

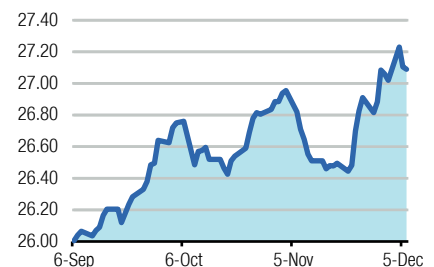
Daily Insight

UAH gradually recovers

Key messages of the today's comments

THURSDAY, 7 DECEMBER 2017

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



Source: Bloomberg.

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

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	13.50	+0bp	-50bp
Overnight rate (interbank)	12.20	-10bp	+160bp
Banks reserves (UAHm)	45,951	+7.41	-7.60
Deposit certificates* (UAHm)	31,808	-3.52	-48.89
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.0900	-0.06	-0.04
Total trade volume (US\$m)	252.11	-12.81	+48.64
UAH index CPI-based	111.437	+0.33	+3.17
UAH index PPI-based	168.935	+0.33	+0.31

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	434bp	+0bp	-219bp
---------	-------	------	--------

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,629.27	-0.01	+17.44
MSCI EM	1,101.19	-1.48	+27.71
US dollar index (DXY)	93.610	+0.25	-8.41
EUR / USD	1.1796	-0.25	+12.16
Crude oil WTI (US\$/bbl)	55.96	-2.88	+4.17
Crude oil BRENT (US\$/bbl)	61.22	-2.61	+7.74
CRB, commodities index	184.72	-1.46	-4.05
Gold (US\$/ounce)	1,263.34	-0.21	+9.64

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

2

Liquidity recovers slightly

Liquidity rose UAH2.01bn to UAH77.76bn this Tuesday with a slight fund reallocation to reserves. Banks' correspondent accounts balance with the NBU rose UAH3.17bn to UAH45.95bn while total CDs outstanding declined UAH1.16bn to UAH31.81bn. Banks reinvested mostly all repayments on overnight CDs while in the 2-week withdrawal of funds was at UAH1.10bn.

2

Foreign exchange markets

3

UAH gradually recovers

The currency auction should have been held by the NBU on Monday to ease the pressure on the hryvnia, to help it recover. On Wednesday, the hryvnia extended gains and strengthened another 0.2% to 27.1092 USD/UAH. At the same time, the Ministry of Finance reported yesterday that public and publicly guaranteed debt of Ukraine rose 0.2% MoM to UAH2.05tn, which restricted the hryvnia's growth to some extent. In the local market, the hryvnia sold for 27.02 USD/UAH versus 27.20 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.33% to 111.44; in year-on-year terms, it is down 0.2% from 111.66 last year.

3

Appendix #1: Domestic liquidity

4

Domestic liquidity

Liquidity recovers slightly

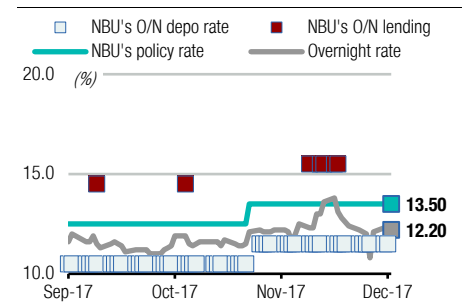
Liquidity rose UAH2.01bn to UAH77.76bn this Tuesday with a slight fund reallocation to reserves. Banks' correspondent accounts balance with the NBU rose UAH3.17bn to UAH45.95bn while total CDs outstanding declined UAH1.16bn to UAH31.81bn. Banks reinvested mostly all repayments on overnight CDs while in the 2-week withdrawal of funds was at UAH1.10bn.

Liquidity was supported by the NBU, via other monetary operations, providing UAH0.95bn of additional funds. Also, UAH1.06bn were received from non-monetary operations, the Treasury provided UAH1.60bn of additional funds and covered all outflows via reserves exchange to cash.

ICU View: *The recovery in liquidity was short-lived and should be volatile over the next few days. At the same time, the increase in budget expenditures instead of a withdrawals of local budget deposits will be larger and the liquidity should rise soon.*

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

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



Source: Bloomberg, ICU.

Key indicators (as of 6 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	12.20	-10bp	+20bp	+0bp	+160bp
ON \$ swap	12.28	-13bp	+33bp	-22bp	+81bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	45,951	+7.41	-2.73	+9.96	-7.60
DepCerts ³	31,808	-3.52	-3.32	-6.65	-48.89
Total	77,759	+2.66	-2.97	+2.50	-30.55
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	326,560	-0.08	+5.23	+3.56	+89.33
Residents	21,337	-0.16	+0.29	-4.34	-9.67
Individuals	1,165	-0.19	+1.79	+28.78	+1,020.1
Non-res ⁴	4,788	-0.01	+0.01	+0.16	-24.63
Total	714,422	-0.04	+2.34	+1.50	+29.72
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	16.19	+209bp	+267bp	+134bp	-612bp
3 months	13.73	+31bp	-58bp	-102bp	-833bp
6 months	11.93	+15bp	-48bp	-63bp	-611bp
1 year	11.45	+14bp	-12bp	-17bp	-454bp
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 gradually recovers

The currency auction should have been held by the NBU on Monday to ease the pressure on the hryvnia, to help it recover. On Wednesday, the hryvnia extended gains and strengthened another 0.2% to 27.1092 USD/UAH. At the same time, the Ministry of Finance reported yesterday that public and publicly guaranteed debt of Ukraine rose 0.2% MoM to UAH2.05tn, which restricted the hryvnia's growth to some extent. In the local market, the hryvnia sold for 27.02 USD/UAH versus 27.20 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.33% to 111.44; in year-on-year terms, it is down 0.2% from 111.66 last year.

The greenback traded lower against the basket of other major currencies in the first half of the trading session on the back of concerns about possible US government shutdown. However, strong labor market data (US labor productivity rose for the fastest pace in three years in 3Q17) along with optimism over progress on tax reform helped the US currency trim losses. The DXY index traded at 93.17-93.65, closing up 0.2% to 93.61.

The euro gained from solid macroeconomic statistics in the first half of Wednesday, as German factory orders rose 0.5% MoM in October, while Eurozone retail PMI increased to 52.4 in November. However, the single European currency trimmed gains due to stronger US dollar and declined 0.3% to 1.1796 EUR/USD.

The Russian ruble dropped 0.7% to 59.1962 USD/RUB being under pressure from different factors. The oil prices fell on Wednesday as US gasoline stockpiles rose 9.2 mln barrels last week. At the same time, the Russia's MoF starts today currency interventions, as it intends to buy US\$217 this month. Meanwhile, the Chinese renminbi slightly strengthened by 0.1% to 6.6149 USD/CNY.

Alexander Valchyshen, Kyiv, (044) 377-7040 ext.721
Dmytro Dyachenko, Kyiv, (044) 377-7040 ext.738

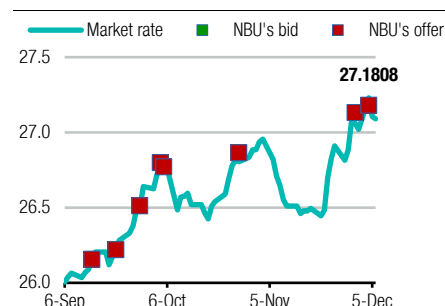
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 6 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.0900	-0.06	+0.02	+1.01	-0.04
USD ¹	93.610	+0.25	+0.48	-1.21	-8.41
EUR	1.1796	-0.25	-0.43	+1.60	+12.16
JPY	112.2900	-0.28	+0.32	-1.25	-3.99
GBP ²	1.3393	-0.37	-0.12	+1.69	+8.53
CNY	6.6149	-0.07	-0.03	-0.28	-4.75
RUB	59.1962	+0.75	+0.96	+1.58	-3.80

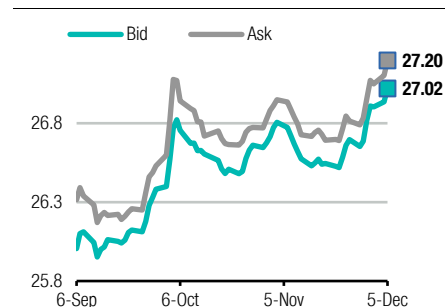
Notes: [1] DXY, US dollar index; [2] British pound.
 Source: Bloomberg, ICU.

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



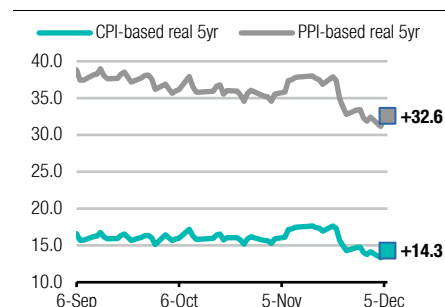
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

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



Source: NBU.

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

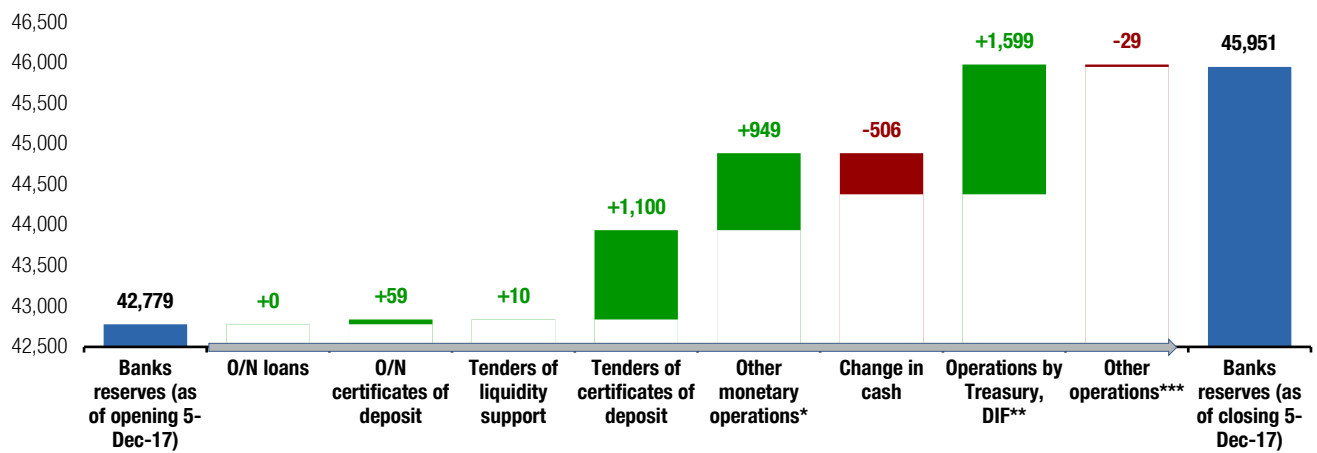
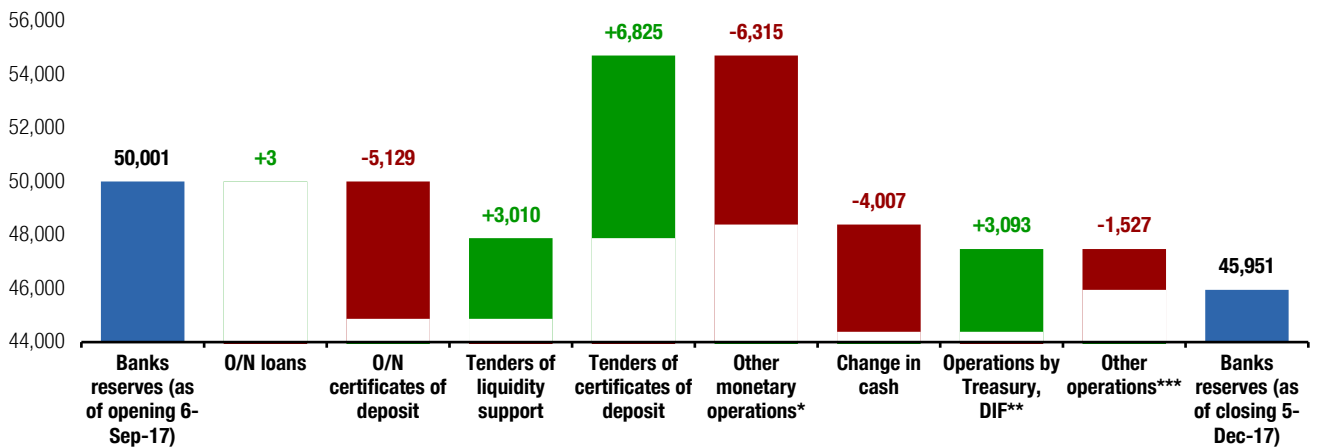
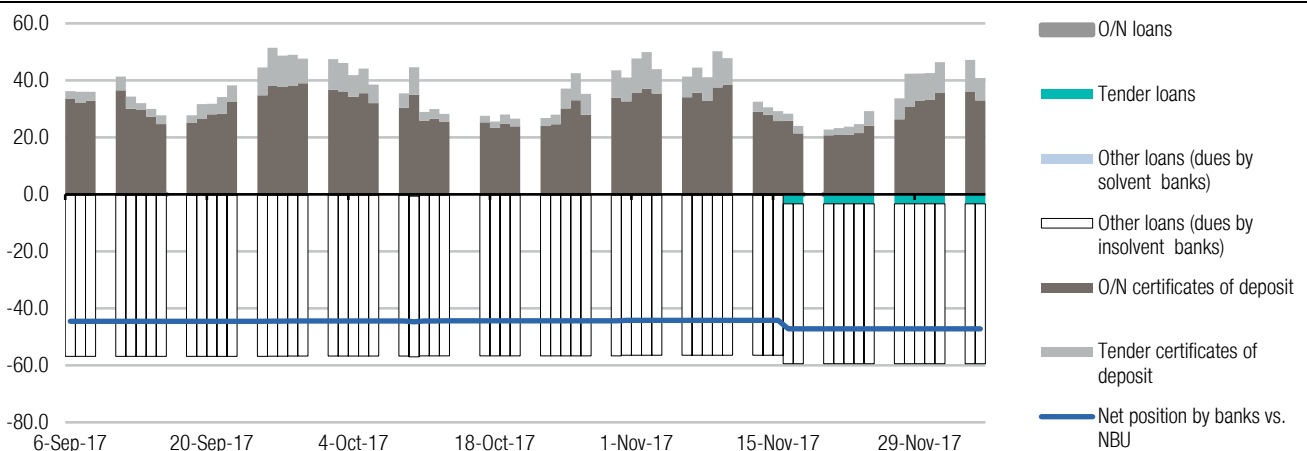


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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.

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 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

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.