

Daily Insight

Bond interest rates increase

Key messages of the today's comments

WEDNESDAY, 6 DECEMBER 2017

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



Source: Bloomberg.

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

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.30	+0bp	+170bp
Banks reserves (UAHm)	42,779	+3.09	-13.98
Deposit certificates* (UAHm)	32,967	-8.77	-47.03
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.1050	-0.46	+0.02
Total trade volume (US\$m)	289.15	+4.02	+70.47
UAH index CPI-based	111.073	+0.58	+2.83
UAH index PPI-based	168.384	+0.58	-0.02

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	434bp	+0bp	-219bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,629.57	-0.37	+17.45
MSCI EM	1,117.69	-0.38	+29.62
US dollar index (DXY)	93.379	+0.20	-8.64
EUR / USD	1.1826	-0.34	+12.45
Crude oil WTI (US\$/bbl)	57.62	+0.26	+7.26
Crude oil BRENT (US\$/bbl)	62.86	+0.66	+10.63
CRB, commodities index	187.47	-0.65	-2.62
Gold (US\$/ounce)	1,265.94	-0.80	+9.86

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

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Liquidity continues to decline.....2

This Monday, liquidity remained under the pressure of bank operations with cash outflows extended by an NBU FX auction. Banks exchanged net UAH1.08bn of reserves into cash, while minor Treasury operations and more significant other operations caused a net negative impact of non-monetary operations to decline UAH1.09bn. The NBU absorbed UAH0.8bn via its FX auction of US\$29.1m of FX, resulting in a total liquidity decline of UAH1.89bn.

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Bond interest rates increase2

Yesterday, the MoF borrowed nearly UAH4.11bn as it sold four bond issues, of which two were denominated in local currency, one in euros, and one in US dollars. The interest rate for the 3-month bond rise to 16.00%, just 20bp lower than in 3Q16, allowing the MoF to borrow UAH0.29bn, while the 11-month bond interest rate increased 60bp from the last auction rate in October to 15.30%. In local currency bonds, the MoF borrowed UAH0.49bn yesterday.

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Foreign exchange markets

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UAH up slightly3

At the beginning of the week, the hryvnia fell 0.6% to 27.2153 USD/UAH, the weakest level since mid-February. To satisfy excess demand for foreign currency, the NBU held a currency auction on Monday that attracted US\$43.6m in bids, of which US\$29.4m at a weighted average rate of 27.1808 UAH/USD was satisfied. Thanks to the auction, the hryvnia stopped declining and strengthened 0.2% to 27.1644 USD/UAH on Tuesday, bolstered by news that Ukraine's FX reserves rose to US\$18.9bn, the highest level since early 2014. In the local market, the hryvnia sold for 26.94 USD/UAH versus 27.10 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.58% to 111.07; in year-on-year terms, it is down 1.01% from 112.0 last year.

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Appendix #1: Domestic liquidity

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Domestic liquidity

Liquidity continues to decline

This Monday, liquidity remained under the pressure of bank operations with cash outflows extended by an NBU FX auction. Banks exchanged net UAH1.08bn of reserves into cash, while minor Treasury operations and more significant other operations caused a net negative impact of non-monetary operations to decline UAH1.09bn. The NBU absorbed UAH0.8bn via its FX auction of US\$29.1m of FX, resulting in a total liquidity decline of UAH1.89bn.

At the same time, banks decreased investments in CDs by UAH3.17bn, purchasing only UAH7.89bn of new ON CDs, and total CDs outstanding declined to 32.97bn. However, UAH1.28bn of this withdrawal was accounted at reserves, increasing banks' correspondent accounts to UAH42.78bn.

ICU view: Liquidity remained under pressure from needs in cash, as usual for the beginning of the month, which was increased by the FX auction and NBU support of local currency. Yesterday's issuance of FX-denominated bonds could increase pressure on the hryvnia's exchange rate and force the NBU to support further and incur new outflows of liquidity.

Bond interest rates increase

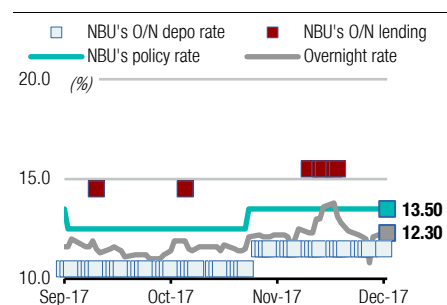
Yesterday, the MoF borrowed nearly UAH4.11bn as it sold four bond issues, of which two were denominated in local currency, one in euros, and one in US dollars. The interest rate for the 3-month bond rise to 16.00%, just 20bp lower than in 3Q16, allowing the MoF to borrow UAH0.29bn, while the 11-month bond interest rate increased 60bp from the last auction rate in October to 15.30%. In local currency bonds, the MoF borrowed UAH0.49bn yesterday.

Meanwhile, USD-denominated bond sales were US\$26.02m (UAH0.71bn) at 3.85%, while euro-denominated sales were EUR90.01m (UAH2.91bn) at 3.95%, as the MoF rejected one bid at 4.00% for EUR2.0m.

ICU view: Currently, liquidity declined. Following the key policy rate increase, the cost of local-currency funds rose and forced banks to increase the interest rates in their bids. As the MoF is scheduled to borrow more than UAH30bn through the end of the year, it amended the auction schedule and is motivated to accept higher rates.

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

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



Source: Bloomberg, ICU.

Key indicators (as of 5 December 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	13.50	+0bp	+0bp	+0bp	-50bp
ON rate	12.30	+0bp	+20bp	+10bp	+170bp
ON \$ swap	12.30	+5bp	+36bp	+5bp	+83bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	42,779	+3.09	-13.82	+1.51	-13.98
DepCerts ³	32,967	-8.77	+7.55	-6.80	-47.03
Total	75,746	-2.43	-5.66	-2.28	-32.35
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	326,822	+0.20	+5.46	+3.72	+89.64
Residents	21,291	+0.04	-0.16	-3.79	-9.72
Individuals	1,167	+0.96	+2.15	+29.25	+1,022.3
Non-res ⁴	4,788	+0.00	+0.17	+0.16	-24.62
Total	714,642	+0.09	+2.43	+1.59	+29.81
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	14.10	+49bp	-199bp	-171bp	-821bp
3 months	13.43	+4bp	-175bp	-177bp	-864bp
6 months	11.78	+12bp	-106bp	-81bp	-626bp
1 year	11.31	+7bp	-46bp	-39bp	-468bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	434	+0bp	+0bp	-6bp	-219bp

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 up slightly

At the beginning of the week, the hryvnia fell 0.6% to 27.2153 USD/UAH, the weakest level since mid-February. To satisfy excess demand for foreign currency, the NBU held a currency auction on Monday that attracted US\$43.6m in bids, of which US\$29.4m at a weighted average rate of 27.1808 UAH/USD was satisfied. Thanks to the auction, the hryvnia stopped declining and strengthened 0.2% to 27.1644 USD/UAH on Tuesday, bolstered by news that Ukraine's FX reserves rose to US\$18.9bn, the highest level since early 2014. In the local market, the hryvnia sold for 26.94 USD/UAH versus 27.10 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.58% to 111.07; in year-on-year terms, it is down 1.01% from 112.0 last year.

The USD remained supported by revived hopes that tax cuts for corporations will stimulate the US economy. At the same time, the ISM services PMI fell more than expected in November, while the US trade balance deficit widened more than expected in October, putting pressure on the dollar. On Tuesday, the DXY index traded at 93.04-93.49, closing up 0.2% to 93.38.

The euro weakened 0.3% to 1.1826 EUR/USD on the back of weak macroeconomic statistics as retail sales in the Eurozone dropped 1.1% MoM in October, while Germany's services PMI was revised downward by 0.6 to 54.3 in November.

The Russian ruble strengthened 0.1% to 58.7529 USD/RUB, supported by the news that Russia's headline inflation hit a new all-time low, decelerating to 2.5% YoY in November. The Chinese renminbi remained traditionally flat and closed almost unchanged at 6.6193 USD/CNY.

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

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

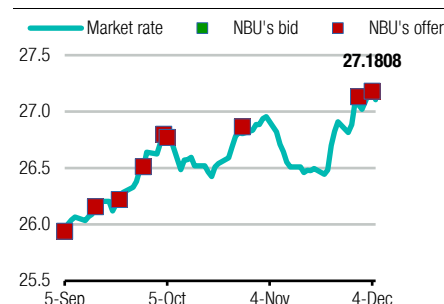
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 5 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.1050	-0.46	+0.82	+0.56	+0.02
USD ¹	93.379	+0.20	+0.12	-1.65	-8.64
EUR	1.1826	-0.34	-0.12	+1.88	+12.45
JPY	112.6000	+0.17	+1.00	-1.29	-3.73
GBP ²	1.3443	-0.27	+0.78	+2.80	+8.94
CNY	6.6193	-0.01	+0.17	-0.30	-4.69
RUB	58.7529	-0.08	+0.57	-0.51	-4.53

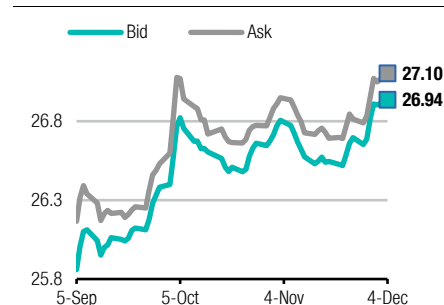
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

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



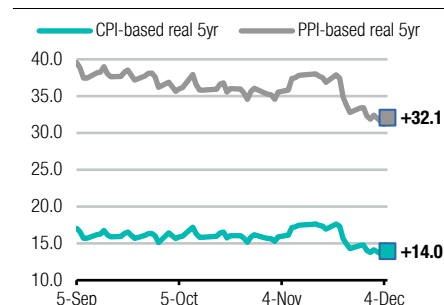
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

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



Source: NBU.

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

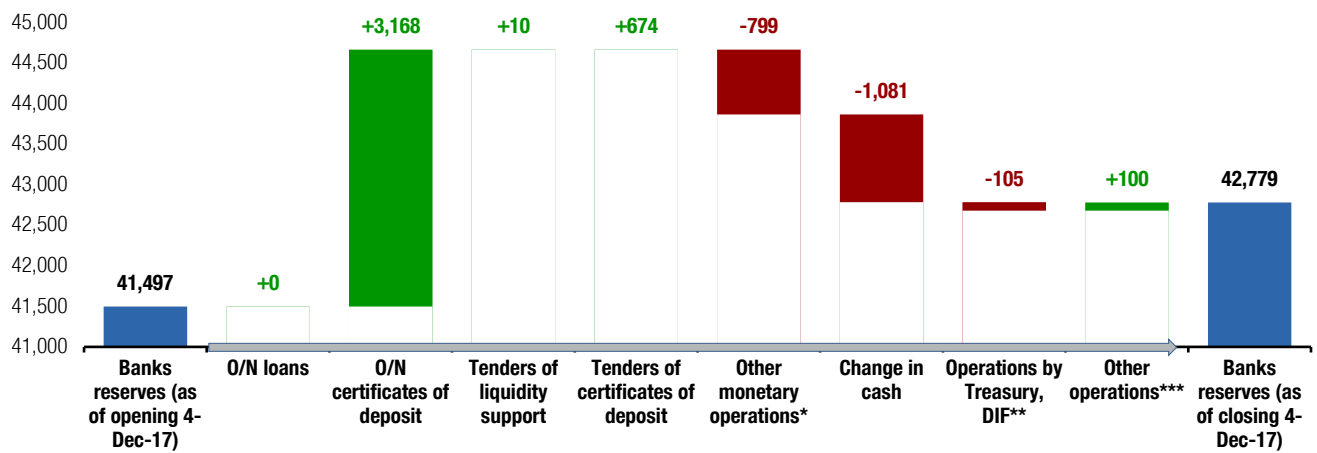
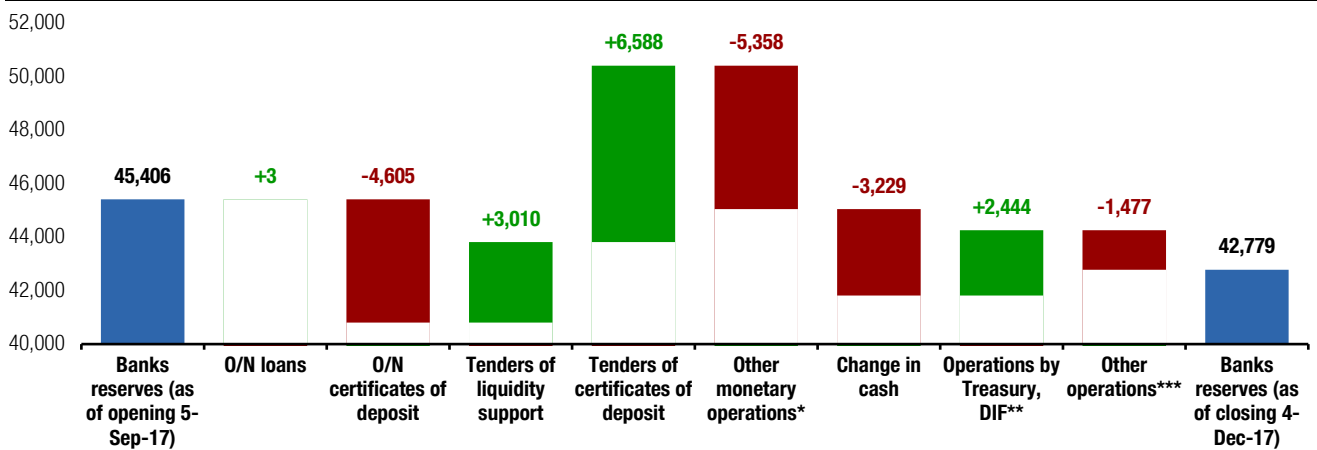
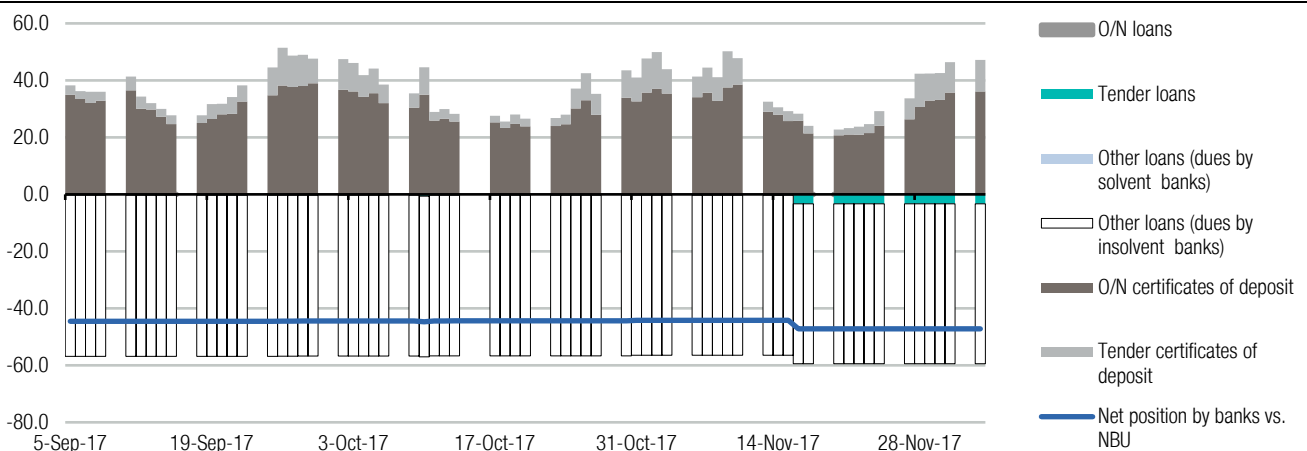


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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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