



Focus
Ukraine

Scope
Economics, bonds, equity & FX markets

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Daily Insight

Weak ruble raises hryvnia's TWI

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FRIDAY, 24 OCTOBER 2014

UX Index (3 months to 24 Oct 2014)



Source: UX.

Key market indicators (as of 23 Oct 2014)

	Last	Daily chg (%)	YTD chg (%)
FX & MONEY RATES			
USD/UAH	13.0000	-0.08	+57.77
USD/UAH (1Y NDF)	16.3000	+0.00	+73.04
EUR/USD	1.2646	-0.64	-7.98
USD/RUB	41.7281	+1.90	+26.95
KievPRIME O/N (%)	9.90	+30bp	+210bp
KievPRIME 1M (%)	16.35	+35bp	+10bp
SOVEREIGN EUROBONDS: yields and spreads			
Ukraine 15, Eurobond (%)	18.19	-179bp	+983bp
Ukraine 17, Eurobond (%)	13.45	-83bp	+390bp
Ukraine 22, Eurobond (%)	10.53	-51bp	+118bp
Ukraine 23, Eurobond (%)	10.32	-45bp	+128bp
Ukraine 5Y CDS	1,266bp	-4bp	+450bp
EQUITIES			
Stock market indices			
UX (Ukraine)	1,107.10	+1.45	+21.65
MSCI World	407.38	+0.63	-0.29
MSCI EM	981.75	-0.54	-2.09
RTS (Russia)	1,035.91	-3.17	-28.20
WIG-20 (Poland)	2,433.84	+0.20	+1.37
S&P 500 (USA)	1,950.82	+1.23	+5.54

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 fund reallocations

Wednesday's deals caused a mere reallocation of funds yesterday. Broader banking sector liquidity increased only UAH0.28bn to UAH48.86bn as banks' correspondent accounts with the NBU slid UAH0.79bn to UAH28.71bn and total local currency debt repayments scheduled for the next 30 days declined UAH1.15bn to UAH5.25bn. Total CDs outstanding rose UAH2.23bn to UAH14.90bn.

KyivPrime interest rates slightly rose: the KyivPrime ON interest rate increased 30bp to 9.90% and the KyivPrime 1M interest rate was up 35bp to 16.35%.

Investment implications: The NBU continued to absorb extra liquidity as it increased its CDs outstanding. All funds injected by the MoF and some funds from banks' correspondent accounts with the NBU also were absorbed. At the same time, KyivPrime interest rates continued to increase, indicating high potential for liquidity to decline soon.

Eurobond YTM's improve significantly

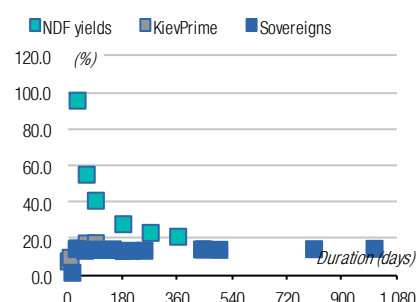
Ukrainian Eurobond YTM's adjusted to the range of 10.34-18.20% yesterday. UKRAIN 6.875% '15 declined 179bp to 18.20%, UKRAIN 6.58% '16 was down 96bp to 13.45% and UKRAIN 9.25% '17 slid 81bp to 13.47%, while UKRAIN 6.75% '17 declined 74bp to 12.87%, UKRAIN 7.95% '21 declined 68bp to 10.75%, and UKRAIN 7.80% '22 and UKRAIN 7.50% '23 slid 49bp and 44bp to 10.55% and 10.34%, respectively. The 5-year CDS declined to 1,266bp.

Investment implications: Ukrainian Eurobond YTM's continued to decline yesterday due to the increase in positive anticipations following this weekend's elections in Ukraine. The decline in yields was due to spreads tightening to the range of 807-1,781bp. However, US Treasury yields rose slightly yesterday.

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Yield curve of the local bond market

(as of market close on 23 Oct 2014)



Sources: Bloomberg, Investment Capital Ukraine LLC.

Bond market indicators (as of 23 Oct 2014)

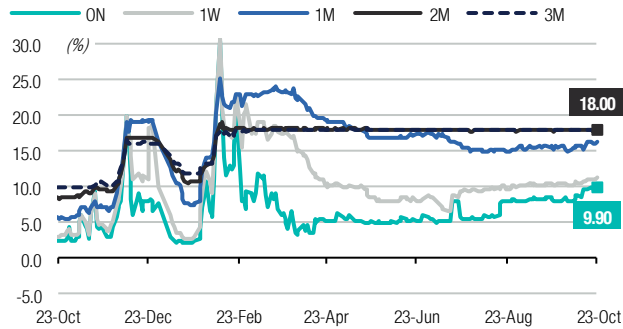
	Last	Daily	Weekly	MoM	YTD
		chg (%)	chg (%)	chg (%)	chg (%)
MONEY MARKET KIEV PRIME RATES (%)					
O/n	9.90	+30bp	+27bp	+152bp	+210bp
1wk	11.25	+25bp	+37bp	+87bp	+145bp
1m	16.35	+35bp	+47bp	+72bp	+10bp
2m	18.00	+20bp	+12bp	+0bp	+160bp
3m	18.00	+0bp	+0bp	+0bp	+200bp
LIQUIDITY WIDE MEASUREMENT (UAHm)					
CB acc's ¹	28,713	-2.69	-7.96	-30.70	-12.20
CDs ²	14,902	+17.56	+6.03	-10.55	+2,013.8
Sovgns ³	5,091	+0.00	-11.66	-33.43	+240.5
Total	48,706	+3.03	-4.53	-25.91	+39.55
HOLDERS OF UAH SOVEREIGN BONDS (UAHm)					
C.bank	274,642	+0.37	+1.10	+7.92	+89.60
Banks	83,699	+0.18	+0.68	-5.87	+4.40
Resid's ⁴	14,400	-0.85	-3.13	-42.42	+16.16
Non-res ⁵	19,324	-0.67	-1.01	-4.25	+65.18
Total	392,065	+0.23	+0.74	+0.89	+57.38
NDF IMPLIED YIELDS (%)					
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
LOCAL CURRENCY UAH SOVEREIGN BOND YIELDS (%)					
Mar '13	N/A	-52ppt	+0bp	+0bp	+0bp
Jan '14	N/A	+320bp	+0bp	+0bp	-676bp
Aug '15 ⁶	N/A	+17bp	+0bp	+301bp	-78ppt
EUROBONDS USD SOVEREIGN BOND YIELDS (%)					
CDS 5yr	1,266	-4bp	-149bp	+20bp	+450bp
Jun '16	14.22	-74bp	-277bp	-194bp	+533bp
Jul '17	13.45	-83bp	-282bp	-184bp	+390bp
Sep '20	10.76	-70bp	-124bp	-64bp	+157bp
Sep '21	10.73	-70bp	-118bp	-70bp	+151bp
Sep '22	10.53	-51bp	-87bp	-22bp	+118bp
Feb '23	10.32	-45bp	-86bp	-45bp	+128bp

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.

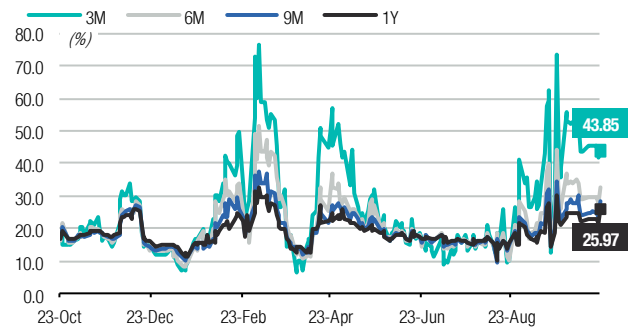
Chart page: Local bond market & Eurobond markets

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



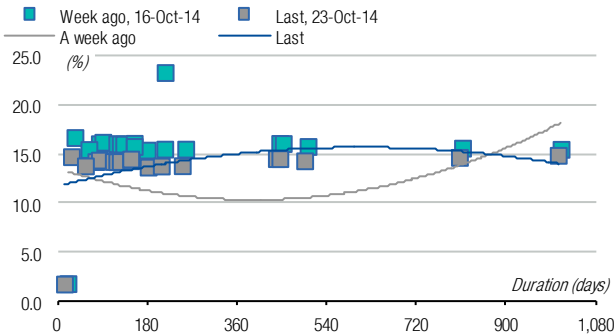
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



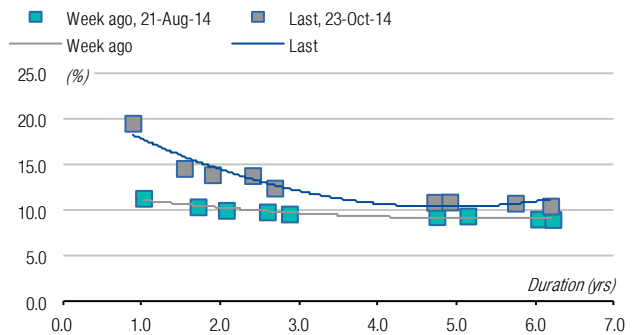
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 3. UAH sovereign yield curve (%) as of 23 Oct 2014



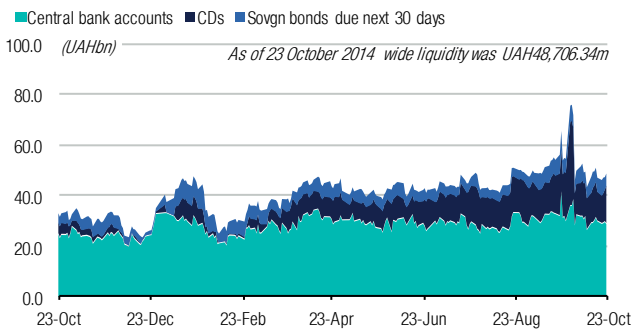
Sources: Bloomberg, Investment Capital Ukraine LLC.

Chart 4. USD sovereign yield curve (%) as of 23 Oct 2014



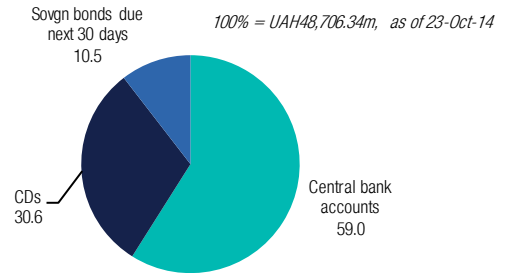
Sources: Bloomberg, Investment Capital Ukraine LLC.

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



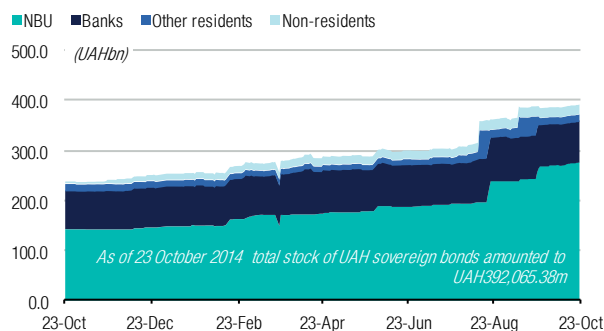
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

Chart 6. Breakdown of liquidity pool (%) as of 23 Oct 2014



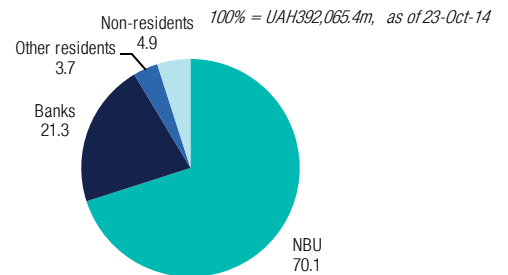
Sources: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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 23 Oct 2014



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

Table 1. Ukrainian stocks (closing prices as of 23-Oct-2014)

Company	Bloomberg Ticker	Listing	Share price performance (% change)				Valuation (US\$)			Free float (FF) & Liquidity					P/E			EV/EBITDA			EV/Sales			Ratios					
			Last price	Daily	MoM	YTD	YoY	Last price	Market cap (m)	EV (m)	FF (%)	FF mkt cap (US\$m)	Last day turnover (US\$ 000)	3M avg. turnover (US\$ 000)	FF share traded (%)	FF turnover (days)	2013	2014E	2014E	2013	2014E	2014E	2013	2014E	2014E	P/B	Debt/(x) Assets		
Ukrsotsbank	USCB UK	Kiev, UX	0.14 UAH	+0.0	-4.1	-25.8	-26.7	0.01	194.1	N/A	4.5	8.7	0.1	2.2	0.00	36,866	Neg.	10.3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.3	28.2

Notes: mln - millions; FF - free float; n/a - not available; neg. - negative; a company name (the left column of the table) is shortened to fit the column and hence in some cases is not displayed in full; *** - P/E is above 10,000x. Sources: Bloomberg, ICU.

FX: News & Comments

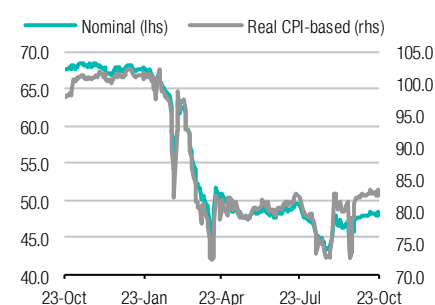
Weak ruble raises hryvnia's TWI

The Russian ruble declined significantly yesterday after midday news that the Russian central bank sold US\$1bn within a few hours to defend the currency. In Russia, depositors have been questioning the future path of the currency in response to rising sanctions from the West. There appears to be early signs of a potential run on the currency. The ruble lost 1.9% yesterday as it closed at an all time low of 41.73/USD. We estimate that by its real trade weighted value the ruble's market FX rate corresponds to its fundamental value, which is projected to evolve to 42-43/USD over time. However, if the ruble's market rate could decline to as low as our projection of 45-50/USD, it would signify a widening of misalignment of the ruble's market rate with its fundamental value. We believe that the Russian central bank will lean in this direction as they view a weaker currency as a long-awaited correction of past misalignment. This is not positive for the hryvnia, only signaling further weakness.

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ICU's UAH trade-weighted indices

(Last 12-month history to 24 Oct 2014)



Source: Investment Capital Ukraine LLC.

FX market indicators (as of 23 Oct 2014)

	Last	Daily	Weekly	MoM	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
USD/UAH MARKET (HRYVNIA per US DOLLAR)					
Spot mkt	13.0000	-0.08	+0.78	-1.89	+57.77
NBU avg	12.9505	+0.00	-0.01	-4.26	+58.89
Ttl vlm ¹	N/A	N/A	N/A	N/A	N/A
\$ volume ²	N/A	N/A	N/A	N/A	N/A
NDF 3M	14.4250	+0.00	+0.52	-7.95	+70.01
NDF 6M	15.1000	+0.00	+2.03	-6.62	+71.98
NDF 1Y	16.3000	+0.00	+3.49	-4.80	+73.04
TRADE-WEIGHTED INDICES (TWIs, points)					
UAH nom'l	48.294	+0.94	+0.27	+5.21	-28.49
UAH real CPI	83.131	+0.94	+0.27	+5.21	-17.75
UAH real PPI	126.324	+0.94	+0.27	+5.21	-8.98
USD nom'l	85.843	+0.61	+1.05	+1.40	+7.26
FX RATES OF KEY CURRENCIES THAT SHAPE UAH's TWIs					
USD/RUB	41.7281	+1.90	+2.12	+8.13	+26.95
EUR/USD	1.2646	-0.64	-1.27	-1.56	-7.98
USD/CNY	6.1197	+0.02	-0.06	-0.30	+1.08
USD/PLN	3.3442	+0.83	+1.28	+2.93	+10.63
USD/TRY	2.2359	-0.39	-1.17	-0.15	+4.08
USD/BYR	10,695.00	-0.09	+0.05	+1.37	+12.11
USD/KZT	180.9300	-0.02	-0.35	-0.43	+17.28
OTHER MAJOR CURRENCIES					
USD/JPY	108.2700	+1.26	+1.82	-0.57	+2.81
GBP/USD	1.6030	-0.58	-0.35	-2.18	-3.18
USD/CHF	0.9541	+0.62	+1.23	+1.51	+6.85
AUD/USD	0.8762	-0.28	+0.07	-0.88	-1.74
USD/CAD	1.1230	+0.05	-0.25	+1.37	+5.71
USD/BRL	2.5000	+0.52	+1.10	+3.65	+5.84
USD/KRW	1,056.14	+0.45	-0.51	+1.56	+0.60
COMMODITIES					
Gold(\$/oz)	1,231.86	-1.28	-0.56	+0.70	+2.17
WTI crude ³	82.34	+0.00	-0.44	-11.04	-16.34
Brent crd ³	85.89	+0.83	-0.46	-9.57	-22.50
Urals crd ³	N/A	+0.00	+0.00	+0.00	+0.00
TR/J CRB ⁴	272.43	+0.77	-0.10	-1.93	-2.76

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.

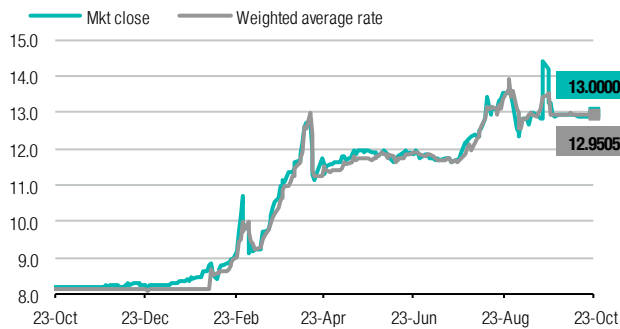
Sources: Bloomberg, Investment Capital Ukraine LLC.

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>).

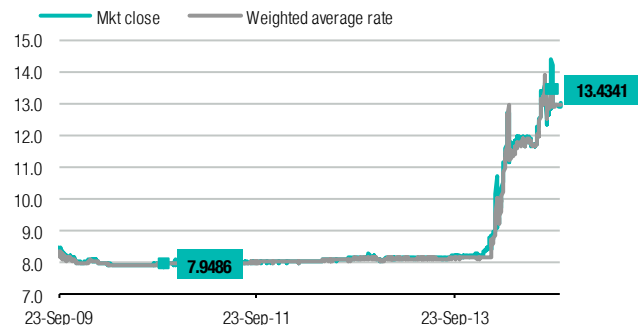
Section on FX market is continued on next page.

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)

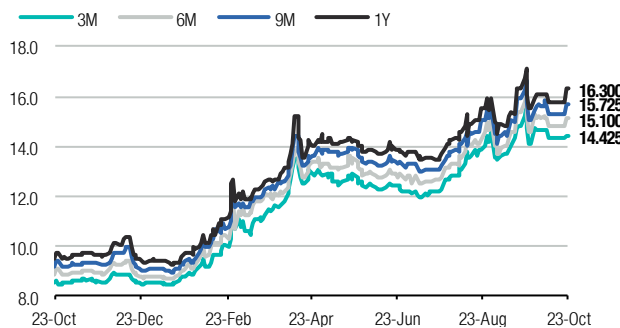


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.

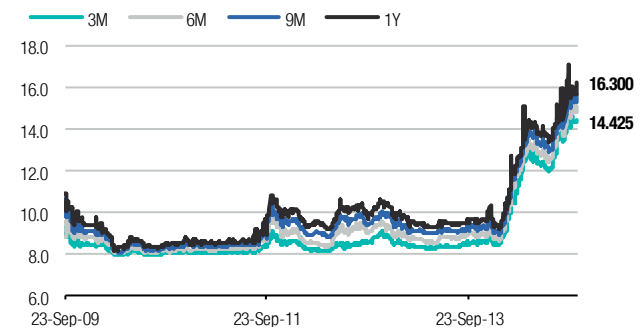


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

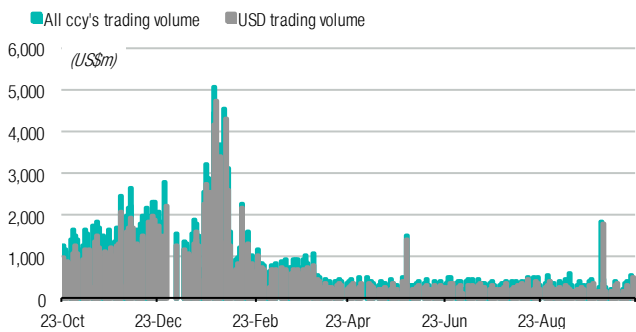


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

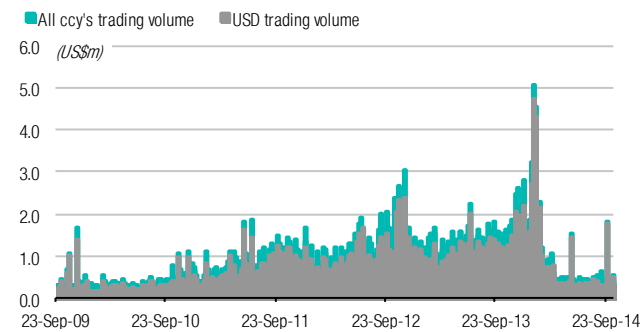


Sources: National Bank of Ukraine, Investment Capital Ukraine LLC.

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

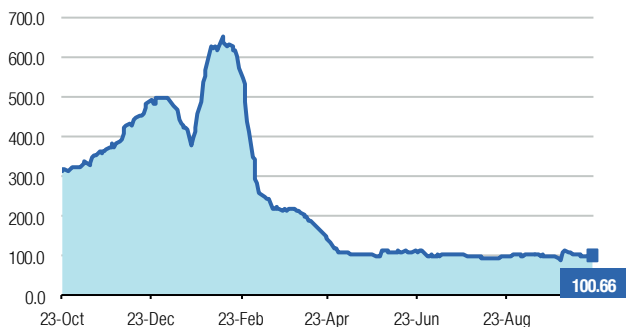


Sources: National Bank of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



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)



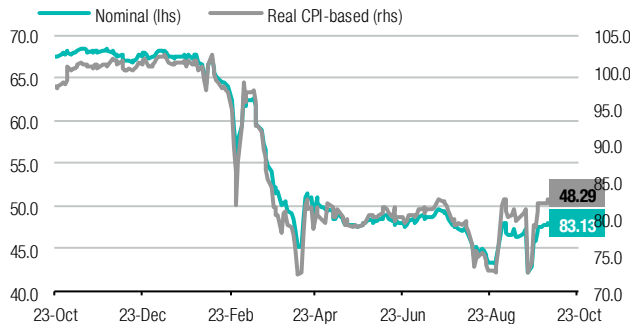
Note: * 30-day moving average; The boxes of the right chart show high and low values. Sources: NBU, State Statistics Service of Ukraine, Bloomberg, Investment Capital Ukraine LLC.



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

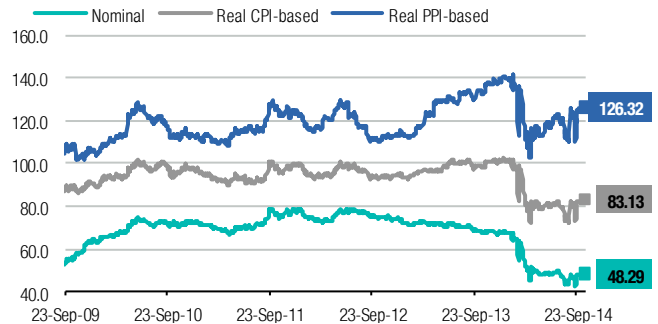
The following charts depict ICU's Ukrainian hryvnia trade-weighted indices which were calculated in accordance with methodology published in the [Quarterly Report "Keep the music playing"](#) dated 31 January 2013 and, then, updated, in the [Quarterly Report "Muddling through no more"](#) dated 14 August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

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



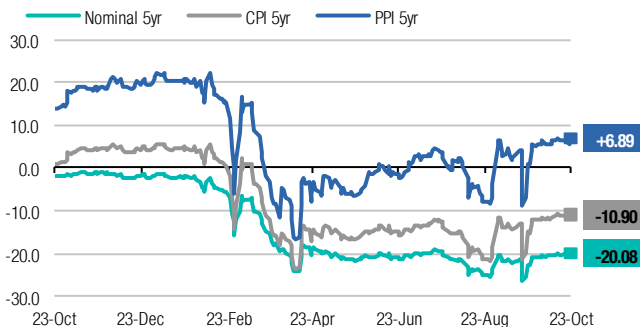
Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

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

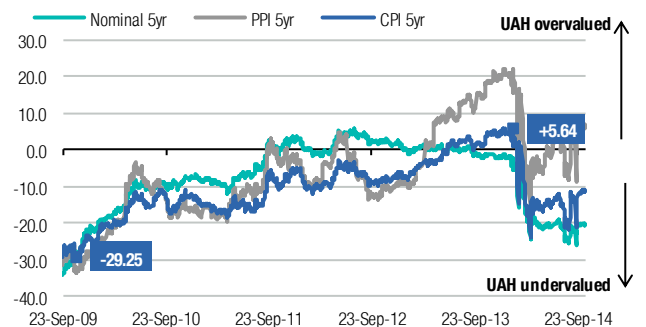


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

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)

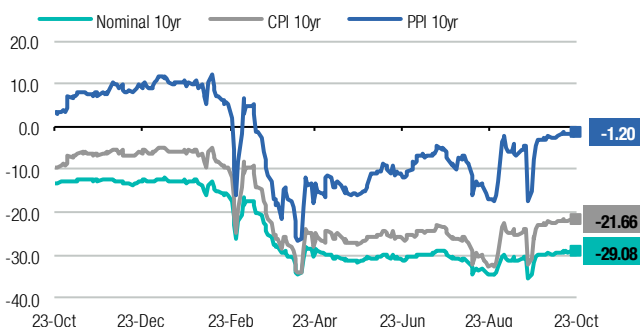


Note: The boxes indicate the last values of the depicted indicators.
Source: Investment Capital Ukraine LLC.

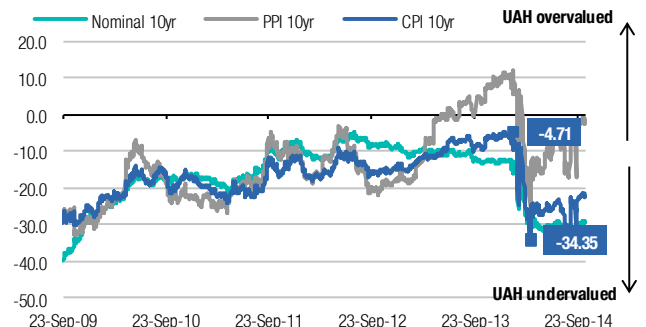


Note: the boxes indicate the high and low values of CPI-based TWI.
Source: Investment Capital Ukraine LLC.

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

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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



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Additional information is available upon request.