



Focus  
**Ukraine**

Scope  
**Economics, bonds, equity & FX markets**

Research team  
**Alexander Valchyshen  
Taras Kotovych**

# Daily Insight

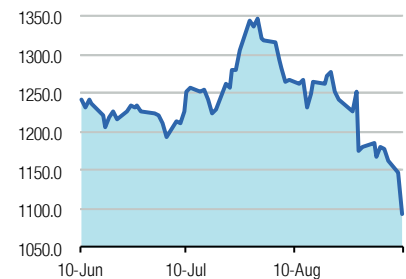
## Failed primary auction; UAH holds steady

### Contents

|   |          |
|---|----------|
| <b>Bonds: News &amp; Comments</b>                     | <b>2</b> |
| Liquidity steady on reallocations.....                | 2        |
| Eurobond YTMs increase slightly .....                 | 2        |
| Primary auction results .....                         | 2        |
| Chart page: Local bond market & Eurobond markets..... | 3        |
| <b>FX: News &amp; Comments</b>                        | <b>5</b> |
| Hryvnia holds steady .....                            | 5        |
| Chart page #1: Foreign-exchange market.....           | 6        |
| Chart page #2: ICU's UAH trade-weighted indices.....  | 7        |

WEDNESDAY, 10 SEPTEMBER 2014

### UX Index (3 months to 10 Sep 2014)



Source: UX.

### Key market indicators (as of 9 Sep 2014)

|  | Last     | Daily chg (%) | YTD chg (%) |
|--|----------|---------------|-------------|
| <b>FX &amp; MONEY RATES</b>                    |          |               |             |
| USD/UAH  | 12.6500  | -1.17         | +53.52      |
| USD/UAH (1Y NDF)                               | 14.8000  | +0.00         | +57.11      |
| EUR/USD  | 1.2937   | +0.33         | -5.86       |
| USD/RUB  | 37.0461  | +0.24         | +12.71      |
| KievPRIME O/N (%)                              | 8.25     | -8bp          | +45bp       |
| KievPRIME 1M (%)                               | 15.50    | -17bp         | -75bp       |
| <b>SOVEREIGN EUROBONDS: yields and spreads</b> |          |               |             |
| Ukraine 15, Eurobond (%)                       | 12.25    | +40bp         | +389bp      |
| Ukraine 17, Eurobond (%)                       | 12.33    | +42bp         | +278bp      |
| Ukraine 22, Eurobond (%)                       | 10.34    | +62bp         | +99bp       |
| Ukraine 23, Eurobond (%)                       | 10.29    | +62bp         | +124bp      |
| Ukraine 5Y CDS                                 | 1,065bp  | +49bp         | +248bp      |
| <b>EQUITIES</b>                                |          |               |             |
| <b>Stock market indices</b>                    |          |               |             |
| UX (Ukraine)                                   | 1,093.07 | -4.66         | +20.11      |
| MSCI World                                     | 428.14   | -0.64         | +4.80       |
| MSCI EM  | 1,087.54 | -0.68         | +8.46       |
| RTS (Russia)                                   | 1,246.64 | +0.09         | -13.59      |
| WIG-20 (Poland)                                | 2,542.88 | -0.34         | +5.91       |
| S&P 500 (USA)                                  | 1,988.44 | -0.65         | +7.58       |

Notes: Chg – percentage change, if not otherwise indicated; [1] – total traded volume for stocks listed in green- or red-shaded box means gain or loss, respectively, of the index or security.

Sources: Bloomberg, UX, Investment Capital Ukraine LLC.

# Bonds: News & Comments

## Liquidity steady on reallocations

Banks' correspondent accounts with the NBU declined slightly UAH0.64bn to UAH29.02bn yesterday as the NBU absorbed some funds via CDs, increased total CDs outstanding UAH0.85bn to UAH13.23bn. At the same time, total local currency debt repayments scheduled for the next 30 days rose a significant UAH2.29bn to UAH6.72bn, causing broader banking sector liquidity to rise UAH2.51bn to UAH48.97bn.

KyivPrime interest rates slightly declined: the KyivPrime ON interest rate slid 8bp to 8.25% while the KyivPrime 1M interest rate declined 17bp to 15.50%.

**Investment implications:** As liquidity was steady on Monday, yesterday's indicators changed little. The NBU's absorption of a small portion of liquidity did not have a negative impact on money market rates. Future debt repayments significantly rose yesterday as the MoF is scheduled to repay UAH1.50bn in a month, providing extra liquidity to the market if these repayments are not refinanced.

**Taras Kotovych, Kiev, +38044 2200120 ext.724**

## Eurobond YTM's increase slightly

Ukrainian Eurobond YTM's once more crossed the 10% level and the yield curve adjusted to the range of 10.29-12.47% yesterday, as UKRAIN 6.875% '15 declined 46bp to 12.26%, while UKRAIN 6.58% '16 was up 74bp to 11.92%, UKRAIN 6.75% '17 rose 121bp to 11.24%, and UKRAIN 9.25% '17 rose 111bp to 12.33%, while UKRAIN 7.95% '21 was up 48bp to 10.52%, UKRAIN 7.80% '22 rose 85bp to 10.34% and UKRAIN 7.50% '23 increased 40bp to 10.29%. The 5-year CDS rose to 1,065bp.

**Investment implications:** YTM's rose because the EU postponed its decision to impose new sanctions on Russia, causing negative anticipations of Russia's moves in Ukraine to increase.

**Taras Kotovych, Kiev, +38044 2200120 ext.724**

## Primary auction results

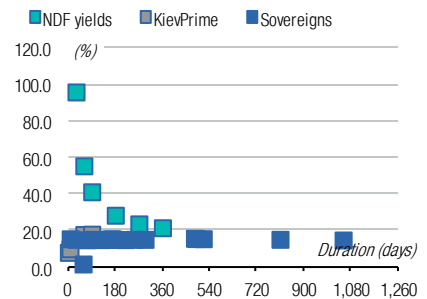
Yesterday's primary auction received no bids for the sole offering of the 2-year bond maturing in August 2016. The bond had been sold at two previous auctions held in August and last week when the MoF decreased the interest rate by 80bp to 16.50%.

**Investment implications:** After adjusting the yield lower, the MoF received no market or domestic QE supported bids at yesterday's auction. As today's debt repayments are relatively low and in local currency, they should be made without refinancing. We could see new offerings later this week, possibly of "military" bonds.

**Taras Kotovych, Kiev, +38044 2200120 ext.724**

## Yield curve of the local bond market

(as of market close on 9 Sep 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

## Bond market indicators (as of 9 Sep 2014)

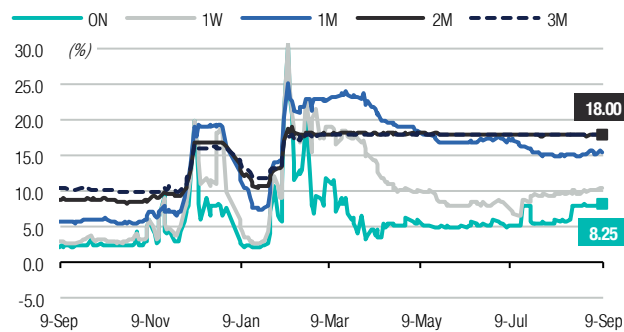
|   | Last           | Daily chg (%) | Weekly chg (%) | MoM chg (%)   | YTD chg (%)   |
|---|----------------|---------------|----------------|---------------|---------------|
| <b>MONEY MARKET KIEV PRIME RATES (%)</b>            |                |               |                |               |               |
| O/n   | 8.25           | -8bp          | +25bp          | +235bp        | +45bp         |
| 1wk   | 10.38          | +0bp          | +32bp          | +63bp         | +58bp         |
| 1m  | 15.50          | -17bp         | -13bp          | +50bp         | -75bp         |
| 2m  | 18.00          | +0bp          | +0bp           | +0bp          | +160bp        |
| 3m  | 18.00          | +0bp          | +0bp           | +0bp          | +200bp        |
| <b>LIQUIDITY WIDE MEASUREMENT (UAHm)</b>            |                |               |                |               |               |
| CB acc's <sup>1</sup>                               | 29,018         | -2.15         | -2.92          | +6.31         | -11.27        |
| CDs <sup>2</sup>                                    | 13,232         | +6.88         | +2.49          | +14.44        | +1,776.9      |
| Sovgns <sup>3</sup>                                 | 6,717          | +0.00         | +41.78         | +95.27        | +349.3        |
| <b>Total</b>  | <b>48,967</b>  | <b>+0.44</b>  | <b>+3.00</b>   | <b>+15.77</b> | <b>+40.30</b> |
| <b>HOLDERS OF UAH SOVEREIGN BONDS (UAHm)</b>        |                |               |                |               |               |
| C.bank  | 236,718        | +0.00         | +0.00          | +22.86        | +63.42        |
| Banks   | 88,688         | -0.24         | -1.11          | +3.61         | +10.63        |
| Resid's <sup>4</sup>                                | 20,111         | +0.40         | +19.67         | +26.10        | +62.23        |
| Non-res <sup>5</sup>                                | 19,538         | +0.66         | -1.27          | +13.49        | +67.01        |
| <b>Total</b>  | <b>365,056</b> | <b>+0.00</b>  | <b>+0.57</b>   | <b>+17.22</b> | <b>+46.54</b> |
| <b>NDF IMPLIED YIELDS (%)</b>                       |                |               |                |               |               |
| 3m  | N/A            | N/A           | N/A            | N/A           | N/A           |
| 6m  | N/A            | N/A           | N/A            | N/A           | N/A           |
| 9m  | N/A            | N/A           | N/A            | N/A           | N/A           |
| 1yr   | N/A            | N/A           | N/A            | N/A           | N/A           |
| <b>LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)</b> |                |               |                |               |               |
| Mar '13   | N/A            | -52ppt        | +0bp           | +0bp          | +0bp          |
| Jan '14   | N/A            | +320bp        | +0bp           | +0bp          | -676bp        |
| Aug '15 <sup>6</sup>                                | N/A            | -160bp        | +0bp           | +0bp          | -87ppt        |
| <b>EUROBONDS USD SOVEREIGN BOND YIELDS (%)</b>      |                |               |                |               |               |
| CDS 5yr   | 1,065          | +49bp         | -56bp          | +65bp         | +248bp        |
| Jun '16   | 12.48          | +41bp         | -157bp         | +135bp        | +359bp        |
| Jul '17   | 12.33          | +42bp         | -106bp         | +139bp        | +278bp        |
| Sep '20   | 10.43          | +62bp         | -44bp          | +8bp          | +124bp        |
| Sep '21   | 10.52          | +62bp         | -24bp          | +89bp         | +130bp        |
| Sep '22   | 10.34          | +62bp         | -11bp          | +74bp         | +99bp         |
| Feb '23   | 10.29          | +62bp         | -6bp           | +72bp         | +124bp        |

Notes: [1] banks' account balance at NBU; [2] certificates of deposits issued by NBU; [3] UAH sovereign bonds due next 30 days; [4] residents; [5] non-residents; [6] VAT bond.

Sources: Bloomberg, Investment Capital Ukraine LLC.

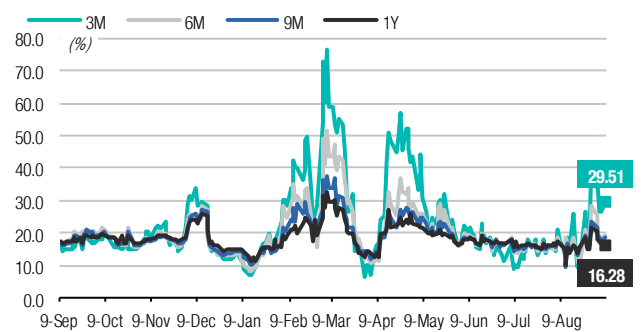
Chart page: Local bond market & Eurobond markets

Chart 1. Kiev Prime rates (%), last 12-month period



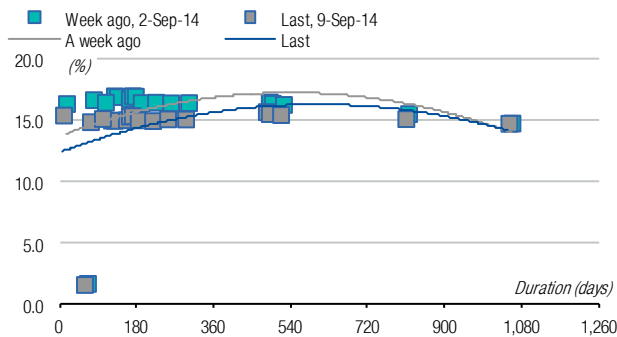
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 2. UAH NDF implied yields (%), last 12-month period



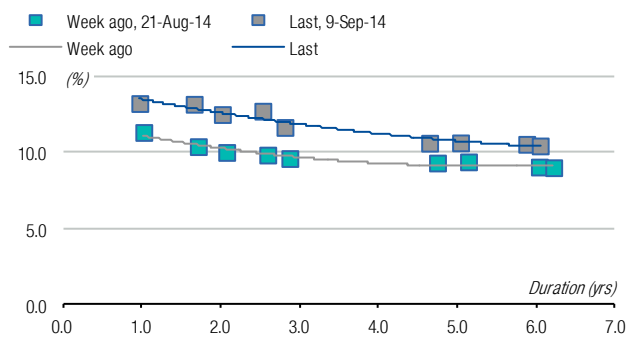
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 9 Sep 2014



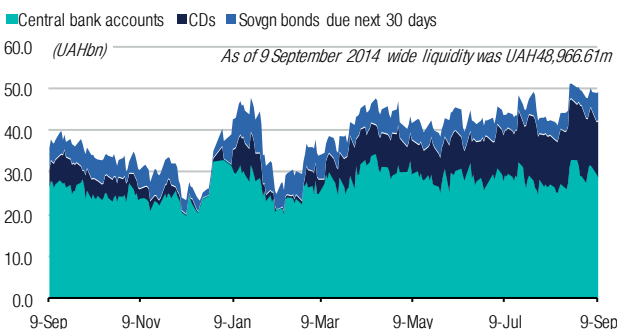
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. USD sovereign yield curve (%) as of 9 Sep 2014



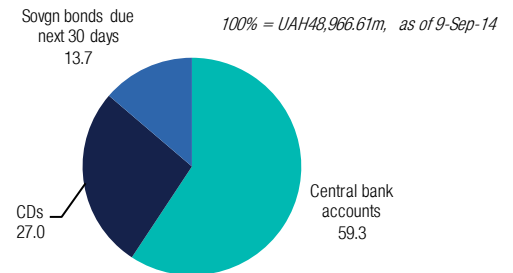
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 5. Banking sector liquidity (UAHbn), last 12-month period



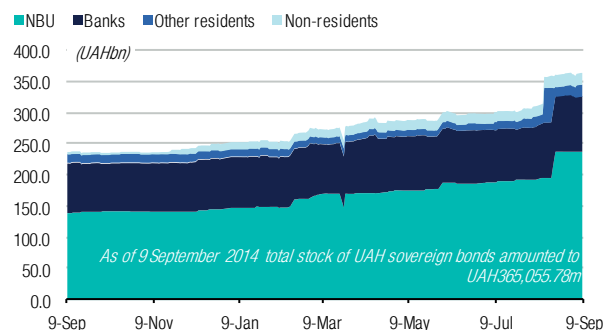
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 9 Sep 2014



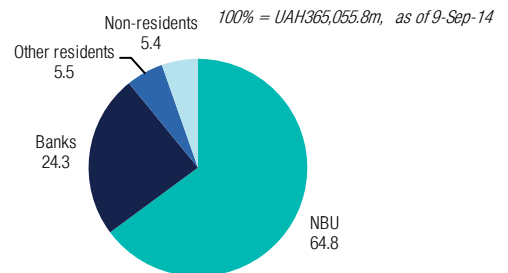
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 7. Holders of sovereign bonds (UAHbn), last 12 months



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

Chart 8. Domestic sovereign debt (%) as of 9 Sep 2014



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.



## FX: News & Comments

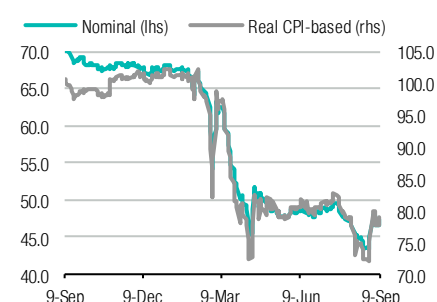
### Hryvnia holds steady

The hryvnia closed at 12.9261/USD, according to NBU's weighted average rate data and nearly unchanged from the previous day's WA rate, on US\$258m in trading, down 0.81%. While the USD continued its several day long climb up in trade-weighted terms, the hryvnia's trade-weighted value increased 1.29%.

**Alexander Valchyshen, Kiev, +38044 2200120 ext.242**

### ICU's UAH trade-weighted indices

(Last 12-month history to 10 Sep 2014)



Source: Investment Capital Ukraine LLC.

### FX market indicators (as of 9 Sep 2014)

|   | Last      | Daily   | Weekly  | MoM     | YTD     |
|---|-----------|---------|---------|---------|---------|
|   | chg (%)   | chg (%) | chg (%) | chg (%) | chg (%) |
| <b>USD/UAH MARKET (HRYVNIA per US DOLLAR)</b>           |           |         |         |         |         |
| Spot mkt  | 12.6500   | -1.17   | +1.61   | +0.80   | +53.52  |
| NBU avg   | 12.9261   | +0.81   | -0.63   | +2.53   | +58.59  |
| Ttl vlm <sup>1</sup>                                    | 384.08    | -16.62  | +64.65  | -5.76   | -86.29  |
| \$ volume <sup>2</sup>                                  | 258.37    | -19.36  | +39.98  | -14.58  | -88.31  |
| NDF 3M  | 13.7350   | +0.00   | +1.74   | +4.85   | +61.87  |
| NDF 6M  | 14.0000   | +0.00   | +0.00   | +3.13   | +59.45  |
| NDF 1Y  | 14.8000   | +0.00   | -0.67   | +1.54   | +57.11  |
| <b>TRADE-WEIGHTED INDICES (TWIs, points)</b>            |           |         |         |         |         |
| UAH nom'l   | 47.262    | +1.29   | -1.39   | +1.31   | -30.02  |
| UAH real CPI  | 78.741    | +1.29   | -1.39   | +1.31   | -22.09  |
| UAH real PPI  | 118.592   | +1.29   | -1.39   | +1.31   | -14.55  |
| USD nom'l   | 84.278    | +0.05   | +1.55   | +3.55   | +5.30   |
| <b>FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs</b> |           |         |         |         |         |
| USD/RUB   | 37.0461   | +0.24   | -1.08   | +2.38   | +12.71  |
| EUR/USD   | 1.2937    | +0.33   | -1.49   | -3.53   | -5.86   |
| USD/CNY   | 6.1368    | -0.07   | -0.18   | -0.32   | +1.36   |
| USD/PLN   | 3.2497    | +0.25   | +1.37   | +3.75   | +7.50   |
| USD/TRY   | 2.1963    | +1.04   | +1.09   | +2.38   | +2.24   |
| USD/BYR   | 10,485.00 | -0.10   | +0.29   | +1.40   | +9.91   |
| USD/KZT   | 182.0100  | +0.00   | -0.03   | -0.03   | +17.98  |
| <b>OTHER MAJOR CURRENCIES</b>                           |           |         |         |         |         |
| USD/JPY   | 106.2000  | +0.16   | +1.06   | +4.08   | +0.85   |
| GBP/USD   | 1.6106    | +0.01   | -2.21   | -3.98   | -2.72   |
| USD/CHF   | 0.9329    | -0.28   | +1.51   | +3.04   | +4.48   |
| AUD/USD   | 0.9203    | -0.84   | -0.77   | -0.78   | +3.21   |
| USD/CAD   | 1.0984    | +0.09   | +0.50   | +0.10   | +3.40   |
| USD/BRL   | 2.2847    | +0.76   | +1.83   | +0.06   | -3.28   |
| USD/KRW   | 1,031.62  | +0.77   | +1.31   | -0.47   | -1.73   |
| <b>COMMODITIES</b>                                      |           |         |         |         |         |
| Gold(\$/oz)   | 1,255.50  | +0.00   | -0.78   | -4.23   | +4.13   |
| WTI crude <sup>3</sup>                                  | 92.75     | +0.10   | -0.14   | -4.93   | -5.76   |
| Brent crd <sup>3</sup>                                  | 98.57     | -0.86   | -1.18   | -4.97   | -11.05  |
| Urals crd <sup>3</sup>                                  | N/A       | +0.00   | +0.00   | +0.00   | +0.00   |
| TR/J CRB <sup>4</sup>                                   | 285.79    | -0.33   | -1.21   | -2.27   | +2.01   |

Notes: [1] trading volume in all foreign currencies (US\$m); [2] trading volume in the pair USD/UAH (US\$m); [3] crude oil price (USD per barrel); [4] the Thomson Reuters/Jefferies CRB Index. A green-/red-shaded box means gain or loss, respectively, of the investment into the asset. Currencies are gaining when their exchange rates strengthen versus USD.

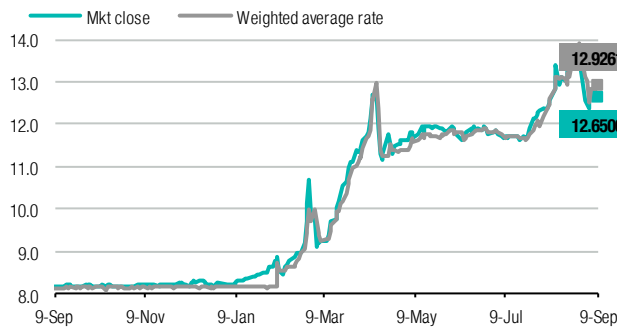
Sources: Bloomberg, Investment Capital Ukraine LLC.

Readers may follow the ICU trade-weighted indices of the local-currency, the hryvnia (UAH), on the ICU [website](#) and Bloomberg (type: ALLX UTWI <GO>).

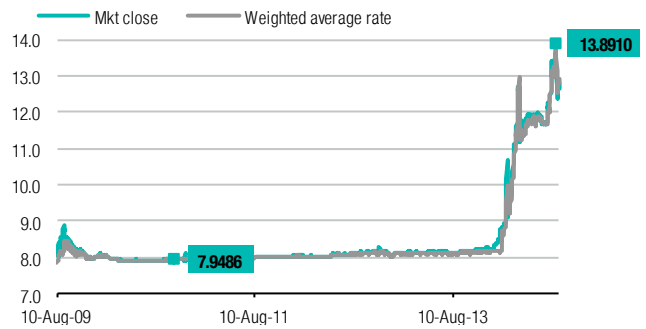
Section on FX market is continued on next page.

### Chart page #1: Foreign-exchange market

**Chart 9. Spot market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)**

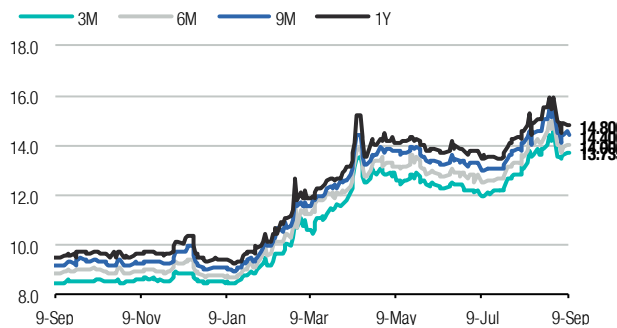


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

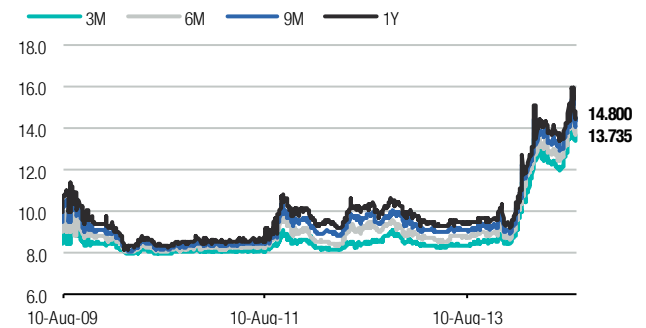


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 10. NDF market rates USD/UAH: last 12-month and 5-year periods (UAH per USD, left and right respectively)**

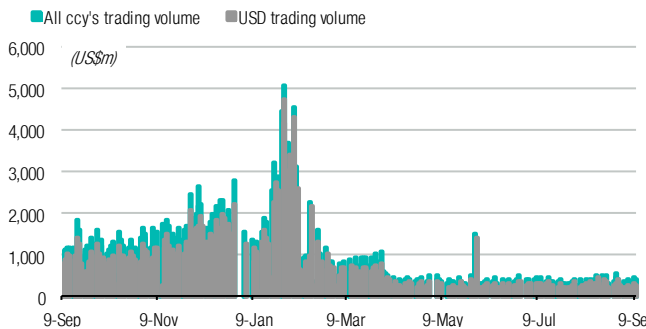


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

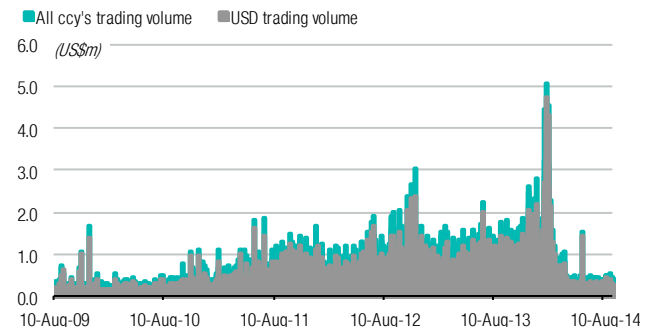


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 11. Trading volume: last 12-month and 5-year periods (US\$m, left and right respectively)**

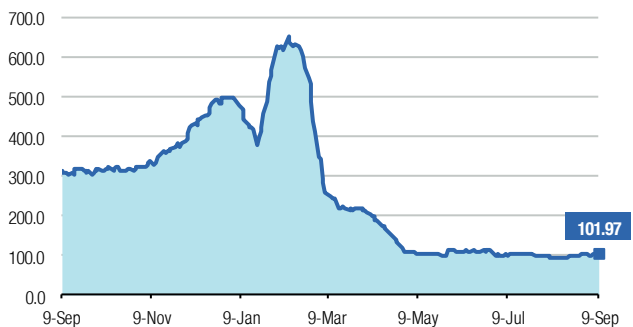


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

**Chart 12. 30D MA\* ratio of FX market turnover to merchandise trade: last 12m and 5yr periods (% , left and right respectively)**

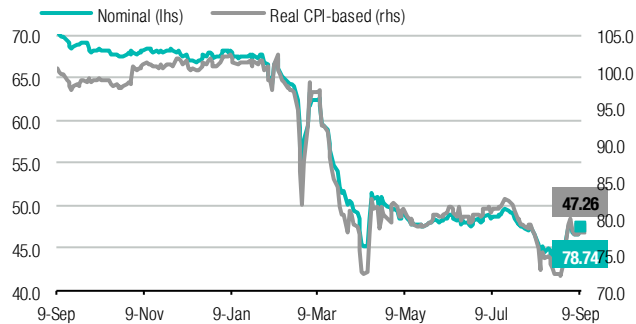


Note: \* 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

### Chart page #2: ICU's UAH trade-weighted indices

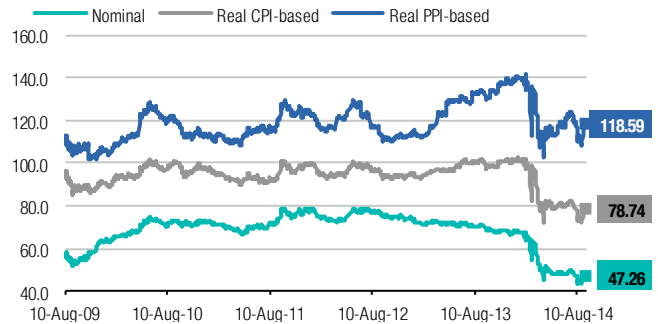
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology published in the [Quarterly Report "Keep the music playing"](#) dated 31 January 2013 and, then, updated, in the [Quarterly Report "Muddling through no more"](#) dated 14 August 2013.

**Chart 13. Nominal and CPI-based real TWIs of UAH, history of last 12-month period**



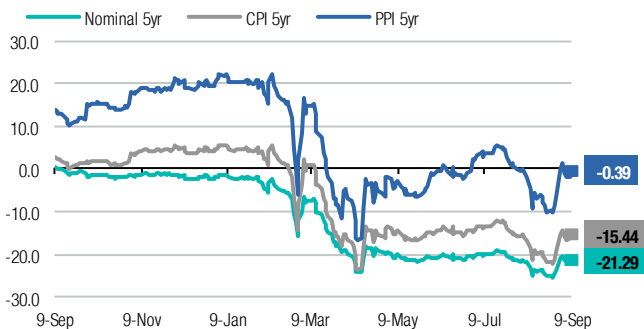
Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

**Chart 14. Nominal, CPI- and PPI-based TWIs of UAH, history of last 5-year period**

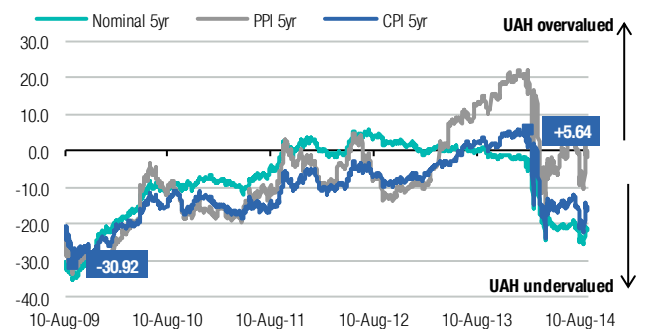


Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

**Chart 15. Deviation of UAH trade-weighted indices from their 5-year moving averages: last 12-month and 5-year periods (% , left and right respectively)**

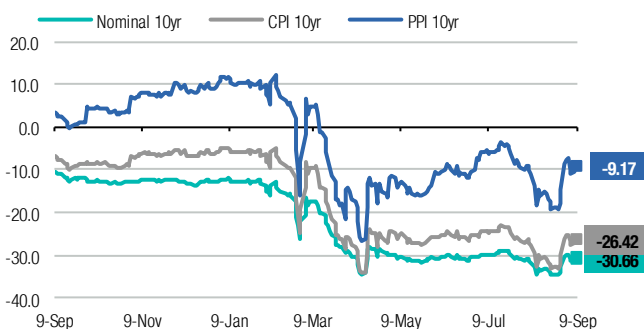


Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.

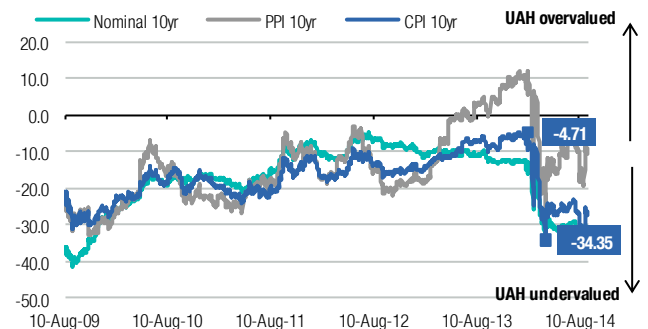


Note: the boxes indicate the high and low values of CPI-based TWI.  
Source: Investment Capital Ukraine LLC.

**Chart 16. Deviation of UAH trade-weighted indices from their 10-year moving averages: last 12-month and 5-year periods (% , left and right respectively)**



Note: The boxes indicate the last values of the depicted indicators.  
Source: Investment Capital Ukraine LLC.



Note: the boxes indicate the high and low values of CPI-based TWI.  
Source: Investment Capital Ukraine LLC.

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## Disclosures

### ANALYST CERTIFICATION

This research publication has been prepared by the analyst(s), whose name(s) appear on the front page of this publication. The analyst(s) hereby certifies that the views expressed within this publication accurately reflect her/his own views about the subject financial instruments or issuers and no part of her/his compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views within this research publication.

### EQUITY RATING DEFINITIONS

**Buy:** Forecasted 12-month total return greater than 20%

**Hold:** Forecasted 12-month total return 0% to 20%

**Sell:** Forecasted 12-month total return less than 0%

Note: total return is share price appreciation to a target price in relative terms plus forecasted dividend yield.

### DEBT RATING DEFINITIONS

**Buy:** Forecasted 12-month total return significantly greater than that of relevant benchmark

**Hold:** Forecasted 12-month total return is in line with or modestly deviates from relevant benchmark

**Sell:** Forecasted 12-month total return significantly less than that of relevant benchmark



Office 44, 11th floor, LEONARDO Business Centre  
19-21 Bogdan Khmelnytsky Street  
Kiev, 01030 Ukraine  
Phone/Fax +38 044 2200120

CORPORATE FINANCE TEL. +38 044 2200120

**Makar Paseniuk**, Managing Director  
makar.paseniuk@icu.ua

**Ruslan Kilmukhametov**, Director  
ruslan.kilmukhametov@icu.ua

SALES AND TRADING TEL. +38 044 2201621

**Konstantin Stetsenko**, Managing Director  
konstantin.stetsenko@icu.ua

**Sergiy Byelyayev**, Fixed-Income Trading  
sergiy.byelyayev@icu.ua

**Vitaliy Sivach**, Fixed-Income & FX Trading  
vitaliy.sivach@icu.ua

**Vlad Sinani**, Director,  
Strategy and Corporate Development  
vlad.sinani@icu.ua

**Julia Pecheritsa**,  
Ukraine and CIS International Sales  
julia.pecheritsa@icu.ua

**Yevgeniya Gryshchenko**,  
Fixed-Income Sales  
yevgeniya.gryshchenko@icu.ua

RESEARCH DEPARTMENT TEL. +38 044 2200120

**Alexander Valchyshen**  
Head of Research  
alexander.valchyshen@icu.ua

**Alexander Martynenko**  
Head of corporate research  
alexander.martynenko@icu.ua

**Bogdan Vorotilin**  
Financial analyst (Food & Agribusiness)  
bogdan.vorotilin@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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