to 26.5517 USD/UAH, rising for the third consecutive trading session. On Monday, in the Ukrainian cash market, the hryvnia sold for 26.75 USD/UAH versus 26.94 to buy. Its CPI-based real trade-weighted index rose 1.09% to 106.33; in year-on-year terms, it is up 4.67% from 101.59 last year.

The US dollar slightly declined against other major world currencies on Monday. The greenback still continued to be influenced the higher probability of a third interest rate hike this year. Friday's labor market report showed that US job creation fell last month; however, better-than-expected wage growth, seen as potentially boosting inflation, supported the USD. At the beginning of the week, the DXY index declined 0.1% to 93.66.

The euro closed up 0.1% to 1.174 EUR/USD after an ECB representative announced that the regulator should scale back the quantitative easing program by the start of 2018. In addition, a Brexit report on Monday which included taxes on a no-deal scenario influenced the euro. The Chinese renminbi strengthened 0.4% to 6.6251 USD/CNY, driven by strong macroeconomic data that China's FX reserves rose for the eighth consecutive month and reached US\$3.11tn in September.

With no support from domestic factors on Monday, the Russian ruble routinely moved in the same direction as oil prices. In the first half of the trading session, the ruble was stable, but by the end it weakened against the US dollar as oil prices went down. It closed down 0.25% to 57.7626 USD/RUB.

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

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

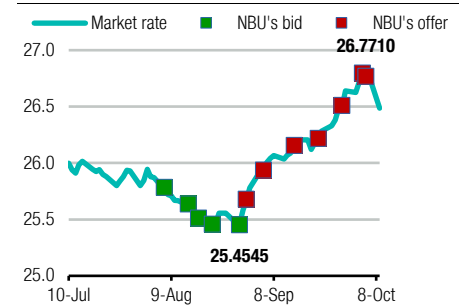
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 9 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.4850	-1.03	-0.53	+1.61	-2.27
USD ¹	93.675	-0.13	+0.12	+2.54	-8.35
EUR	1.1740	+0.09	+0.06	-2.46	+11.63
JPY	112.6800	+0.03	-0.08	+4.49	-3.66
GBP ²	1.3142	+0.58	-1.01	-0.44	+6.50
CNY	6.6251	-0.42	-0.42	+2.01	-4.61
RUB	58.2912	+0.25	+0.74	+1.61	-5.28

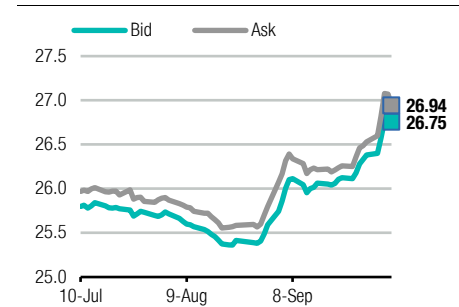
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 9 October 2017)



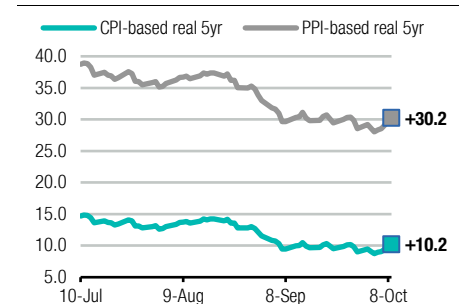
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 9 October 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 9 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)

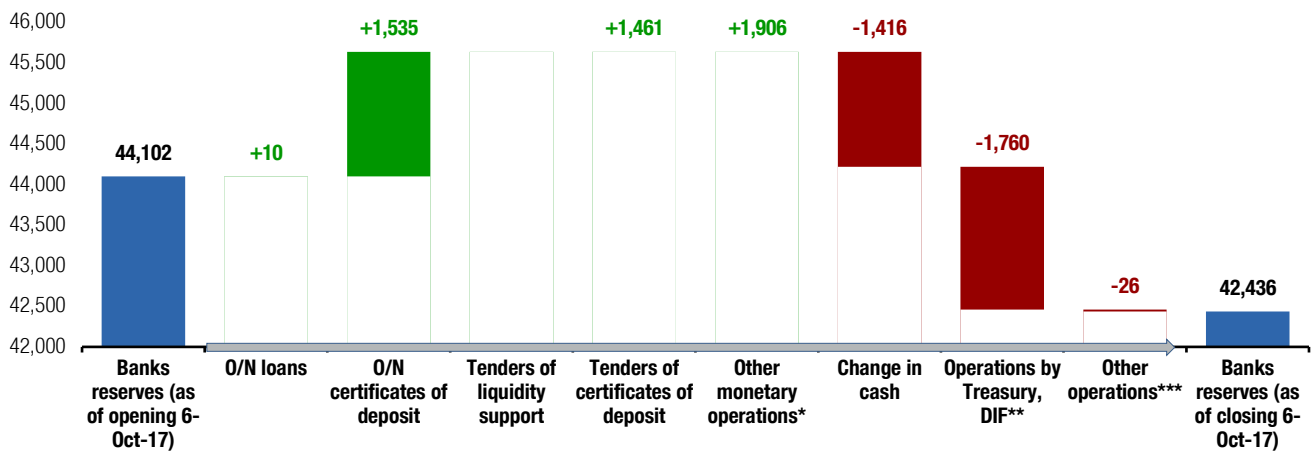
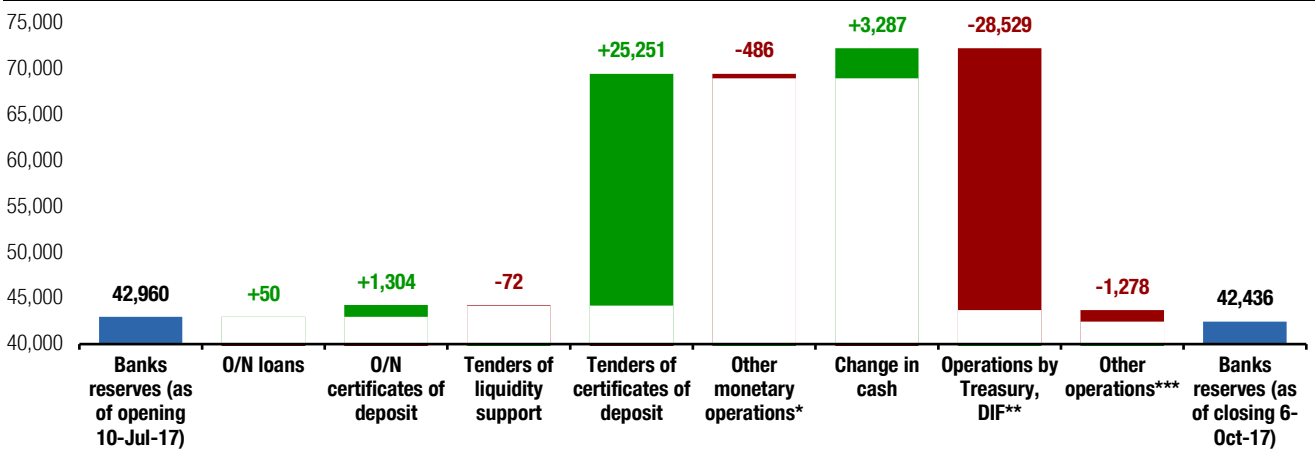
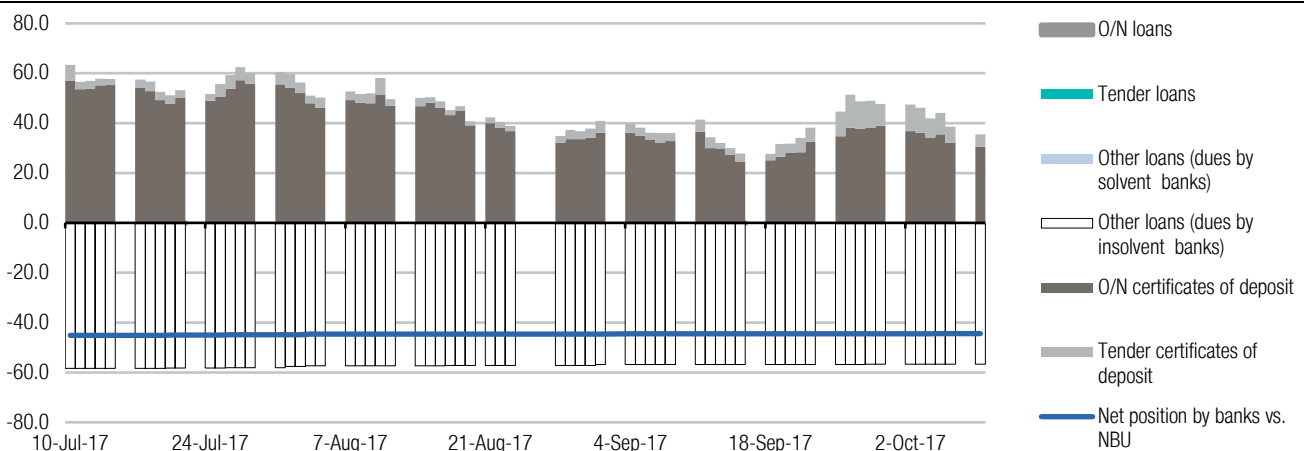


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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](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

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