

Daily Insight

Liquidity continues to rise

Key messages of the today's comments

Domestic liquidity

2

Liquidity continues to rise.....2

This Monday, banking sector liquidity (except the government bond portfolio) continued to rise UAH1.13bn, setting a new record high this month at UAH79.04bn, as the Treasury's balance of its operations was UAH2.13bn. However, as outflows via exchanges of reserves into cash were UAH0.95bn along with UAH0.11bn via other operations, the net positive impact of non-monetary operations declined to UAH1.07bn. The NBU provided an additional UAH0.07bn via an ON loan and FX purchases.

2

Primary auction: Yield curve goes up2

Yesterday, the MoF held the regular auction and once more increased interest rates to borrow a significant amount of budget financing. While local currency bond rates increased, demand for FX-denominated bonds was insufficient. USD-denominated bonds received only non-competitive bid while EUR-denominated bonds received three bids for a mere total of EUR3.5m at 3.95% (unchanged from last week), from which the MoF received UAH0.11bn of proceeds.

2

Foreign exchange markets

3

The hryvnia weakened ahead of the FOMC meeting3

The Ukrainian currency weakened 0.15% to 27.1771 UAH/USD amid rising demand for the USD ahead of the FOMC meeting. In addition, the NBU's comment revealed that the regulator expects higher inflation at the end of the year than it forecasted previously (12.2% YoY), which also put pressure on the hryvnia. On Tuesday, in the local market the hryvnia sold for 27.05 UAH/USD versus 27.23 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.01% to 111.35; in year-on-year terms, it is up 0.15% from 111.18 last year.

3

Appendix #1: Domestic liquidity

4

WEDNESDAY, 13 DECEMBER 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 12 December 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 12 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)	54,144	+34.95	+8.87
Deposit certificates* (UAHm)	24,894	-34.12	-60.00
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.1800	+0.24	+0.30
Total trade volume (US\$m)	199.88	+24.02	+17.84
UAH index CPI-based	111.345	+0.01	+3.08
UAH index PPI-based	168.796	+0.01	+0.23

UKRAINE SOVEREIGN EUROBOND MARKET

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

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,664.11	+0.15	+19.00
MSCI EM	1,112.37	-0.68	+29.00
US dollar index (DXY)	94.101	+0.25	-7.93
EUR / USD	1.1742	-0.23	+11.65
Crude oil WTI (US\$/bbl)	57.14	-1.47	+6.37
Crude oil BRENT (US\$/bbl)	63.34	-2.09	+11.47
CRB, commodities index	183.41	-1.12	-4.73
Gold (US\$/ounce)	1,244.60	+0.21	+8.01

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity continues to rise

This Monday, banking sector liquidity (except the government bond portfolio) continued to rise UAH1.13bn, setting a new record high this month at UAH79.04bn, as the Treasury's balance of its operations was UAH2.13bn. However, as outflows via exchanges of reserves into cash were UAH0.95bn along with UAH0.11bn via other operations, the net positive impact of non-monetary operations declined to UAH1.07bn. The NBU provided an additional UAH0.07bn via an ON loan and FX purchases.

At the same time, there was a significant reallocation, the largest this year, of funds from CDs to reserves. Total CDs outstanding fell UAH12.89bn to UAH24.89bn, due to a significant withdrawal of funds from ON CDs. These funds and additional inflows were accumulated at banks' correspondent accounts with the NBU, increasing it by UAH14.02bn to UAH54.14bn.

ICU view: The Treasury continued to have a positive balance of operations without a large VAT refund. Since the beginning of the month, the Treasury paid only UAH0.54bn in VAT refunds. Monday's reallocation was due to either the reallocation of funds into longer CDs, investing in bonds, preparing for repayments of local budget deposits.

Primary auction: Yield curve goes up

Yesterday, the MoF held the regular auction and once more increased interest rates to borrow a significant amount of budget financing. While local currency bond rates increased, demand for FX-denominated bonds was insufficient. USD-denominated bonds received only non-competitive bid while EUR-denominated bonds received three bids for a mere total of EUR3.5m at 3.95% (unchanged from last week), from which the MoF received UAH0.11bn of proceeds.

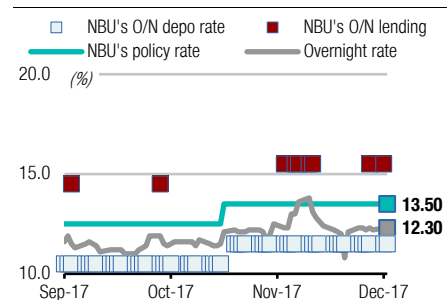
Total demand for the three local currency bonds was UAH4.17bn at par value, from which UAH3.25bn was submitted for the shortest bond. Demand was combined from ten bids at interest rates of 15.60-16.30%, all of which were accepted. As a result, the cut-off rate was set at 16.30%, 30bp above last week's level, with the weighted average rate up 32bp.

The 6-month bond received six bids for a total of UAH0.47bn at 15.60-16.00% from which the MoF accepted only three bids for a total of UAH0.36bn with the cut-off rate at 15.90% and the weighted average rate at 15.85%. The 5-year bond, the first offered since the key policy rate was increased by the NBU at the end of October 2017, received five bids, from which the MoF accepted only two at 15.74%.

ICU view: Ultimately, the MoF received a large amount of funds, mostly for a short time at higher rates. Most likely, year-end budget needs forced to accept higher rates, and next week we could see bidders continue to submit higher rates. However, for the issuer the amount of proceeds will be more important.

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

Interest rates in the banks' reserves market (three months through 12 December 2017)



Source: Bloomberg, ICU.

Key indicators (as of 12 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	+0bp	-20bp	+170bp
ON \$ swap	12.40	+1bp	+10bp	+0bp	+93bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	54,144	+34.95	+26.57	+47.23	+8.87
DepCerts ³	24,894	-34.12	-24.49	-35.39	-60.00
Total	79,038	+1.45	+4.35	+4.96	-29.41
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+1.24
Banks	329,948	+0.03	+0.99	+5.28	+91.51
Residents	21,329	+0.25	+0.42	-1.82	-9.33
Individuals	1,186	+0.89	+1.55	+31.75	+1,039.7
Non-res ⁴	4,786	+0.00	-0.04	-9.84	-24.65
Total	717,821	+0.02	+0.47	+2.27	+30.42
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	13.18	+5bp	-92bp	-268bp	-913bp
3 months	13.09	-4bp	-33bp	-216bp	-897bp
6 months	11.58	+6bp	-21bp	-104bp	-647bp
1 year	11.21	+0bp	-10bp	-56bp	-478bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	434	+0bp	+0bp	-12bp	-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

The hryvnia weakened ahead of the FOMC meeting

The Ukrainian currency weakened 0.15% to 27.1771 UAH/USD amid rising demand for the USD ahead of the FOMC meeting. In addition, the NBU's comment revealed that the regulator expects higher inflation at the end of the year than it forecasted previously (12.2% YoY), which also put pressure on the hryvnia. On Tuesday, in the local market the hryvnia sold for 27.05 UAH/USD versus 27.23 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.01% to 111.35; in year-on-year terms, it is up 0.15% from 111.18 last year.

The USD traded higher following solid PPI data, as producer prices jumped 3.1% YoY last month. This increased the probability of the widely expected interest rate hike at today's FOMC meeting. The DXY index traded at 93.76-94.22, closing up 0.25% to 94.10.

As a consequence, the euro weakened 0.2% to 1.1742 USD/EUR, being also under pressure as both the German and Eurozone ZEW economic sentiments fell more than expected in December. The Chinese renminbi was traditionally not volatile and fell only 0.04% to 6.6215 CNY/USD.

The ruble also weakened 0.5% to 59.2183 RUB/USD, not only as the USD strengthened, but also under pressure from increased domestic demand for foreign currency as the MoF continues to purchase foreign currency and private firms are preparing for large external debt repayments.

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

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

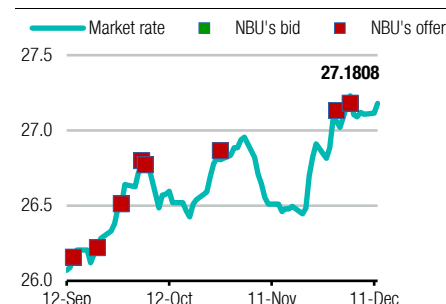
Key indicators (as of 12 December 2017)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.1800	+0.24	+0.28	+2.53	+0.30
USD ¹	94.101	+0.25	+0.77	-0.31	-7.93
EUR	1.1742	-0.23	-0.71	+0.66	+11.65
JPY	113.5500	-0.01	+0.84	+0.02	-2.92
GBP ²	1.3318	-0.17	-0.93	+0.92	+7.93
CNY	6.6215	+0.04	+0.03	-0.29	-4.66
RUB	59.2183	+0.52	+0.79	+0.10	-3.77

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

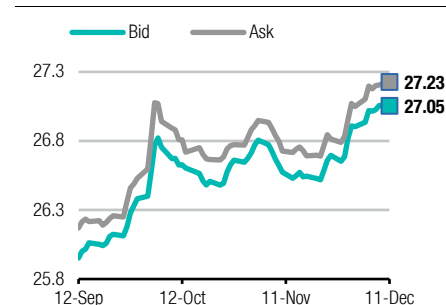
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 12 December 2017)



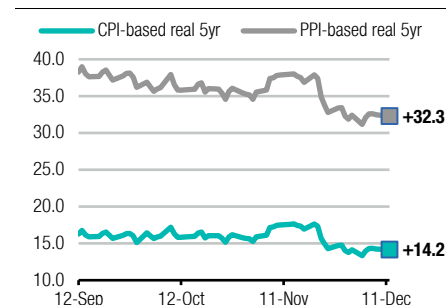
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 12 December 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 12 December 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](#).

Appendix #1: Domestic liquidity

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

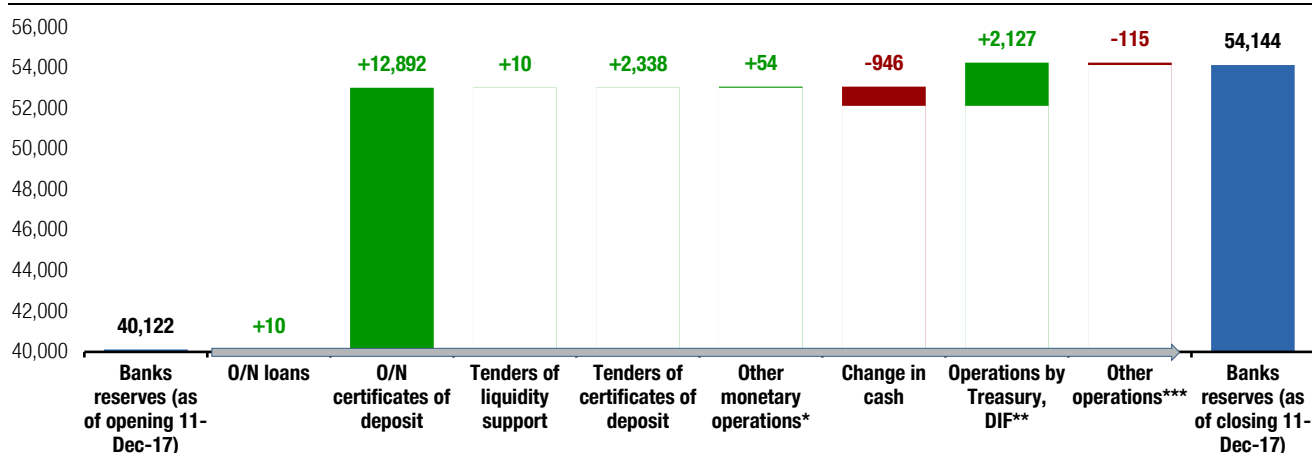
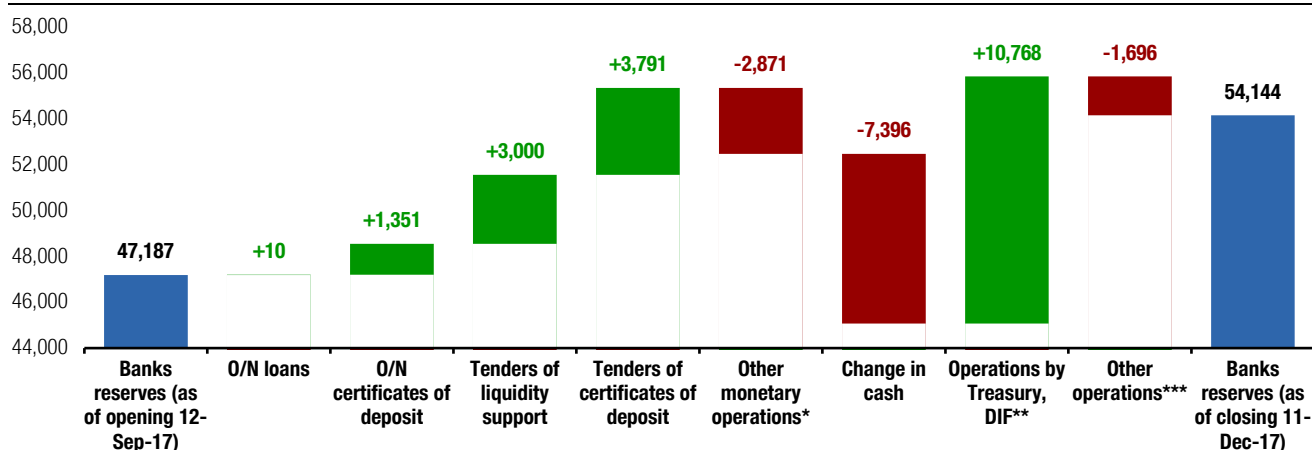


Chart 2. Banks reserves usages over last 90-day period (UAHm)

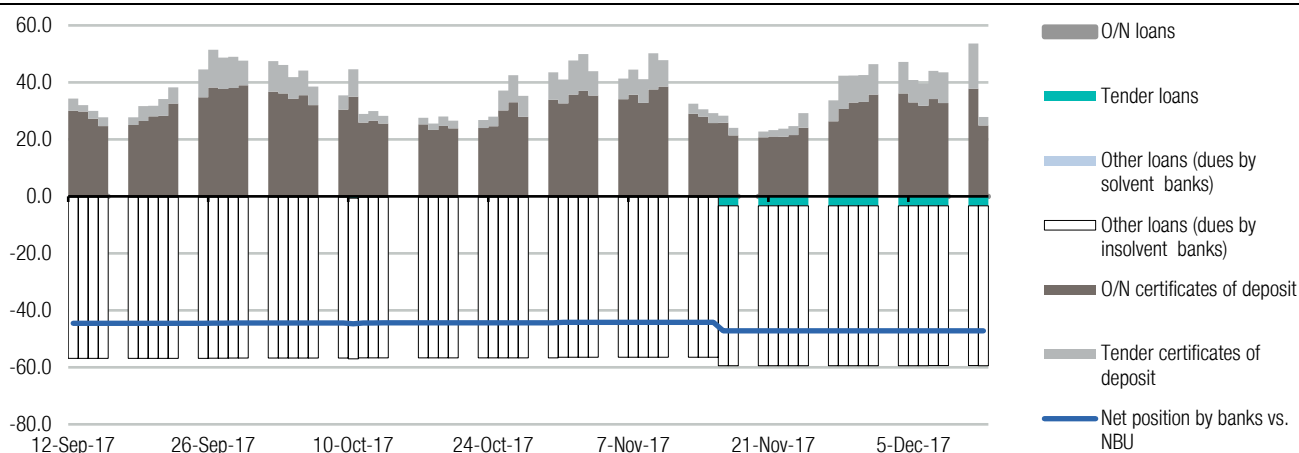


Notes: [1] data from the NBU's daily reporting https://bank.gov.ua/control/uk/publish/article?art_id=38643651&cat_id=40807142 ;

* 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](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

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.

