

Daily Insight

Primary auction yields remain steady

Key messages of the today's comments

Domestic liquidity **2**

Liquidity decline continues **2**

Liquidity continued to decline for the third consecutive day and fell below UAH100bn this Tuesday. Outflows were UAH1.35bn, less than the previous day. Banks significantly decreased the amount of ON CDs to UAH22.20bn, purchasing an additional UAH0.85bn of 14-day CDs, as total CDs outstanding declined UAH2.30bn to UAH64.11bn. **2**

Primary auction yields remain steady **2**

Yesterday, the MoF kept interest rates at about 16% at the first auction of 2018. Accepting 94.6% of demand, the MoF borrowed UAH986.02m, mostly in the shortest offered bond with a 6-month maturity, the most expensive for the budget. **2**

Foreign exchange markets **3**

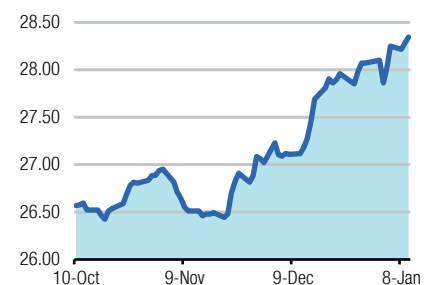
UAH extends losses **3**

On Wednesday, the hryvnia weakened another 0.45% against the USD to 28.3288 UAH/USD. The hryvnia's depreciation was prompted by an ongoing low supply of foreign currency on the local FX market. At the same time, inflation accelerated to 13.7% YoY in December from 13.6% YoY in the previous month, which fed into the UAH's weakness. The hryvnia sold for 27.99 UAH/USD versus 28.22 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.25% to 106.14; in year-on-year terms, it is down 2% from 108.30 last year. **3**

Appendix #1: Domestic liquidity **4**

THURSDAY, 11 JANUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 10 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 10 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	13.60	+10bp	+80bp
Banks reserves (UAHm)	34,633	+2.81	-27.86
Deposit certificates* (UAHm)	64,109	-3.46	+10.34
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.3450	+0.23	+0.98
Total trade volume (US\$m)	160.70	-1.11	-35.31
UAH index CPI-based	106.138	-0.25	-0.91
UAH index PPI-based	168.261	-0.25	-0.91
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	427bp	+0bp	-5bp

GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,748.23	-0.11	+2.79
MSCI EM	1,197.53	-0.63	+3.37
US dollar index (DXY)	92.332	-0.21	+0.23
EUR / USD	1.1948	+0.09	-0.47
Crude oil WTI (US\$/bbl)	63.57	+0.97	+5.21
Crude oil BRENT (US\$/bbl)	69.20	+0.55	+3.48
CRB, commodities index	194.83	+0.35	+0.50
Gold (US\$/ounce)	1,316.92	+0.32	+1.06

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity decline continues

Liquidity continued to decline for the third consecutive day and fell below UAH100bn this Tuesday. Outflows were UAH1.35bn, less than the previous day. Banks significantly decreased the amount of ON CDs to UAH22.20bn, purchasing an additional UAH0.85bn of 14-day CDs, as total CDs outstanding declined UAH2.30bn to UAH64.11bn.

Some funds from CDs were allocated at banks' correspondent accounts with the NBU, increasing reserves by UAH0.95bn to UAH34.63bn.

ICU view: *Currently, the budget is conserving expenditures as most social payments were paid at the end of December rather than at the beginning of this year. As we see no significant flows of funds from the Treasury, this situation could continue through the end of this week.*

Primary auction yields remain steady

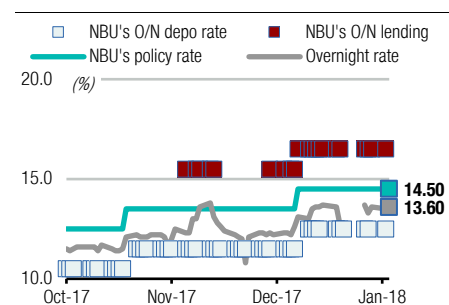
Yesterday, the MoF kept interest rates at about 16% at the first auction of 2018. Accepting 94.6% of demand, the MoF borrowed UAH986.02m, mostly in the shortest offered bond with a 6-month maturity, the most expensive for the budget.

While all bids for 6-month bonds were accepted, with the cut-off rate at 16.00% as the weighted-average rate increased to 15.97%, the 9-month bond cut-off rate was set at 15.75% and the 2-year at 15.70%.

ICU view: *Despite no apparent need for extra borrowings, the MoF is not refusing to raise funds from bond sales. Yields remained unchanged with no indication of raising them. The higher level for shorter bonds indicates that the MoF is unprepared to increase the rate further and that rates must decline.*

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

Interest rates in the banks' reserves market (three months through 10 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 10 January 2018)

	Last	Daily	Weekly	Monthly	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.50	+0bp	+0bp	+100bp	+0bp
ON rate	13.60	+10bp	-10bp	+140bp	+80bp
ON \$ swap	13.44	+12bp	+31bp	+150bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	34,633	+2.81	-7.62	-18.84	-27.86
DepCerts ³	64,109	-3.46	-4.34	+95.80	+10.34
Total	98,742	-1.35	-5.52	+30.94	-6.94
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+0.00
Banks	361,028	-0.03	+0.11	+9.40	+0.03
Residents	22,215	-1.63	-1.26	+2.62	-1.59
Individuals	1,470	+0.01	+0.17	+25.25	+0.16
Non-res ⁴	5,219	+0.02	+0.02	+9.18	+0.02
Total	750,506	-0.06	+0.02	+4.50	-0.03
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	13.33	+355bp	+54bp	-31bp	-248bp
3 months	11.74	+86bp	+21bp	-152bp	+80bp
6 months	11.79	+48bp	+6bp	+18bp	-62bp
1 year	11.82	+25bp	-3bp	+51bp	-32bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	427	+0bp	+0bp	-8bp	-5bp

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 extends losses

On Wednesday, the hryvnia weakened another 0.45% against the USD to 28.3288 UAH/USD. The hryvnia's depreciation was prompted by an ongoing low supply of foreign currency on the local FX market. At the same time, inflation accelerated to 13.7% YoY in December from 13.6% YoY in the previous month, which fed into the UAH's weakness. The hryvnia sold for 27.99 UAH/USD versus 28.22 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.25% to 106.14; in year-on-year terms, it is down 2% from 108.30 last year.

The greenback traded lower on the back of the news that Chinese authorities announced that they will consider tapering or even halting purchases of US Treasuries. Most notably, China is currently the largest holder of US debt securities. The DXY index reacted on this news with a decline of 0.2% to 92.33, while during the trading session it traded at 91.92-92.56.

The USD's weakness supported other currencies: the euro strengthened 0.1% to 1.1948 USD/EUR, after Tuesday's decline of 0.3%, while the Chinese renminbi appreciated 0.3% to 6.5082 CNY/USD.

The Russian ruble struggled to find direction. While rising oil prices supported the currency, market anticipation of next Tuesday's decision of the MoF regarding volumes of FX purchases in January caused the ruble to trade at 56.7680-57.1014, closing down 0.3% to 57.0547 RUB/USD.

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

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

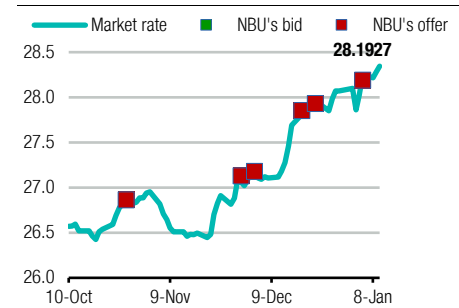
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 10 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.3450	+0.23	+1.74	+4.57	+0.98
USD ¹	92.332	-0.21	+0.18	-1.67	+0.23
EUR	1.1948	+0.09	-0.56	+1.49	-0.47
JPY	111.4400	-1.07	-0.95	-1.80	-1.11
GBP ²	1.3507	-0.24	-0.07	+0.87	-0.04
CNY	6.5082	-0.33	+0.08	-1.70	+0.02
RUB	57.0547	+0.32	-0.17	-3.50	-1.10

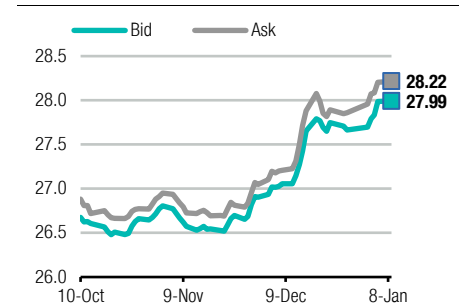
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 10 January 2018)



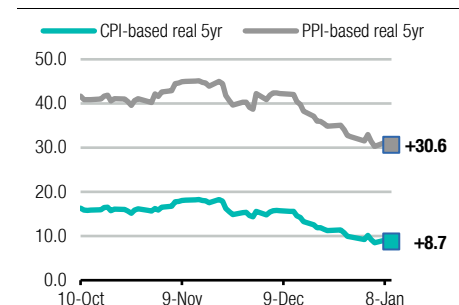
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 10 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 10 January 2018)



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)

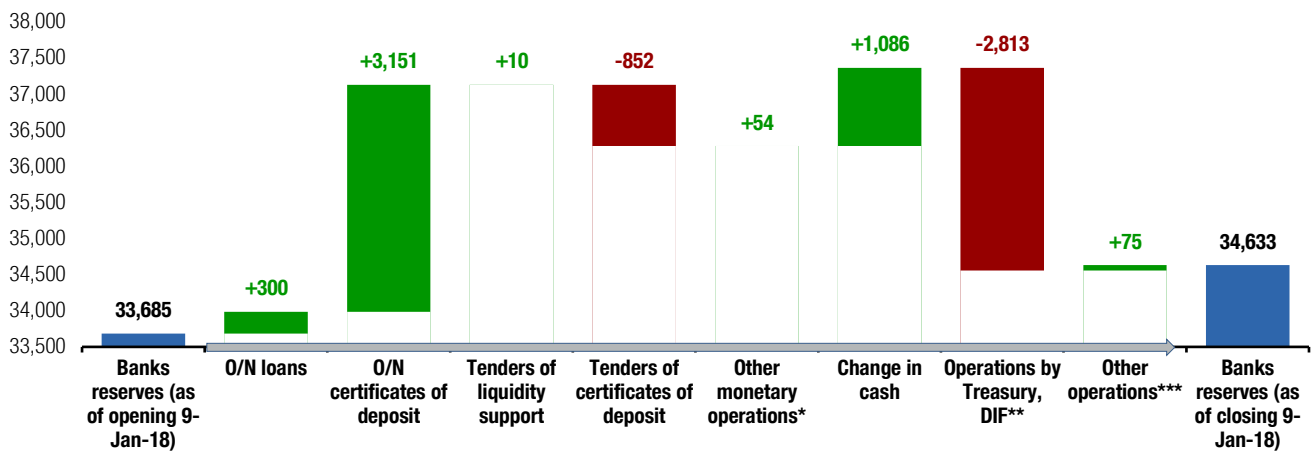
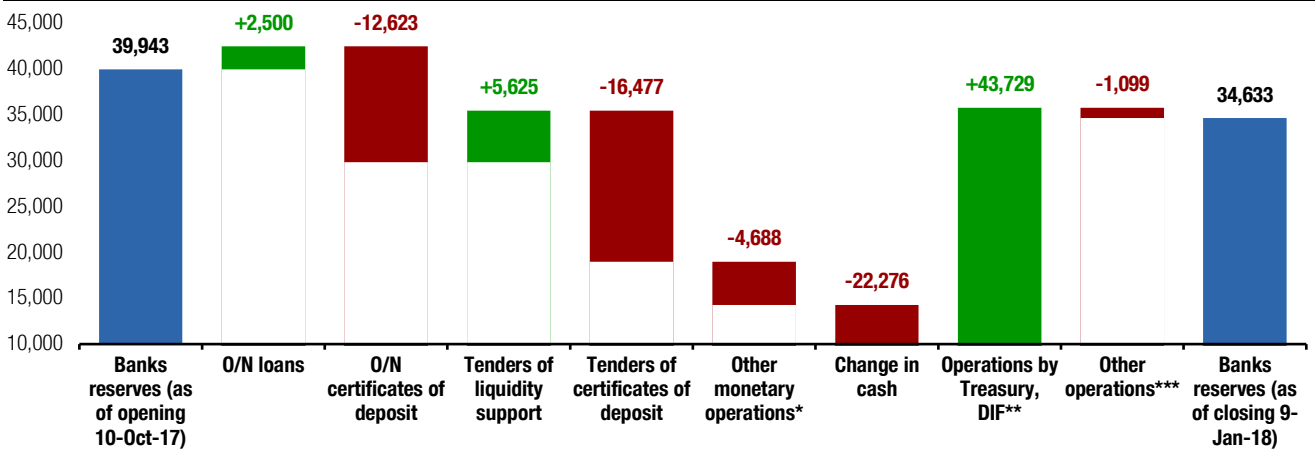
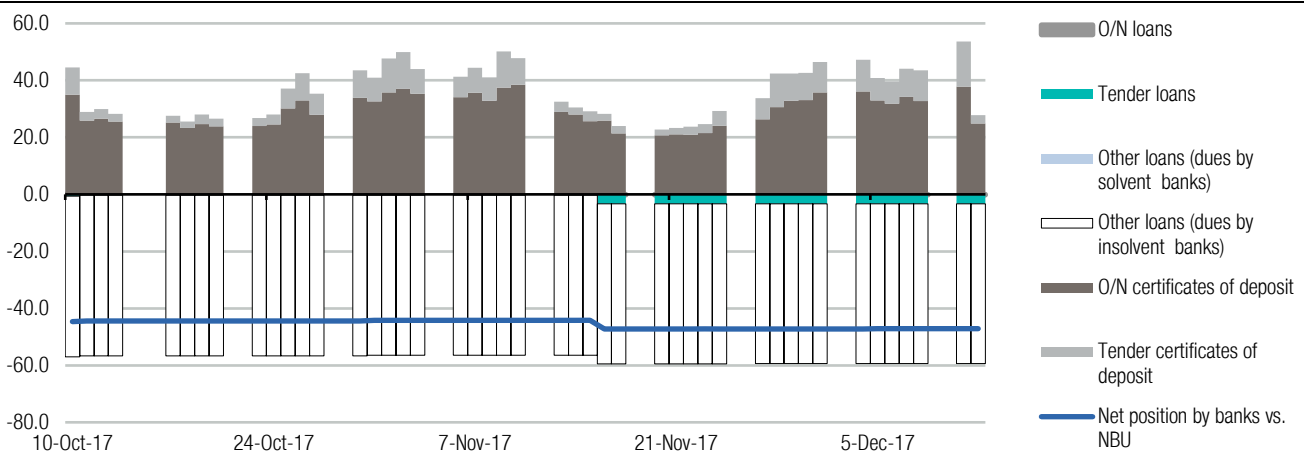


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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 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

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.

