



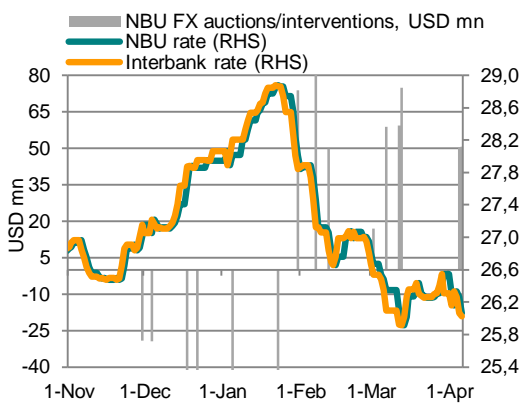
This week in focus: Ukraine state debt has stabilized for now

As of end of 2017, Ukraine's sovereign debt amounted to USD 76.3bn, while in hryvnia equivalent debt comprised UAH 2141.7bn. Public debt growth occurred amid the backdrop of tapping financial markets and local borrowings due to state budget deficit financing and state banks recapitalization. In 2017, as opposed to preceding one, official financing from International financing organizations were on the back foot, as outflows to the IMF, related to previous programs, almost entirely offset an inflow from new disbursement.

Please see page 3 for more details

FX and interest rates: NBU reserves fell 1.4% in March

Figure 1. UAH exchange rate (UAH per USD)



Source: NBU, Reuters

USD/UAH closed at 26.03 as of Friday the 30th, as hryvnia strengthened by 1.8% week-on-week.

Average daily FX volumes on the market amounted to the equivalent of USD 270.7mn, USD 56.3mn higher compared to previous week.

NBU held two currency auctions during the week, buying USD 100.7mn to the international reserves. Firstly, on Thursday, NBU bought USD 50mn, while initially banks applied for USD 110.2mn. Secondly, on Friday, the regulator announced the second currency auction during the week for a total USD 100mn. And while initially banks applied for only USD 62.7mn this time, the auction resulted in a USD 50.7mn increase in reserves.

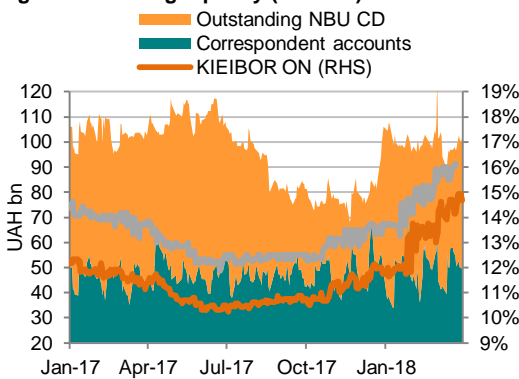
Aggregate banking liquidity amounted to UAH 97.1bn as of Friday the 30th, falling by UAH 5.1 bn during the week.

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.

Demand for a 3m bonds fell dramatically compared to the previous auction. Moreover, the previously set restriction, capping the issue by UAH 0.5bn remained intact. MoF's managed to attract UAH 184.3mn at a cut off rate 17.44%, which is in line with previous auction. Primary dealers applied with 22 bids, while only 19 were satisfied by Ministry of Finance. All bids were in the range from 17.50% to 17.00%, while the weighted average rate merely fell to 17.33%. The next primary auction is scheduled to be on Tuesday, offering more longer terms bonds, namely 6m, 1y and 3y, as opposed to previous auctions.

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)

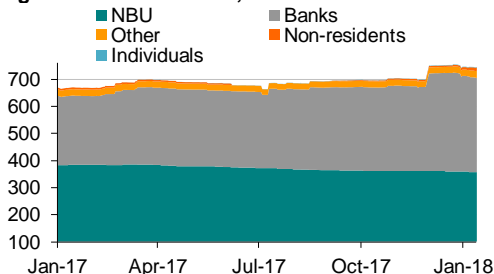


Source: Reuters, NBU, Ukrsibbank, Minfin

Figure 5. OVDP auction combined results, 3rd of April 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%	17.33%	17.50%	17.00%	22	19	302.2mn	184.3mn

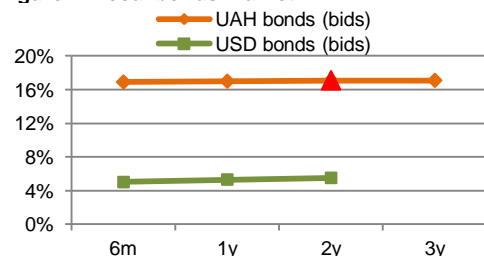
Figure 3. OVDP holders, UAH bn



Source: NBU

In March, NBU's international reserves declined by 1.4% m/m and amounted to USD 18.2bn. NBU had bought USD 510.0mn through interventions, out of which USD 300mn via RFQ. At the same time, NBU sold USD 134mn to the market, which resulted in net purchase of USD 376mn, down from USD 396.9mn in a month before. MoF's placements of OVDP denominated in USD, which accounted for USD 669.5mn, supported reserves as well. Meantime, payments of servicing and redemption of debt resulted in lower reserves during the month. Out of USD 1281.1mn (less IMF payments), USD 562.3mn government spent to pay a coupon on restructuring euro bonds, followed by servicing and redemption of domestic USD bonds totalling USD 678.8mn. All in all, NBU reserves covered 3.4 months of future import, as of April 1st.

Figure 4. Local bonds market



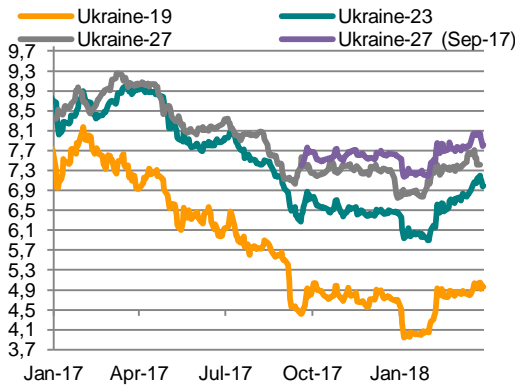
Source: Ukrsibbank

On Friday, Iryna Herashenko, deputy speaker of Verchovna Rada reassured that anticorruption law will be adopted in May-June by parliament, in a worst-case scenario. As of now, the committee in Verchovna Rada works on the final version of the document. Previously, anticorruption court along with a household's gas prices were identified as key stumbling blocks in negotiations with International Monetary Fund.



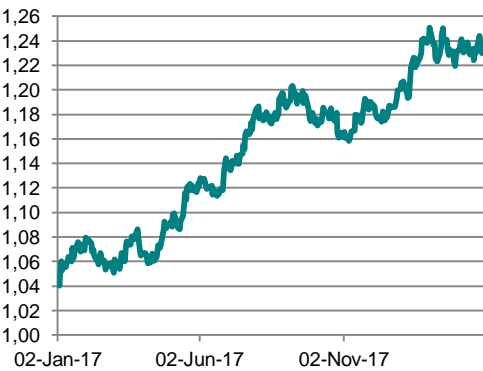
Global markets: Trade wars in the focus

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



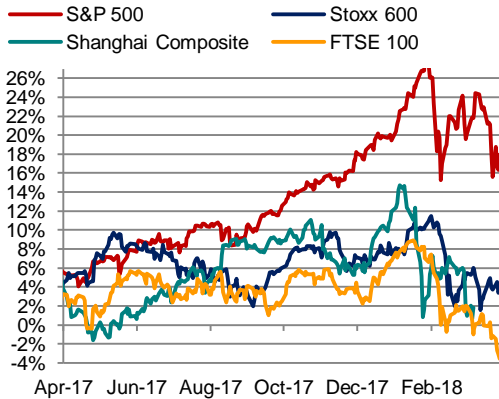
Source: Reuters

Figure 6. EUR USD spot (mid)



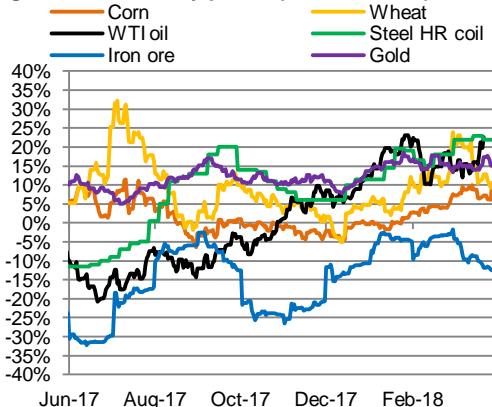
Source: Reuters

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



Source: Reuters

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



Source: Reuters

The fear of growing possibility of a full blown trade war was in the air during the latest week. It came primarily from Donald Trump, ramping up tariffs imposed on China to USD 100 bn, at the same time sending equities indices lower. While China initially warned that it will retaliate by any cost to U.S. the latest message from the Xi Jinping from Boao conference calmed down nervousness on the market markedly, as he indicated support of a free trade and dialogue to resolve trade disputes.

Bond benchmarks were mixed, with U.S. 10y Treasuries' yield higher by 3bp week-on-week increasing to 2.78%, while German 10y Bunds' yields rose by 1bp, landing at 0.50%, Japanese 10y bonds yield's fell and ended the week at 0.041%.

U.S. equities declined by 1.4% measured by S&P 500 and by around 2.1% in terms of Nasdaq Composite. Having introduced the possibility of higher tariffs, Donald Trump has sparked concern of full blown trade war with China, effectively upping the ante in a trade dispute.

New applicants for U.S. unemployment benefits increased more than expected initially, but the number of Americans remained unemployed fell to its lowest level since 1973, pointing to the tightening labor market conditions. Initial claims for the state unemployment benefits rose to 24 000 to as seasonally adjusted 242 000, as of Marhc 31. Trump said on Thursday he had instructed U.S. trade officials to consider USD 100bn of additional tariffs on China, which effectively meant that U.S. upped the ante in the lingering trade war.

EUR/USD rate landed at 1.2281 as of Friday the 6th, lower than the last week closing level of 1.2321, as the USD performed mixed against its main counterparts.

Stoxx 600, a broader gauge of European equity performance advanced by 1.1% during the week slightly lower than a week ago, while German DAX increased slightly stronger by 1.2% week-on-week. The correlation between European stocks and its peers in the United States at the lowest level in recent time. It was partly due to recent selloff of tech giants in the U.S. (accounts for above 25% of S&P 500), while it accounts for around 5% of Stoxx 600 in Europe, making it less vulnerable to the headwind from the tech industry. The concern of a trade war between China and U.S. had also contributed to lower correlation of U.S markets to European.

German industrial production declined in February, according to the Economy Ministry data. Output decreased by 1.6%, down from growth of 0.1% in January, indicating the biggest monthly decline since August 2015. The decline was primarily due to the drop in construction. While initially it was reported that in January production increased by 2.6% y/y, later it was revised down to less upbeat 0.1% gain. At the same time, the Ministry expects that growth most likely will decelerate in 2018 compared to 2017.

Having introduced tariffs on USD 3bn, China also imposed tariffs on USD 50bn of import, in line with American's tariffs. China warned on Friday that it would fight back at any cost with fresh measures if The U.S. continues on its way of protectionism. Chinese President Xi Jinping was due to deliver remarks at the Boao conference on Tuesday that will be his first public reaction to the tariff standoff. According to latest data, Xi Jinping supported free trade and dialogue to resolve disputes in a highly anticipated by the market speech at the Boao conference on Tuesday. After that markets were broadly on the rise on Tuesday from Asia to North America, except only Russian markets.

Crude oil prices were falling, as WTI futures decreased by 4.4% week-on-week and closed at USD 62.1 per barrel, while Brent 1m futures fell in line with WTI by 4.5% closing at USD 67.1 per barrel.

Gold prices increased, as NYMEX 1m futures increased by 0.7% week-on-week and finished the week at USD 1331.9 per troy ounce.

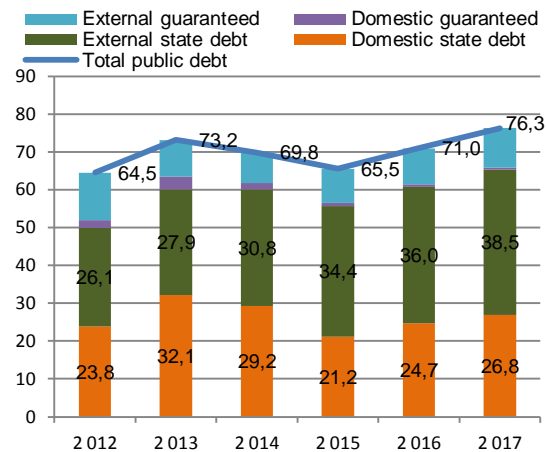
Grains gained, as CBOT Corn 1m futures gained 0.2% week-on-week remaining effectively flat and closed at USD 388.5 per bushel, while CBOT Wheat 1m futures landed at USD 472.3 per bushel, gaining strongly by 4.7 week-on-week.

Iron ore declined as NYMEX Iron ore 62% Fe 1m futures fell by 9.1% week-on-week and closed at USD 63.3 per ton.



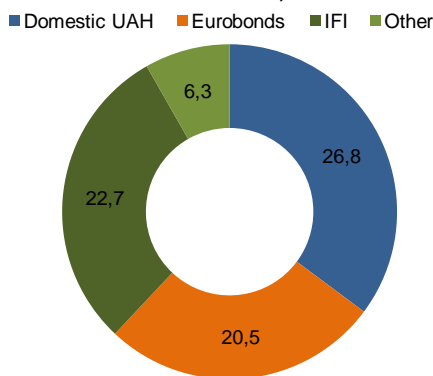
This week in focus: Ukraine's state debt has stabilized for now

Figure 9. Ukraine's public debt 2012-2017, USD bn



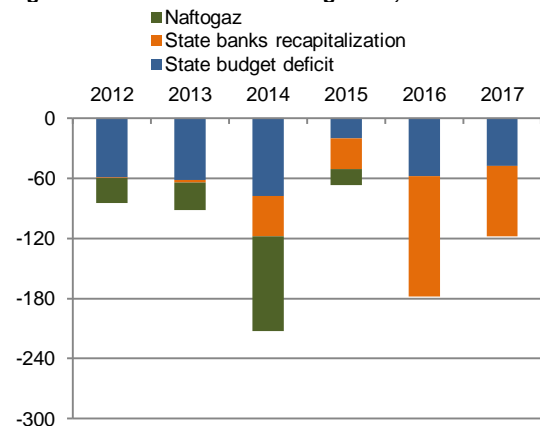
Source: MoF

Figure 10. Public debt breakdown, USD bn



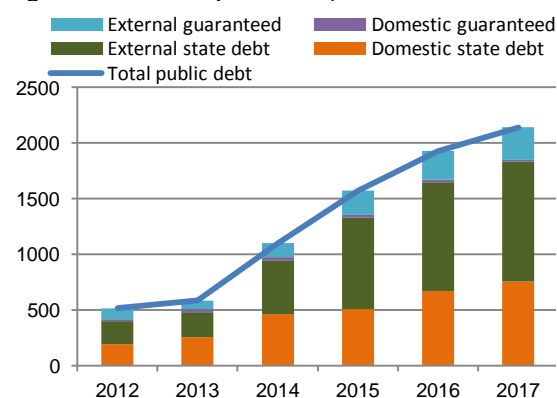
Source: MoF

Figure 11. Main drivers of debt growth, UAH bn



Source: MoF, UkrSibbank

Figure 12. Ukraine's public debt, UAH bn



Source: MoF

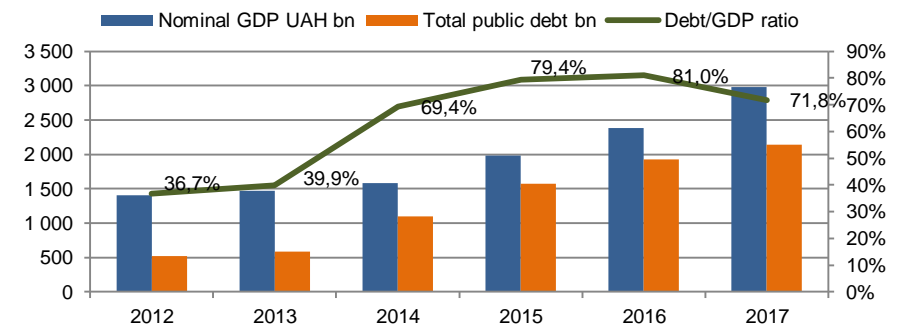
As of end of 2017, Ukraine's sovereign debt amounted to USD 76.3bn, while in hryvnia equivalent debt comprised UAH 2141.7bn. Public debt growth occurred amid the backdrop of tapping financial markets and local borrowings due to state budget deficit financing and state banks recapitalization. In 2017, as opposed to preceding one, official financing from International financing organizations were on the back foot, as outflows to the IMF, related to previous programs, almost entirely offset an inflow from new disbursement.

Having risen for a second consecutive year, Ukraine's sovereign debt amounted to USD 76.3bn, boosted by state banks recapitalization and state budget deficit. In terms of types of instruments, the debt rose due to Eurobonds issuance and local borrowing. At the meantime, the pace of its expansion declined, landing at 7.5% y/y in USD-terms, down from 8.3% y/y in prior year. Moreover debt growth in local currency plunged almost twofold in 2017. It landed at 11.0% y/y in 2017, much lower than 23% y/y and 43% y/y in 2016 and 2015, respectively, being on the downward trend for four years in a stride. This pace of expansion had been tanking since 2014 year, when it reached around 90% or doubling the size of debt during the year in local currency.

By the end of the year the main parts of debt comprised the following: Eurobonds, IFI's loans, and domestic borrowings. Out of 76.3bn, Eurobonds accounted for 27% from total, boosted by UAH 1.42bn, which were effectively the net proceeds from September's Eurobond issuance for a total of USD 3.0bn. As part of this issuance had been directed toward repurchase of the shortest outstanding bonds, the overall increase resulted in USD 1.4bn. The largest part of outstanding bonds were issued in 2015 year in the process sovereign debt restructuring and amounted to USD 12.47bn by the end of the year, while other parts included bonds issued after the restructuring (under U.S guarantees), followed by USD 3.0bn bonds held by Russian sovereign fund.

Borrowing from the International financial institutions comprised also a meaningful amount of Ukraine's debt by the end of the year. Out of 22.7bn, approximately slightly more than a half was borrowed from the IMF alone, namely USD 12.1bn, following by International bank reconstruction and development (USD 5.36bn), European Association (USD 3.42bn) and others.

Last but not least, domestic debt denominated in local currency amounted to USD 26.8bn, increasing by USD 2.2bn for the year. In 2017, MoF issued UAH 70.7bn of local OVDP to recapitalize the state banks including Privatbank, Ukreximbank and Oshadbank. Moreover, MoF attracted UAH 32.8bn and USD 1.8bn for the state budget purposes in 2017.



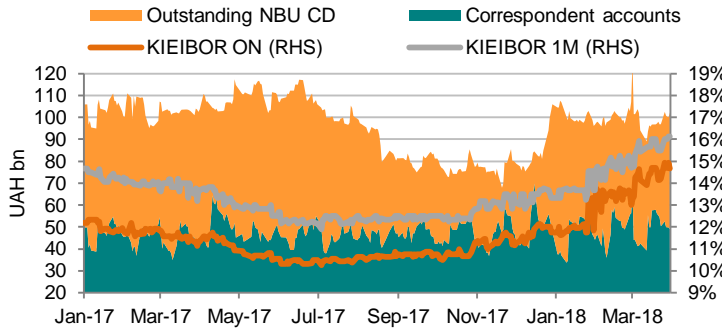
State debt to GDP ratio fell to 71.8% of GDP, as of end 2017. For the first time since 2011, state debt to GDP ratio turned to the downside, breaking an upswing trend lasting for a five straight years. While state debt rose during the year by 7.5% in USD terms and 11.7% in UAH terms, nominal GDP easily 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.

As of end of February, public debt slightly increased, amounting to USD 76.8bn, merely up by 0.6%YTD, while debt denominated in local currency fell to UAH 2068.6bn, or by UAH 73bn YTD. The debt decrease in UAH was partly due to hryvnia appreciation, which amounted 4%YTD. At the same time, the debt decrease in local currency was not solely due to hryvnia appreciation, owing partly to IMF repayments as well (USD 375mn in February).



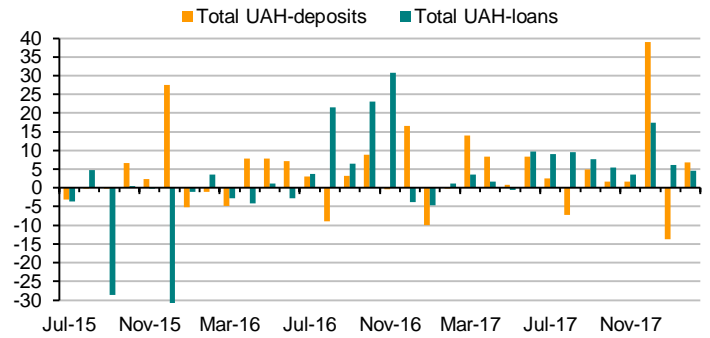
Money market

Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

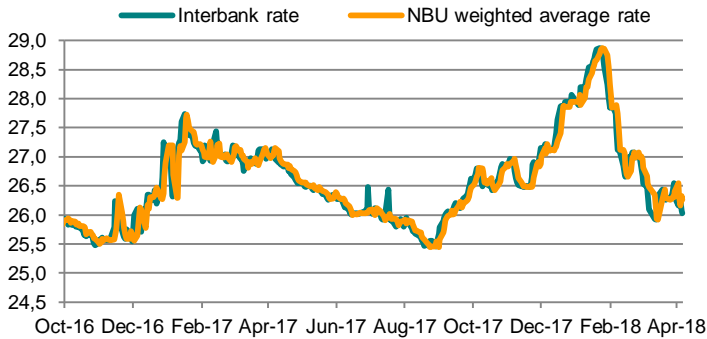
Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

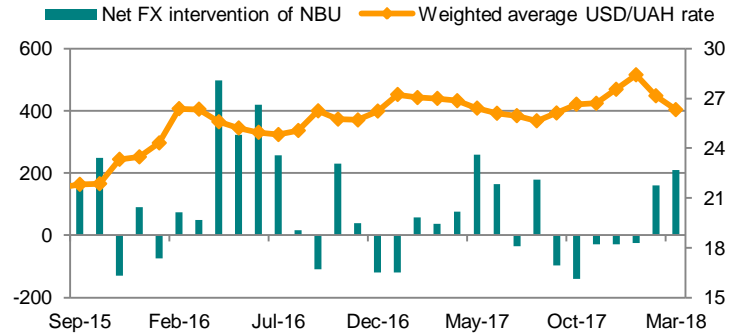
Currency market

UAH exchange rate, UAH/USD



Source: Reuters

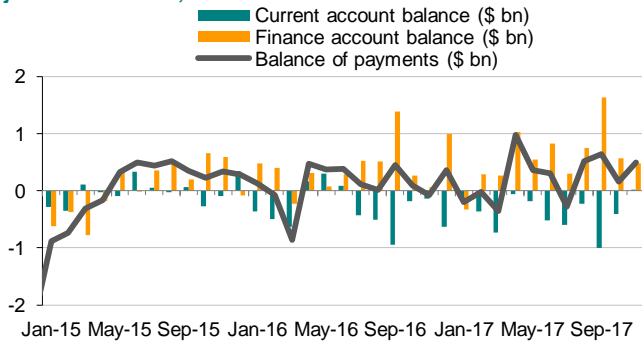
Net retail FX interventions of the NBU in 2015-2017, USDm



Source: NBU

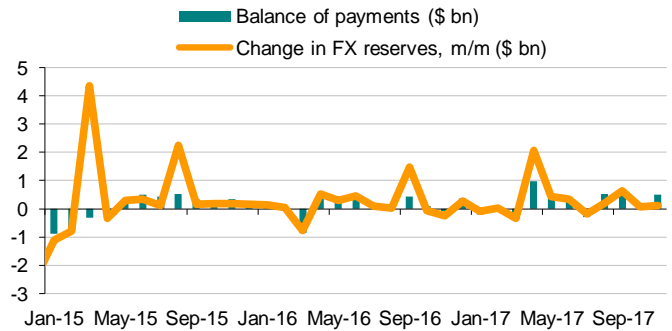
Balance of payments

Major BoP accounts, USDbn



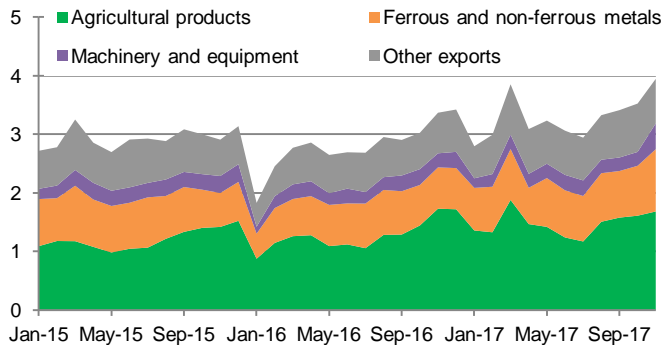
Source: NBU

BoP vs change in foreign reserves, USDbn



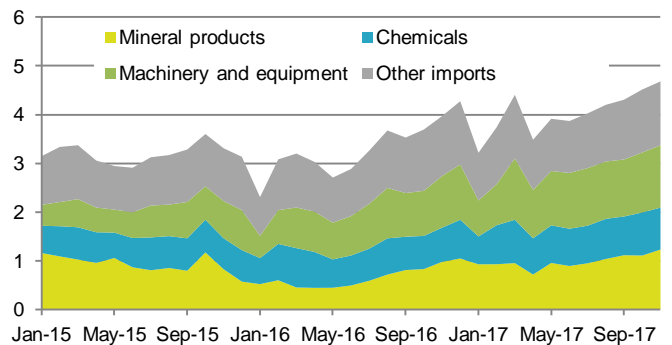
Source: NBU

Exports components dynamic, USDbn



Source: NBU

Imports components dynamic, USDbn



Source: NBU



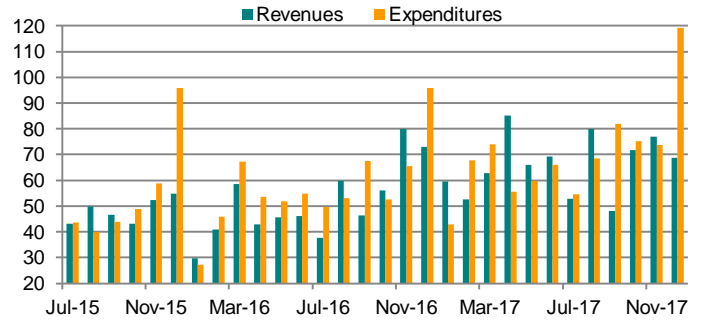
Budget performance

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

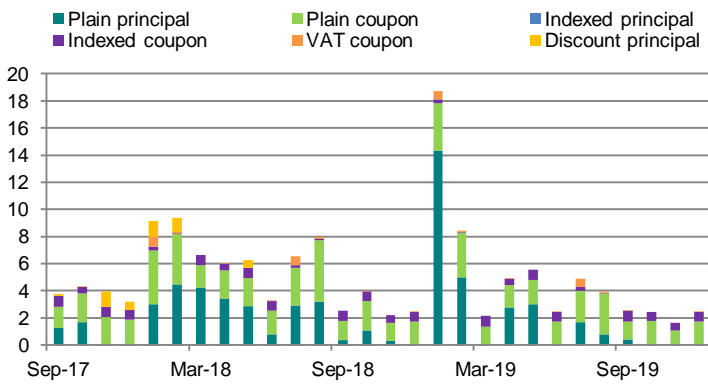
Monthly change in budget revenues and expenditures, UAHbn



Source: NBU, State Treasury

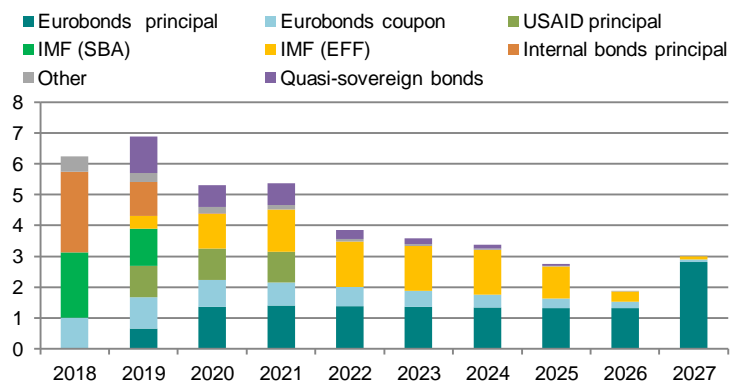
Sovereign debt

UAH- denominated debts' repayments schedule, UAHbn



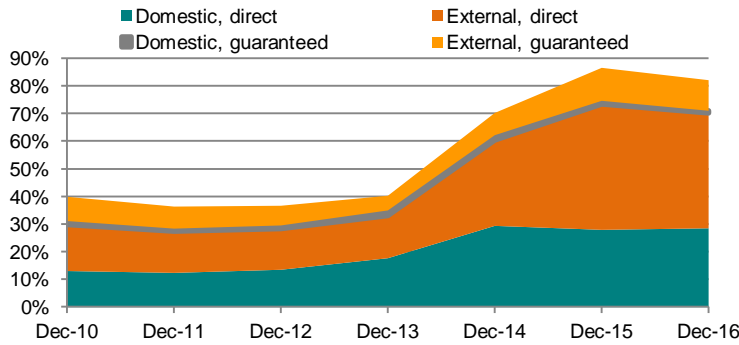
Source: NBU, UkrSibbank estimates

FX-denominated debt repayments schedule, USDbn



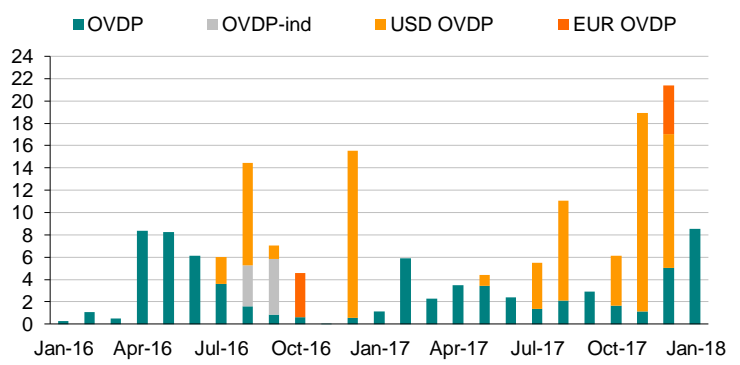
Source: Reuters, IMF, UkrSibbank estimates

Total government debt, % GDP



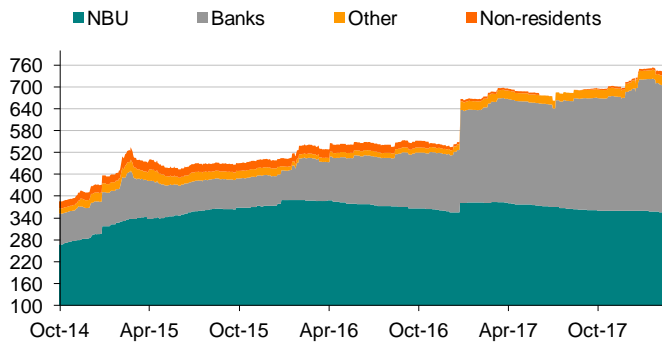
Source: MinFin

Local borrowings, UAHbn equivalent



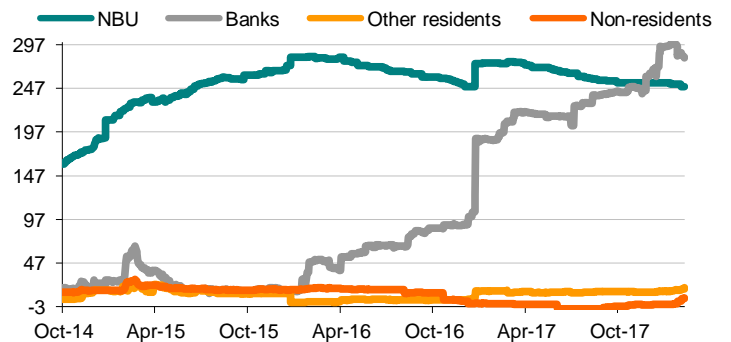
Source: NBU

Outstanding OVDP owners structure, UAHbn



Source: NBU

Outstanding OVDP changes in holding, UAHbn

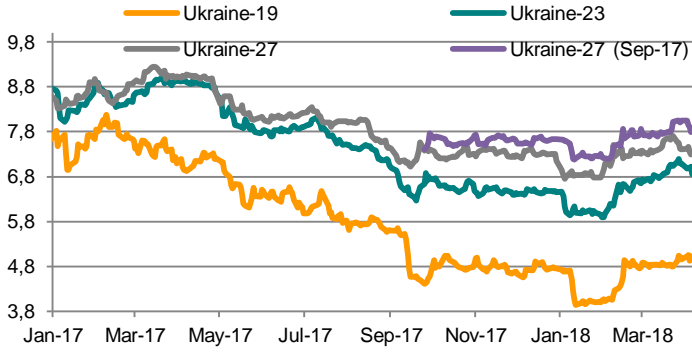


Source: NBU



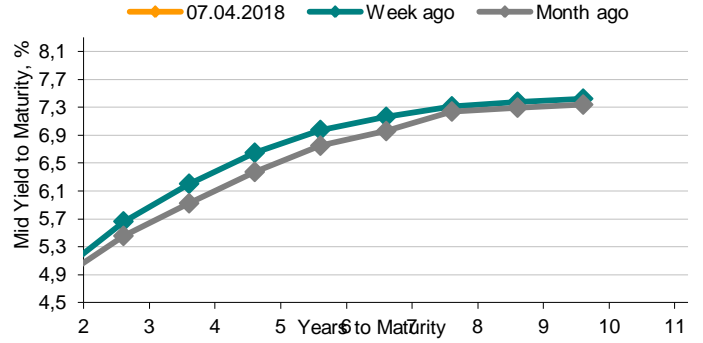
Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

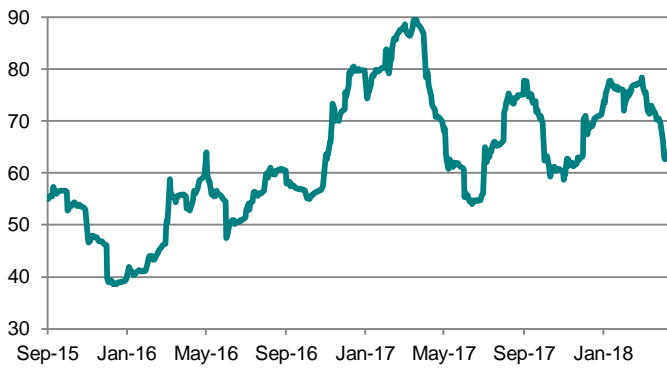
Ukraine's sovereign Eurobond yield curve



Source: Reuters

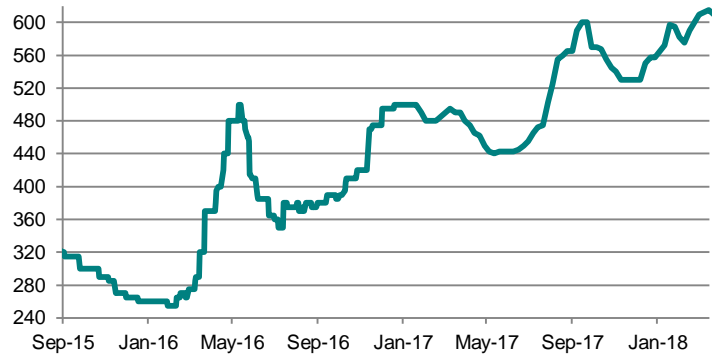
Commodity markets

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



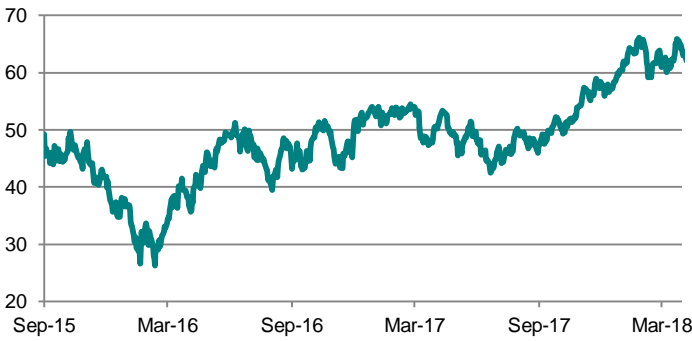
Source: Reuters

Steel CIS export HR coil, USD per ton



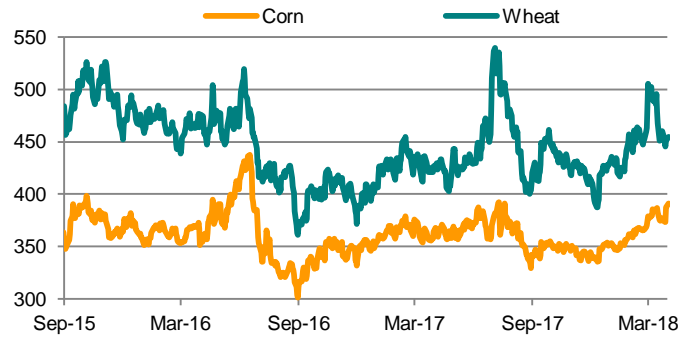
Source: Reuters

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	70.0
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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