



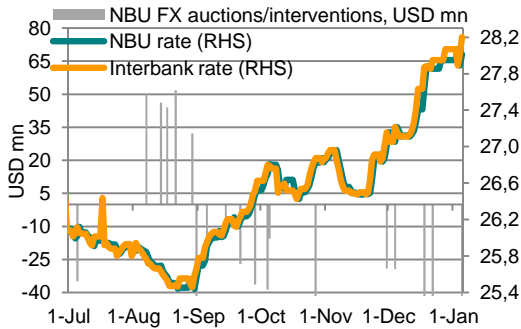
This week in focus: Ukraine's inflation shatters old stereotypes

Ukraine's inflation had shattered old stereotypes, speeding its pace in the middle of the year and losing its steam by the end of the year, while reverse pattern was more accustomed for Ukrainians. As a result it landed at 13.7% in 2017, accelerating its pace up from 12.2% y/y in 2016.

Please see page 3 for more details

FX and interest rates: MoF attracted UAH 1bn

Figure 1. UAH exchange rate (UAH per USD)



Source: NBU, Reuters

USD/UAH increased to 28.54 as of Friday the 12th. Week-on-week local currency declined by 1.2 % against the USD.

Aggregate banking liquidity amounted to UAH 98.1bn as of Friday the 12th, down by UAH 8.8bn for week. (growing refinancing)

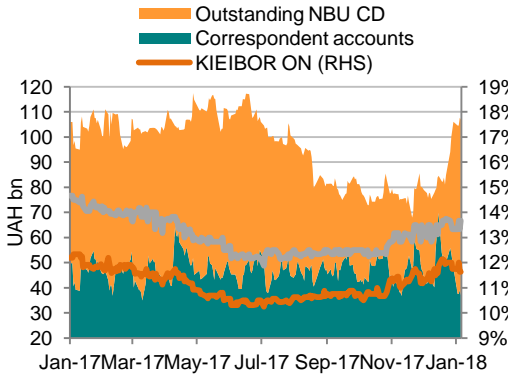
Money market rates remained flat: cost of ON funds is around 12.25/13.00%, 1 week is 12.5/14.0% while 1M is 13.5/16.00%, according to our data.

On its latest auction in 2017, MoF managed to attract almost UAH 1bn of proceeds. The shortest bonds attracted the most of demand.

Figure 5. OVDP auction results, 10th of January 2018

CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size	Placement size
UAH	6m	16.00%	15.97%	16.00%	15.85%	12	12	190.0mn	897.9mn
UAH	1y	15.75%	15.75%	16.00%	15.75%	3	1	50.0mn	51.2mn
UAH	2y	15.70%	15.70%	16.00%	15.70%	4	3	36.9mn	36.9mn

Figure 2. Banking liquidity (UAH bn)



Source: Reuters, NBU, Ukrsibbank, Minfin

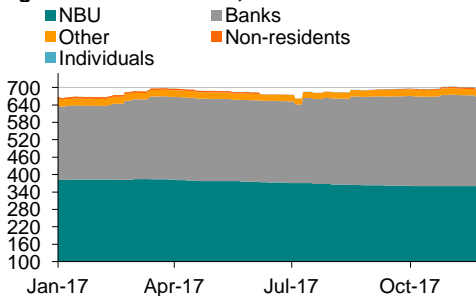
Average daily FX volumes on the market landed at the equivalent of USD 191.7mn, USD 22mn higher than in the previous week.

The NBU held no interventions on the market via currency auction, allowing hryvnia to depreciate.

Coal production in Ukraine dropped by 14.6% y/y in 2017, as blockade of Donbas made anthracite coal scarcer in Ukraine. During the year, decline amounted by 5.9mnt which yielded in 34.9mnt of mined coal during the year. Coke coal were mined less by 18.6% (or 1.5mnt), while amount of mined energetical coal declined by 13.5%, bringing YTD result to 28.1mnt.

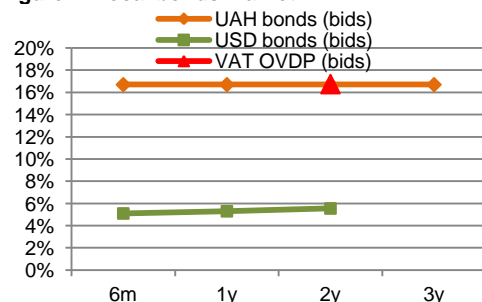
Currently, yields (bids) of local OVDP in UAH at 16.70% (for 6m), 16.70 (for 2Y). 1Y USD bids were at 5.55%, while bids for VAT bonds were at 16.75%.

Figure 3. OVDP holders, UAH bn



Source: NBU

Figure 4. Local bonds market

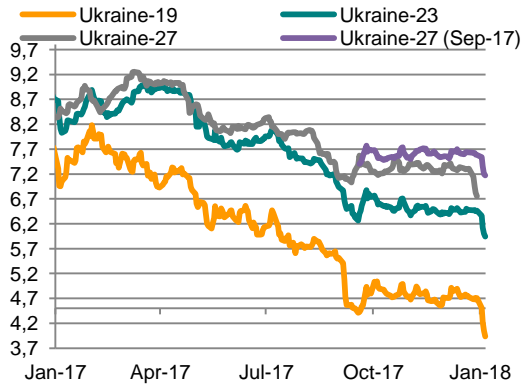


Source: Ukrsibbank



Global markets: Britain inflation fell, leaving BoE space to breathe

Figure 5. Ukraine's sovereign Eurobond yields, bid/ask mid (%)



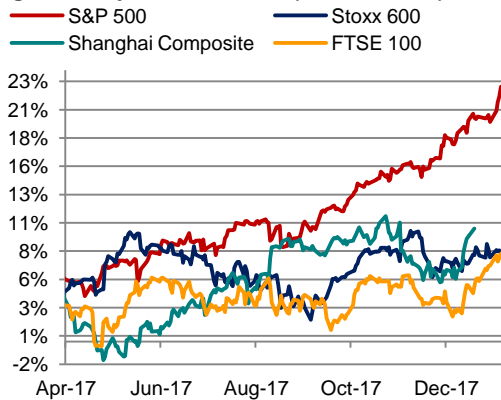
Source: Reuters

Figure 6. EUR USD spot (mid)



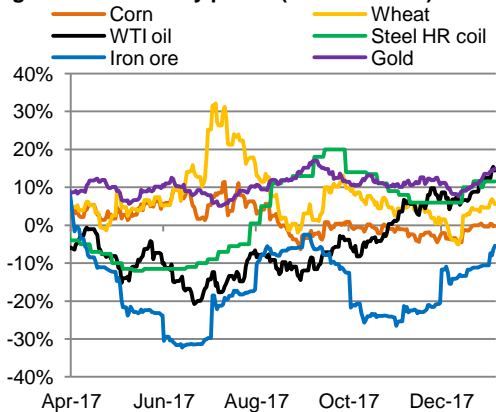
Source: Reuters

Figure 7. Major stock indices (Jan-2017=100)



Source: Reuters

Figure 8. Commodity prices (Jan-2017=100)



Source: Reuters

Market participants were watching closely end year inflation print in Great Britain.

US equities mixed, with S&P added 1.6%.

EUR/USD rate landed at 1.2185 as of Friday the 12th, higher than the last week closing level of 1.2030.

Stoxx 600, a broader gauge of European equity performance increased by 0.3% week-on-week.

Inflation in Britain declined in December, for first time in six months. As a result, inflation amounted to 3%, down from 3.1% in November. While core inflation fell to 2.5% y/y in December. It indicated that's effect from pound devaluation starts to fade. With inflation on a downward path the Bank of England received the additional room to breathe freely.

Crude oil fell broadly, as WTI 1m futures increased by 4.7% week-on-week and closed at USD 64.3 per barrel.

Gold prices gained, as NYMEX 1m futures drop by 1.0% week-on-week and finished the week at USD 1333.4 per troy ounce.

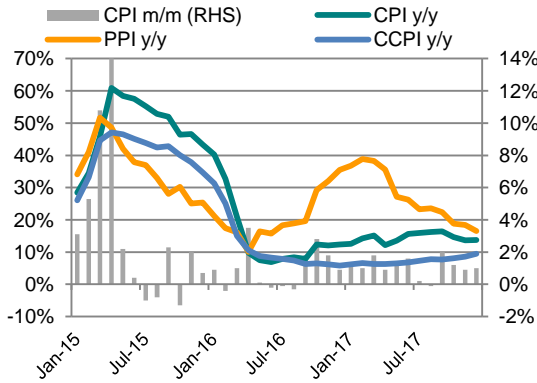
Grains finished the week in black, as CBOT Corn 1m closed at USD 346.3 per bushel, while CBOT Wheat 1m futures laded at USD 420.5 per bushel

Iron ore increased, as NYMEX Iron ore 62% Fe 1m futures rose, closing at USD 77.37 per ton.



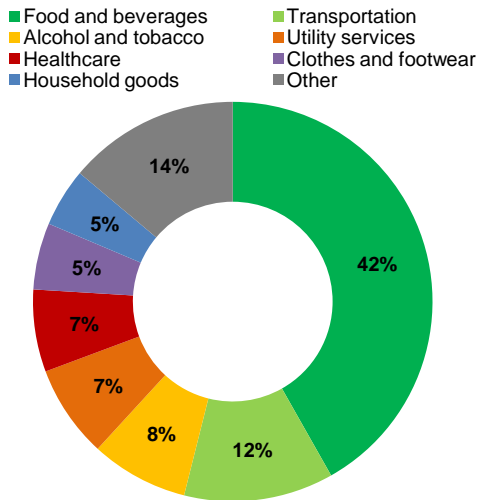
This week in focus: Ukraine's inflation shatters old stereotypes

Figure 9. Inflation in Ukraine, %



Source: Ukrstat

Figure 10. CPI basket weights, %



Source: Ukrstat

Ukraine's inflation had shattered old stereotypes, speeding its pace in the middle of the year and losing its steam by the end of the year, while reverse pattern was more accustomed for Ukrainians. As a result it landed at 13.7% in 2017, accelerating its pace up from 12.2% y/y in 2016.

Ukraine's food prices rose 18.3% y/y in December, declining from 18.4% y/y in November. In December, meat prices rose 29.4% y/y, milk prices increased 23.1%, vegetables prices gained 24.7% y/y and fruits prices surged 34.5% y/y. On a monthly basis, the largest acceleration showed milk prices (+4.0% y/y), egg prices (6.8% y/y) with vegetables (+2.0% y/y) and fruits (+7.1% y/y). Meanwhile, sugar prices demonstrated decline, likewise in prior month, falling 3.7% m/m, slowing nose diving trend from prior month stronger decline.

For 11M 2017, Ukraine export of meat increased by 10.9% y/y, while due to increased global prices it resulted in higher export proceeds for Ukrainians meat exporters, raising by 30.8% y/y for the same period. Export of pork skyrocketed by 1.7x times for the same period. Increased foreign demand caused higher export sales, resulting in higher domestic prices during the year.

Utility prices gained 10.6% y/y in December, remaining almost flat compared to prior month.

Prices on clothes and footwear declared 0.7% y/y and 2.4% m/m, comparing to 0.8% y/y and 8.9% m/m price gains in November.

Transportation prices rose 16.7% y/y, while prices rose 1.8% m/m driven by fuel prices increase 2.5% m/m

Core inflation headed for higher in December, increasing by 9.5% y/y in 2017, up from 5.8% y/y in 2016 and 8.6% y/y in November 2017. And was led mainly, by increased social expenses from budget, namely wages and pensions (as of October 1).

Producer prices inflation slowed down in December to 16.5% y/y, from 18.4% y/y in November. In 2017, prices in mining category added by 30.4% and were led by coal mining (47.8% y/y) and iron ore mining (+29.3% y/y). Prices in manufacturing increased on average by 18.5% y/y, accounting for the strongest contribution from meat production (+29.0% y/y), coke production (+43.0% y/y) and metallurgy (+26.9% y/y).

National bank of Ukraine forecasted consumer prices to grow by 12.2% by the end of the year, according to its latest restated forecast. In fact, prices strongly deviating from this target forced NBU to tighten its monetary stance. Meanwhile, it's not in our opinion especially productive in terms of combating inflation, as inflation pressure primarily came from the sides which not under NBU control.

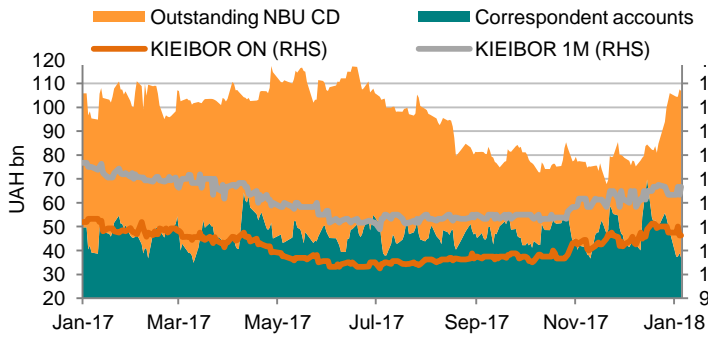
In 2018, cigarette excises is to be increased by 29.7% which will result in higher inflation coming from administratively regulated category. Moreover, starting from 2019 and up to 2025, excises will be increased by 20% each year, contributing respectively to inflation end year print. On top of that, IMF latest tranche was postponed to 2018. The biggest IMF requirement was a price for natural gas based on import parity. **This implies that administrative regulated part of inflation will be on the rise next year supported both excises and by higher heating bills for Ukrainians in the next heating season. We take this into consideration and expect inflation to land at 9.0% y/y in 2018.**

Having declined in the second half of the year, Ukraine's consumer inflation ended up higher compared to 2016. The novelty of 2017 is that central bank showed that it can raise rates as well as reduce them, indicating that inflation targeting in Ukraine is really gaining momentum. Only problem with it is that Ukraine's inflation has proved to be much more volatile compared to closest peers in neighboring countries. Such volatility is caused by poor living standards in the country, as food item accounts for more than 40% from consumer basket, leaving it highly vulnerable to seasonal patterns of raw foods and even short-term supply shocks. With the increasing standard of living Ukraine can manage to reduce this volatility only in the long run.



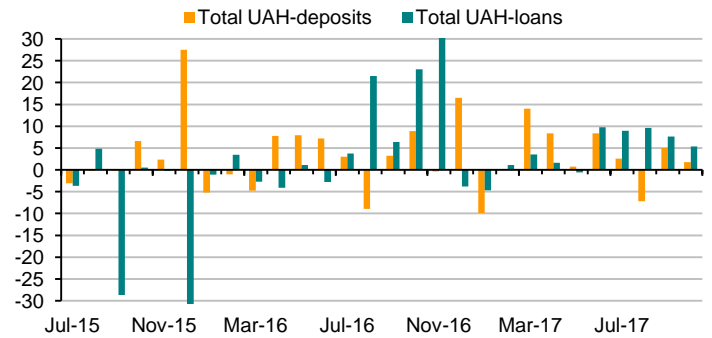
Money market

Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

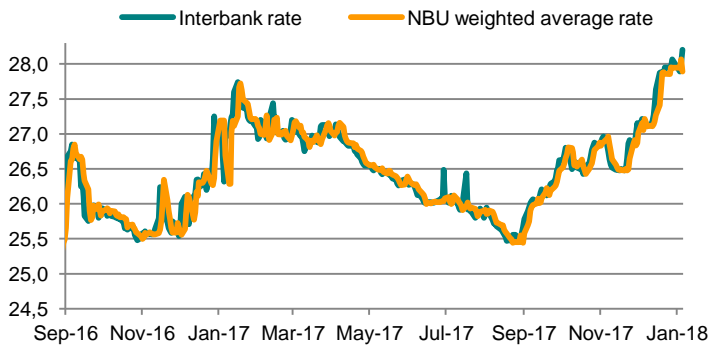
Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

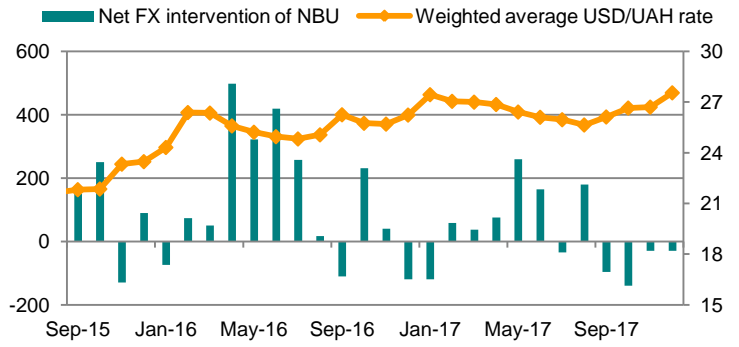
Currency market

UAH exchange rate, UAH/USD



Source: Reuters

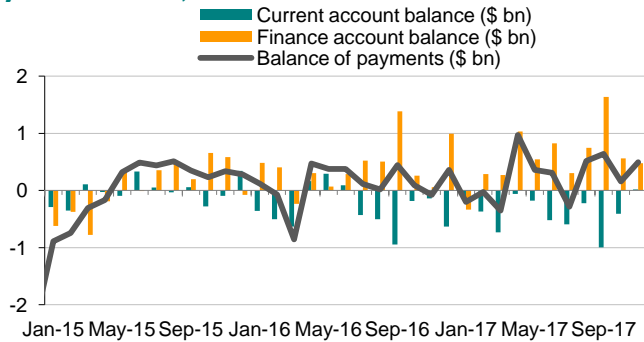
Net retail FX interventions of the NBU in 2015-2017, USDmn



Source: NBU

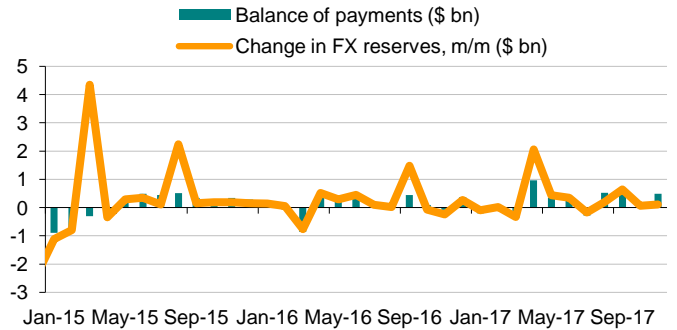
Balance of payments

Major BoP accounts, USDbn



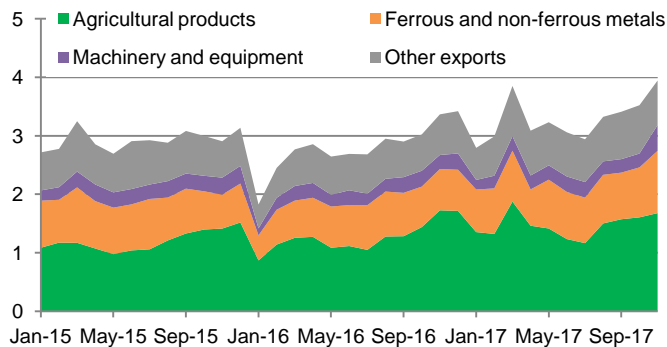
Source: NBU

BoP vs change in foreign reserves, USDbn



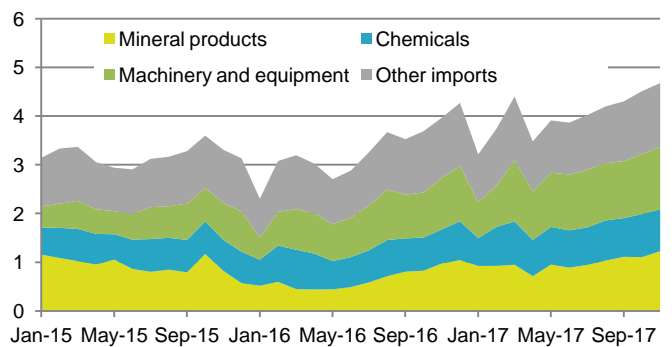
Source: NBU

Exports components dynamic, USDbn



Source: NBU

Imports components dynamic, USDbn



Source: NBU

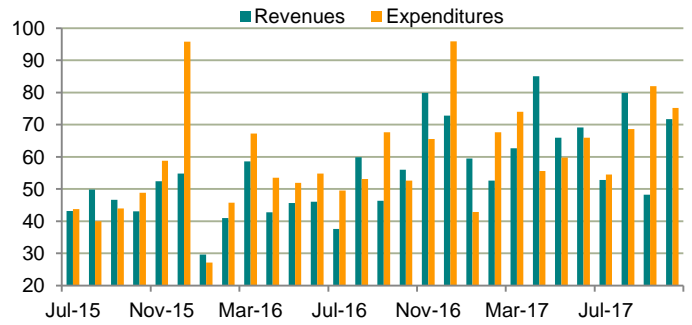


Budget performance

Budget performance, UAHbn

	Jan - Oct 2016	Jan - Oct 2017
Budget revenues	463,6	647,5
VAT proceeds	261,7	150,2
Corporate income tax	37,0	49,6
Budget expenditures	523,4	646,2
Deficit / Surplus	-59,8	1,2

Monthly change in budget revenues and expenditures, UAHbn

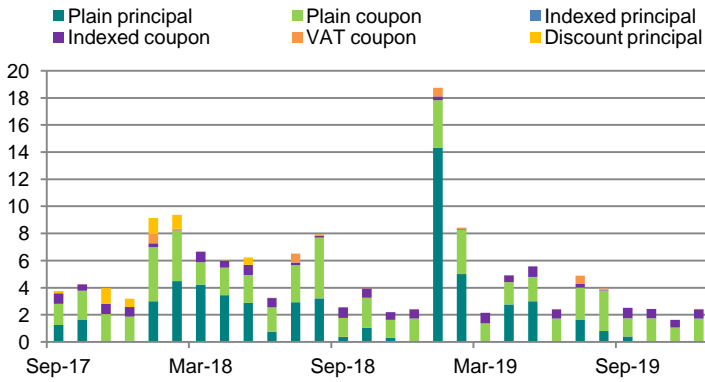


Source: NBU

Source: NBU, State Treasury

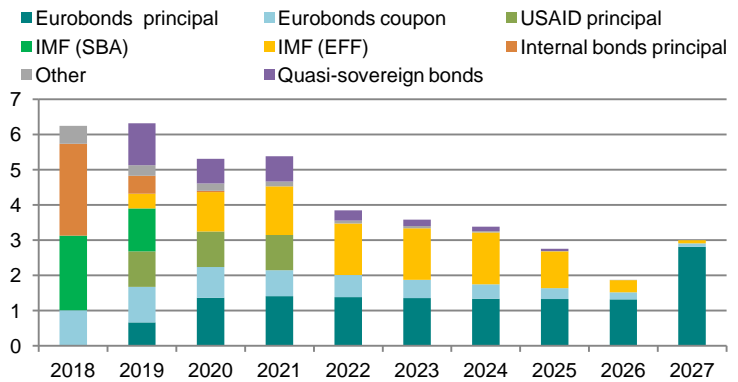
Sovereign debt

UAH-denominated debts' repayments schedule, UAHbn



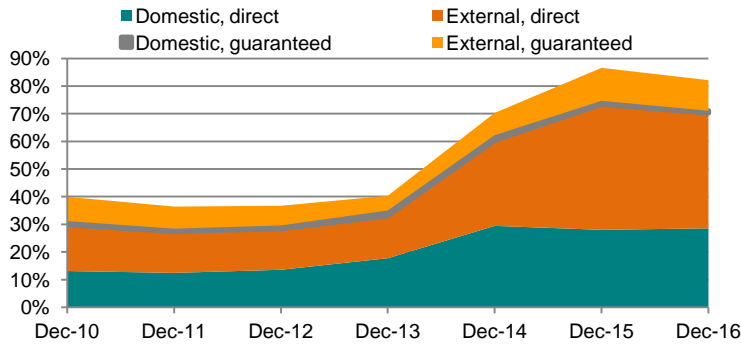
Source: NBU, UkrSibbank estimates

FX-denominated external debts' repayments schedule, USDbn



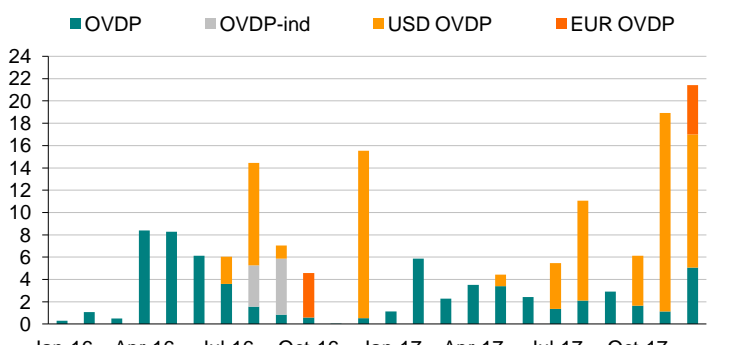
Source: Reuters, IMF, UkrSibbank estimates

Total government debt, % GDP



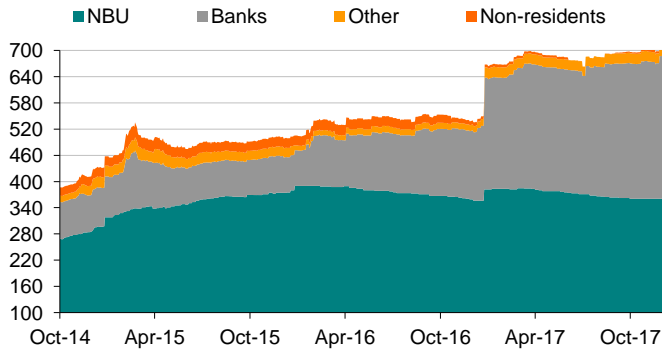
Source: MinFin

Local borrowings, UAHbn equivalent



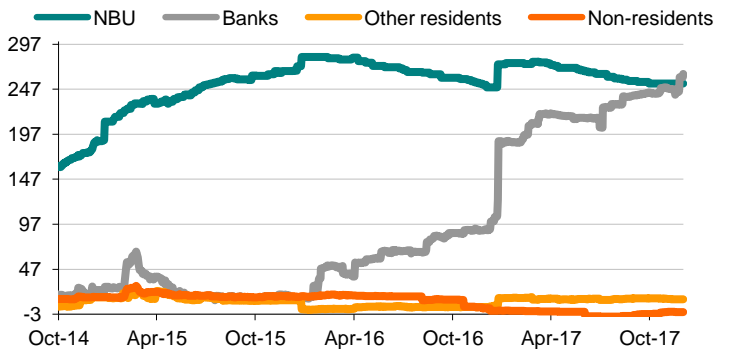
Source: NBU

Outstanding OVDP owners structure, UAHbn



Source: NBU

Outstanding OVDP changes in holding, UAHbn

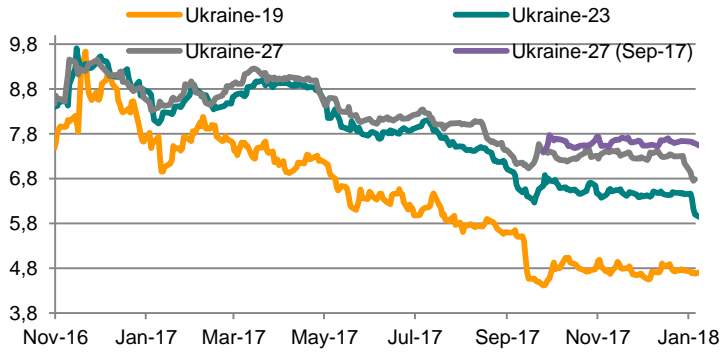


Source: NBU



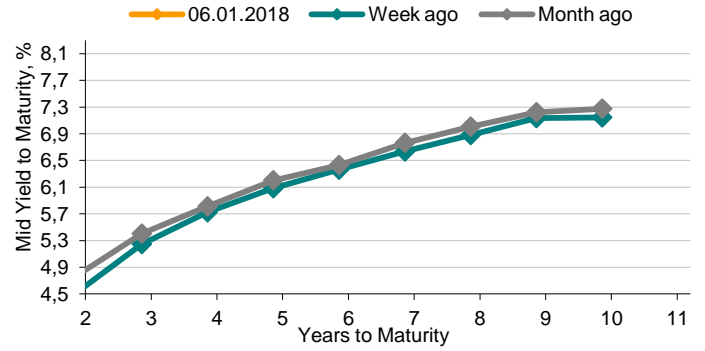
Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

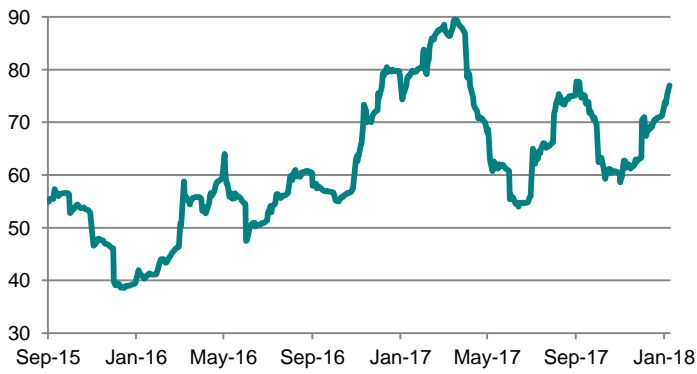
Ukraine's sovereign Eurobond yield curve



Source: Reuters

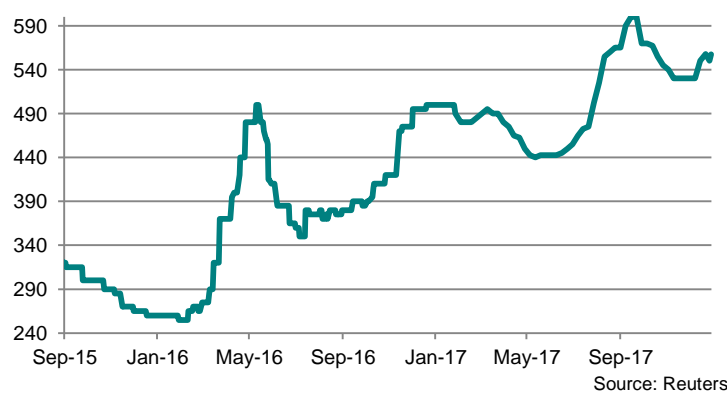
Commodity markets

Iron ore 62% Fe (nearest active future at NYMEX), USD per ton



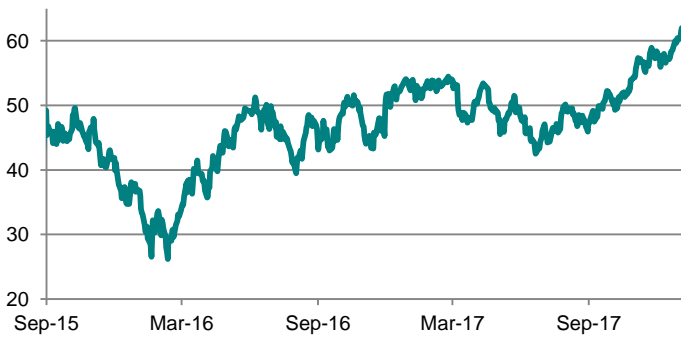
Source: Reuters

Steel CIS export HR coil, USD per ton



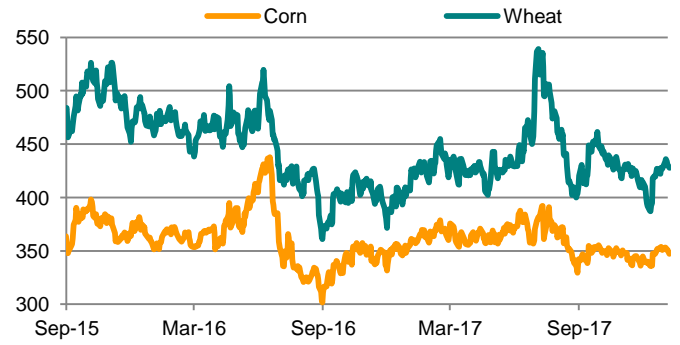
Source: Reuters

WTI oil (nearest active future at NYMEX), USD per barrel



Source: Reuters

Corn and wheat (nearest active future at CBT), USD per bushel



Source: Reuters



Key Macroeconomic Indicators											
Ratings (M/S&P/F) Caa2/B-/B-	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018F
Real sector											
Real GDP (%YoY)	2.3	-14.8	4.1	5.2	0.2	0.0	-6.6	-9.8	2.3	2.0	3.1
Industrial production (%YoY)	-5.2	-21.9	11.2	8.0	-0.7	-4.3	-10.7	-6.0	2.4	0.9	3.0
Retail sales (%YoY)	17.3	-20.9	10.1	13.2	12.3	6.1	-11.0	-25.0	4.0	8.0	7.0
Unemployment rate end of year (ILO, working age)	6.9	9.6	8.8	8.6	8.1	7.7	9.7	11.5	9.3	8.7	8.5
Nominal GDP (UAH bn)	948.1	913.3	1079.4	1299.9	1404.7	1465.8	1586.9	1979.5	2383.2	2855.5	3239.8
Nominal GDP (USD bn)	178.9	112.8	136.1	163.1	175.8	183.5	133.7	91.2	93.1	106.9	120.0
Prices											
CPI (average %YoY)	25.2	15.9	9.4	8.0	0.6	-0.2	12.1	48.7	16.5	12.5	9.0
CPI (end of year %YoY)	22.3	12.3	9.1	4.6	-0.2	0.5	24.9	43.3	12.4	13.0	9.0
Real average wage growth (%YoY)	6.3	-9.2	10.2	8.7	14.4	8.2	-6.5	-35.0	10.0	12.0	7.0
Fiscal balance (% of GDP)											
State budget deficit (without Naftogaz)	1.3	3.9	5.9	1.8	3.7	4.2	4.9	2.3	2.9	2.9	2.5
Total public debt	20.0	34.8	39.9	36.3	36.7	39.9	69.4	79.4	81.0	77.0	76.0
External balance											
Exports of goods and services (USD bn)	67.7	40.4	65.6	83.7	86.5	81.7	65.4	47.9	46.0	53.0	53.5
Imports of goods and services (USD bn)	83.8	44.7	69.6	93.8	100.9	97.4	70.0	49.6	51.8	59.3	62.3
Current account balance (USD bn)	-12.8	-1.7	-3.0	-10.2	-14.3	-16.5	-4.6	-0.2	-3.8	-4.5	-5.1
Current account balance (% of GDP)	-7.1	-1.5	-2.2	-6.3	-8.1	-9.0	-3.4	-0.2	-4.1	-4.2	-4.3
Net FDI (USD bn)	9.9	4.7	5.8	7.0	7.2	4.1	0.3	3.0	3.4	2.2	2.5
Foreign exchange reserves (end of year)	31.5	26.5	34.6	31.8	24.5	20.4	7.5	13.3	15.5	18.8	22.0
Imports coverage (months of imports of goods)	4.5	7.1	6.8	4.5	3.3	2.9	1.5	4.4	3.7	4.4	4.7
Interest and exchange rates											
NBU discount rate (% end of year)	12.00	10.25	7.75	7.75	7.50	6.50	14.00	22.00	14.00	14.50*	14.00*
Exchange rate (UAH/USD) end of year	8.1	8.0	7.9	8.0	8.1	8.2	15.8	24.0	27.2	27.5*	29.5*
Exchange rate (UAH/EUR) end of year	10.9	11.5	10.5	10.4	10.6	11.3	23.0	26.2	28.3	31.5*	32.5*

Source: UkrStat, NBU, MinFin, UkrSibbank

* Broad estimate



Contacts

Dmytro Tsapenko

Head of ALMT&Capital Markets
(+38044) 537 5015

Serhiy Yahnych

Head of Investment Business
(+38044) 537 5082 serhii.yahnych@ukrsibbank.com

Oleksandr Duda

Head of FX Sales
(+38044) 537 5002 oleksandr.duda@ukrsibbank.com



This document has been prepared by the strategy team of PUBLIC JOINT STOCK COMPANY "UKRSIBBANK" that is the part of BNP Paribas Group (hereafter – JSC "UkrSibbank") in strict compliance with related Ukrainian legislation). The report does not purport to be an exhaustive analysis, and may be subject to conflicts of interest resulting from their interaction with sales and trading which could affect the objectivity of this report. This document is a marketing communication and is not considered to be an independent investment research. The document have not been prepared in accordance with legal requirements designed to provide the independence of investment research, and are not subject to any prohibition on dealing ahead of the dissemination of investment research.

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such.

The following points of attention should be taken into consideration:

- JSC "UkrSibbank" may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon, or vice versa.
- JSC "UkrSibbank", including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report.
- JSC "UkrSibbank" may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report.
- JSC "UkrSibbank" may be a party to an agreement with any person related to the production of this report.
- JSC "UkrSibbank" may, to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication.
- JSC "UkrSibbank" may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report.
- Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

This report does not constitute an offer or solicitation to buy or sell any securities or other investment. Information and opinions contained in the report are published for the assistance of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient, are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, neither JSC "UkrSibbank", nor any other BNP Paribas group company, accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. JSC "UkrSibbank" and its affiliates (collectively JSC "UkrSibbank") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices.

Potential counterparties/distributors should review independently and/or obtain independent professional advice and draw their own conclusions regarding the suitability/appropriateness of any transaction including the economic benefit and risks and the legal, regulatory, credit, tax and accounting aspects in relation to their particular circumstances.

Analytical materials featured above are a marketing communication not intended for public use. JSC "UkrSibbank" is the sole owner of the contents of this document (as well as the graphics, the layout, and the text) which is protected by (Ukrainian and international) copyright laws. No materials featured herein can be reproduced or used in any format, in whole or in part, without the prior written consent of JSC "UkrSibbank".

By accepting this communication, a recipient hereof agrees with abovementioned limitations.