

# Daily Insight

## Euro extends gains

### Key messages of the today's comments

#### Domestic liquidity ..... 2

##### Liquidity up on VAT refund ..... 2

This Monday, the Treasury paid UAH6.08bn in VAT refunds, supported by UAH2.34bn from Treasury operations and higher cash, increasing liquidity by UAH0.93bn. NBU monetary operations also provided UAH0.18bn of funds.

##### Significant financing from FX-denominated bonds ..... 2

Today's auction budget proceeds amounted to US\$4.56bn from 2-year local-currency and predominantly from FX-denominated bonds which were sold for the first time since the beginning of the year. Demand for FX-denominated bonds was quite high at US\$ 462.5m in 34 bids at 5.30%-5.50%. The MoF set the cutoff rate at 5.40%, or 10 bp below that of the 3-year FX-denominated bond sold in May. Only four bids for a total of US\$305.0m were rejected and the weighted average rate was 5.34%. Two-thirds of total demand was satisfied, raising US\$157.5m, fulfilling 30 bids, but about 80% of this volume was sold to non-competitive bidders.

#### Foreign exchange markets ..... 3

##### Euro extends gains ..... 3

The euro was up 0.1% to 1.1647 EUR/USD on Tuesday, as a result of the following: (1) the ongoing US political debacle in the Trump administration, and (2) Germany's business climate index's increase to an all-time high of 116.0 in July from June's 115.2, versus an expected decline to 114.9. Moreover, Yves Mersch, member of the executive board of the ECB, said that the ECB should maintain its current monetary policy it achieve its inflation target.

#### Appendix #1: Domestic liquidity ..... 4

WEDNESDAY, 26 JULY 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 25 July 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 25 July 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	10.90	+0bp	+30bp
Banks reserves (UAHm)	49,543	+3.77	-0.38
Deposit certificates* (UAHm)	50,640	+3.41	-18.64
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	25.8400	+0.16	-4.65
Total trade volume (US\$m)	201.69	+52.76	+18.91
UAH index CPI-based	109.542	-0.14	+1.43
UAH index PPI-based	168.831	-0.14	+0.27
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	585bp	+0bp	-68bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,477.13	+0.29	+10.64
MSCI EM	1,061.69	-0.24	+23.13
US dollar index (DXY)	94.054	+0.08	-7.98
EUR / USD	1.1647	+0.04	+10.74
Crude oil WTI (US\$/bbl)	47.89	+3.34	-10.85
Crude oil BRENT (US\$/bbl)	50.20	+3.29	-11.65
CRB, commodities index	177.67	+0.81	-7.71
Gold (US\$/ounce)	1,250.05	-0.43	+8.49

Notes: \* NBU's short-term bonds.

Source: Bloomberg, ICU.

# Domestic liquidity

## Liquidity up on VAT refund

This Monday, the Treasury paid UAH6.08bn in VAT refunds, supported by UAH2.34bn from Treasury operations and higher cash, increasing liquidity by UAH0.93bn. NBU monetary operations also provided UAH0.18bn of funds.

Total liquidity rose UAH3.47bn to UAH100.18bn, the first time in the last two weeks. The increase was divided between banks' accounts and CDs. Banks' correspondent accounts with the NBU rose UAH1.80bn to UAH49.54bn and total CDs outstanding was up UAH1.67bn to UAH50.64bn. As the increase in CDs outstanding was due to an increase in purchasing of ON CDs, we expect it to be short-lived.

**Investment implications:** *The increase in liquidity seems to be temporary due to a scheduled large VAT refund. As a significant portion of these funds could be absorbed soon via month-end tax payments, total liquidity could have fallen below UAH100bn yesterday and continue to decline through the end of a month.*

## Significant financing from FX-denominated bonds

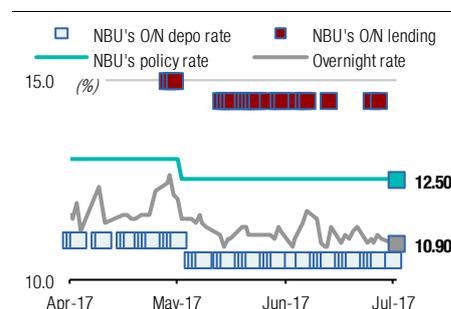
Today's auction budget proceeds amounted to US\$4.56bn from 2-year local-currency and predominantly from FX-denominated bonds which were sold for the first time since the beginning of the year. Demand for FX-denominated bonds was quite high at US\$ 462.5m in 34 bids at 5.30%-5.50%. The MoF set the cutoff rate at 5.40%, or 10 bp below that of the 3-year FX-denominated bond sold in May. Only four bids for a total of US\$305.0m were rejected and the weighted average rate was 5.34%. Two-thirds of total demand was satisfied, raising US\$157.5m, fulfilling 30 bids, but about 80% of this volume was sold to non-competitive bidders.

As for the 2-year local currency bonds, demand amounted to US\$473.2m from four bids, which were all fulfilled at 14.46%, unchanged for two months. The volume of demand and borrowed money for the 2-year instrument was the highest seen for the period.

**Investment implications:** *According to our estimates, the total volume of hryvnia debt principal and interest repayments this week is about UAH2bn, of which UAH1bn should be paid in favor of the NBU. The MoF refinanced about a quarter of all payments and half of the payments to market players. Taking into account the proceeds from the FX-denominated bonds sold, all debt repayments were refinanced and additional funds were attracted.*

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

## Interest rates in the banks' reserves market (three months through 25 July 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 25 July 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>BANKS' RESERVES MARKET (%)</b>					
NBU rate <sup>1</sup>	12.50	+0bp	+0bp	+0bp	-150bp
ON rate	10.90	+0bp	-10bp	-30bp	+30bp
ON \$ swap	11.38	-8bp	-1bp	+17bp	-9bp
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	49,543	+3.77	+6.15	+0.27	-0.38
DepCerts <sup>3</sup>	50,640	+3.41	-4.06	-13.48	-18.64
<b>Total</b>	<b>100,183</b>	<b>+3.59</b>	<b>+0.73</b>	<b>-7.18</b>	<b>-10.53</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	367,904	+0.00	-0.84	-1.37	+3.30
Banks	292,399	-0.09	-0.24	+4.25	+69.67
Residents	21,632	-0.72	+0.28	-6.19	+37.97
Non-res <sup>4</sup>	3	+181.0	+129.6	-98.98	-99.95
<b>Total</b>	<b>681,938</b>	<b>-0.06</b>	<b>-0.55</b>	<b>+0.75</b>	<b>+23.87</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	8.89	-129bp	-590bp	-594bp	-13ppt
3 months	10.18	-209bp	-14bp	-431bp	-12ppt
6 months	11.18	-17bp	-170bp	-232bp	-687bp
1 year	11.44	-8bp	-27bp	-318bp	-455bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	585	+0bp	+0bp	+0bp	-68bp

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

## Euro extends gains

The euro was up 0.1% to 1.1647 EUR/USD on Tuesday, as a result of the following: (1) the ongoing US political debacle in the Trump administration, and (2) Germany's business climate index's increase to an all-time high of 116.0 in July from June's 115.2, versus an expected decline to 114.9. Moreover, Yves Mersch, member of the executive board of the ECB, said that the ECB should maintain its current monetary policy to achieve its inflation target.

The US dollar struggled near 13-month lows on Tuesday. Due to the recent political turmoil, the US dollar weakened significantly, while investors kept monitoring the ongoing investigation into alleged links between Donald Trump's administration and Russia. On the other hand, market players awaited the outcome of the Federal Reserve meeting scheduled for July 25-26. The Fed will likely keep its current policy unchanged even though its US\$4.5bn deficit is a concern to investors. The DXY index rose 0.1% to 94.05.

The hryvnia slightly declined on Tuesday, down 0.1% to 25.8437 USD/UAH, per data from the NBU. In our view, the USD/UAH corrected slightly on Tuesday following the hryvnia's gains over the last trading sessions. The UAH sold for 25.99 USD/UAH versus 25.76 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.14% to 109.54, while in year-on-year terms, this index was up 9.1% from 100.43 last year.

After Monday's drop of 1.1% against the USD on the back of geopolitical risks, the Russian ruble was volatile on Tuesday. The USD/RUB pair traded in the range of 59.7-60.2 USD/RUB, per data from the Moscow Exchange. Rising oil prices helped strengthen the ruble, but market players were monitoring new sanctions against Russia. Investors awaited the outcome of the Fed meeting and Russia's central bank meeting scheduled this week. On Tuesday, the ruble closed up 0.2% to 59.87 USD/RUB.

**Alexander Valchysheh, Kyiv, (044) 220-0120 ext.721**

**Dmitriy Dyachenko, Kyiv, (044) 220-0120 ext.738**

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

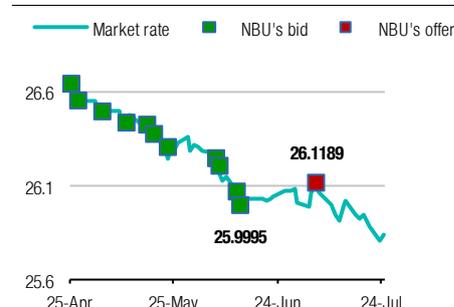
## Key indicators (as of 25 липня 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES (PER US DOLLAR, EXCEPT EURO, POUND)</b>					
UAH	25.8400	+0.16	-0.33	-0.74	-4.65
USD <sup>1</sup>	94.054	+0.08	-0.58	-3.30	-7.98
EUR	1.1647	+0.04	+0.80	+4.05	+10.74
JPY	111.8900	+0.71	-0.16	+0.55	-4.33
GBP <sup>2</sup>	1.3025	-0.02	-0.12	+2.41	+5.55
CNY	6.7510	+0.00	+0.07	-1.25	-2.79
RUB	59.8973	-0.21	+0.71	+0.75	-2.67

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 25 July 2017)



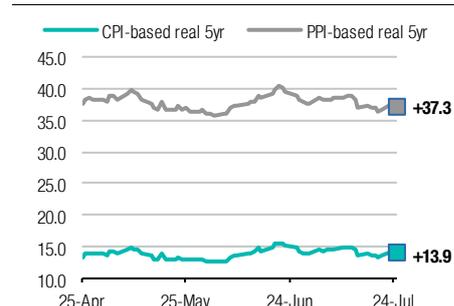
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 25 July 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 25 July 2017)



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)

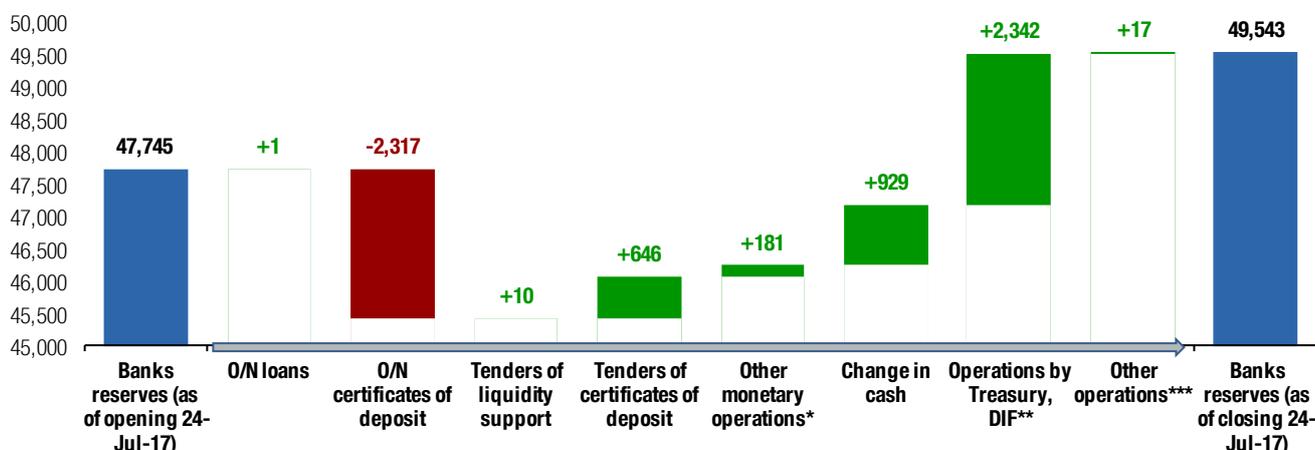
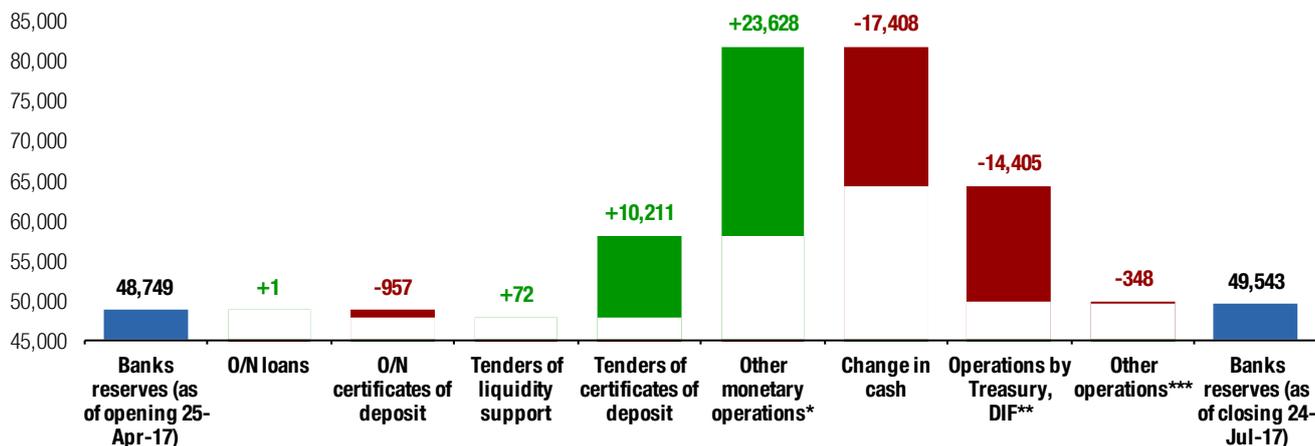
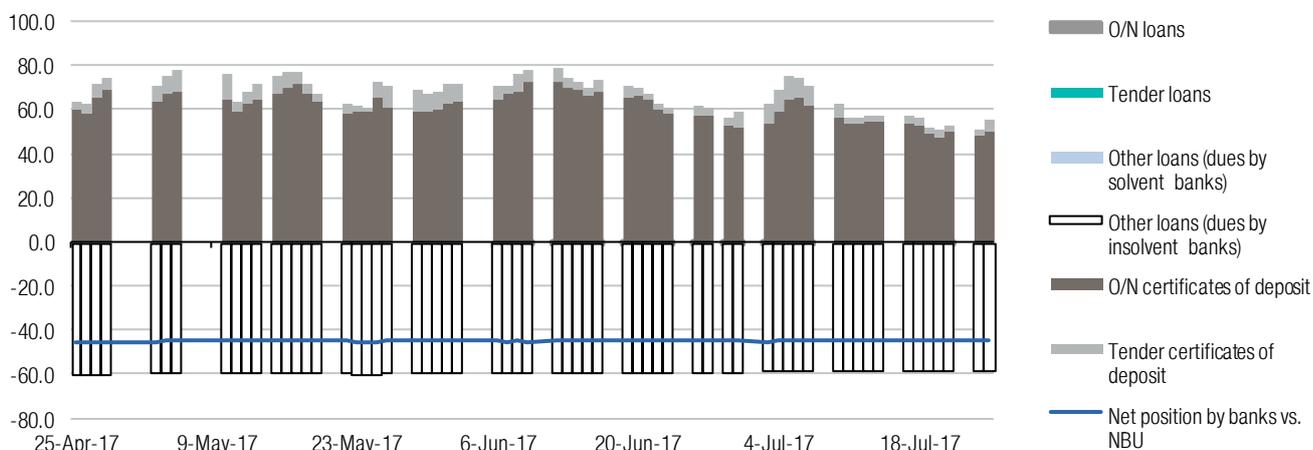


Chart 2. Banks reserves usages over last 90-day period (UAHm)



Notes: [1] data from the NBU's daily reporting [https://bank.gov.ua/control/uk/publish/article?art\\_id=38643651&cat\\_id=40807142](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](http://www.icu.ua)    [@ICU-UA](https://twitter.com/ICU-UA)

## CORPORATE FINANCE

**Makar Paseniuk, CFA**, Managing Director  
[makar.paseniuk@icu.ua](mailto:makar.paseniuk@icu.ua)

**Ivan Shvydanenko**, Director  
[ivan.shvydanenko@icu.ua](mailto:ivan.shvydanenko@icu.ua)

**Roman Nikitov, ACCA** Director  
[roman.nikitov@icu.ua](mailto:roman.nikitov@icu.ua)

**Yuriy Kamarytskyi**, Vice President  
[yuriy.kamarytskyi@icu.ua](mailto:yuriy.kamarytskyi@icu.ua)

**Ruslan Kilmukhametov**, Director  
[ruslan.kilmukhametov@icu.ua](mailto:ruslan.kilmukhametov@icu.ua)

**Ruslan Patlavsky**, Director  
[ruslan.patlavsky@icu.ua](mailto:ruslan.patlavsky@icu.ua)

## STRATEGY AND CORPORATE DEVELOPMENT

**Vlad Sinani**, Director  
[vlad.sinani@icu.ua](mailto:vlad.sinani@icu.ua)

## SALES AND TRADING

**Konstantin Stetsenko**   
Managing Director  
[konstantin.stetsenko@icu.ua](mailto:konstantin.stetsenko@icu.ua)

**Liliya Kubytovych**   
Asset Management Product Sales  
[liliya.kubytovych@icu.ua](mailto:liliya.kubytovych@icu.ua)

**Sergiy Byelyayev**  
Fixed-Income Trading  
[sergiy.byelyayev@icu.ua](mailto:sergiy.byelyayev@icu.ua)

**Yevgeniya Gryshchenko**  
Fixed-Income Sales  
[yevgeniya.gryshchenko@icu.ua](mailto:yevgeniya.gryshchenko@icu.ua)

**Vitaliy Sivach**   
Fixed-Income & FX Trading  
[vitaliy.sivach@icu.ua](mailto:vitaliy.sivach@icu.ua)

## RESEARCH

**Alexander Valchyshen**   
Head of Research  
[alexander.valchyshen@icu.ua](mailto:alexander.valchyshen@icu.ua)

**Taras Kotovych**   
Senior financial analyst (Sovereign debt)  
[taras.kotovych@icu.ua](mailto:taras.kotovych@icu.ua)

**Alexander Martynenko**   
Head of corporate research  
[alexander.martynenko@icu.ua](mailto:alexander.martynenko@icu.ua)

**Mykhaylo Demkiv**   
Financial analyst (Banks)  
[mykhaylo.demkiv@icu.ua](mailto:mykhaylo.demkiv@icu.ua)

**Bogdan Vorotilin**   
Financial analyst (Food & Agribusiness)  
[bogdan.vorotilin@icu.ua](mailto:bogdan.vorotilin@icu.ua)

**Lee Daniels, Rolfe Haas**  
Editors

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