



Focus
Ukraine

Markets
Money & bond markets,
FX market, macroeconomics

Research team
Alexander Valchyshen
Taras Kotovych
Dmytro Dyachenko

Daily Insight

UAH stable

Key messages of the today's comments

Domestic liquidity

2

Liquidity near year's low2

This Tuesday, outflows to budget accounts rose significantly as the Treasury's net absorption was UAH1.90bn. With UAH0.26bn of outflows via reserves exchanged into cash and inflows via other operations at UAH0.02bn, the net impact of non-monetary operations was negative UAH2.14bn. Additional outflows caused by the NBU came from two banks which repaid UAH0.03bn of ON loans received on Monday. As a result, banking sector liquidity fell UAH2.17bn to UAH73.37bn. 2

Foreign exchange markets

3

UAH stable.....3

The hryvnia remained stable against the greenback on Wednesday, having closed up 0.05% to 26.4822 USD/UAH. Yesterday, the Ukrainian currency was supported by the ongoing tax payments for the third quarter along with the globally weak US dollar. At the same time, there is a possibility that the hryvnia will continue to strengthen on Thursday and Friday, as exporters need to pay taxes in hryvnia. Moreover, with liquidity level near this year's low, they will have to sell foreign currency, thus boosting demand for UAH. On Wednesday, in the local market the hryvnia sold for 26.55 USD/UAH versus 26.74 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.17% to 106.95; in year-on-year terms, it is down 1.24% from 108.29 last year. 3

Appendix #1: Domestic liquidity

4

THURSDAY, 16 NOVEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 15 November 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 15 November 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	13.00	+70bp	+240bp
Banks reserves (UAHm)	47,666	+0.23	-4.15
Deposit certificates* (UAHm)	25,706	-8.14	-58.70
FOREIGN EXCHANGE MARKET			
UAH per US dollar	26.4800	+0.08	-2.29
Total trade volume (US\$m)	202.24	+3.53	+19.24
UAH index CPI-based	106.950	-0.17	-0.97
UAH index PPI-based	164.836	-0.17	-2.10

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	438bp	+3bp	-215bp
---------	-------	------	--------

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,564.62	-0.55	+14.55
MSCI EM	1,111.12	-0.64	+28.86
US dollar index (DXY)	93.813	-0.01	-8.22
EUR / USD	1.1791	-0.06	+12.11
Crude oil WTI (US\$/bbl)	55.33	-0.66	+3.00
Crude oil BRENT (US\$/bbl)	61.87	-0.55	+8.89
CRB, commodities index	188.64	-0.22	-2.01
Gold (US\$/ounce)	1,278.09	-0.18	+10.92

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity near year's low

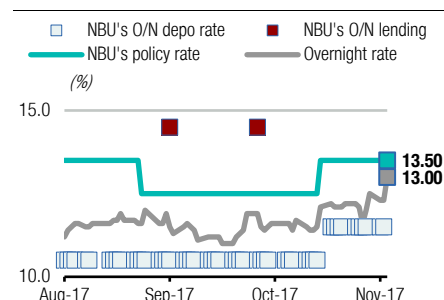
This Tuesday, outflows to budget accounts rose significantly as the Treasury's net absorption was UAH1.90bn. With UAH0.26bn of outflows via reserves exchanged into cash and inflows via other operations at UAH0.02bn, the net impact of non-monetary operations was negative UAH2.14bn. Additional outflows caused by the NBU came from two banks which repaid UAH0.03bn of ON loans received on Monday. As a result, banking sector liquidity fell UAH2.17bn to UAH73.37bn.

Banks' correspondent accounts remained steady, up just UAH0.11bn to UAH47.67bn, while total CDs outstanding fell UAH2.28bn to UAH25.71bn. ON CDs remained steady, up only UAH0.01bn to UAH2.58bn, while the decline in CDs was caused by a decrease in 2-week CDs outstanding of UAH2.29bn.

ICU view: While liquidity is under the pressure of quarterly tax payments, which become larger, it declined just UAH0.48bn above this year's low. The VAT refund was very minimal yesterday, and, after yesterday's cash flows, liquidity could fall once more to a new low. If budget expenditures do not increase to the same level as taxes, liquidity could decline further below last years' low seen November 2016 after quarterly tax payments.

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

Interest rates in the banks' reserves market (three months through 15 November 2017)



Source: Bloomberg, ICU.

Key indicators (as of 15 November 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	13.50	+0bp	+0bp	+100bp	-50bp
ON rate	13.00	+70bp	+140bp	+140bp	+240bp
ON \$ swap	12.59	+25bp	+74bp	+0bp	+112bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	47,666	+0.23	+13.53	-2.02	-4.15
DepCerts ³	25,706	-8.14	-21.65	+0.50	-58.70
Total	73,372	-2.87	-1.90	-1.15	-34.47
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	313,372	+0.03	-0.41	+1.58	+81.84
Residents	21,743	-0.13	-0.58	-4.19	-7.80
Non-res ⁴	5,299	+0.00	+10.85	+74.18	-16.58
Total	701,879	+0.01	-0.13	+0.90	+27.50
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	15.80	-210bp	+115bp	+396bp	-651bp
3 months	15.11	-69bp	+42bp	+262bp	-695bp
6 months	12.74	-35bp	+25bp	+58bp	-531bp
1 year	11.76	-17bp	+13bp	+2bp	-423bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	438	+3bp	-17bp	-16bp	-215bp

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

UAH stable

The hryvnia remained stable against the greenback on Wednesday, having closed up 0.05% to 26.4822 USD/UAH. Yesterday, the Ukrainian currency was supported by the ongoing tax payments for the third quarter along with the globally weak US dollar. At the same time, there is a possibility that the hryvnia will continue to strengthen on Thursday and Friday, as exporters need to pay taxes in hryvnia. Moreover, with liquidity level near this year's low, they will have to sell foreign currency, thus boosting demand for UAH. On Wednesday, in the local market the hryvnia sold for 26.55 USD/UAH versus 26.74 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.17% to 106.95; in year-on-year terms, it is down 1.24% from 108.29 last year.

The greenback was supported by strong macroeconomic statistics as retail sales rose more than expected in October, while core inflation accelerated to 1.8% YoY in the same month. However, despite solid macroeconomic data, the US dollar traded broadly lower against the basket of other major currencies due to rising fears that the Republicans will not be able to push through corporate tax cuts this year. The DXY index traded at 93.40-93.93, and closed at 93.81.

The euro weakened 0.1% to 1.1891 EUR/USD, while the Chinese renminbi closed up 0.2% to 6.624 USD/CNY, also supported the central bank of China strengthening the reference rate by 0.2% to 6.6263 USD/CNY.

At the same time, despite falling oil prices and rising fears of new sanctions, the Russian ruble strengthened 0.4% to 60.2165 USD/RUB after having dropped 1.8% on Tuesday.

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

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

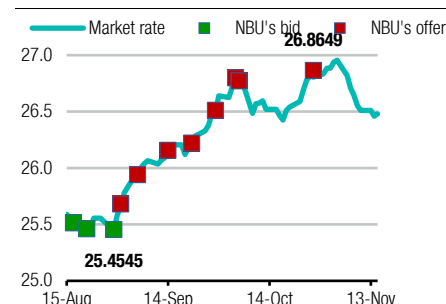
Key indicators (as of 15 November 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	26.4800	+0.08	-0.62	-0.15	-2.29
USD ¹	93.813	-0.01	-1.11	+0.78	-8.22
EUR	1.1791	-0.06	+1.69	-0.25	+12.11
JPY	112.8800	-0.51	-0.87	+0.95	-3.49
GBP ²	1.3171	+0.05	+0.42	-0.86	+6.73
CNY	6.6240	-0.18	-0.06	+0.67	-4.62
RUB	60.2165	-0.41	+1.66	+5.01	-2.15

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

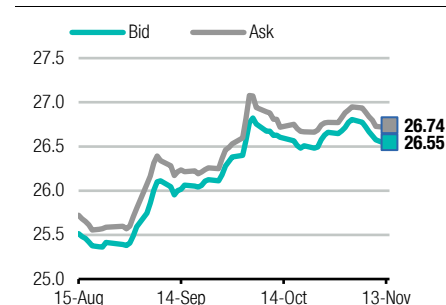
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 15 November 2017)



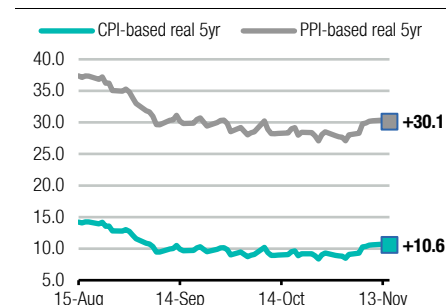
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 15 November 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 15 November 2017)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](http://www.icu.ua).

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

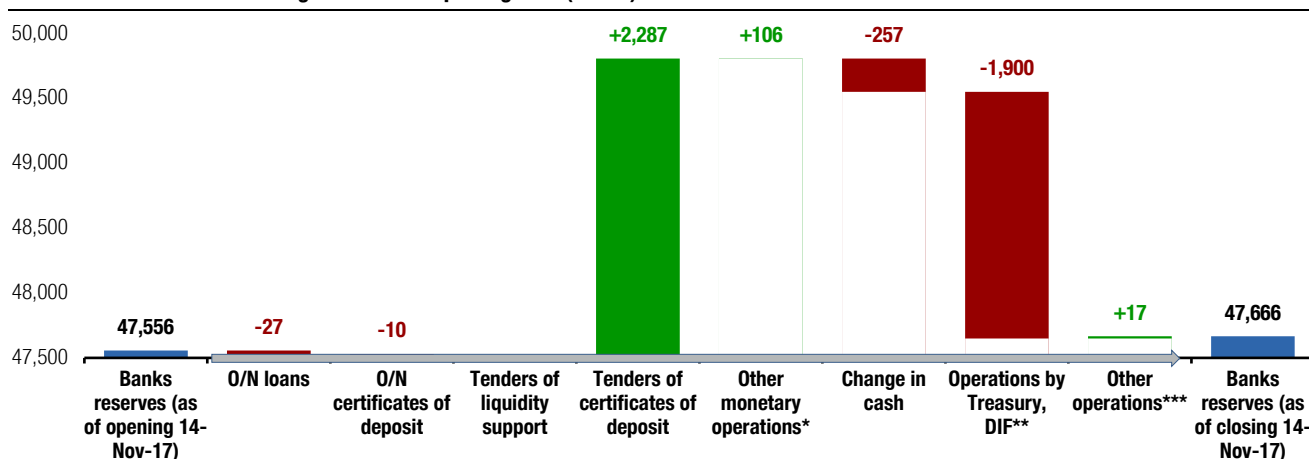
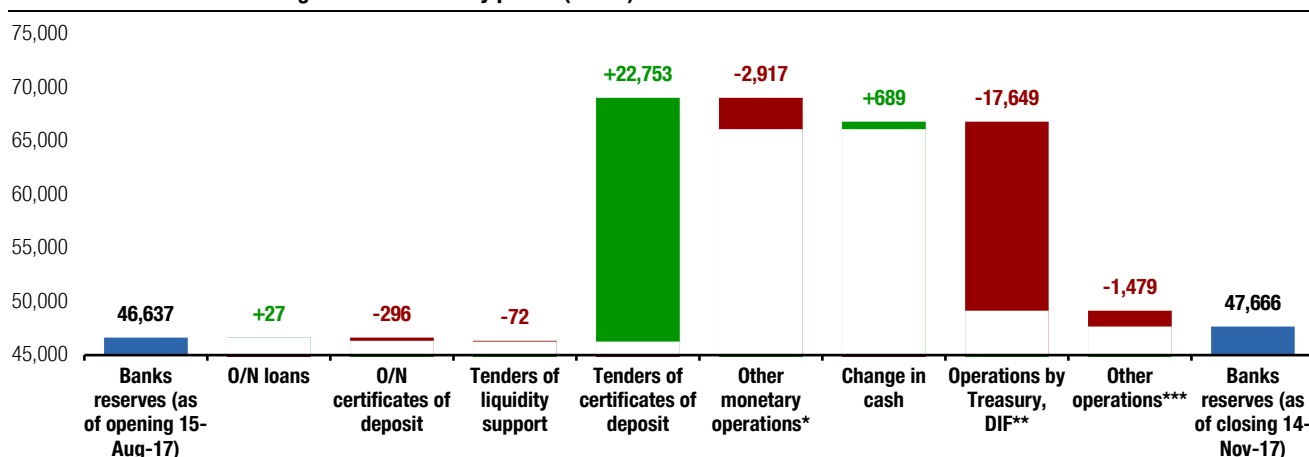


Chart 2. Banks reserves usages over last 90-day period (UAHm)

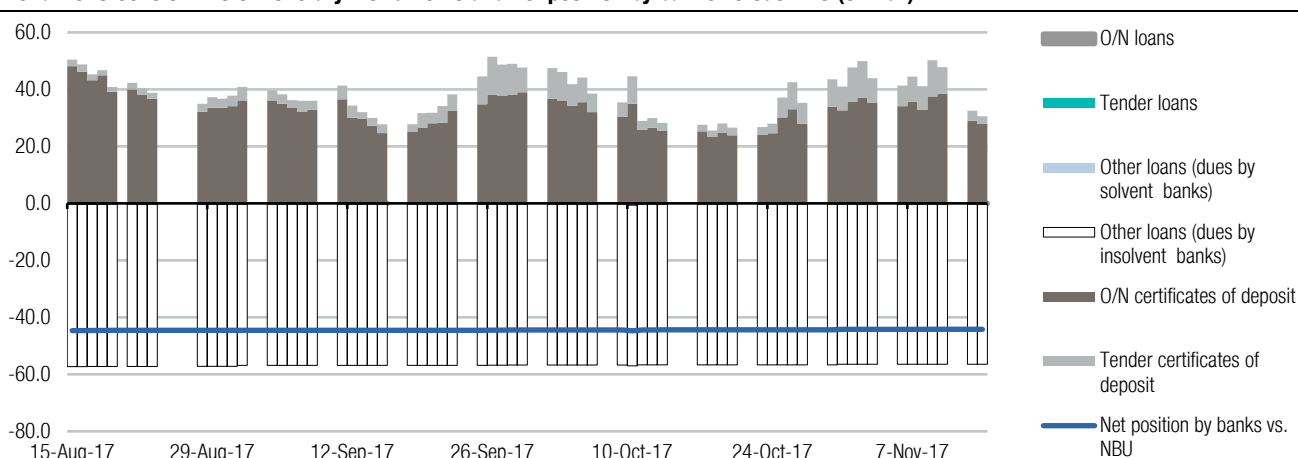


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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 Kubytovyich
Asset Management Product Sales
liliya.kubytovyich@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.

