



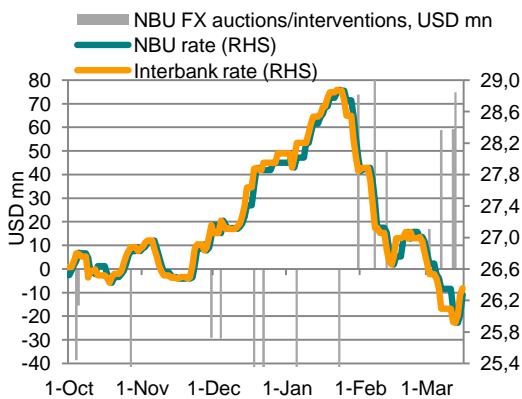
**This week in focus: Ukraine CPI: more deceleration to come!**

Ukraine's headline and core inflation in February printed at 14.0% y/y and 9.7% y/y respectively, both 0.1% lower than previous months. We expect CPI to decelerate over the next months against backdrop of stable FX rate (which is likely to translate to lower price of imported goods with 1-2 month delay) and favorable base of comparison (utilities, food etc). We keep our 2018 end-year CPI expectation at 10.9%.

*Please see page 3 for more details*

**FX and interest rates: Smoliy was appointed as central bank governor**

**Figure 1. UAH exchange rate (UAH per USD)**



Source: NBU, Reuters

**USD/UAH closed at 26.35 as of Friday the 16<sup>th</sup>.** Week-on-week local currency weakened by 1.0% against the USD.

**Average daily FX volumes on the market amounted to the equivalent of USD 248.3mn,** USD 55.2mn lower compared to previous week.

**NBU held one currency auction during the week.** Out of USD 114.8mn applied by banks initially, NBU bought USD 74.9mn.

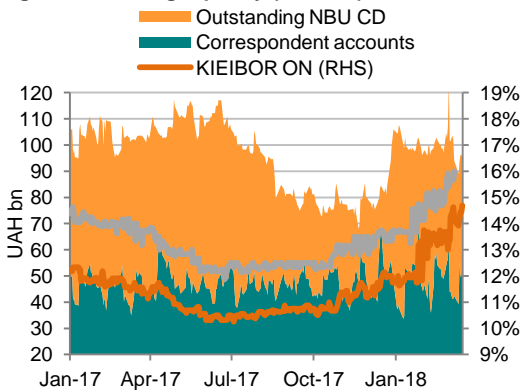
**Aggregate banking liquidity amounted to UAH 96.7bn as of Friday the 16<sup>th</sup>,** growing by UAH 2.7bn during the week.

**Money market rates remained flat:** cost of ON funds is around 13.0/15.25, 1 week is 14.0/16.25 while 1M is 15.0/17.0, according to our calculations.

**MoF managed to attract UAH 1bn on its latest auction.** On Tuesday, the Ministry of Finance placed 3m, 6m, 9m, 12m and 1.5y bonds. As was the case previously, the shortest bonds were capped by UAH 0.5bn per issue, namely 3m and 6m. The highest demand attracted 3m issue, amounting UAH 1bn, out of which only UAH 0.5bn was satisfied by MoF, with a cut off rate at 17.5%.

**Currently, yields (bids) of local OVDP in UAH at 17.75% (for 6m), 17.75% (for 2Y).** 1Y USD bids were at 5.50%, while bids for VAT bonds were at 17.95%.

**Figure 2. Banking liquidity (UAH bn)**



Source: Reuters, NBU, UkrSibbank, Minfin

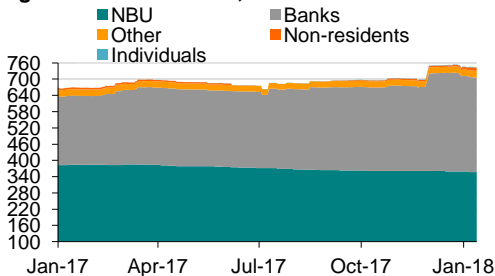
**Figure 5. OVDP auction combined results, 13<sup>th</sup> of March 2018**

CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size	Placement size
UAH	3m	17.50%	17.44%	18.00%	17.30%	11	10	994.7mn	480.7mn
UAH	6m	17.00%	17.00%	17.25%	17.00%	4	3	292.6mn	85.6mn
UAH	9m	17.00%	17.00%	17.39%	17.00%	5	2	469.6mn	9.8mn
UAH	1y	17.00%	17.00%	17.00%	17.00%	5	5	237.4mn	234.1mn
UAH	2y	16.10%	16.10%	17.00%	16.10%	3	2	265.0mn	269.8mn

**Minutes of latest NBU meeting regarding monetary policy revealed that out of 8 MPC members all voted in favor of interest rate hike.** While 6 voted in favor of 100bp increase, 2 voted to increase main rate more gradually in March and April by 50-75bp. According to the policymakers, all inflation risks that were mentioned in previous inflation report remained unchanged. At the same time, all policymakers agreed with a main interest rate at 17% the necessity of next rate increase remains not obvious.

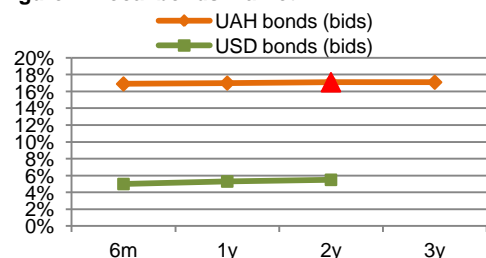
**Yakiv Smoliy was appointed as central bank governor.** On Thursday, Members of Ukrainian parliament Verchovna Rada voted to dismiss Valeriya Gontareva and elected acting NBU governor Yakiv Smoliy as her successor. Smoliy acted as a NBU head since May 2017. In his speech to parliament, he noticed a 5% inflation as a strategic inflation objective in the mid-term.

**Figure 3. OVDP holders, UAH bn**



Source: NBU

**Figure 4. Local bonds market**

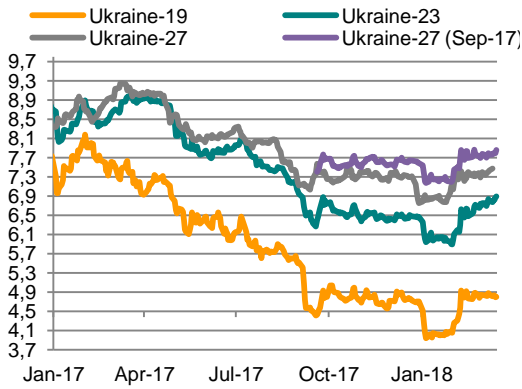


Source: UkrSibbank



**Global markets: Strong industrial production reading in U.S. in February**

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



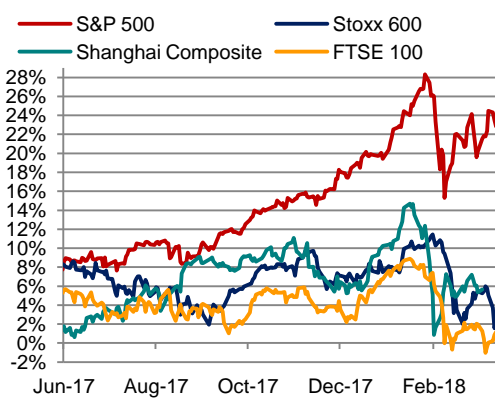
Source: Reuters

**Figure 6. EUR USD spot (mid)**



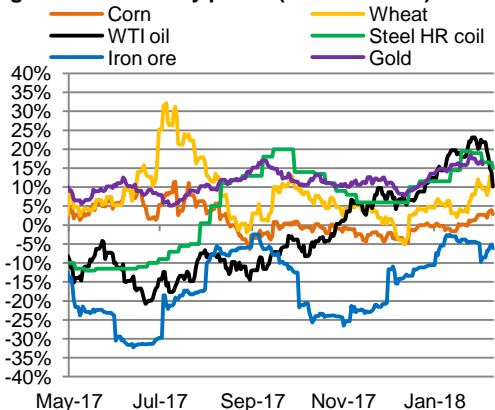
Source: Reuters

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



Source: Reuters

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



Source: Reuters

**Industrial production surge in the United States reflected the strongest increase in activity since October. At the same time, on Friday, Euro stat inflation reading revealed that inflation in Euro zone landed at 1.1% y/y. China's industrial production delivered the strong start of the year.**

**Bond benchmarks advanced**, with U.S. 10y Treasuries' yield lower by 5bp week-on-week falling to 2.85%, while German 10y Bunds' yields fell by 7bp, landing at 0.57%, Japanese 10y bonds declined and ended the week at 0.038%.

**US equities are on the downside again**, with S&P falling by 1.1% week-on-week, while Nasdaq Composite remained flat week-on-week.

**Industrial production in United States jumped 1.1% in February**, reflecting the largest increase in four months, after 0.3% decline in January. Manufacturing output gained by 1.2%, after falling 0.2% in January. Mining production rose by 4.3% last month, underpinned by 11.6% increase in oil and gas well drilling. Overall, industrial production showed a sharp improvement, supporting the outlook of next rate hikes this week.

**EUR/USD rate landed at 1.2287 as of Friday the 16<sup>th</sup>**, higher than the last week closing level of 1.2305, as the USD performed mixed against its main peers.

**Stoxx 600, a broader gauge of European equity performance was almost flat during the week**, while German DAX dynamic was also effectively flat week-on-week.

**Consumer prices in Euro zone rose by 1.1% in February**, according to Euro stat's Friday reading. On a monthly basis prices rose by 0.2% in February. Annual drop in consumer prices was seen only in the Greece, down 0.4%, Denmark and Italy, with 0.5% each. In contrast to that, in Romania (+3.8%), Estonia (+3.2%) and Lithuania (+3.2) were seen the highest inflation rates.

**Having grown by 7.2% in February, China's industrial production delivered the strong start of the year.** On top of that, urban fixed-asset investments rose by 7.9% (for January-February), up from 7.2% in December. And last but not least, China's consumer spending, measured by retail sales, advanced by 9.7% (for 2M 2018), up from 9.4% in December.

**Crude oil prices gained**, as WTI futures increased by 0.5% week-on-week and closed at USD 62.3 per barrel, while Brent 1m futures rose by 1.1%, closing at USD 66.2 per barrel.

**Gold prices declined**, as NYMEX 1m futures fell by 0.8% week-on-week and finished the week at USD 1311.3 per troy ounce.

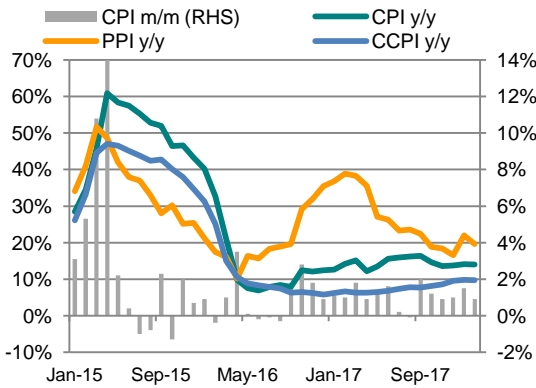
**Grains were in the red**, as CBOT Corn 1m futures fell 0.1% week-on-week and closed at USD 382.8 per bushel, while CBOT Wheat 1m futures landed at USD 467.8 per bushel, 4.3% lower week-on-week.

**Iron ore rose** as NYMEX Iron ore 62% Fe 1m futures advanced by 0.9% week-on-week and closed at USD 72.7 per ton.



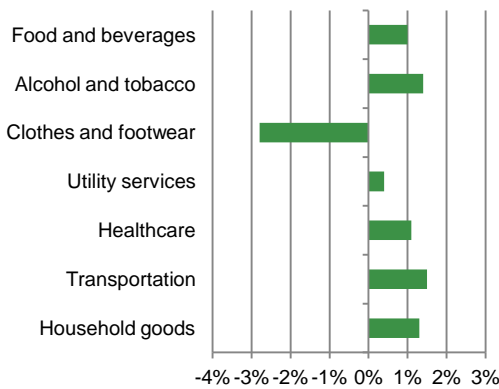
**This week in focus: Ukraine CPI: more deceleration to come!**

**Figure 9. Inflation rates in 2015-2018**



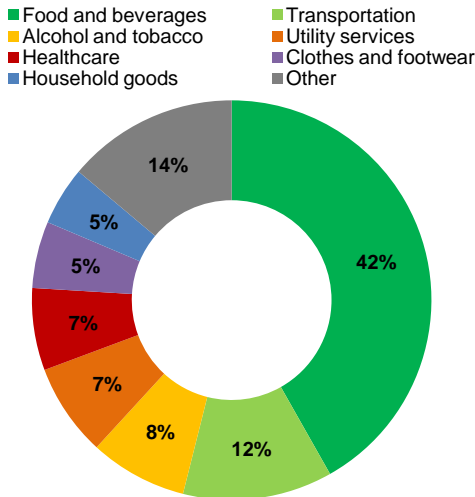
Source: Ukrstat

**Figure 10. Price changes in selected categories, February 2018, % m/m**



Source: Ukrstat

**Figure 11. CPI basket**



Source: Ukrstat

Ukraine's headline and core inflation in February printed at 14.0% y/y and 9.7% y/y respectively, both 0.1% lower than previous months. We expect CPI to decelerate over the next months against backdrop of stable FX rate (which is likely to translate to lower price of imported goods with 1-2 month delay) and favorable base of comparison (utilities, food etc). We keep our 2018 end-year CPI expectation at 10.9%.

Food prices growth slowed marginally, falling to 17.6% y/y from 17.9% y/y in prior month. On a monthly basis, prices followed suit and demonstrated deceleration of its pace of growth with inflation print at 1.0% m/m in February, after 2.0% m/m in January. Among the major supporters of this dynamic the most prominent contribution came from fruits (+6.8% m/m), vegetables (+1.5% m/m), fish (+2.4% m/m) and bread (1.6% m/m), as opposed to sugar prices which declined by 1.0% m/m.

One of the previous locomotives of underlying inflation pressure, meat prices, posted price decrease of -0.3% m/m in February. As we pointed out earlier, skyrocketing export of poultry in January, amounting to 79% y/y growth was not favoring good prospects to the local meat market in the short term. In the mid and long term we point out that increased supply of meat (with fully launched of Vinnitsa additional capacity expected in 2021) can contribute to more balanced poultry market in the country. In contrast to that in short term this can also create imbalances in local market as MHP is going to increase export in 2018 by 20% as opposed to 16% in 2017, according to the latest data from the company.

Transportation prices were on the rise, increasing by 1.5% m/m in February, doubling down its pace of expansion, following a 3.0% m/m rise in January, with a 12 month print landing at 16.5% y/y, down from 17.1% y/y in prior month. The prices of fuel rose by 2.2% m/m, as opposed to 4.4% m/m in February.

Having grown by 0.4% m/m in January, utilities prices increased at exactly the same pace in February, contributing to 10.9% y/y print, up from 10.7% y/y a month ago, as prices acceleration during the month was almost flat. We expect the utility inflation pressure, amounting 10.9% y/y in February, to almost halve in the next month, as the statistical effect of March 2017 electricity tariffs increase by 28% is poised to fizzle out.

Apparel prices dropped by 2.8% m/m in February, keeping a nose diving trend further for a fourth month in a streak. On a year-on-year basis the prices grew by 1.4% y/y.

Core consumer prices rose by 0.6% m/m in January, down from 0.7% increase in prior month, bringing 12m gauge to 9.7% y/y, dipping lower from 9.8% y/y in January. While producers' prices fell to 19.6% y/y in February, from 22% y/y in prior month, with the highest pace of growth concentrated in mining industry.

Winter crops are likely to be disinflation supportive. Out of 14.4mn ha sowed in previous year under crops around half of that land bank was sowed by winter crops and half by spring crops. While we cannot delve into the stance of spring crops due to that it's too early. We can make some remarks toward winter crops, or approximately half of the future 2018 harvest of crops.

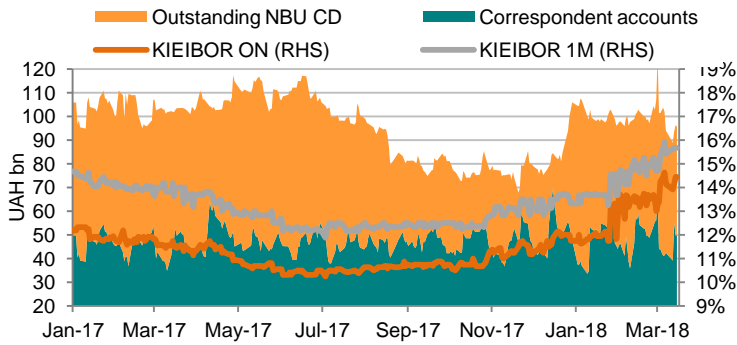
In 2018, was sowed 7.3mn ha (up from 7.2mn ha in prior year) of winter crops, out of which shoots were obtained at 99.7% from that area (or around 7.3mn ha), up from 7.0mn ha in 2017. At the same time, out of that 87% (or 6.3mn ha) were in a good shape, up from 83% a year ago, while 13% - in a weak (17% a year ago).

In 2017, the largest decline in yields and harvest was recorded in spring crops, namely corn, while wheat harvest was effectively the same. While, decline in corn harvest was not the major factor causing inflation upheaval in 2017, there is close interrelation between crops condition and vegetables and fruits condition (prices of which skyrocketed in 2017) as yields of both are strongly affected by weather. There's also indirect link between crop dynamic and poultry pricing in our country. Often crops and oilseeds are the main components in the structure of the cost of sales in the companies producing poultry, accounting the largest part of it, which are mixed together usually to obtain fodder. Poultry producers often prefer corn in a mix of fodder instead of wheat. That's why last year decrease in harvest due to decline in corn yields was also partly responsible for an increase in poultry prices. Not to mention that the number of kilograms of fodder required to produce one kg of increase in live weight, i.e. average conversion rate are around 1.77 for the largest part of poultry produced in the country.



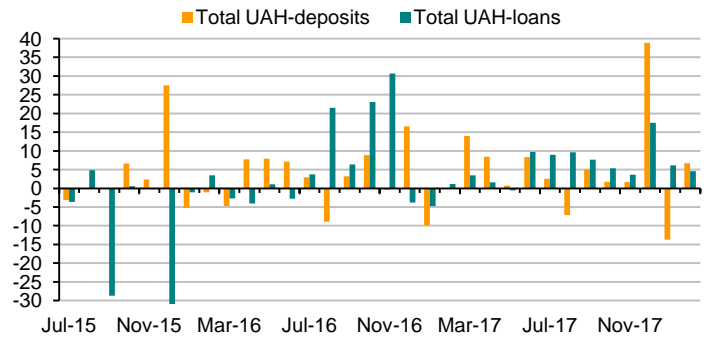
### Money market

Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

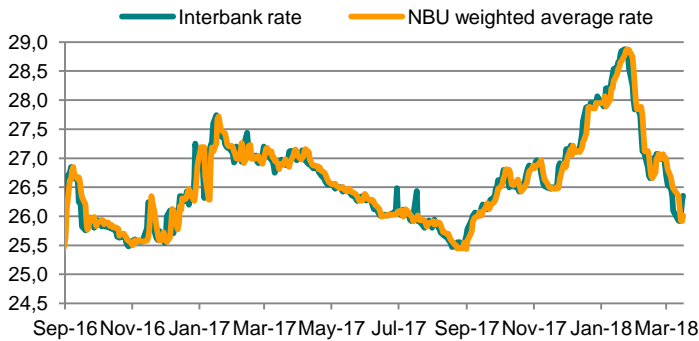
Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

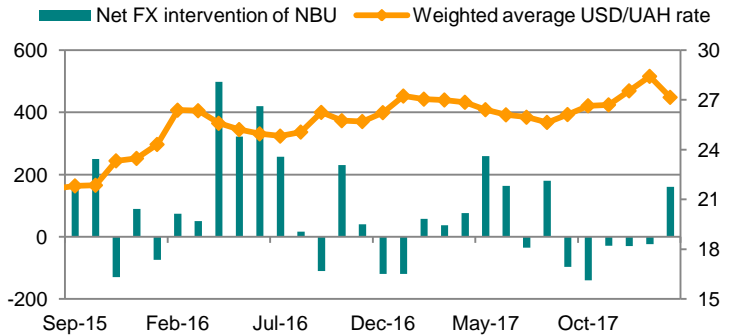
### Currency market

UAH exchange rate, UAH/USD



Source: Reuters

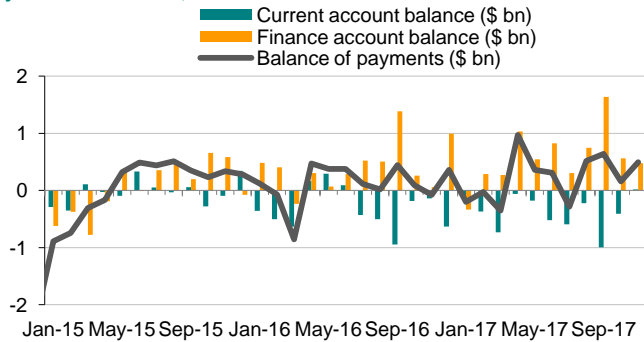
Net retail FX interventions of the NBU in 2015-2017, USDmn



Source: NBU

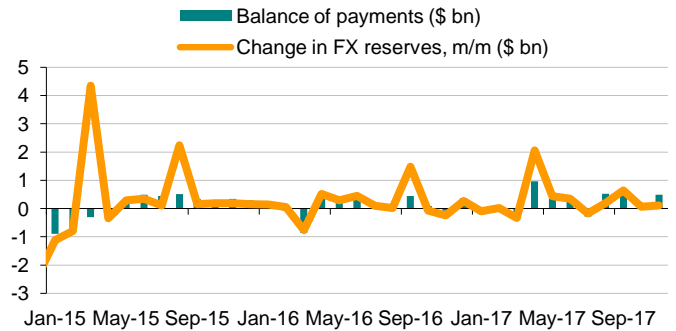
### Balance of payments

Major BoP accounts, USDbn



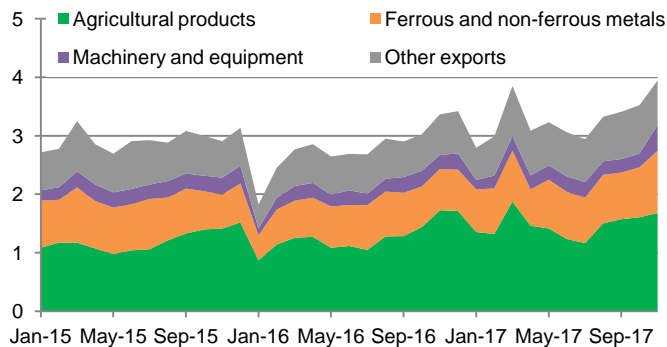
Source: NBU

BoP vs change in foreign reserves, USDbn



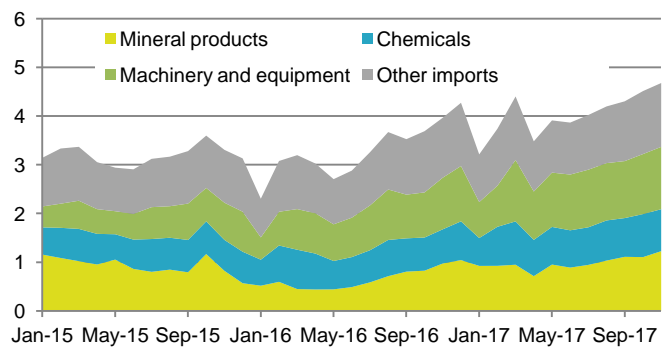
Source: NBU

Exports components dynamic, USDbn



Source: NBU

Imports components dynamic, USDbn



Source: NBU

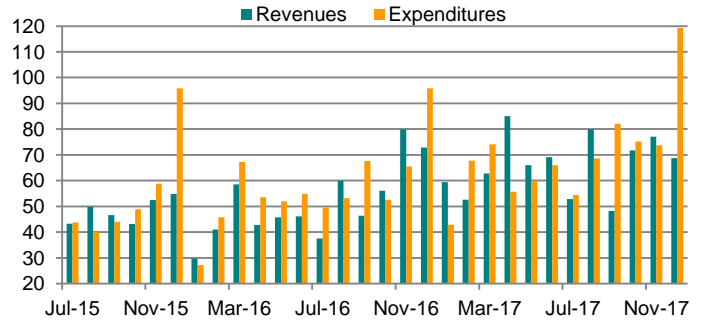


**Budget performance**

**Budget performance, UAHbn**

	Jan – Dec 2016	Jan - Dec 2017
<b>Budget revenues</b>	<b>616,3</b>	<b>793,3</b>
VAT proceeds	329,9	183,5
Corporate income tax	54,3	66,9
<b>Budget expenditures</b>	<b>684,7</b>	<b>839,2</b>
Deficit / Surplus	-68,5	-46,0

**Monthly change in budget revenues and expenditures, UAHbn**

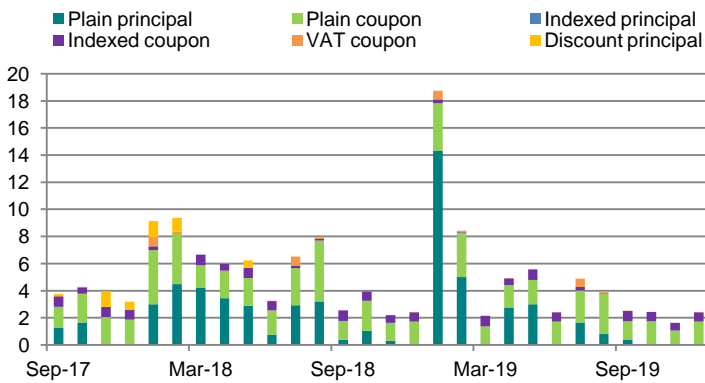


Source: NBU

Source: NBU, State Treasury

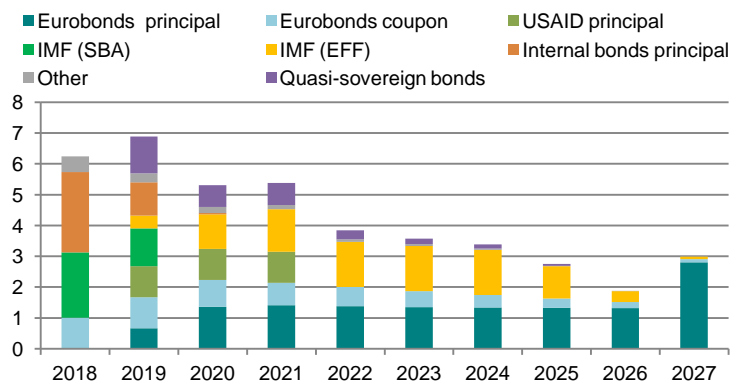
**Sovereign debt**

**UAH- denominated debts' repayments schedule, UAHbn**



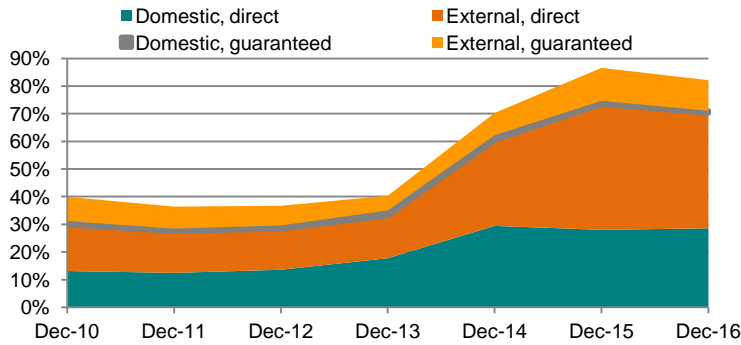
Source: NBU, UkrSibbank estimates

**FX-denominated debt repayments schedule, USDbn**



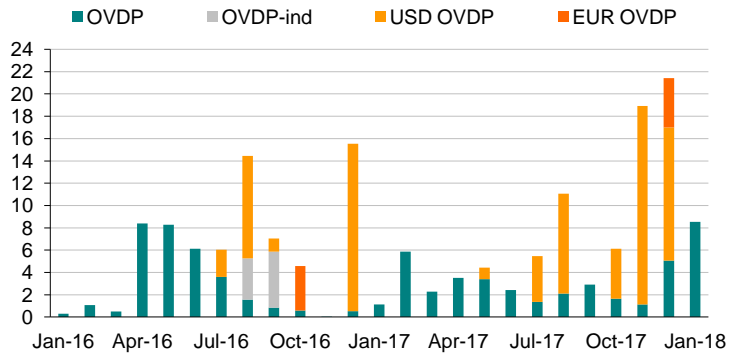
Source: Reuters, IMF, UkrSibbank estimates

**Total government debt, % GDP**



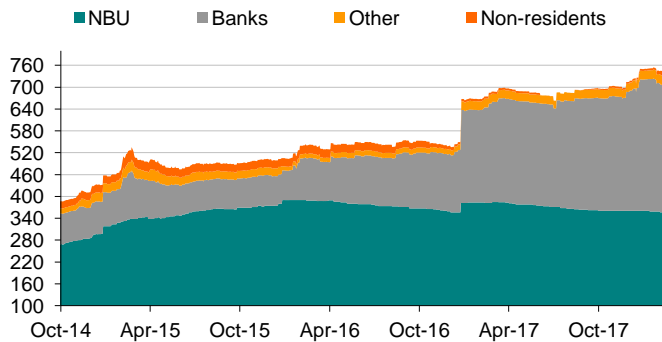
Source: MinFin

**Local borrowings, UAHbn equivalent**



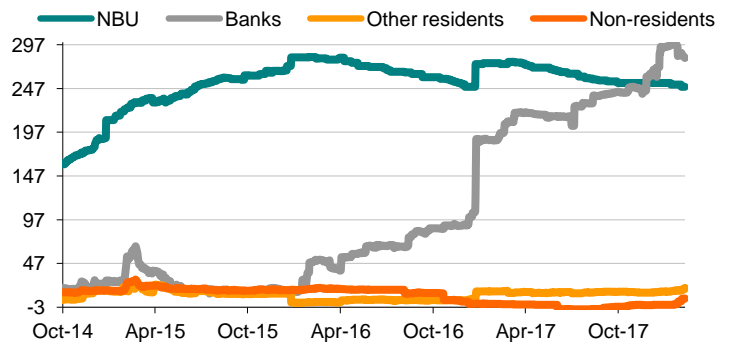
Source: NBU

**Outstanding OVDP owners structure, UAHbn**



Source: NBU

**Outstanding OVDP changes in holding, UAHbn**

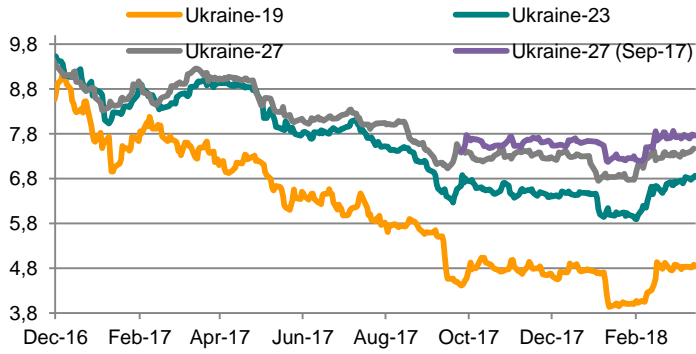


Source: NBU



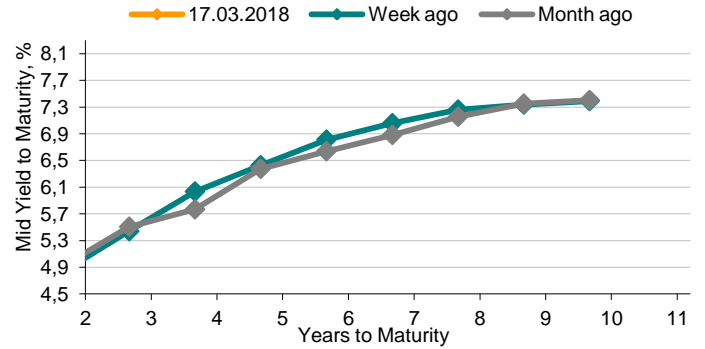
### Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

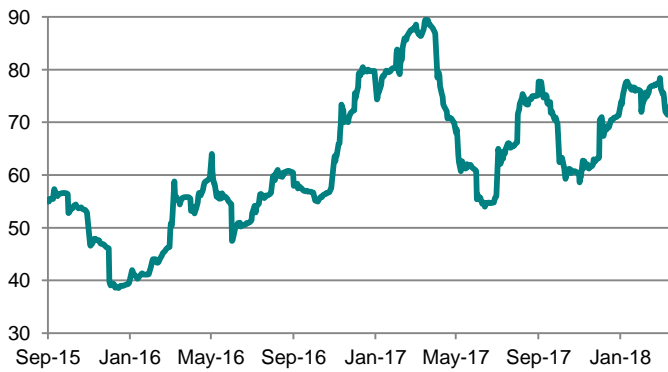
Ukraine's sovereign Eurobond yield curve



Source: Reuters

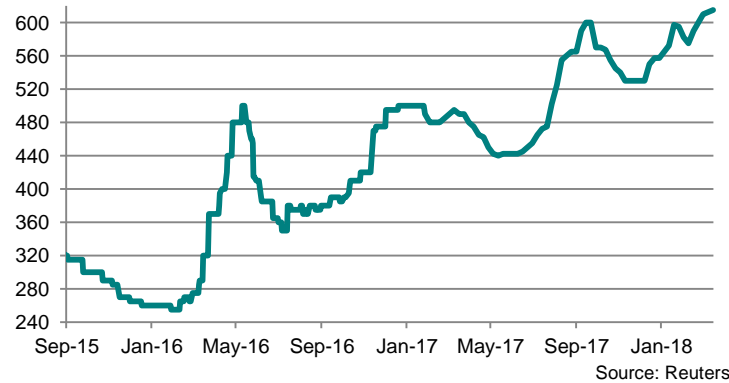
### Commodity markets

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



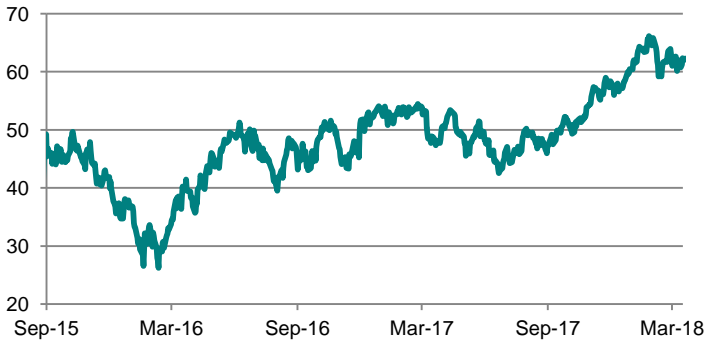
Source: Reuters

Steel CIS export HR coil, USD per ton



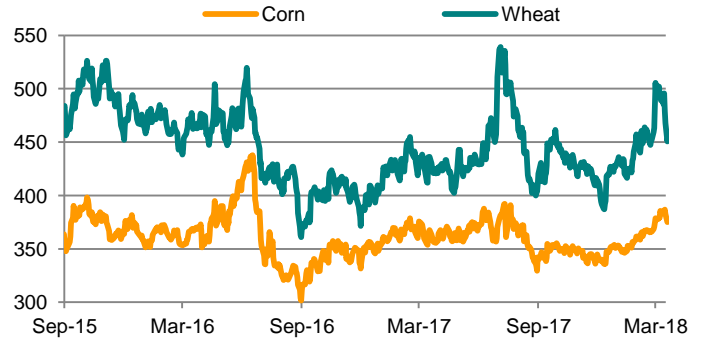
Source: Reuters

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
<b>Real sector</b>											
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	-0.1	3.0
Retail sales (%YoY)	17.3	-20.9	10.1	13.2	12.3	6.1	-11.0	-25.0	4.0	8.8	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
<b>Prices</b>											
CPI (average %YoY)	25.2	15.9	9.4	8.0	0.6	-0.2	12.1	48.7	16.5	14.4	11.9
CPI (end of year %YoY)	22.3	12.3	9.1	4.6	-0.2	0.5	24.9	43.3	12.4	13.7	10.9
Real average wage growth (%YoY)	6.3	-9.2	10.2	8.7	14.4	8.2	-6.5	-35.0	10.0	18.9	7.0
<b>Fiscal balance (% of GDP)</b>											
State budget deficit (without Naftogaz)	1.3	3.9	5.9	1.8	3.7	4.2	4.9	2.3	2.9	1.6	2.4
Total public debt	20.0	34.8	39.9	36.3	36.7	39.9	69.4	79.4	81.0	72.0	76.0
<b>External balance</b>											
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	54.0	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	60.8	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	-3.8	-5.3
Current account balance (% of GDP)	-7.1	-1.5	-2.2	-6.3	-8.1	-9.0	-3.4	-0.2	-4.1	-3.6	-4.4
Net FDI (USD bn)	9.9	4.7	5.8	7.0	7.2	4.1	0.3	3.0	3.4	2.3	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	3.6	4.7
<b>Interest and exchange rates</b>											
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	27.95	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	33.50	32.5*

Source: UkrStat, NBU, MinFin, UkrSibbank

\* Broad estimate



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