

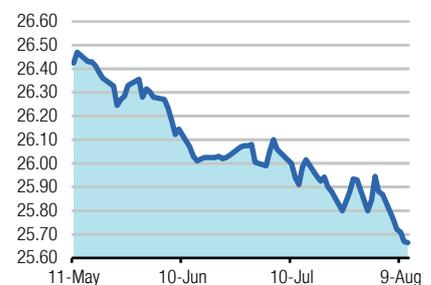
# Daily Insight

## Hryvnia near year's high

### Key messages of the today's comments

MONDAY, 14 AUGUST 2017

#### Ukraine's hryvnia exchange rate per US dollar (three months through 11 August 2017)



Source: Bloomberg.

#### Selected indicators of the financial markets (three months through 11 August 2017)

	Last	Daily chg (%)	YTD chg (%)
<b>DOMESTIC LIQUIDITY</b>			
NBU key policy rate (%)	12.50	+0bp	-150bp
Overnight rate (interbank)	10.90	+10bp	+30bp
Banks reserves (UAHm)	48,655	+13.93	-2.17
Deposit certificates* (UAHm)	46,989	-8.41	-24.50
<b>FOREIGN EXCHANGE MARKET</b>			
UAH per US dollar	25.6650	-0.02	-5.30
Total trade volume (US\$m)	212.82	+3.09	+25.47
UAH index CPI-based	109.312	-0.22	+1.21
UAH index PPI-based	168.476	-0.22	+0.06
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>			
CDS 5yr	550bp	+0bp	-103bp
<b>GLOBAL FINANCIAL MARKET INDICATORS</b>			
S&P 500	2,441.32	+0.13	+9.04
MSCI EM	1,042.80	-1.27	+20.94
US dollar index (DXY)	93.069	-0.36	-8.94
EUR / USD	1.1821	+0.42	+12.40
Crude oil WTI (US\$/bbl)	48.82	+0.47	-9.12
Crude oil BRENT (US\$/bbl)	52.10	+0.39	-8.31
CRB, commodities index	179.61	+0.39	-6.70
Gold (US\$/ounce)	1,289.35	+0.23	+11.90

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

Source: Bloomberg, ICU.

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

##### Liquidity continues to rise

For the second consecutive day, domestic liquidity (excluding UAH government bonds in financial institutions' portfolios) rose. As of Friday morning, the volume of cash reserves and CDs at the NBU rose 1.7%, up UAH1.63bn to UAH95.64bn from the previous day, up again due to Treasury operations and the continuing conversion of reserves into cash for clients. Other monetary operations of the NBU also contributed to the increase in liquidity. Banks decreased investments in both ON and 14-day CDs.

##### Auction pre-announcement

Last Thursday, the MoF announced the terms of Tuesday's auction: FX bonds will be offered for a third time this year, with a re-opening of 2-year currency bonds maturing in July 2019, last placed at the end of July. Other instruments to be offered include 6-month bonds maturing in January 2018, a re-opening notes 329 day notes, and 3-year bonds.

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

##### Hryvnia near year's high

The US dollar fell under pressure due to disappointing US inflation data. The US Commerce Department said that the growth of consumer prices accelerated to 1.7% YoY in July from 1.6% YoY the previous month, missing the analysts' expectation of a 1.8% YoY increase. This report, together with July's PPI data (growth of 1.9% YoY, below expectation of 2.2% YoY), dampened expectations for a third hike of the key policy rate this year. Just after the CPI report, the DXY index dropped 0.45% to 93.03. However, the greenback recovered some loses later. The DXY index traded within 92.93 – 93.51 on Friday, having closed down 0.36% to 93.07.

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

# Domestic liquidity

## Liquidity continues to rise

For the second consecutive day, domestic liquidity (excluding UAH government bonds in financial institutions' portfolios) rose. As of Friday morning, the volume of cash reserves and CDs at the NBU rose 1.7%, up UAH1.63bn to UAH95.64bn from the previous day, up again due to Treasury operations and the continuing conversion of reserves into cash for clients. Other monetary operations of the NBU also contributed to the increase in liquidity. Banks decreased investments in both ON and 14-day CDs.

Following the decline of investments in 14-day CDs, banks increased correspondent accounts with the NBU by UAH0.23bn to UAH4.07bn due to ON instruments. The NBU contributed UAH0.43bn via other monetary operations. The total effect of NBU monetary operations increasing reserves in banks' accounts amounted to UAH4.75bn. Treasury operations increased commercial banks' correspondent accounts by UAH2.48bn. The conversion of reserves into cash currency was UAH1.27bn. Overall, autonomous non-monetary operations' surplus was UAH1.2bn. Thus, commercial banks' correspondent accounts with the NBU rose UAH5.95bn. The interbank ON rate index declined 7 bp to 10.77%, remaining within the NBU's target range of 10.5-12.5% (the lowest rate is the rate for ON instruments, while the upper rate is the key policy rate and rate for 14-day CDs).

**Investment implications: The increase in liquidity (excluding government bonds) continues for another day, due to Treasury operations. We expect further positive contributions from the Treasury and an increase of absorption by the NBU. Most notably, correspondent accounts with the NBU grew at the fastest pace in the last 1.5 months.**

## Auction pre-announcement

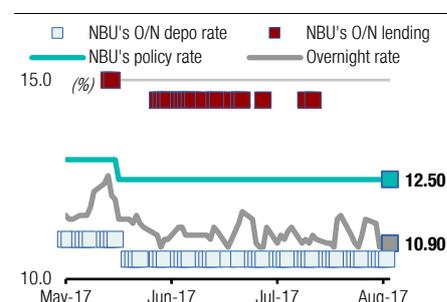
Last Thursday, the MoF announced the terms of Tuesday's auction: FX bonds will be offered for a third time this year, with a re-opening of 2-year currency bonds maturing in July 2019, last placed at the end of July. Other instruments to be offered include 6-month bonds maturing in January 2018, a re-opening notes 329 day notes, and 3-year bonds.

The last FX-denominated bonds offered saw high demand of which the MoF satisfied only one-third of the submitted bids at 5.30-5.50% with a 5.40% cut-off rate and a 5.34% weighted-average rate. We expect interest rates to be within the same range and local currency bonds to trade within the range of 13.85-14.54%.

**Investment implications: Considering the results of the last FX bond placement, demand should be around US\$500m, but the amount of satisfied bids will depend on MoF needs. With schedule debt payments around UAH200m, demand should be moderate with interest rates unchanged.**

**Taras Kotovych, Kyiv, (044) 220-0120 ext.724**  
**Artem Gladchenko, Kyiv, (044) 220-0120 ext.737**

## Interest rates in the banks' reserves market (three months through 11 August 2017)



Source: Bloomberg, ICU.

## Key indicators (as of 11 August 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	+10bp	-60bp	-20bp	+30bp
ON \$ swap	N/A	N/A	N/A	N/A	N/A
<b>DOMESTIC LIQUIDITY (UAH MILLION)</b>					
Reserves <sup>2</sup>	48,655	+13.93	-3.70	+3.76	-2.17
DepCerts <sup>3</sup>	46,989	-8.41	+1.93	-12.26	-24.50
<b>Total</b>	<b>95,644</b>	<b>+1.74</b>	<b>-1.01</b>	<b>-4.78</b>	<b>-14.58</b>
<b>BREAKDOWN OF GOVT BOND HOLDERS (UAH MILLION)</b>					
NBU	365,704	+0.00	-0.11	-1.43	+2.68
Banks	296,064	+0.00	-0.05	+9.52	+71.79
Residents	22,498	-0.42	-0.65	+4.56	+43.50
Non-res <sup>4</sup>	11	+3.09	+1.33	+73.33	-99.83
<b>Total</b>	<b>684,277</b>	<b>-0.02</b>	<b>-0.10</b>	<b>+3.23</b>	<b>+24.30</b>
<b>IMPLIED YIELDS OF THE UAH NDF MARKET (%)</b>					
1 month	11.20	-80bp	+326bp	-382bp	-11ppt
3 months	11.38	-33bp	+111bp	+22bp	-11ppt
6 months	11.81	-14bp	+76bp	-172bp	-624bp
1 year	11.66	+3bp	+36bp	-301bp	-433bp
<b>UKRAINE SOVEREIGN EUROBOND MARKET</b>					
CDS 5yr	550	+0bp	+10bp	-35bp	-103bp

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

## Hryvnia near year's high

The US dollar fell under pressure due to disappointing US inflation data. The US Commerce Department said that the growth of consumer prices accelerated to 1.7% YoY in July from 1.6% YoY the previous month, missing the analysts' expectation of a 1.8% YoY increase. This report, together with July's PPI data (growth of 1.9% YoY, below expectation of 2.2% YoY), dampened expectations for a third hike of the key policy rate this year. Just after the CPI report, the DXY index dropped 0.45% to 93.03. However, the greenback recovered some losses later. The DXY index traded within 92.93 – 93.51 on Friday, having closed down 0.36% to 93.07.

The EUR/USD pair was relatively flat on Friday. However, just after the US CPI report, the greenback plunged, which pushed the euro to a 1-week high (1.1847 EUR/USD). In the second part of the trading session, the USD managed to recover some losses, which led to a correction of the EUR/USD pair. At the same time, investors are eyeing the estimate of the July Eurozone CPI, which is expected on August 18, as the euro strengthened 0.4% against the US dollar to 1.1821 EUR/USD.

The hryvnia was almost flat on Friday, having slightly declined to 25.6957 USD/UAH, but remained near this's years high. The decline of the UAH to 25.7138 USD/UAH at the beginning of Friday's trading session could be the result of the growth of liquidity in the banking sector for the second consecutive day. However, the hryvnia appreciated in the second part of the day thanks to another drop of the USD in world FX markets. On Friday, the UAH sold for 25.59 USD/UAH versus 25.78 USD/UAH to buy in the Ukrainian cash market. The hryvnia's CPI-based real trade-weighted index fell 0.22% to 109.31, while in year-on-year terms, was up 9.18% from 100.12 last year.

The Russian ruble moved upward against the US dollar at the end of the week. According to the preliminary estimate, Russia's real GDP rose 2.5% YoY in 2Q17. The real GDP reading, together with high oil prices and disappointing US CPI data, supported the ruble. On the other hand, EM currencies remain negatively affected by investors' risk averseness. Still, despite negative factors, the ruble remained near the psychological rate of 60 USD/RUB. On Friday, the ruble traded in the 59.80 – 60.31 range, having closed up 0.4% to 59.8625 USD/RUB.

*Alexander Valchyshen, 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](#).

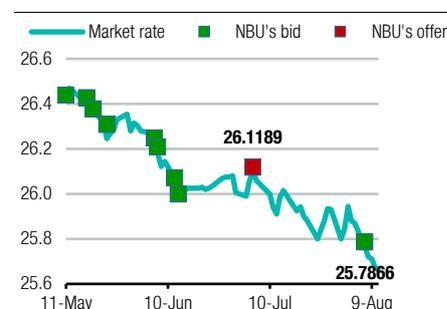
## Key indicators (as of 11 August 2017)

	Last	Daily	Weekly	Monthly	YTD
	chg (%)	chg (%)	chg (%)	chg (%)	chg (%)
<b>EXCHANGE RATES</b> (PER US DOLLAR, EXCEPT EURO, POUND)					
UAH	25.6650	-0.02	-0.79	-1.06	-5.30
USD <sup>1</sup>	93.069	-0.36	-0.51	-2.72	-8.94
EUR	1.1821	+0.42	+0.41	+3.09	+12.40
JPY	109.1900	-0.01	-1.36	-4.17	-6.64
GBP <sup>2</sup>	1.3014	+0.29	-0.20	+1.29	+5.46
CNY	6.6636	+0.25	-0.97	-2.04	-4.05
RUB	59.8388	-0.48	-0.22	-1.61	-2.76

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 11 August 2017)



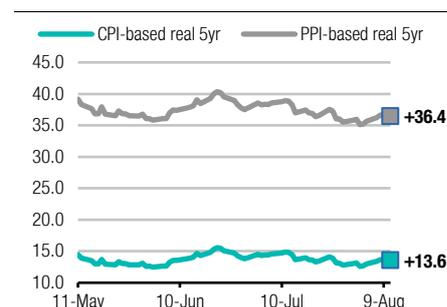
Notes: the chart provides labels for the average exchange rate at last two NBU auctions (one on buying FX from the market and one on selling it). Source: NBU, Bloomberg, ICU.

## Ukraine hryvnia UAH exchange rate per US dollar at the cash market (three months through 11 August 2017)



Source: NBU.

## UAH exchange rate misalignment<sup>1</sup> from fundamental level<sup>2</sup> (%) (three months through 11 August 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)

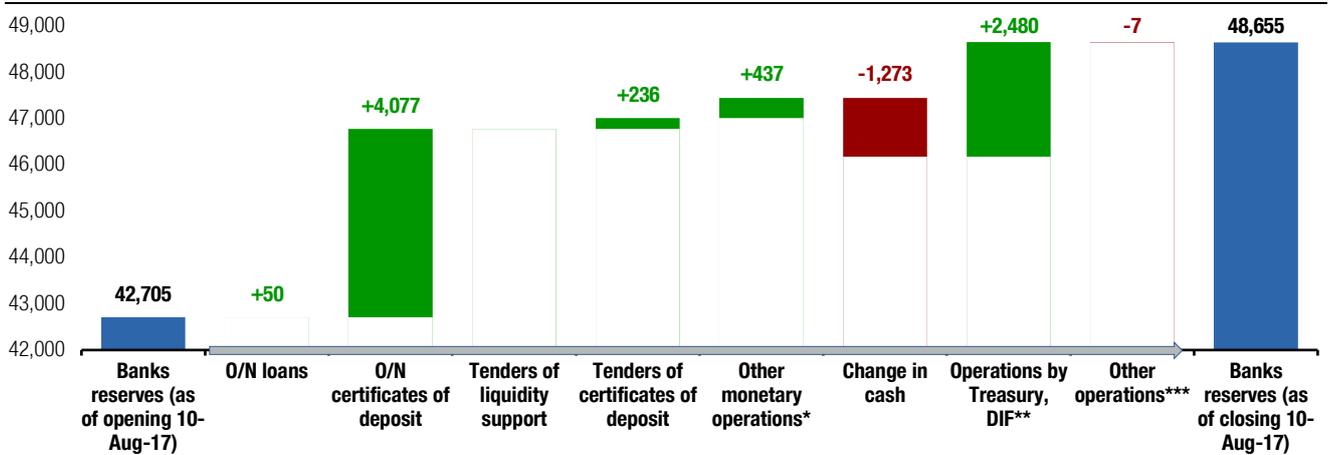
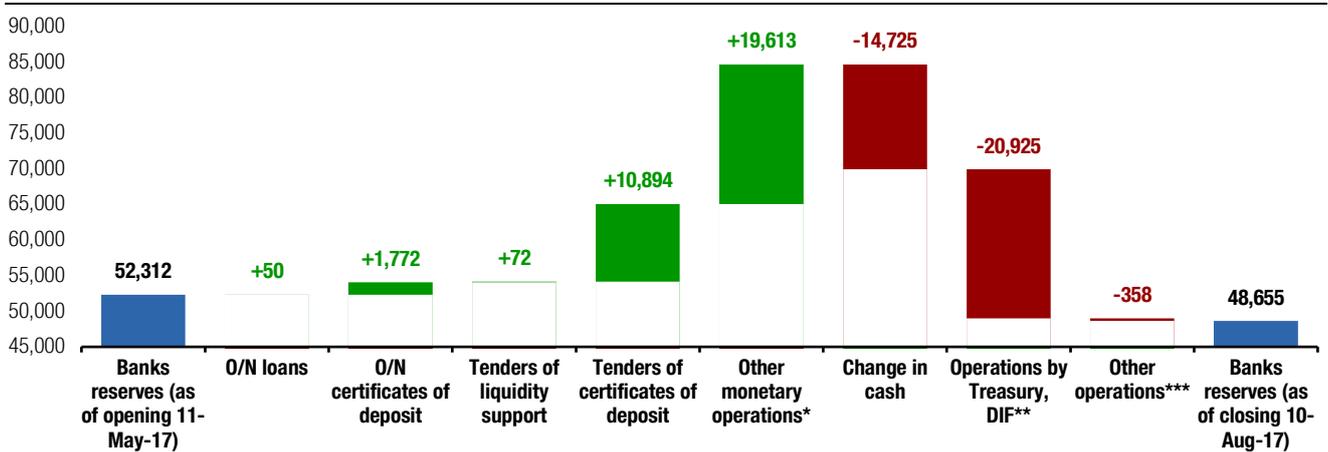
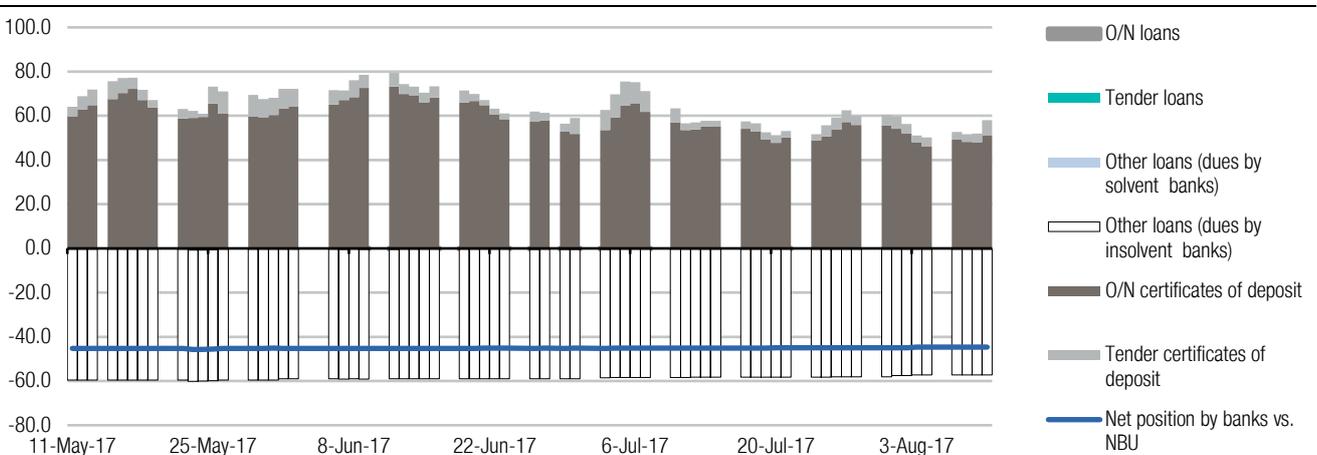


Chart 2. Banks reserves usages over last 90-day period (UAHm)



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

## 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 Kubytyvych**   
Asset Management Product Sales  
[liliya.kubytyvych@icu.ua](mailto:liliya.kubytyvych@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)

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

## RESEARCH

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

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

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

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

**Lee Daniels, Rolfe Haas**  
Editors

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