

Daily Insight

Liquidity continues to increase

Key messages of the today's comments

THURSDAY, 12 OCTOBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 11 October 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 11 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)	51,200	+28.18	+2.95
Deposit certificates* (UAHm)	25,881	-26.07	-58.42
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.5750	+0.02	-1.94
Total trade volume (US\$m)	169.91	-6.97	+0.17
UAH index CPI-based	105.079	-0.40	-2.71
UAH index PPI-based	161.952	-0.40	-3.81

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	450bp	+0bp	-203bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,555.24	+0.18	+14.13
MSCI EM	1,117.33	+0.43	+29.58
US dollar index (DXY)	93.015	-0.29	-9.00
EUR / USD	1.1859	+0.43	+12.76
Crude oil WTI (US\$/bbl)	51.30	+0.75	-4.50
Crude oil BRENT (US\$/bbl)	56.94	+0.58	+0.21
CRB, commodities index	183.50	+0.16	-4.68
Gold (US\$/ounce)	1,291.69	+0.28	+12.10

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity 2

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Significant inflows from the Treasury supported banking sector liquidity to rise significantly on Tuesday, up UAH2.13bn to UAH77.08bn. The UAH0.66bn of debt repaid to the NBU had little impact on liquidity as banks reallocated a significant portion of funds from CDs to reserves. Of note, banks' correspondent accounts with the NBU rose a whopping UAH11.26bn to UAH41.20bn while total CDs outstanding fell UAH9.13bn to UAH25.88bn.

Foreign exchange markets 3

Hryvnia on the rise3

The hryvnia appreciated on Wednesday, continuing the week's starting trend, after falling slightly the day before. The high demand may be explained by quarterly and monthly tax payments coming later this month, in addition to the depreciating USD on the global markets and rising banks' correspondent accounts with the NBU (see the liquidity comment). The hryvnia appreciated 0.2% to 26.5333 USD/UAH on Wednesday and was sold for 26.67USD/UAH versus 26.88 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.4% to 105.08; in year-on-year terms, it is up 2.71% from 102.23 last year.

Appendix #1: Domestic liquidity 4

Domestic liquidity

Liquidity continues to increase

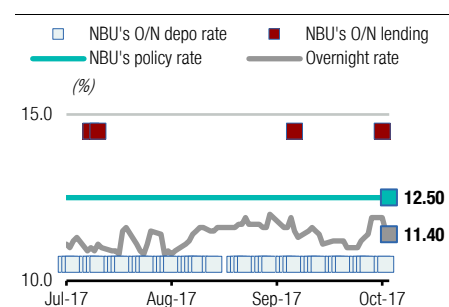
Significant inflows from the Treasury supported banking sector liquidity to rise significantly on Tuesday, up UAH2.13bn to UAH77.08bn. The UAH0.66bn of debt repaid to the NBU had little impact on liquidity as banks reallocated a significant portion of funds from CDs to reserves. Of note, banks' correspondent accounts with the NBU rose a whopping UAH11.26bn to UAH41.20bn while total CDs outstanding fell UAH9.13bn to UAH25.88bn.

Non-monetary operations had a positive impact of UAH2.37bn from two injections, namely UAH3.06bn from the Treasury and UAH0.02bn via other operations, while only UAH0.71bn of funds were exchanged into cash and subtracted from inflows. NBU operations were insufficient to cause liquidity to decline, as SWAP operations were offset by other FX deals, providing UAH0.06bn of additional funds for liquidity, while only UAH0.30bn of an ON loan repayment had a negative impact.

ICU view: *The significant increase in budget expenditures enabled liquidity to recover after hitting the year's low last Friday. This increase could be routine for the second week of October, as there are no large tax payments. Moreover, all budgets accelerate upcoming expenditures coming due near the end of the budget period. Because of this, liquidity could rise significantly, possibly to a new high of UAH85bn or more.*

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

Interest rates in the banks' reserves market (three months through 11 October 2017)



Source: Bloomberg, ICU.

Key indicators (as of 11 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	+10bp	-20bp	+80bp
ON \$ swap	11.66	-14bp	+2bp	-110bp	+19bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	51,200	+28.18	+18.84	+20.12	+2.95
DepCerts ³	25,881	-26.07	-24.32	-29.10	-58.42
Total	77,081	+2.84	-0.26	-2.59	-31.16
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	-0.46	-0.80	+1.24
Banks	308,537	+0.03	-0.22	+0.68	+79.03
Residents	23,472	+0.17	+1.17	+0.52	+49.71
Non-res ⁴	2,811	+0.41	+0.43	+62.07	-55.75
Total	695,393	+0.02	-0.30	+0.05	+26.32
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.61	+50bp	-225bp	+114bp	-970bp
3 months	12.18	-3bp	-76bp	+15bp	-989bp
6 months	12.15	-1bp	-39bp	+2bp	-589bp
1 year	11.65	+5bp	-13bp	+3bp	-434bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	450	+0bp	-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 on the rise

The hryvnia appreciated on Wednesday, continuing the week's starting trend, after falling slightly the day before. The high demand may be explained by quarterly and monthly tax payments coming later this month, in addition to the depreciating USD on the global markets and rising banks' correspondent accounts with the NBU (see the liquidity comment). The hryvnia appreciated 0.2% to 26.5333 USD/UAH on Wednesday and was sold for 26.67USD/UAH versus 26.88 to buy in the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.4% to 105.08; in year-on-year terms, it is up 2.71% from 102.23 last year.

The USD again traded lower against the major global currencies due to concerns about the implementation of tax reforms. The quarrel between Donald Trump and a senator from Tennessee raises questions about the future of the reform vote. Thus, the dollar declined for the fourth consecutive trading session, ignoring the effect of a possible key policy rate increase later this year.. The DXY index traded at 92.898 - 93.369, closing down 0.3% to 93.015.

The euro appreciated against the US dollar, as it did the day before. After the head of Catalonia (Northwestern Spain) signed a document declaring the region's independence from Spain, he postponed its enforcement for several weeks in order not to cause an immediate crisis and have time for negotiation. Thus, the EUR/USD pair traded within 1.1795 - 1.1869 EUR/USD, up 0.4% to 1.1859 EUR/USD. The Chinese renminbi weakened against the US dollar on Wednesday as part of a correction after a significant increase previously. The renminbi was in the 6.5707 - 6.5978 USD/CNY range and depreciated 0.2% to 6.5903 USD/CNY.

The Russian ruble was under influence of oil prices and the American currency. As oil prices rose during the day, which pushed the ruble up, oil prices began to fall at the end of the trading session in anticipation of US statistics. As a result, the Russian currency increased on Wednesday, and traded at 57.7706-57.1091 USD/RUB, having appreciated 0.3% to 57.8135.

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

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

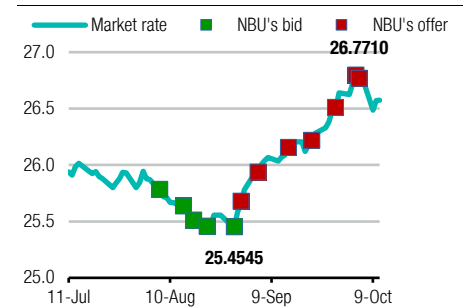
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 11 October 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.5750	+0.02	-0.65	+2.07	-1.94
USD ¹	93.015	-0.29	-0.47	+1.24	-9.00
EUR	1.1859	+0.43	+0.85	-0.79	+12.76
JPY	112.5000	+0.04	-0.23	+2.84	-3.81
GBP ²	1.3223	+0.15	-0.19	+0.46	+7.16
CNY	6.5903	+0.24	-0.94	+0.94	-5.11
RUB	57.8135	-0.28	+0.25	+1.04	-6.05

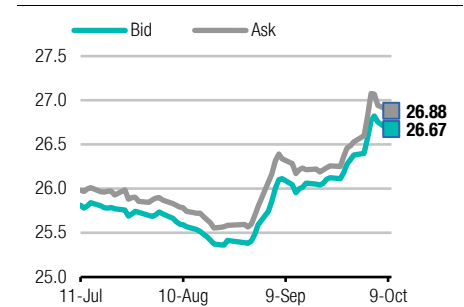
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 11 October 2017)



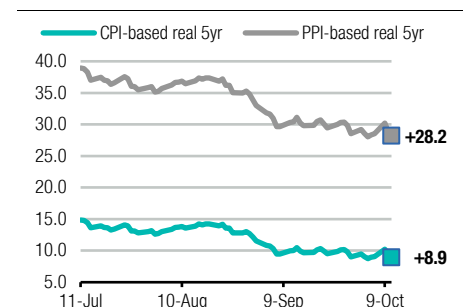
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 11 October 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 11 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)

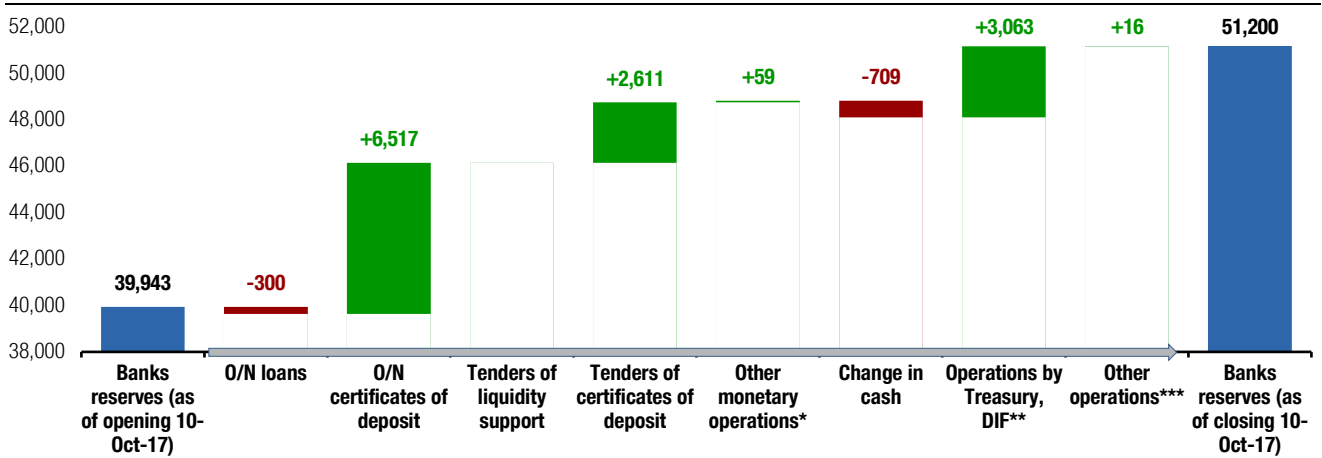
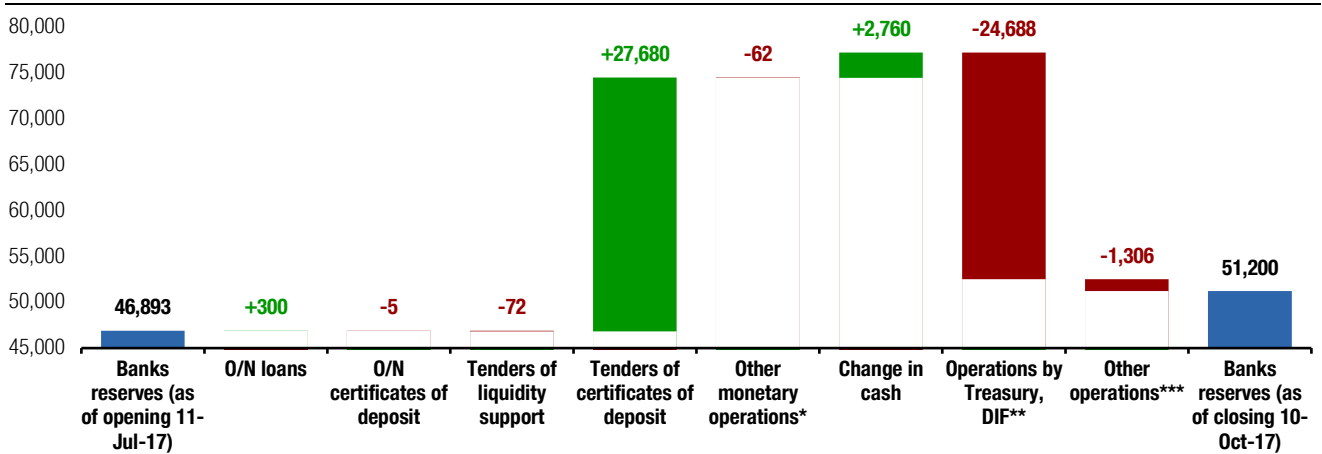
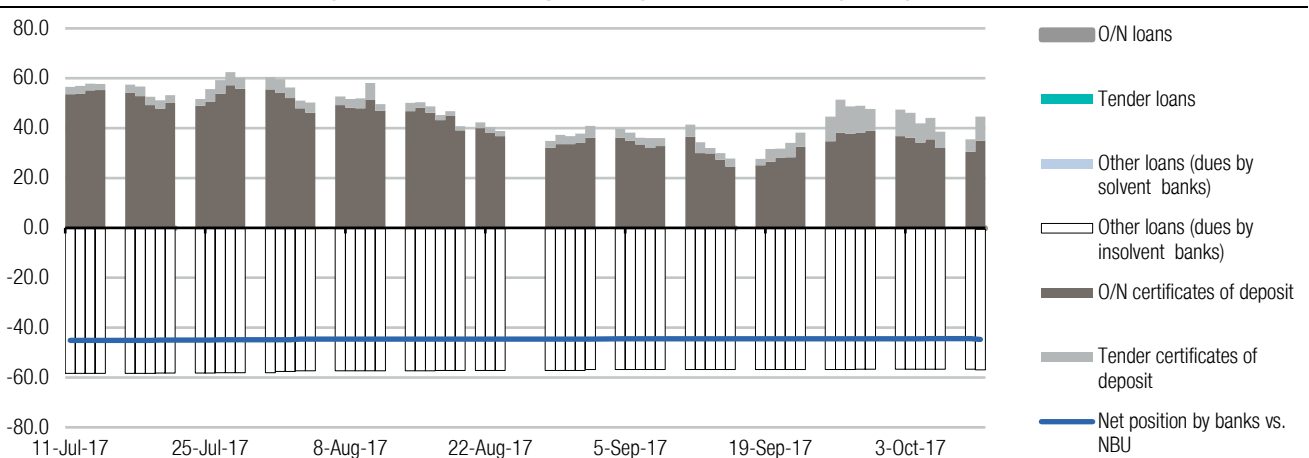


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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 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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