

Daily Insight

Auction schedule for 2Q17

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The Treasury continued this Tuesday to collect funds at accounts, causing a negative UAH1.83bn impact on liquidity. With an insignificant UAH4.5bn collection of taxes and other revenues this Tuesday, the VAT refund was minor as well. The significant outflows were partially offset by an increase in cash. Ultimately, the negative impact of non-monetary operations was UAH0.47bn.

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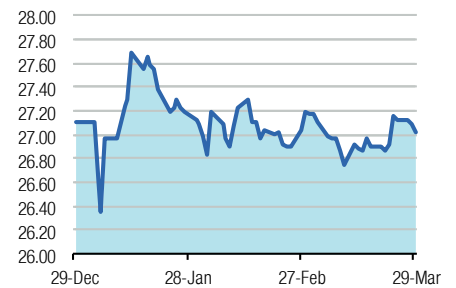
In 2Q17 the MoF will continue to offer bonds each Tuesday, except for two weeks in May during public holidays. In general, the MoF's view on bond offerings will be the same as in 1Q17, but with slight changes. The MoF will not offer 3-month and 9-month bonds, which saw rare demand in low amounts.

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THURSDAY, 30 MARCH 2017

Ukraine's hryvnia exchange rate per US dollar (three months through 29 March 2017)



Source: Bloomberg.

Selected indicators of the financial markets (three months through 29 March 2017)

	Last	Daily chg (%)	YTD chg (%)
DOMESTIC LIQUIDITY			
NBU key policy rate (%)	14.00	+0bp	+0bp
Overnight rate (interbank)	12.60	+40bp	+200bp
Banks reserves (UAHm)	43,671	-2.99	-14.81
Deposit certificates* (UAHm)	69,221	-14.76	-5.20
FOREIGN EXCHANGE MARKET			
UAH per US dollar	27.0150	-0.30	-0.31
Total trade volume (US\$m)	184.33	+43.10	+8.67
UAH index PCI-based	100.845	+0.31	-2.89
UAH index PPI-based	159.500	+0.31	-2.89
UKRAINE SOVEREIGN EUROBOND MARKET			
CDS 5yr	615bp	+0bp	+0bp
GLOBAL FINANCIAL MARKET INDICATORS			
S&P 500	2,361.13	+0.11	+5.46
MSCI EM	971.86	+0.16	+12.71
US dollar index (DXY)	99.998	+0.29	-2.16
EUR / USD	1.0766	-0.44	+2.37
Crude oil WTI (US\$/bbl)	49.51	+2.36	-7.84
Crude oil BRENT (US\$/bbl)	52.42	+2.12	-7.74
CRB, commodities index	185.21	+0.61	-3.79
Gold (US\$/ounce)	1,253.52	+0.13	+8.79

Notes: * NBU's short-term bonds.

Source: Bloomberg, ICU.

Domestic liquidity

Liquidity down slightly

The Treasury continued this Tuesday to collect funds at accounts, causing a negative UAH1.83bn impact on liquidity. With an insignificant UAH4.5bn collection of taxes and other revenues this Tuesday, the VAT refund was minor as well. The significant outflows were partially offset by an increase in cash. Ultimately, the negative impact of non-monetary operations was UAH0.47bn.

Banks' correspondent accounts with the NBU remained steady, down a mere UAH0.06bn to UAH43.67bn, while total CDs outstanding slid UAH0.41bn to UAH43.97bn. At the same time, banks slightly increased investments in ON CDs, withdrawing funds from longer instruments.

Investment implications: The Treasury over the past two consecutive days caused liquidity to decline while collecting funds at their accounts, but outflows were mostly offset from other sources. Today, liquidity could decline further, albeit insignificantly, by new government bond purchases.

Auction schedule for 2Q17

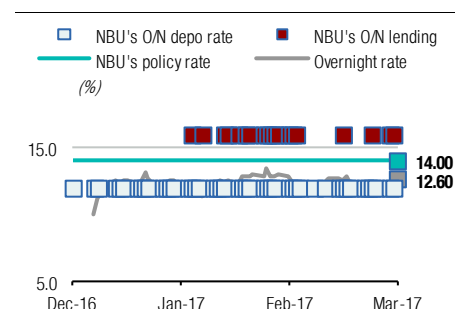
In 2Q17 the MoF will continue to offer bonds each Tuesday, except for two weeks in May during public holidays. In general, the MoF's view on bond offerings will be the same as in 1Q17, but with slight changes. The MoF will not offer 3-month and 9-month bonds, which saw rare demand in low amounts.

The baseline of offerings will be 6-month and 12-month bonds, which will be offered each auction, and 2-year bonds which will be offered every other week. 3-year bonds will be offered three times, once in April and twice in June. Also, the MoF will offer USD-denominated bonds once in May with a 3-year maturity.

Investment implications: Local currency bonds will be offered per routine, supporting Treasury accounts without important relevance to financing needs. The Treasury account balance should remain high this year. Demand should be concentrated at longer maturities, as has become routine, so the decision to reduce the number of offered maturities was correct. The most demanding auction will be held on May 16 when FX-denominated bonds will be offered. There are several reasons for this anticipation. The MoF will have to repay UAH0.16bn in principal on May 17 on 4-year bonds with a put-option issued in 2013 at US\$0.33bn, which were partially redeemed. Also, during 2Q17 the MoF will have to repay more than US\$0.05bn in interest repayments. Additional demand could be seen from investors that collected funds during 1Q17 in anticipation of this auction.

Taras Kotovych, Kyiv, (044) 220-0120 ext.724

Interest rates in the banks' reserves market (three months through 29 March 2017)



Source: Bloomberg, ICU.

Key indicators (as of 29 March 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
BANKS' RESERVES MARKET (%)					
NBU rate ¹	14.00	+0bp	+0bp	+0bp	+0bp
Overnight	12.60	+40bp	+60bp	+20bp	+200bp
KYIV PRIME RATES (%)					
Overnight	N/A	N/A	N/A	N/A	N/A
1 week	N/A	N/A	N/A	N/A	N/A
1 month	N/A	N/A	N/A	N/A	N/A
2 months	N/A	N/A	N/A	N/A	N/A
3 months	N/A	N/A	N/A	N/A	N/A
DOMESTIC LIQUIDITY (UAH MILLION)					
Reserves ²	43,671	-2.99	-15.55	-22.11	-14.81
DepCerts ³	69,221	-14.76	-5.81	+11.81	-5.20
Total	112,892	-10.21	-10.14	-5.41	-9.47
BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)					
NBU	384,071	+0.00	+0.00	+0.52	+7.84
Banks	285,931	-0.06	+0.29	+4.72	+65.91
Residents	22,877	+0.11	+0.50	-4.97	+45.91
Non-res ⁴	5,433	-0.12	+1.00	-7.97	-14.46
Total	698,312	-0.02	+0.14	+1.93	+26.85
IMPLIED YIELDS OF THE UAH NDF MARKET (%)					
3 months	N/A	N/A	N/A	N/A	N/A
6 months	N/A	N/A	N/A	N/A	N/A
9 months	N/A	N/A	N/A	N/A	N/A
1 year	N/A	N/A	N/A	N/A	N/A
UKRAINE SOVEREIGN EUROBOND MARKET					
CDS 5yr	615	+0bp	+0bp	-1bp	+0bp

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.

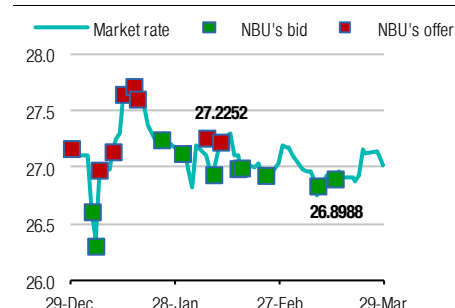
Foreign exchange markets

Key indicators (as of 29 березня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	27.0150	-0.30	+0.35	-0.63	-0.31
USD ¹	99.998	+0.29	+0.32	-1.11	-2.16
EUR	1.0766	-0.44	-0.29	+1.80	+2.37
JPY	111.0400	-0.10	-0.11	-1.53	-5.06
GBP ²	1.2434	-0.13	-0.41	+0.44	+0.76
CNY	6.8901	+0.15	+0.12	+0.34	-0.79
RUB	56.6200	-0.75	-1.96	-3.01	-7.99

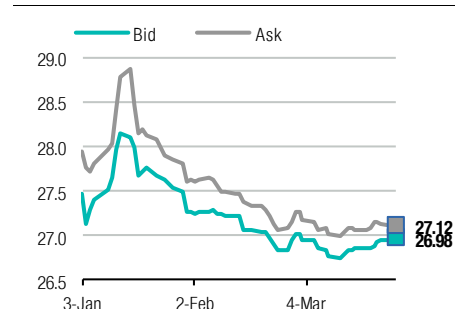
Notes: [1] DXY, US dollar index; [2] British pound.
Source: Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the interbank market (three months through 29 March 2017)



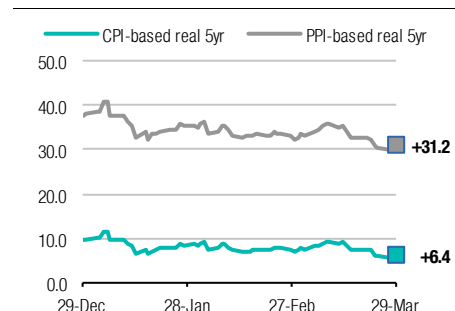
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 29 March 2017)



Source: NBU.

UAH exchange rate misalignment¹ from fundamental level² (%) (three months through 29 March 2017)



Notes: [1] "+" overvalued, "-" undervalued; [2] based on the UAH's CPI- and PPI-based real TWIs. Source: ICU.

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

Appendix #1: Domestic liquidity

Chart 1. Banks reserves usages over last reporting date (UAHm)

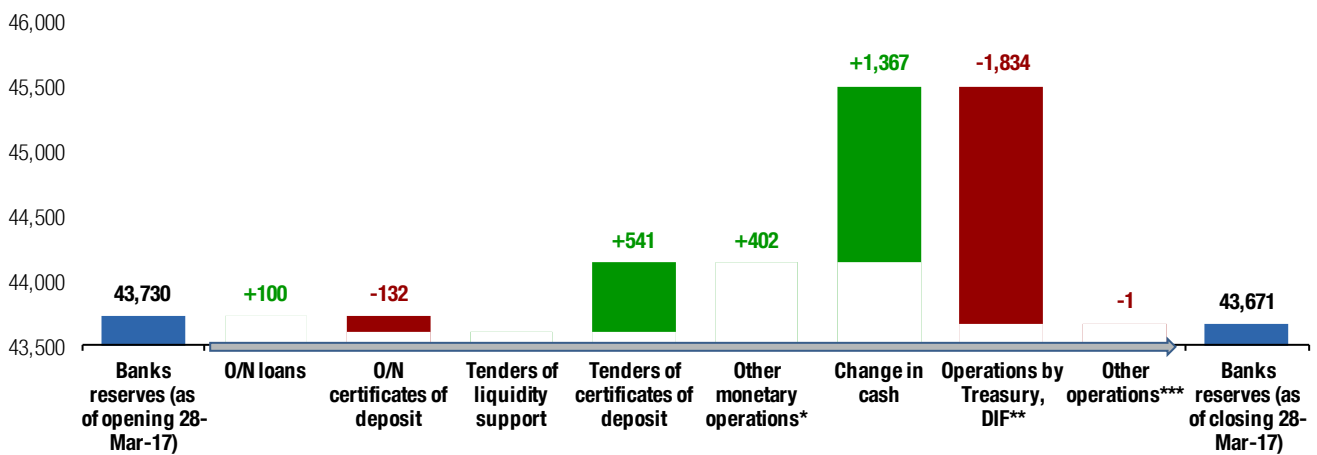
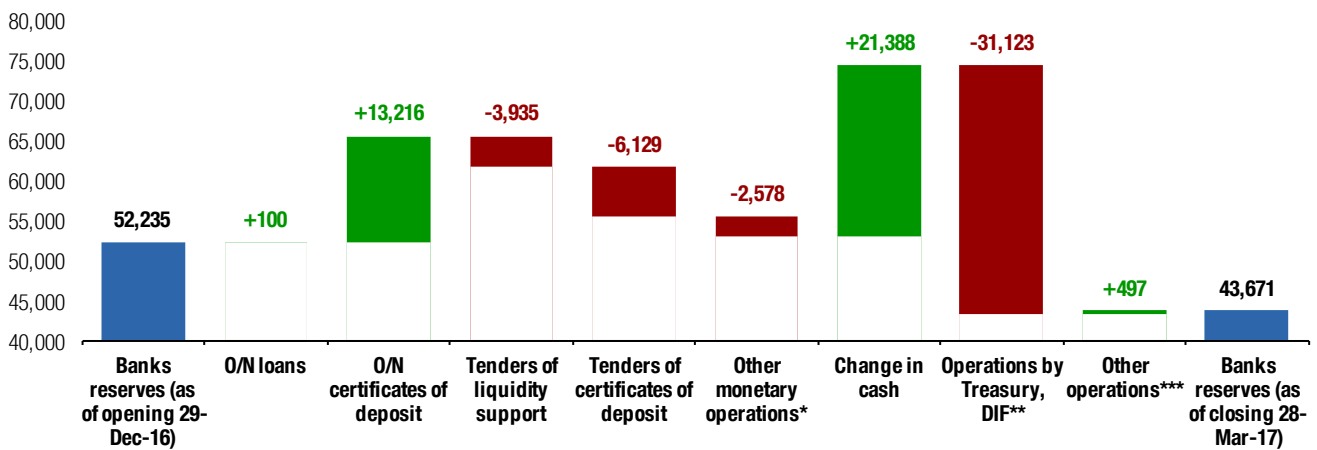
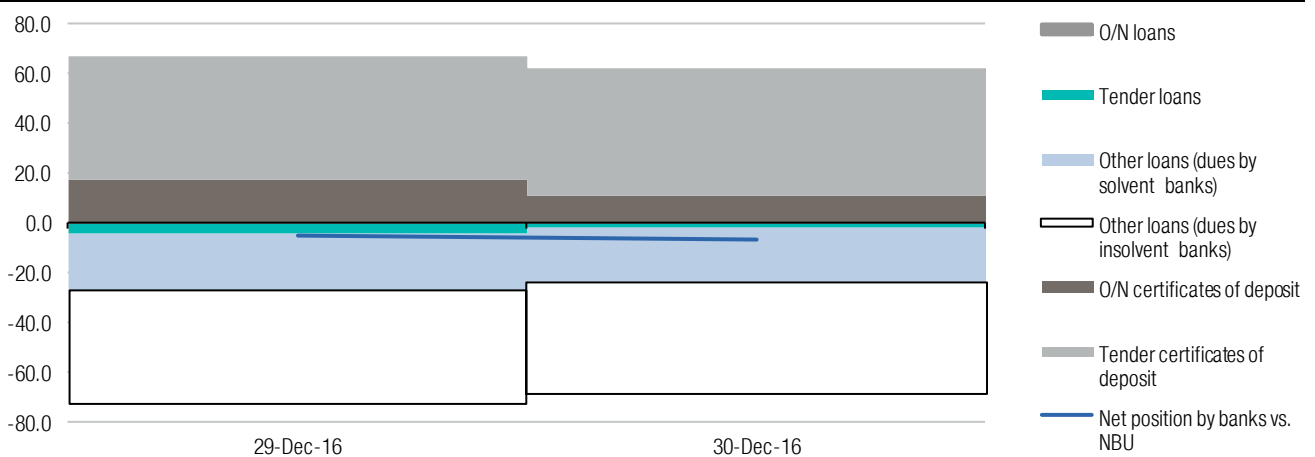


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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](https://twitter.com/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

RESEARCH DEPARTMENT

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

Taras Kotovych 
Senior financial analyst (Sovereign debt)
taras.kotovych@icu.ua

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

Mykhaylo Demkiv 
Financial analyst (Banks)
mykhaylo.demkiv@icu.ua

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

Lee Daniels, Rolfe Haas
Editors

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