



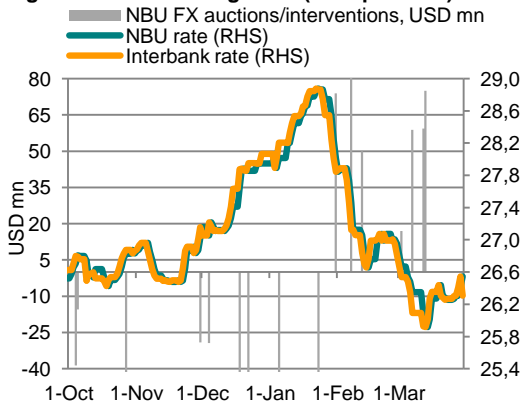
This week in focus: NBU introduced corrections for private transfers

Ukraine's central bank introduced new approach to calculation of private transfers, which triggered massive revision of BoP data. Following this change, Ukraine will demonstrate much better current account data. In line with NBU revision, we change our C/A forecast for Ukraine from 5.3bn (4.4% of GDP) to USD 3.3bn (or 2.8% of GDP) in 2018. We welcome review of NBU methodology, as prior estimates obviously failed to capture the flow of transfers from Poland, the most active direction of Ukraine's labor force migration to EU.

Please see page 3 for more details

FX and interest rates: MoF replenished its coffers by UAH 20.3bn

Figure 1. UAH exchange rate (UAH per USD)



Source: NBU, Reuters

USD/UAH closed at 26.31 as of Friday the 30th. The exchange rate dynamic was flat during the week in line with a preceding one.

Average daily FX volumes on the market amounted to the equivalent of USD 214.4 mn, USD 11.2mn lower compared to previous week, keeping a nose diving string for a two month. State Treasury reimbursed UAH 10.1bn in March.

NBU held no currency auction during the week, as market remained almost balanced. NBU bought USD 347mn via currency auctions in first quarter of 2018, while net buying through RFQ amounted to USD 366mn.

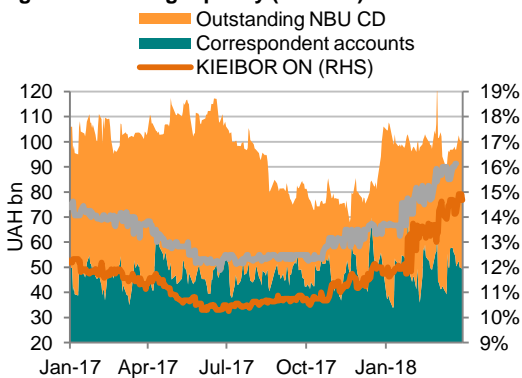
Aggregate banking liquidity amounted to UAH 102.2bn as of Friday the 30th, gaining by UAH 5.3bn during the week, mainly due to VAT refund in the prior week.

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.

Having rejected half of the demand, MoF satisfied around UAH 0.5bn of bid in 3m bonds. Demand for the shortest bonds fell almost twofold compared to a week ago, at the same time the number of bid increased. Weighted average rate slightly fell to 17.34%, while cut off rate remained the same at 17.44% in line with previous auction. The cap of UAH 0.5bn for the shortest bond set by MoF remained intact. All in all, MoF coffers were replenished by UAH 20.3bn out of which USD-linked bond accounted the largest share. Today MoF is to sell only UAH-denominated 3m issue, capping it by UAH 0.5bn, as demand faded away.

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)

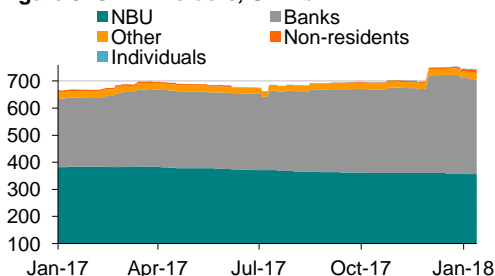


Source: Reuters, NBU, UkrSibbank, Minfin

Figure 5. OVDP auction combined results, 27th of March 2018

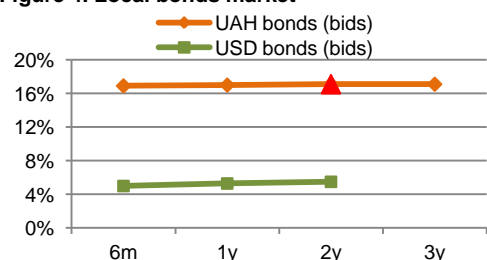
CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size	Placement size
UAH	3m	17.44%	17.34%	18.00%	17.20%	24	22	1.0bn	483.9mn
UAH	9m	17.30%	17.30%	17.30%	17.10%	8	8	3.6bn	2.2bn
UAH	1y	17.00%	17.00%	17.00%	17.00%	3	3	40.0mn	39.7mn
USD	2y	5.40%	5.40%	5.48%	5.10%	19	18	83.9mn	84.1mn
USD	1y	5.30%	5.30%	5.30%	5.30%	7	7	187.0mn	179.0mn
USD	6m	5.10%	5.10%	5.50%	5.00%	7	5	393.9mn	406.3mn

Figure 3. OVDP holders, UAH bn



Source: NBU

Figure 4. Local bonds market



Source: UkrSibbank

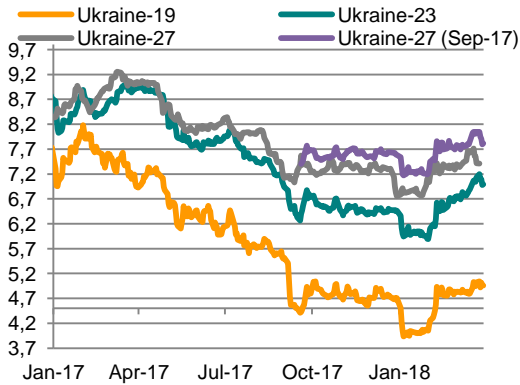
Cabinet of Ministers left gas price for households unchanged, as of March 28, extending the decree aimed at to keep gas price unchanged up to June 1st. Previously, IMF representatives mentioned that gas prices along with anticorruption court were the key stumbling blocks, preventing Ukraine to get the next IMF disbursement.

State debt to GDP ratio fell to 71.8% of GDP. For the first time since 2011, state debt to GDP ratio turned to the downside, breaking an upswing trend lasting for a five straight years. While, state debt rose during the year by 7.5% in USD terms and 11.7% in UAH terms, nominal GDP easily outpaced those gains, increasing by 25% in UAH equivalent and by 20% in USD equivalent, effectively resulting in a debt to GDP ratio drop. Direct state debt's share, which is the largest part of debt, comprised 61.5% of GDP, dropping from 69.2% of GDP in 2016 and accounting the major part of sovereign debt decline. While the same share of guaranteed debt to the economy demonstrated almost flat dynamic in percentage terms, landing at 10.3% of GDP, down from 11.7% of GDP in a prior year. Ukraine's state debt (including guaranteed) comprised USD 76.3bn, as of the end of 2017, up by USD 5.3bn.



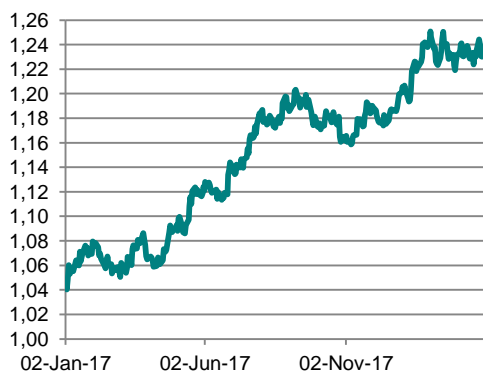
Global markets: Consumer prices in U.S. moderated in February

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



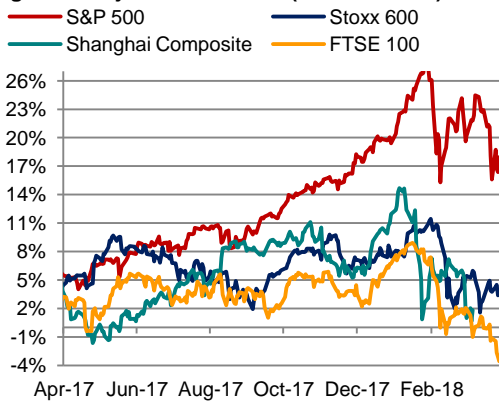
Source: Reuters

Figure 6. EUR USD spot (mid)



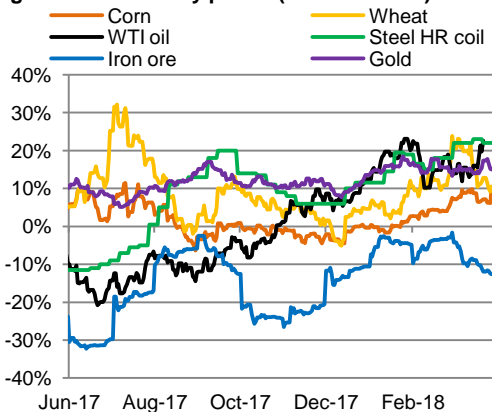
Source: Reuters

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



Source: Reuters

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



Source: Reuters

Markets, which were on the rise during the short end week, resulted in the loss for overall quarter and a month, led by tech led sell off and surging trade tensions. U.S. core PCE indicated some moderation in monthly inflation readings, as prices grow by 0.2%, following an advance of 0.3% in January. At the same time, China's tariffs, which increased prices on products from pork, wine to fruits, took effect on April 2nd, acting as retaliation to U.S actions.

Bond benchmarks advanced, with U.S. 10y Treasuries' yield lower by 7bp week-on-week falling to 2.74%, while German 10y Bunds' yields fell by 3bp, landing at 0.50%, Japanese 10y bonds yield's increased and ended the week at 0.046%.

Having fallen by more than 5%, **U.S. equities demonstrated a growth by 2.0% measured by S&P 500 and by around 1.0% in terms of Nasdaq Composite**. Wall street main indices rose on Thursday, bringing an upbeat end of the week for the market. Despite the end of such tumultuous week, in March market declined strongly, following its decline in February. Trade war and tech sector worries have unnerved global investors into cutting equity exposure.

U.S. core PCE indicated some moderation in monthly inflation readings, as prices grow by 0.2%, following an advance of 0.3% in January. As a result, 12-month gage of inflation were lifted to 1.6% y/y from 1.5% y/y in prior month, remaining below a 2% Federal Reserve target since 2012. Except inflation print, the Commerce department revealed that U.S. consumer spending advanced in February for a second straight month. It rose by 0.2%, which is in line with previous month expansion, as households mainly boosted savings.

EUR/USD rate landed at 1.2321 as of Friday the 30th, higher than the last week closing level of 1.2351, as the USD performed mixed against its main counterparts.

Stoxx 600, a broader gauge of European equity performance advanced strongly by 1.4% during the week, while German DAX plunged even stronger by 1.8% week-on-week. European shares posted the worst quarter in a several years. The Stoxx 600 ended a month up 0.4 points, but closed the quarter down 4.7%, as a tech led sell off brought the stocks down. The first quarter of 2018 was also marked by spikes in volatility and growing trade tensions.

European commission revealed that economic sentiment in the 19-countries sharing the euro fell for a third straight month in March. The economic sentiment indicator fell to 112.6 in March from revised 114.2 in February, below the average forecast of 113.4. This report adds to the concern that economic growth in the currency block has eased off after 2017 solid expansion.

China's previously announced tariffs, to take effect on Monday, increased by 25% on products from frozen pork, wine to fruits, which effectively escalated a controversy between the largest economies. At the same time, China's Ministry of Commerce suspended its obligations to the World Trade Organization to reduce tariffs on 120 U.S. goods. China's top officials introduced tariffs on goods at USD 3bn, as a retaliation amid escalating trade tensions with United States.

Crude oil prices were on the downside, as WTI futures decreased by 1.4% week-on-week and closed at USD 64.9 per barrel, while Brent 1m futures fell more mildly by 0.4% closing at USD 70.3 per barrel.

Gold prices increased, as NYMEX 1m futures fell by 2.0% week-on-week and finished the week at USD 1322.8 per troy ounce. Gold prices declined as U.S. dollar hold strong gains.

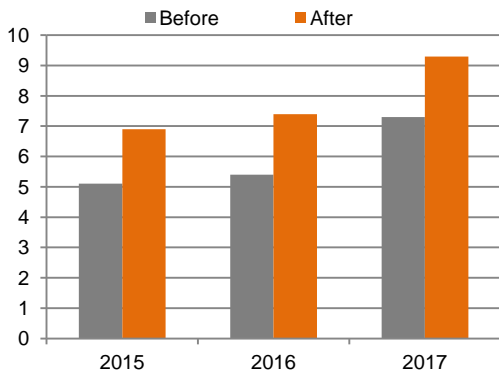
Grains were mixed, as CBOT Corn 1m futures gained 2.8% week-on-week and closed at USD 387.8 per bushel, while CBOT Wheat 1m futures landed at USD 441.0 per bushel, 2.0% lower week-on-week. According to latest forecast from USAD, corn acreage is predicted to fall 2.4% to 88 mn acres in 2018.

Iron ore declined as NYMEX Iron ore 62% Fe 1m futures fell by 3.3% week-on-week and closed at USD 69.7 per ton. Iron ore's several week decline is a combination of well-supplied market and falling optimism over China's steel demand, along with record high inventories at Chinese ports.



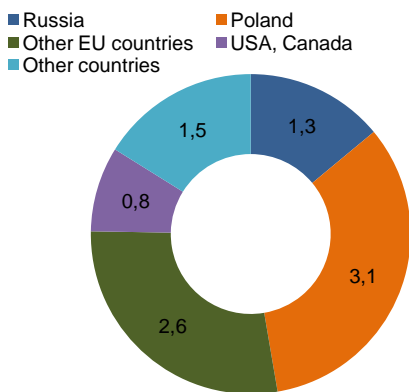
This week in focus: NBU introduced corrections for private transfers

Figure 9. Ukraine's private transfers before and after corrections, USD bn



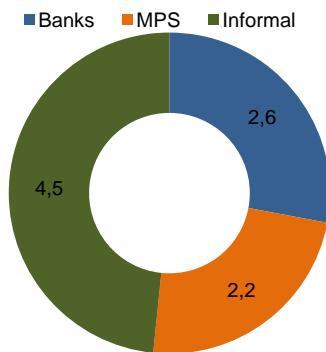
Source: NBU

Figure 10. Remittances to Ukraine by country, USD bn



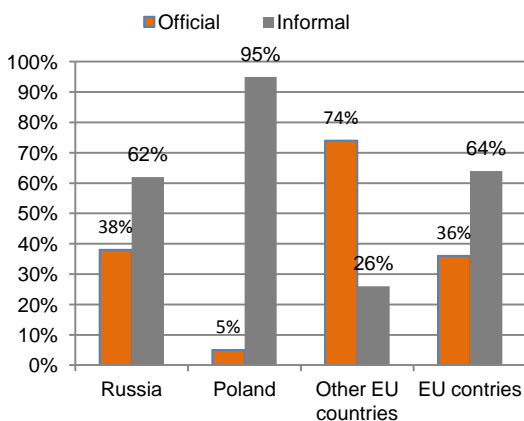
Source: NBU

Figure 11. Main results of revision for private transfers by channels, USD bn



Source: NBU

Figure 12. Private transfers' main results of revision by accounts in C/A, USD bn



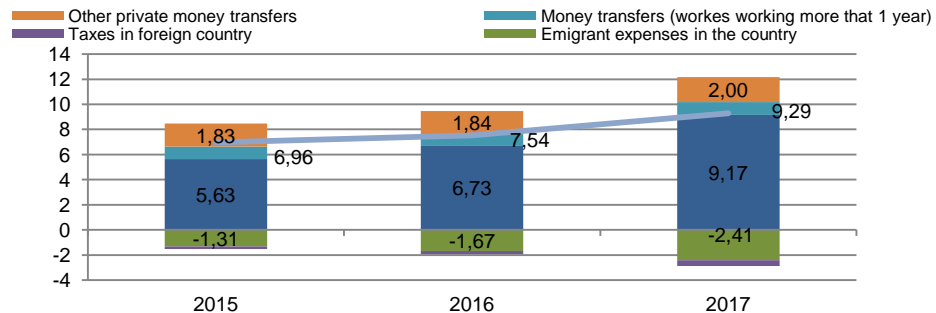
Source: NBU

Ukraine's central bank introduced new approach to calculation of private transfers, which triggered massive revision of BoP data. Following this change, Ukraine will demonstrate much better current account data. In line with NBU revision, we change our C/A forecast for Ukraine from 5.3bn (4.4% of GDP) to USD 3.3bn (or 2.8% of GDP) in 2018. We welcome review of NBU methodology, as prior estimates obviously failed to capture the flow of transfers from Poland, the most active direction of Ukraine's labor force migration to EU.

NBU had changed previously reported money transfers estimates. The largest revaluation was due to changed estimates of informal flows, which were assessed by special polls, as opposed to official flows which go directly through banks and international payment systems. As a result of that, NBU revised previously reported figures of money transfers by USD 1.8bn in 2015 (to USD 7.0bn), by USD 2.1bn in 2016 (to 7.5bn) and by USD 2.0bn in 2017 (USD 9.3bn). Which in turn caused the C/A deficit to improve from 0.2% of GDP to 1.8% of surplus in 2015, from deficit of 3.7% of GDP to 1.4% of deficit in 2016 and from a deficit of 3.7% of GDP to deficit of 1.9% of GDP in 2017.

The main reason of revision was reorientation of work force flows that had taken place since 2014 (more workers coming to Poland, and more workers using unofficial channels). At the same time new data appeared from polls conducted by Ukrstat, which was accompanied with new estimates from central banks of Poland and Russia regarding money transfers related to Ukraine.

Private transfers from Poland increased by 57% y/y in 2017, at the same time, accounting for 34% from total, followed by Russia with a share of 14.1% (being in the decline by 6% y/y in 2017), EU (less Poland) with a share of 27.8%, USA and Canada with a share 8.1% and 16.3.



Having risen by 23% y/y in 2017, private transfers amounted to USD 9.2bn. The main driver of their growth, gross migrant's wages, gained by 36% y/y in 2017, accompanying by simultaneous increase in cost incurred by households in foreign countries. The pace of expansion of transfers trailed behind the growth reached in wages, growing by 9.3% y/y.

Having broken down private transfers by channels, the largest part of revision came under informal flow category, being at the same time the most challenging part of private transfers calculations, as opposed to calculations from international money transfers system and banks. Given that migration to Poland remains mainly short term related to seasonal work, the largest part of proceeds migrants carry with themselves, as opposed to international money transfers systems.

The main result of private transfer's revision had occurred in "primary incomes" article of current account. Previously, NBU reported USD 4.4bn of proceeds in 2017, while it was reported at USD 6.3bn, according to revision. At the same time, the amount of revision of private transfers was fairly low, remaining at USD 3bn in 2017.

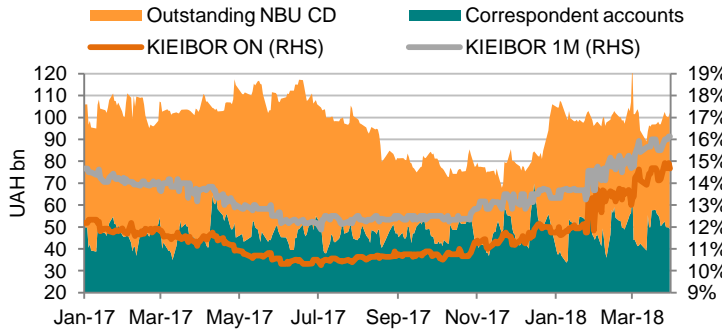
Interestingly, that private transfer accounted for around 8.4% of Ukraine's GDP in 2017 year. In Kirgizia, the same measure comprised 30% from GDP, while in Tajikistan and Moldova close to 25%, which are ranked first by this category globally. The closest Ukraine's peers by this measure were Montenegro, Albania and Serbia with a share slightly less that 10%.

Will this revision imply a change of view on UAH? Not really. At the same time, NBU revised down its estimates of cash outside bank by USD 2.4bn from, resulting in a zero effect on overall combined balance of payment result, amounting USD 2.6bn of surplus in 2017. All in all, the changes introduced by NBU would allow us to have a better view on components inside balance of payment, but the overall result remains unchanged and we retain our conservative view on UAH, expecting mild depreciation (to 29.50) vs USD until year end.



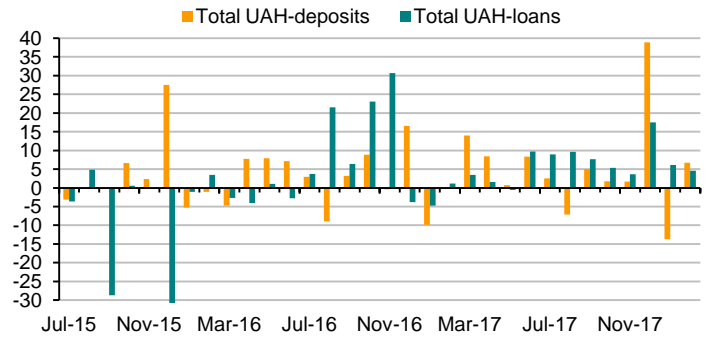
Money market

Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

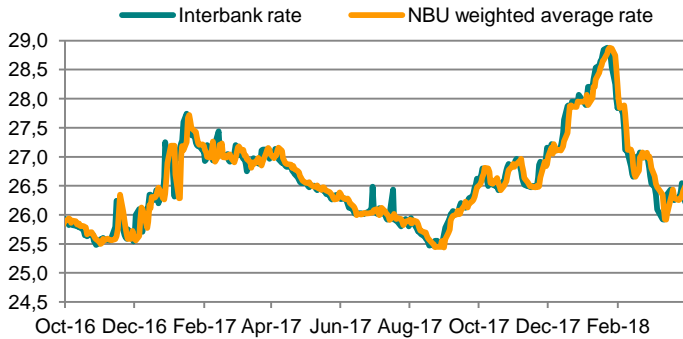
Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

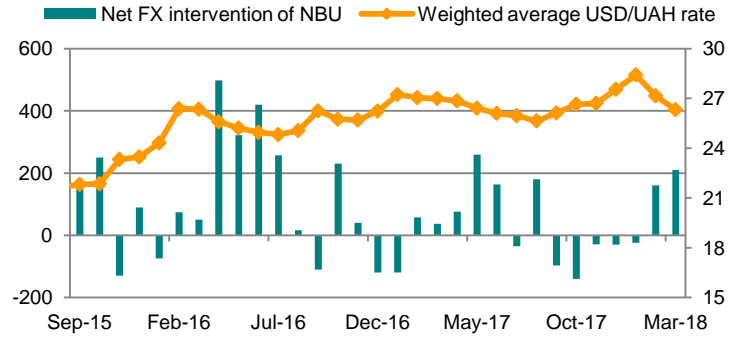
Currency market

UAH exchange rate, UAH/USD



Source: Reuters

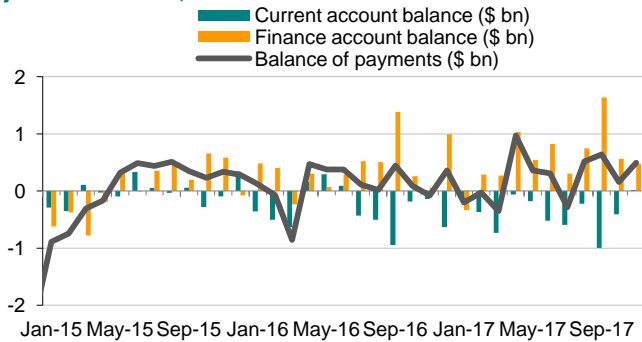
Net retail FX interventions of the NBU in 2015-2017, USDm



Source: NBU

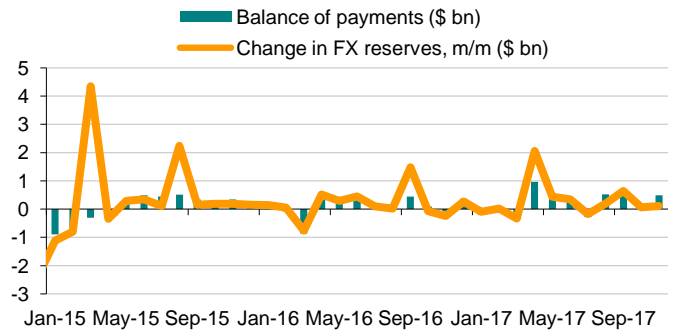
Balance of payments

Major BoP accounts, USDbn



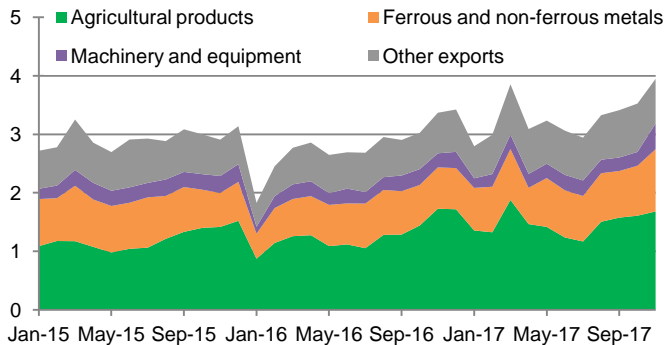
Source: NBU

BoP vs change in foreign reserves, USDbn



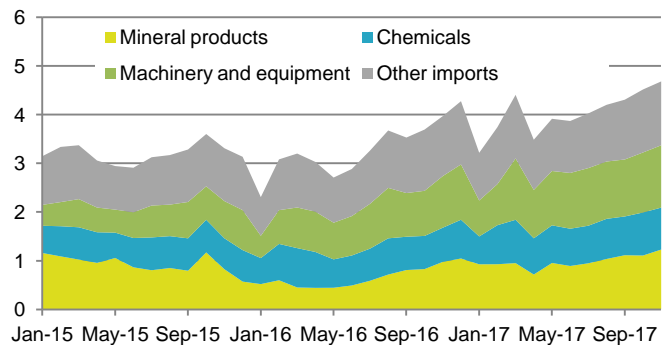
Source: NBU

Exports components dynamic, USDbn



Source: NBU

Imports components dynamic, USDbn



Source: NBU



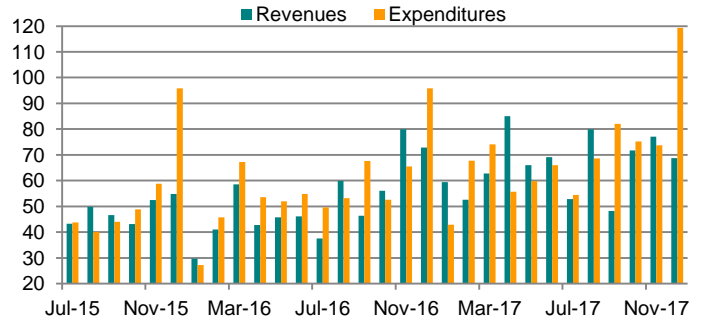
Budget performance

Budget performance, UAHbn

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

Source: NBU

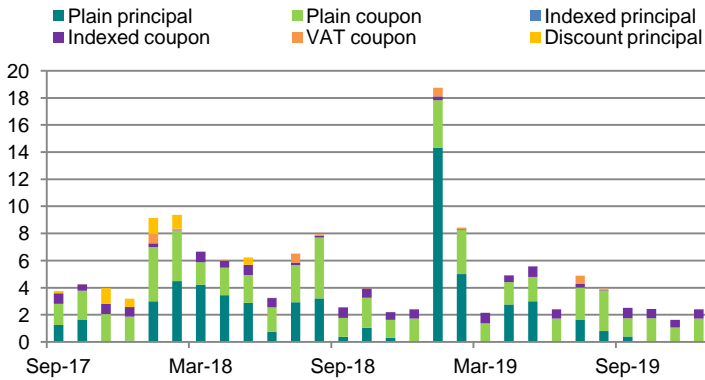
Monthly change in budget revenues and expenditures, UAHbn



Source: NBU, State Treasury

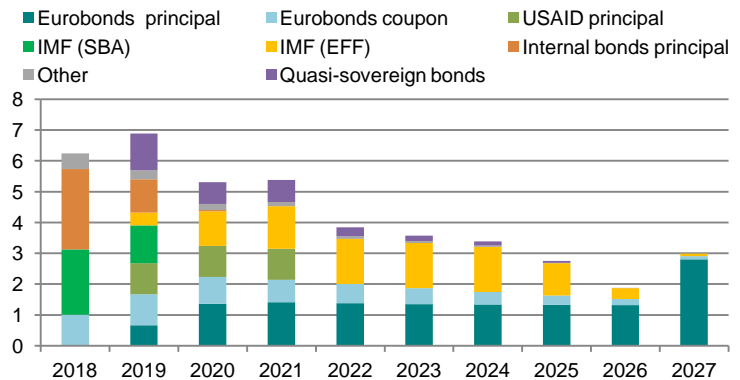
Sovereign debt

UAH- denominated debts' repayments schedule, UAHbn



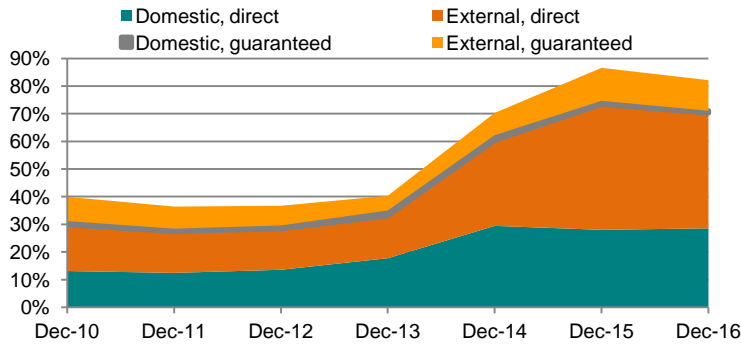
Source: NBU, UkrSibbank estimates

FX-denominated debt repayments schedule, USDbn



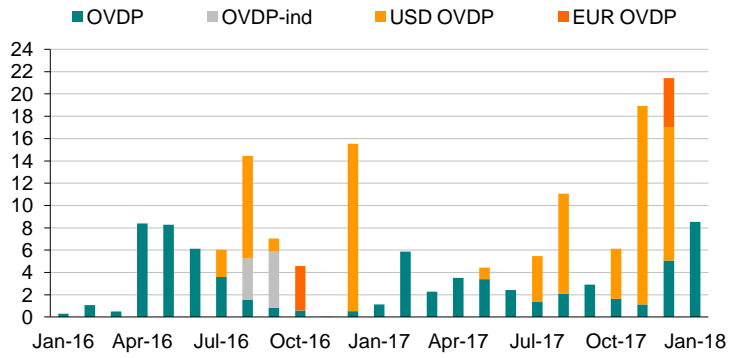
Source: Reuters, IMF, UkrSibbank estimates

Total government debt, % GDP



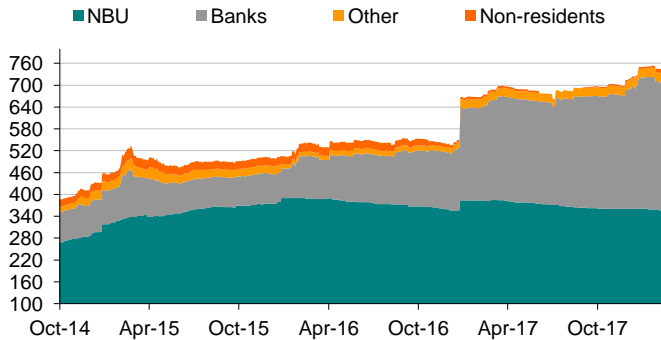
Source: MinFin

Local borrowings, UAHbn equivalent



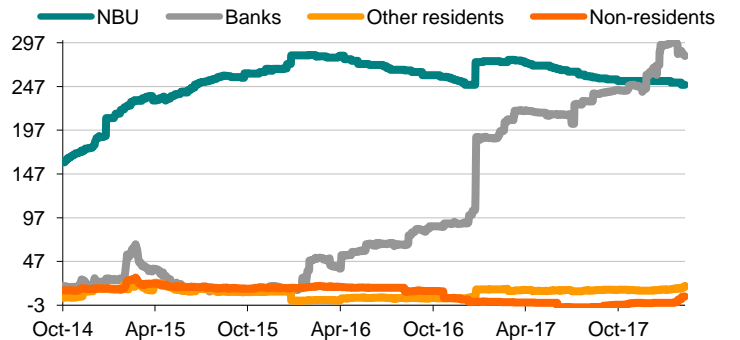
Source: NBU

Outstanding OVDP owners structure, UAHbn



Source: NBU

Outstanding OVDP changes in holding, UAHbn

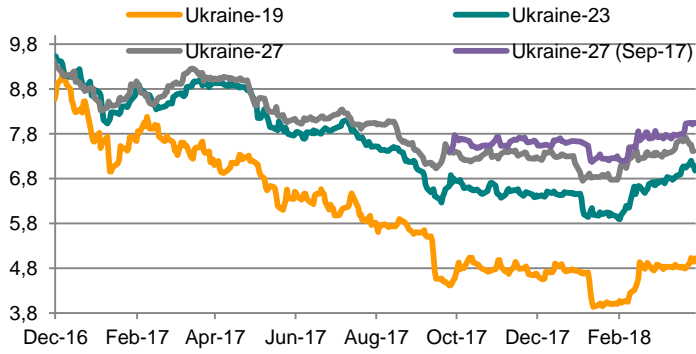


Source: NBU



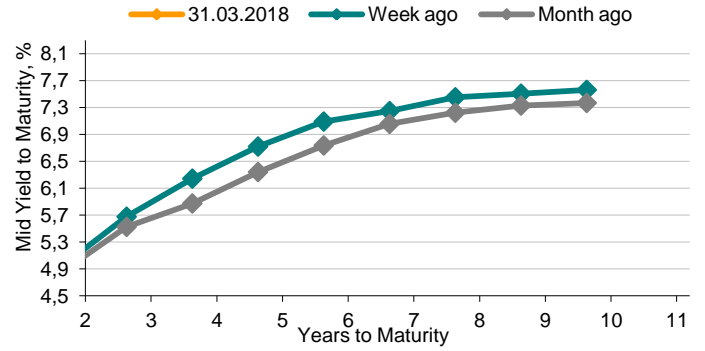
Eurobond market

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



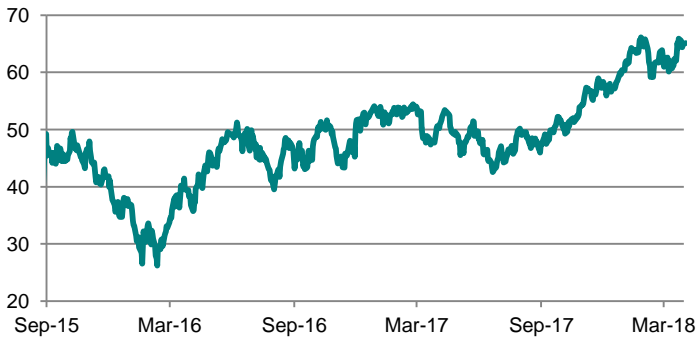
Source: Reuters

Steel CIS export HR coil, USD per ton



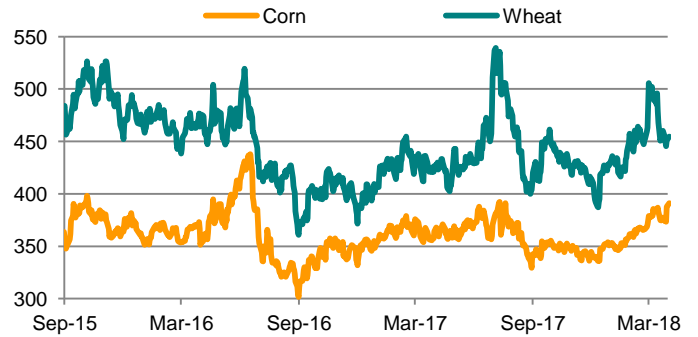
Source: Reuters

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	2017	2018F
Real sector											
Real GDP (%YoY)	2.3	-14.8	4.1	5.2	0.2	0.0	-6.6	-9.8	2.3	2.5	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	2982.9	3239.8
Nominal GDP (USD bn)	178.9	112.8	136.1	163.1	175.8	183.5	133.7	91.2	93.1	112.1	120.0
Prices											
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
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	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	71.8	73.0
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	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	-3.3
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	-2.8
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
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	27.95	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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