

Daily Insight

UAH extends losses

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After Wednesday's recovery due to inflows from the Treasury via expenditures and from the NBU via loans, liquidity once more declined on Thursday, down UAH3.27bn to UAH99.66bn. The decline was caused by the same cash flows, but in the opposite direction. The negative balance of Treasury operations was UAH1.62bn and banks repaid UAH0.70bn of loans to the NBU. Also, the NBU absorbed UAH1.08bn via other monetary operations as it most likely sold FX to several banks. 2

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At the beginning of the week, the hryvnia declined another 0.1% to 28.5677 UAH/USD, having weakened for the fifth consecutive trading session. The Ukrainian currency still remains under pressure from low supply as exporters refrain from selling FX currency as they expect the hryvnia to weaken further. In the local market, the hryvnia sold for 28.36 UAH/USD versus 28.51 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.34% to 103.7; in year-on-year terms, it is down 1.55% from 105.31 last year. 3

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TUESDAY, 16 JANUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 15 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 15 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.50	+0bp	+0bp
Overnight rate (interbank)	13.70	-10bp	+90bp
Banks reserves (UAHm)	51,335	-2.24	+6.93
Deposit certificates* (UAHm)	46,859	-0.61	-19.35
FOREIGN EXCHANGE MARKET			
UAH per US dollar	28.5650	+0.04	+1.76
Total trade volume (US\$m)	114.44	-50.70	-53.93
UAH index CPI-based	103.703	-0.34	-3.18
UAH index PPI-based	164.401	-0.34	-3.18

UKRAINE SOVEREIGN EUROBOND MARKET

CDS 5yr	340bp	+0bp	-92bp
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GLOBAL FINANCIAL MARKET INDICATORS

S&P 500	2,786.24	+0.67	+4.21
MSCI EM	1,210.64	+0.20	+4.51
US dollar index (DXY)	90.974	+0.00	-1.25
EUR / USD	1.2264	+0.51	+2.16
Crude oil WTI (US\$/bbl)	N/A	-100.00	-100.00
Crude oil BRENT (US\$/bbl)	70.26	+0.56	+5.07
CRB, commodities index	N/A		
Gold (US\$/ounce)	1,340.06	+0.16	+2.84

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity volatile at UAH100bn

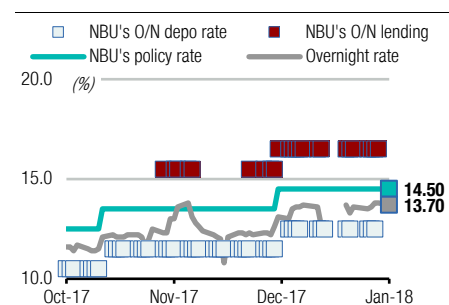
After Wednesday's recovery due to inflows from the Treasury via expenditures and from the NBU via loans, liquidity once more declined on Thursday, down UAH3.27bn to UAH99.66bn. The decline was caused by the same cash flows, but in the opposite direction. The negative balance of Treasury operations was UAH1.62bn and banks repaid UAH0.70bn of loans to the NBU. Also, the NBU absorbed UAH1.08bn via other monetary operations as it most likely sold FX to several banks.

Banks' correspondent accounts with the NBU fell UAH0.98bn to UAH52.51bn and total CDs outstanding fell UAH2.30bn to UAH47.15bn. Banks decreased 2-week CDs by UAH3.12bn, reallocating a small portion of funds into ON CDs.

ICU view: *Despite the positive balance of operations with cash since the year's beginning, this inflow could not support liquidity as little to no budget expenditures caused outflows from banks to Treasury accounts. This also forced some banks to borrow liquidity from the NBU. This week, liquidity should continue to decline due to ongoing low budget expenditures, and next week it be under pressure from month-end tax payments, possibly pushing it down to around UAH90bn.*

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

Interest rates in the banks' reserves market (three months through 15 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 15 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.50	+0bp	+0bp	+0bp	+0bp
ON rate	13.70	-10bp	+10bp	+60bp	+90bp
ON \$ swap	13.39	+3bp	+61bp	+17bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	51,335	-2.24	+38.71	-26.57	+6.93
DepCerts ³	46,859	-0.61	-33.05	+221.3	-19.35
Total	98,194	-1.47	-8.23	+16.21	-7.46
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	360,573	+0.00	+0.00	+0.00	+0.00
Banks	361,657	+0.11	+0.37	+8.11	+0.24
Residents	22,087	+0.40	-0.58	+2.73	-0.53
Individuals	1,488	+0.56	+1.58	+16.02	+1.37
Non-res ⁴	5,255	+0.01	+0.70	+2.34	+0.69
Total	751,060	+0.07	+0.17	+3.88	+0.11
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	12.25	+3bp	+7bp	+284bp	-356bp
3 months	11.71	+9bp	-7bp	+46bp	+78bp
6 months	11.75	+4bp	-1bp	+17bp	-66bp
1 year	11.74	-7bp	-6bp	-3bp	-40bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	340	+0bp	-87bp	-95bp	-92bp

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

At the beginning of the week, the hryvnia declined another 0.1% to 28.5677 UAH/USD, having weakened for the fifth consecutive trading session. The Ukrainian currency still remains under pressure from low supply as exporters refrain from selling FX currency as they expect the hryvnia to weaken further. In the local market, the hryvnia sold for 28.36 UAH/USD versus 28.51 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index fell 0.34% to 103.7; in year-on-year terms, it is down 1.55% from 105.31 last year.

The euro extended its gains and appreciated 0.5% to 1.2264 USD/EUR, the strongest rate since December 2014, being boosted by talks that the ECB may scale back its massive stimulus program early this year. In addition, news the Angela Merkel moved closer to forming a coalition government in Germany also bolstered the euro.

The US core CPI accelerated to 1.8% YoY, up from 1.7% YoY in November, while retail sales increased by 0.4% MoM last month. However, solid macroeconomic statistics provided little support to the USD which was under pressure from the stronger euro. On Monday, the DXY closed at 90.974, the lowest rate since January 2015.

The Chinese yuan extended its gains and strengthened another 0.5% against the USD to 6.4371 CNY/USD, the strongest rate since year-end 2015. The Chinese currency was supported by a number of factors, including the Bundesbank's decision to add the yuan to its currency reserves, the PBOC's move to strengthen the daily reference to the strongest level in three months, and China's trade surplus with the USA rising 13% to US\$291bn in 2017.

The Russian ruble strengthened 0.4% to 56.3688 RUB/USD on the back of the globally weaker USD and of higher oil prices which remain close to a 3-year high.

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

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

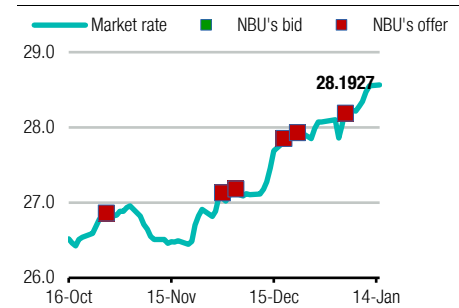
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 15 January 2018)

	Last	Daily chg (%)	Weekly chg (%)	Monthly chg (%)	YTD chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	28.5650	+0.04	+1.24	+3.16	+1.76
USD ¹	90.974	+0.00	-1.50	-3.15	-1.25
EUR	1.2264	+0.51	+2.48	+4.38	+2.16
JPY	110.5400	-0.47	-2.25	-1.83	-1.91
GBP ²	1.3792	+0.47	+1.65	+3.54	+2.06
CNY	6.4371	-0.49	-0.96	-2.61	-1.07
RUB	56.3688	-0.40	-1.33	-4.07	-2.29

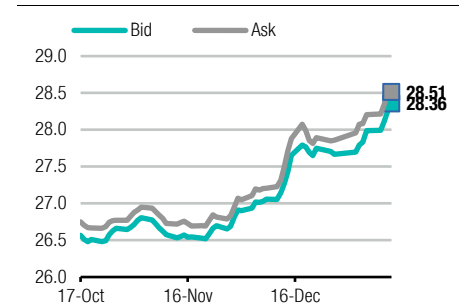
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 15 January 2018)



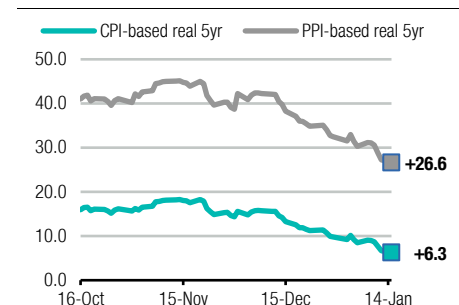
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 15 January 2018)



Source: NBU.

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

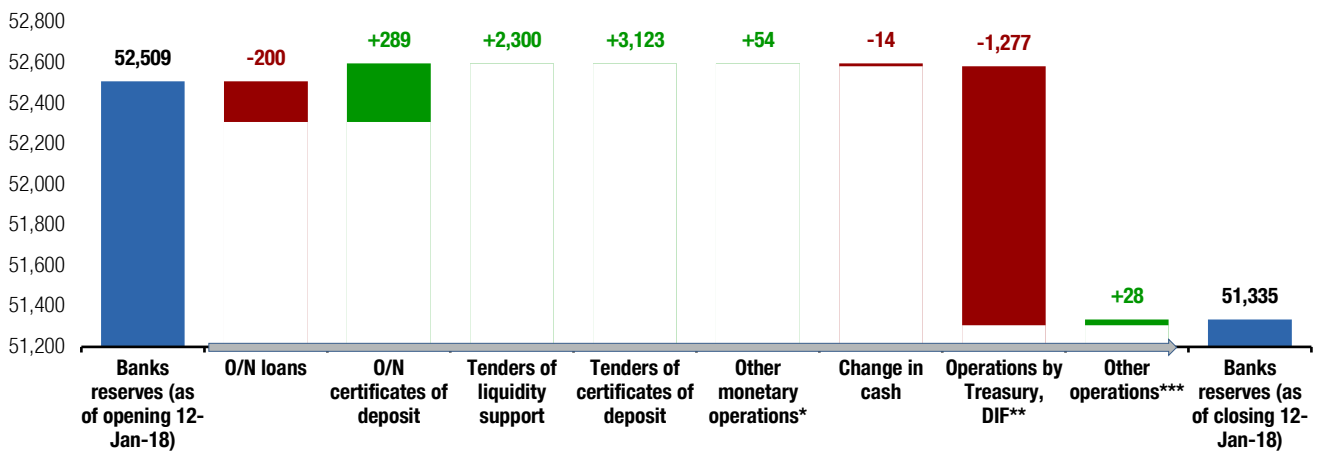
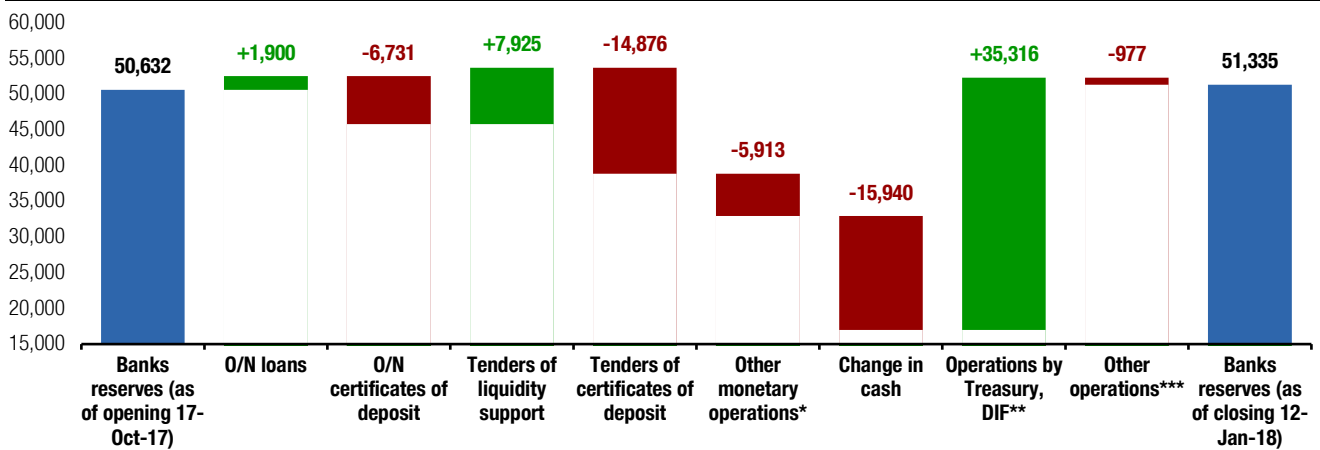
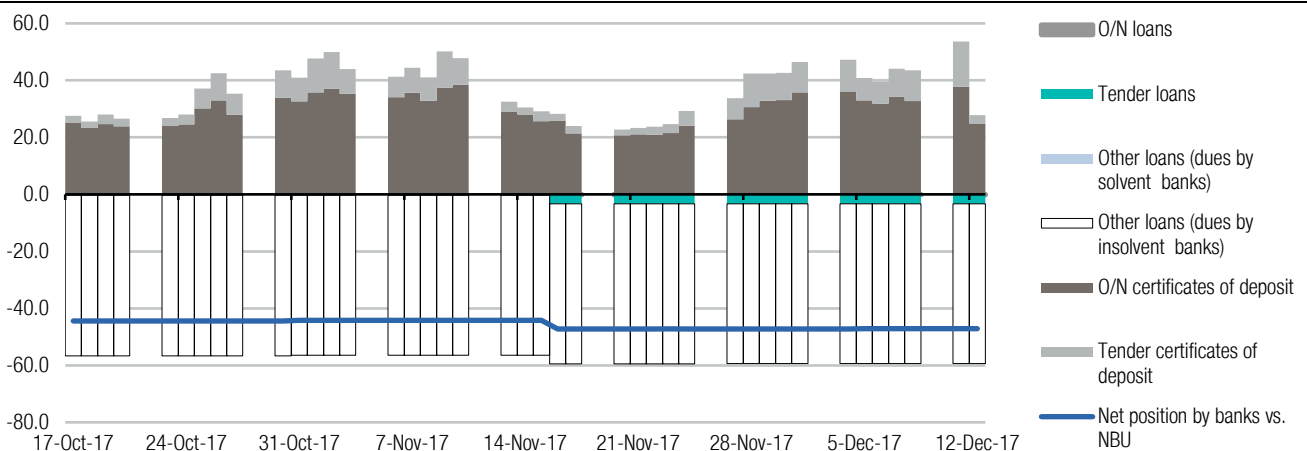


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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.

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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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