

Daily Insight

Budget continues to accumulate funds

Key messages of the today's comments

Domestic liquidity 2

Budget continues to accumulate funds 2

At Monday's close, liquidity continued to decline because of Treasury operations as it fell UAH2.73bn to UAH96.14bn. Banks' correspondent accounts with the NBU fell UAH0.90bn to UAH45.65bn and total CDs outstanding fell UAH1.83bn to UAH50.49bn. 2

MoF borrows UAH7.5bn yesterday with slight increase in rates 2

Yesterday, the MoF sold seven bonds: five issues in hryvnia and two bonds denominated in US dollars, to borrow nearly UAH7.5bn. The MoF would only accept demand for local currency bonds submitted with interest rates no higher than 16.50% for maturities up to nine months, 16.40% for the 12-month bond, and 15.80% for the 5-year bond. All non-competitive bids were also accepted. Significant demand for USD-denominated bonds was mostly accepted. 2

Foreign exchange markets 3

Hryvna close to 28/USD 3

With low domestic demand for foreign currency, the hryvnia continued to strengthen 0.8% to 28.0088 UAH/USD as liquidity fell for the second consecutive day, down UAH2.7bn. It sold for 28.05 UAH/USD versus 28.2 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.86% to 105.07; in year-on-year terms, it is down 2.08% from 107.3 last year. 3

Appendix #1: Domestic liquidity 4

WEDNESDAY, 31 JANUARY 2018

Ukraine's hryvnia exchange rate per US dollar (three months through 30 January 2018)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 30 January 2018)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	16.00	+0bp	+150bp
Overnight rate (interbank)	15.10	+20bp	+230bp
Banks reserves (UAHm)	45,652	-1.93	-4.91
Deposit certificates* (UAHm)	50,488	-3.50	-13.10
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.9700	-0.90	-0.36
Total trade volume (US\$m)	263.54	+40.43	+6.08
UAH index CPI-based	105.066	+0.86	-1.91
UAH index PPI-based	166.562	+0.86	-1.91
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	340bp	+0bp	-92bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,822.43	-1.09	+5.57
MSCI EM	1,247.63	-1.60	+7.70
US dollar index (DXY)	89.160	-0.17	-3.22
EUR / USD	1.2402	+0.15	+3.31
Crude oil WTI (US\$/bbl)	64.50	-1.62	+6.75
Crude oil BRENT (US\$/bbl)	69.02	-0.63	+3.22
CRB, commodities index	198.14	-0.70	+2.20
Gold (US\$/ounce)	1,338.51	-0.13	+2.72

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Budget continues to accumulate funds

At Monday's close, liquidity continued to decline because of Treasury operations as it fell UAH2.73bn to UAH96.14bn. Banks' correspondent accounts with the NBU fell UAH0.90bn to UAH45.65bn and total CDs outstanding fell UAH1.83bn to UAH50.49bn.

Non-monetary operations had a negative impact UAH3.86bn, as the result of UAH5.23bn in outflows to Treasury accounts while total revenues collected were reduced more than twofold from Friday to UAH8.44bn. Only UAH1.41bn of this outflow was offset by cash exchanged into reserves. The NBU provided banks with only UAH1.13bn of liquidity via the FX market.

ICU view: *With significantly lower revenues collected, the Treasury's expenditures were significantly less, causing liquidity to decline. However, thanks to last week's VAT refunds, liquidity remains above UAH90bn.*

MoF borrows UAH7.5bn yesterday with slight increase in rates

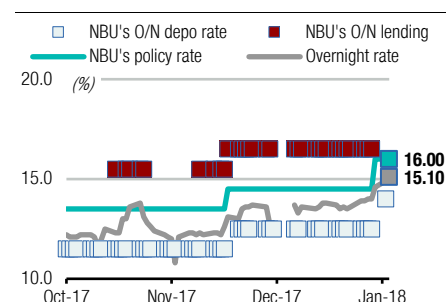
Yesterday, the MoF sold seven bonds: five issues in hryvnia and two bonds denominated in US dollars, to borrow nearly UAH7.5bn. The MoF would only accept demand for local currency bonds submitted with interest rates no higher than 16.50% for maturities up to nine months, 16.40% for the 12-month bond, and 15.80% for the 5-year bond. All non-competitive bids were also accepted. Significant demand for USD-denominated bonds was mostly accepted.

Interest rates in bids were up to 17.95% for 6-month bonds, 17.50% for 3-month and 17.30% for 9-month bonds. For the 12-month and 5-year bonds, the highest rate was 17.00%. The MoF mostly rejected these as it accepted sufficient demand at low rates. FX-denominated bond proceeds greatly exceeded those in local-currency: FX-denominated bond bids were as high as 5.90%, which was rejected, and the cut-off rate for the 2-year bond was set at the usual 5.40% and at 5.30% for the 12-month rate.

ICU view: *Yesterday, the MoF borrowed more than it did earlier this year, as it received UAH7.5bn, or about 60% of all proceeds this year. The auction also signaled that a significant increase in interest rates could be harmful to the budget and that the Ministry will try to borrow money at low rates. Significant demand and a wide range of rates yesterday allowed the MoF demonstrate this as more than 54% of demand for local currency bonds was rejected.*

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

Interest rates in the banks' reserves market (three months through 30 January 2018)



Source: Bloomberg, ICU.

Key indicators (as of 30 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	16.00	+0bp	+150bp	+150bp	+150bp
ON rate	15.10	+20bp	+120bp	+230bp	+230bp
ON \$ swap	14.52	+31bp	+128bp	+0bp	+0bp
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	45,652	-1.93	-14.30	-4.91	-4.91
DepCerts ³	50,488	-3.50	+11.94	-13.10	-13.10
Total	96,140	-2.76	-2.27	-9.40	-9.40
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	358,571	+0.00	+0.00	-0.56	-0.56
Banks	362,140	-0.35	-0.47	+0.37	+0.37
Residents	23,551	-0.36	+3.33	+6.06	+6.06
Individuals	1,522	-0.82	-0.03	+3.68	+3.68
Non-res ⁴	5,857	-0.02	+11.39	+12.22	+12.22
Total	751,639	-0.18	-0.04	+0.18	+0.18
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
1 month	7.81	-77bp	-393bp	-801bp	-801bp
3 months	8.63	-126bp	-165bp	-230bp	-230bp
6 months	6.11	-383bp	-387bp	-630bp	-630bp
1 year	6.35	-529bp	-535bp	-578bp	-578bp
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	340	+0bp	+0bp	-92bp	-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

Hryvna close to 28/USD

With low domestic demand for foreign currency, the hryvnia continued to strengthen 0.8% to 28.0088 UAH/USD as liquidity fell for the second consecutive day, down UAH2.7bn. It sold for 28.05 UAH/USD versus 28.2 to buy at the Ukrainian cash market. Its CPI-based real trade-weighted index rose 0.86% to 105.07; in year-on-year terms, it is down 2.08% from 107.3 last year.

The US dollar, weakened amidst a rising euro, did not rebound on positive macroeconomic statistics. Even though the consumer confidence index increased to 125.4 points in January, exceeding expectations 123 points, the DXY traded at 88.912-89.637, down 0.2% to 89.16.

The euro began to increase in the second half of the day on Tuesday following the release of the Eurozone's GDP growth data which rose 0.6% in the fourth quarter QoQ. Full year GDP increased 2.5%, marking the best performance in the last ten years. The euro traded at 1.2335-1.2454 USD/EUR and increased by 0.15% to 1.2402.

Meanwhile, the Russian currency was quite volatile and grew in the second half of the day, but it began to lose value as oil prices fell below US\$68.5 per barrel in the latter half of the day as it closed down 0.1% to 56.3832 RUB/USD. The Chinese yuan rose 0.3% to close at 6.3239 CNY/USD.

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

Artem Gladchenko, Kyiv, (044) 377-7040 ext.737

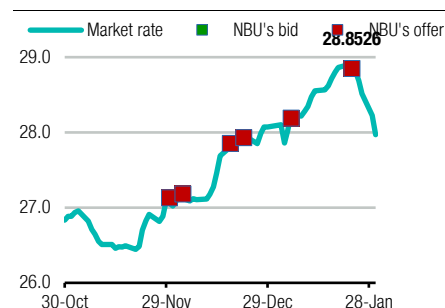
Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#).

Key indicators (as of 30 January 2018)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.9700	-0.90	-2.90	-0.36	-0.36
USD ¹	89.160	-0.17	-1.07	-3.22	-3.22
EUR	1.2402	+0.15	+0.84	+3.31	+3.31
JPY	108.7800	-0.17	-1.39	-3.47	-3.47
GBP ²	1.4147	+0.52	+1.05	+4.69	+4.69
CNY	6.3239	-0.26	-1.26	-2.81	-2.81
RUB	56.3832	+0.12	+0.00	-2.26	-2.26

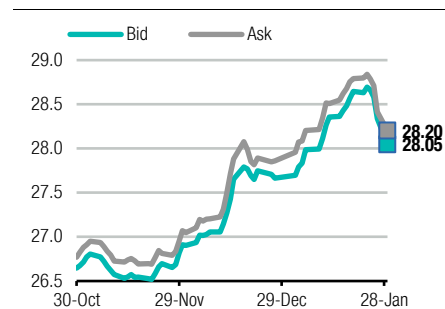
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 30 January 2018)



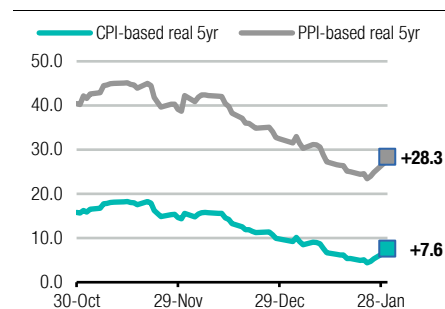
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 30 January 2018)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 30 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)

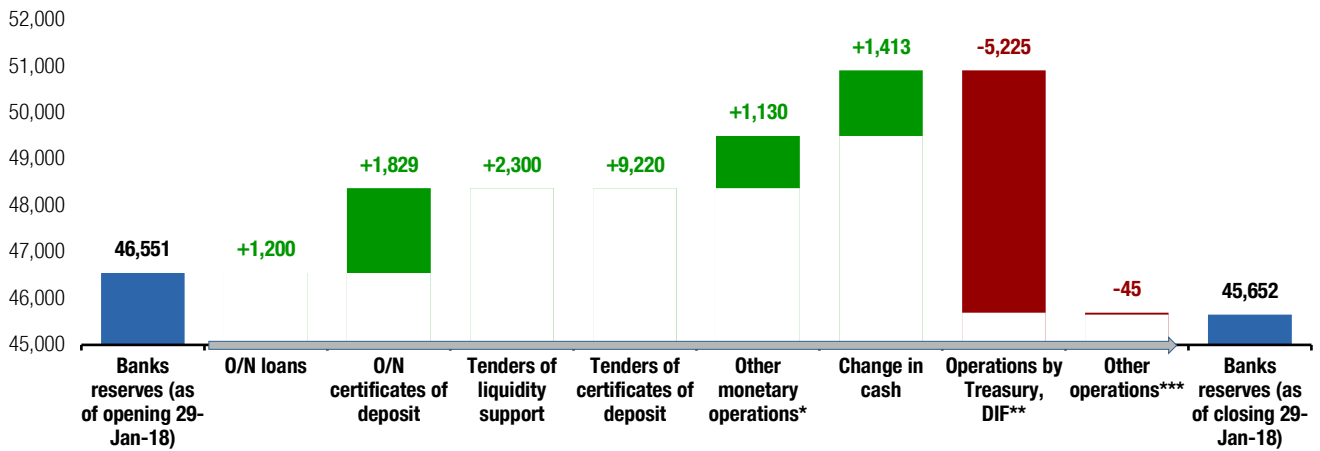
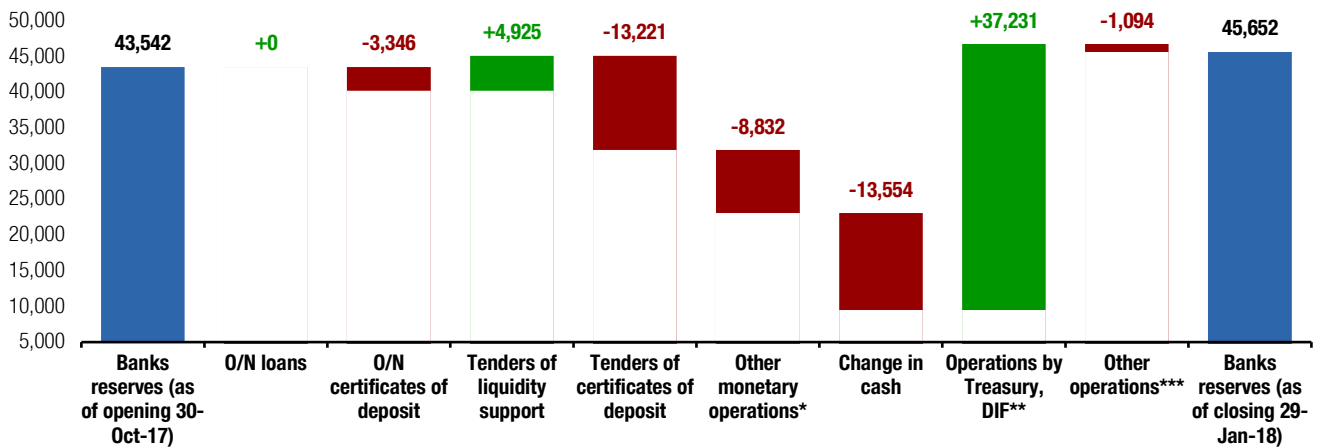
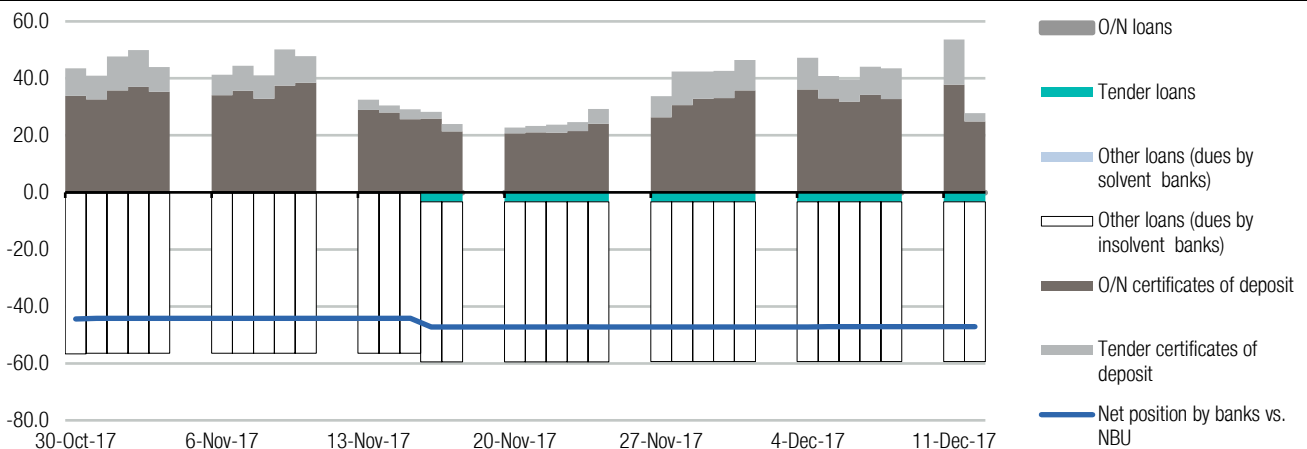


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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 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.

