



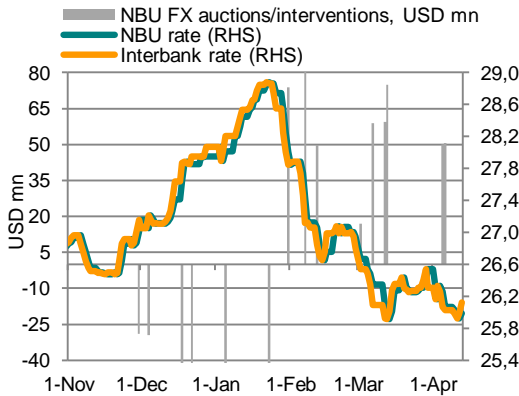
**This week in focus: MPC left rate on hold; consumer prices declined**

Inflation expectations accelerated, while headline reading printed lower to 13.2% y/y. At the same time, NBU left the key rate on hold at 17%. We keep our inflation forecast unchanged at 10.9% y/y in 2018, while expecting no change to NBU key rate in the next six months, provided gradual decline in inflation and IMF disbursement in the 2<sup>nd</sup> half of 2018.

*Please see page 3 for more details*

**FX and interest rates: NBU net purchase amounted to USD 1.0 bn YTD**

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



Source: NBU, Reuters

**USD/UAH closed at 26.12 as of Friday the 13<sup>th</sup>**, as hryvnia weakened mildly by 0.4% week-on-week.

**Average daily FX volumes on the market amounted to the equivalent of USD 239.5mn**, USD 31.2mn lower compared to previous week.

**NBU held no currency auctions during the week.** As of April 13<sup>th</sup>, NBU bought USD 1.5bn and simultaneously sold USD 0.5bn, resulting in net purchase of USD 1.0bn YTD. On April 25<sup>th</sup>, are scheduled to be redeemed the first bonds issued in the end of January of 2018. Namely, UAH 4.3bn bond, which was bought in the midst of heightened demand of foreigners on domestic bonds. There is possibility that some portion of that hot money could leave the country, seeking new places with highly attractive opportunities. In that case, it could create some additional demand on foreign currency on the market.

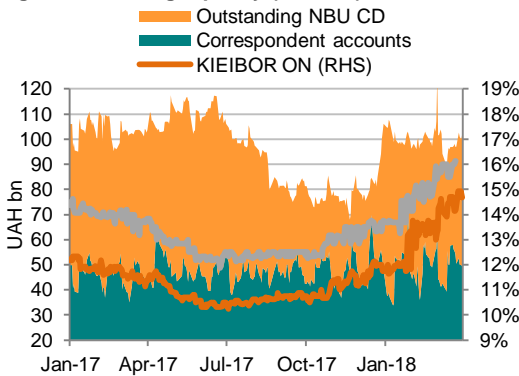
**Aggregate banking liquidity amounted to UAH 100.1bn as of Friday the 13<sup>th</sup>**, increasing by UAH 3.9 bn during the week. For the first two week of April, State treasury reimbursed only UAH 0.9bn, leaving the largest part of VAT refund to be reimbursed in the two weeks left in April. In March, treasury reimbursed UAH 10.1bn.

**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 455mn during the latest primary auction.** The shortest 3m bond issue, which attracted the most demand previously, was not on the agenda this time, as opposed to most recent auctions, passing the baton to a 1y issue, which took the top spot by demand this time. On the next auction which is scheduled to be on April 17<sup>th</sup>, MoF is to offer 3m, 6m, 9m, 1y and 2y bonds.

**Currently, yields (bids) of local OVDP in UAH at 17.75% (for 6m), 17.85% (for 2Y).** 1Y USD bids were at 5.40%, while bids for VAT bonds were at 17.95%.

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

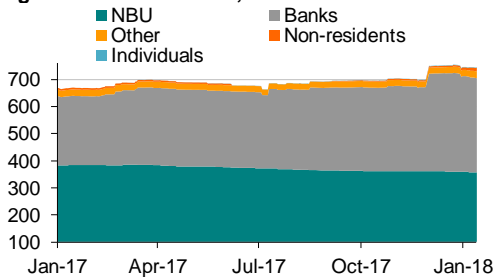


Source: Reuters, NBU, UkrSibbank, Minfin

**Figure 5. OVDP auction combined results, 10<sup>th</sup> of April 2018**

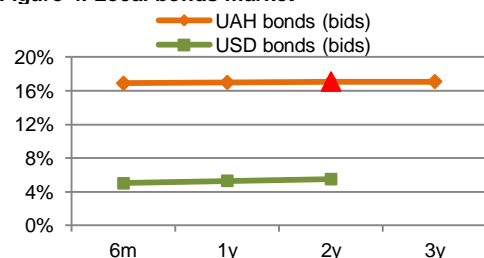
CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size	Placement size
UAH	6m	17.10%	17.10%	17.50%	17.10%	7	3	16.6mn	4.2mn
UAH	1y	16.95%	17.00%	17.00%	16.95%	5	5	424.1mn	423.7mn
UAH	3y	16.15%	16.15%	16.15%	16.15%	4	4	26.6mn	27.2mn

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



Source: NBU

**Figure 4. Local bonds market**



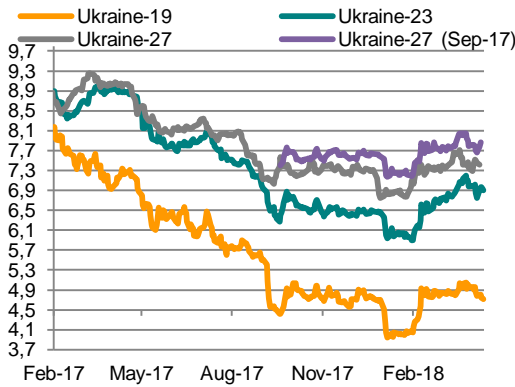
Source: UkrSibbank

**Cabinet of Ministers excluded from its privatization list some objects scheduled to be privatized in 2018.** These three objects include the following: Agrarian Fund, Black Sea Shipping and State Food and Grain Corporation. At the same time, Cabinet of Ministers obliged Ministry of Agriculture to substitute the three foregoing company with another up to May 1<sup>st</sup>. Previously, the State Property Fund revised its list of assets to be privatized due to adoption of the new privatization law, cancelling the sale of the controlling stake in five state controlled distribution companies and also the three blocking stakes in others state distribution companies. Besides that, several other assets had been excluded too, namely Turboatom, Azovmash, Zaporozhye Titanium Magnesium Plant and Svit Lasochiv. On top of that, government added to the list blocking stakes in several other companies. Among the largest assets for privatization remained stakes in Odesa Portside Plant, Sumykhimprom, Zaporozhye aluminium production plant Centrengo.



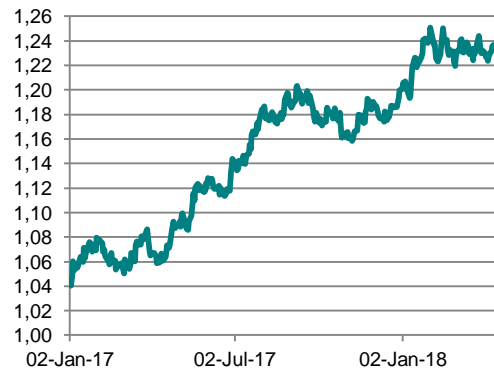
**Global markets: Central bank minutes are in the front seat**

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



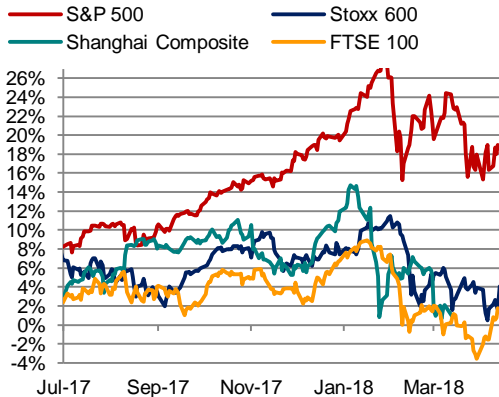
Source: Reuters

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



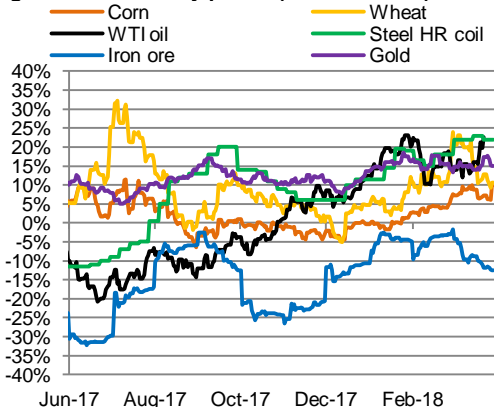
Source: Reuters

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



Source: Reuters

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



Source: Reuters

Minutes of the Fed's latest meeting indicated that growth in economy and inflation moving higher warrants further interest rate increase. At the meantime, minutes from ECB indicated that policymakers at their latest meeting warned that the risk of a trade war and strengthening euro could undermine growth in the region. This week officially started the earnings season in the U.S. While bank posted earnings stronger than expectations, their shares were the main drag on the market on Friday.

Bond benchmarks were mixed, with U.S. 10y Treasuries' yield higher by 5bp week-on-week increasing to 2.83%, while German 10y Bunds' yields rose by 1bp, landing at 0.51%, Japanese 10y bonds yield's fell and ended the week at 0.036%.

Having declined by 1.4% , measured by S&P 500, in previous week, **U.S. stock market reversed to the upside growing by 2.0% and by 2.7%, measured by S&P 500 and Nasdaq Composite**, respectively. Earnings season officially started this week, with several big names in the banking sector reported their first quarter results, which is indicative for the performance of overall industry. Among them were JP Morgan and Citigroup, with both beating analyst's expectations. At the same time, their shares declined after that, as strong posted results was not enough for investors amid weak loan growth, as a driver of future earnings growth, as effect from tax cuts was effectively priced in the prices earlier. At the meantime, uncertainty around strikes on Syria also undermined confidence by the end of the week.

New release of the **Fed minutes revealed that economy growing at a stronger pace and inflation are moving higher, warranting continued interest rate increases.** The FOMC unanimously voted to approve a quarter point rate hike, increasing further the target range. There was also some fear from a couple of members arguing to wait and see more evidence of inflation rising further to the Fed's 2% target. At the same time, members revised upward its GDP growth forecasts to 2.7% in 2018 and 2.4% in 2019.

**EUR/USD rate landed at 1.2329 as of Friday the 13<sup>th</sup>**, higher than the last week closing level of 1.2281, as the USD major over performed against its main counterparts.

**Stoxx 600, a broader gauge of European equity performance advanced by 1.2%, slightly beating a result of a week ago**, while German DAX increased stronger by 1.6% week-on-week. The European stock posted gains once again in the most recent week, even despite a geopolitical uncertainty and escalation of U.S. relations with Russia over use of chemical weapon in Syria.

**On Thursday, minutes of the latest ECB meeting had been revealed.** They showed that policymakers on their March meeting warned that risk of trade wars and strengthening euro could undermine economic recovery in the region. The minutes also suggested that ECB will move gradually to exit its EUR 30bn a month bond-buying program. Increased volatility on the financial markets were also mentioned in the minutes. According to policymakers, the damage from a trade war will depend on the scale of tariff and retaliatory measures.

**China's consumer prices rose 2.1% y/y in March, slowing from February's gain of 2.9% y/y.** On a month-on-month basis, headline inflation fell by 1.1%. At the meantime, the core consumer prices increased by 2.0% in March, down from 2.5% in prior month. On top of that, China's factory gate inflation continued to fall. China's PPI rose 3.1% y/y in March, following a 3.7% gain in February, according to the National Bureau of Statistics. The latest reading indicates that inflation decelerated for a five consecutive month.

**Crude oil prices were on the raise**, as WTI futures rose by 8.6% week-on-week and closed at USD 67.4 per barrel, while Brent 1m futures gained in line with WTI by 8.2% closing at USD 67.4 per barrel. Prices were supported by concern of the growing possibility of military actions in Syria and reports of falling global inventories.

**Gold prices increased**, as NYMEX 1m futures increased by 1.0% week-on-week and finished the week at USD 1344.8 per troy ounce.

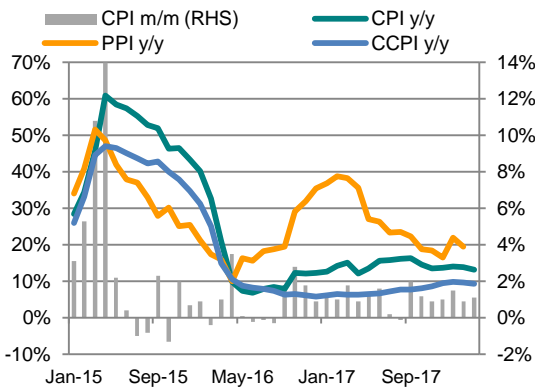
**Grains were mixed**, as CBOT Corn 1m futures fell 0.6% week-on-week and closed at USD 386.3 per bushel, while CBOT Wheat 1m futures landed at USD 472.5 per bushel, remaining flat.

**Iron ore declined** as NYMEX Iron ore 62% Fe 1m futures gained by 2.0% week-on-week and closed at USD 64.5 per ton.



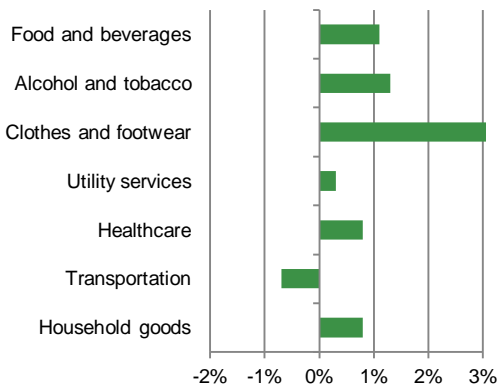
**This week in focus: MPC left rate on hold; consumer prices declined**

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



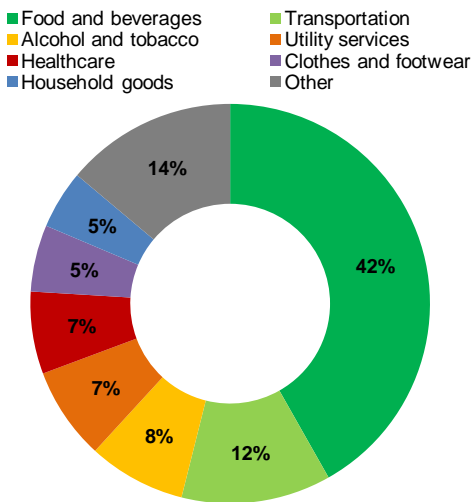
Source: Ukrstat

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



Source: Ukrstat

**Figure 11. CPI basket, %**



Source: Ukrstat

**Inflation expectations accelerated, while headline reading printed lower to 13.2% y/y. At the same time, NBU left the key rate on hold at 17%. We keep our inflation forecast unchanged at 10.9% y/y in 2018, while expecting no change to NBU key rate in the next six months, provided gradual decline in inflation and IMF disbursement in the 2<sup>nd</sup> half of 2018.**

**On Thursday, NBU decided to leave its main rate unchanged at 17.0%**, having increased discount rate four times in a streak. According to NBU officials, the current monetary stance is sufficiently tight to help push prices lower to NBU target in the mid-term. NBU inflation forecast by the end of March was 12.5% y/y, 0.7% lower than 13.2% y/y actually reached according to Ukrstat.

**In February, an inflation expectation of household's increased to 13.7% y/y** from 13.3% y/y reached in previous year. At the same time, inflation expectations of financial analysts increased also to 9.5% y/y in February from 8.9% y/y in January. Data on a quarterly basis about firms indicated that their inflation expectations were on the rise too, increasing from to 11.0% y/y from 10.4% y/y. As was the case before, inflation expectations of household's were the highest, while expectations of analysts were the lowest among all categories.

**NBU inflation forecast remains at 8.9% y/y in 2018.** Hryvnia strengthening in the first quarter of 2018 is to act as effective deterrent to higher consumer prices, especially in the non-food categories, bringing core inflation lower as well. According to NBU, inflation will decline to 5.9% y/y by the mid of 2019. Moreover, it will gradually decline to 5.0% in 2020 year.

**NBU's real GDP growth forecast for 2018 remained unchanged at 3.4% y/y.** Private consumption is to be the primary engine of growth further, driven primarily by nominal and real wages increases. At the same time, average wage increases will be driven by increases in minimum official wage in the country administratively and by migration process unfolding in the country. On top of that, more loose fiscal policy especially before elections is to contribute to economical growth also. In 2019-2020, NBU expects GDP growth to decline to 2.9% y/y, due to effects of increased interest rates in the country and due to less loose fiscal policy after the elections.

**The key risk and assumption of the forecast is a disbursement of the next IMF tranche in 2018.** NBU expects Ukraine to receive USD 2bn of proceeds from IMF, which translates directly into USD 21.6bn of international reserves by the end of the year.

**CPI inflation reading for March came out at 1.1% m/m in March and 13.2% y/y**, down from 14.0% y/y in February. Food prices accelerated by 1.2% m/m in March, stemming mainly from increase in prices of fruits, vegetables and other. At the meantime, meat prices rose by 0.8% m/m. Moreover prices of sugar, eggs, and milk acted as drag on food basket. While sugar prices on the international markets are at a free fall (mainly due to higher supply from India, which increased production by around 40% y/y and strong increase in production in Thailand), decline in egg prices is purely domestic seasonal pattern, closely related with consumption patterns.

**As we expected, please see the Weekly dated March 20, utilities prices contributed the most to lowered inflation in March.** It was mainly due to higher comparative base in March 2017, when electricity prices were increased by 28%. According to the latest available information Cabinet of Ministers left gas price for households unchanged, as of March 28, extending the decree aimed at to keep gas prices unchanged up to June 1st. Previously, government managed to avoid households gas price increase in the end 2017 required by IMF's import parity principle. The possibility of the higher inflation contribution from hiking household's gas prices is in the air as of now, putting some upward pressure on inflation path by the end of the year.

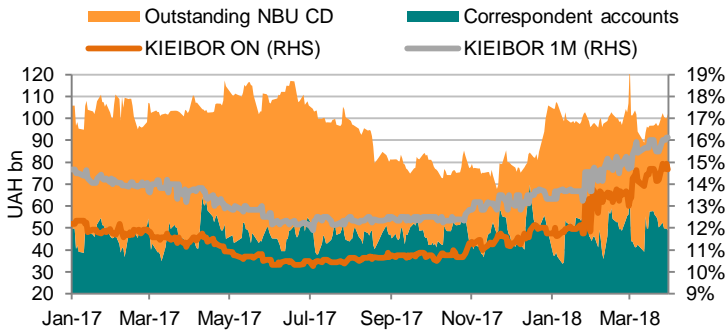
**Transportation prices had turned around in March, reversing to the downside.** In February, upswing in transportation prices by 1.5% was fueled by 2.2% m/m jump in fuel prices. As opposed to that, 2.5% m/m decline in prices of fuel led to 0.7% m/m decline in broader category of transportation prices in March. Meanwhile, prices related to railway transportation advanced by 3.3% last month.

**Core inflation kept decelerating its path in March for a three consecutive month on a 12-month basis.** At the same time, it kept accelerating on m/m basis, increasing by 1.4% as much as twice higher in contrast to February. On a y/y basis prices landed at 9.4%, down from 9.7% in prior month, remaining at the high level.



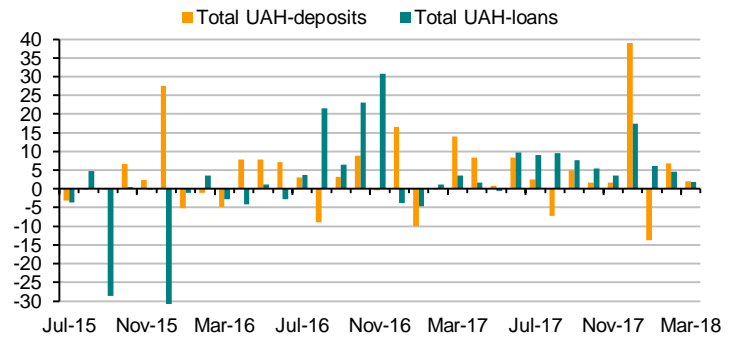
### Money market

#### Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

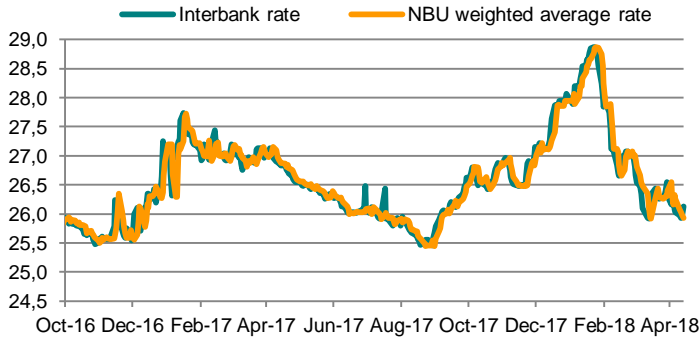
#### Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

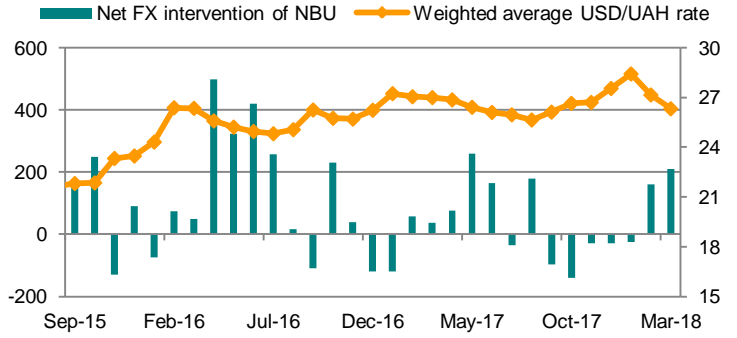
### Currency market

#### UAH exchange rate, UAH/USD



Source: Reuters

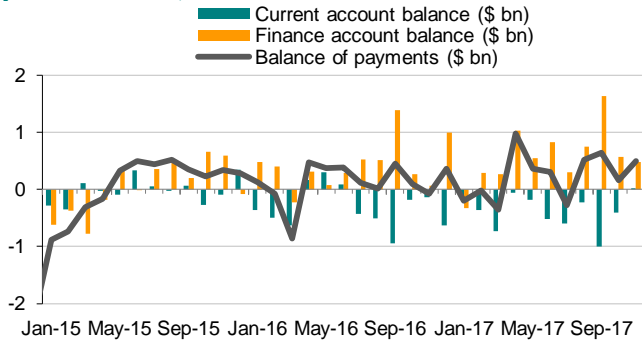
#### Net retail FX interventions of the NBU in 2015-2017, USDmn



Source: NBU

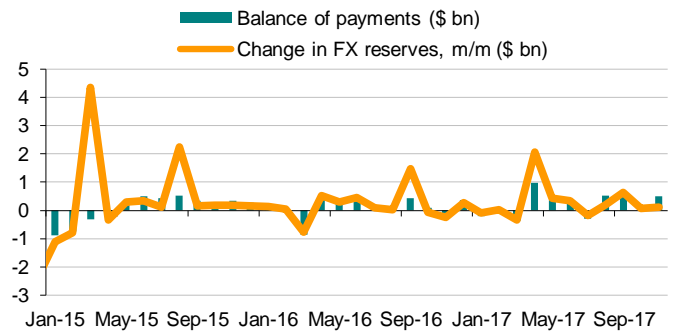
### Balance of payments

#### Major BoP accounts, USDbn



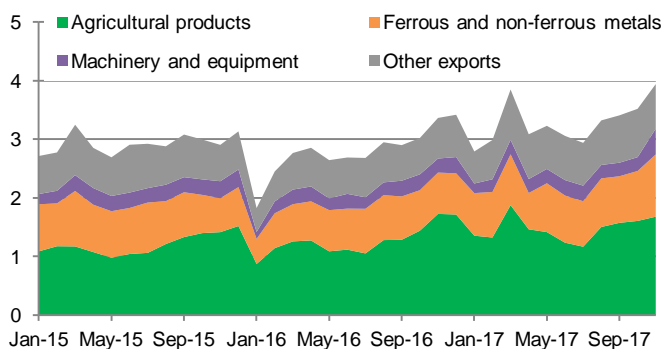
Source: NBU

#### BoP vs change in foreign reserves, USDbn



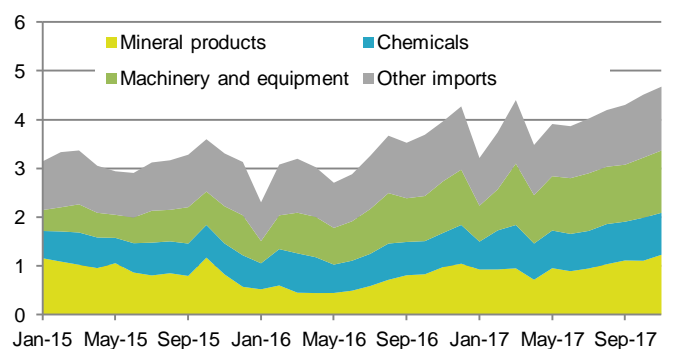
Source: NBU

#### Exports components dynamic, USDbn



Source: NBU

#### Imports components dynamic, USDbn



Source: NBU



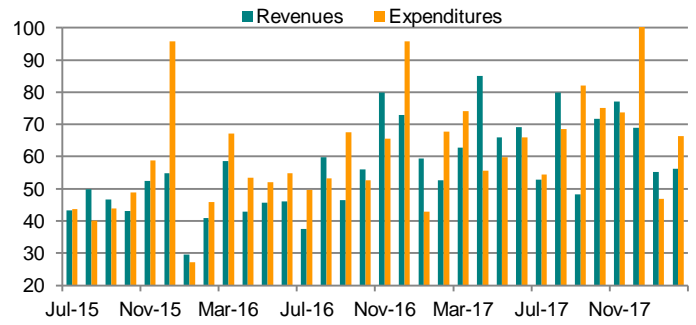
**Budget performance**

**Budget performance, UAHbn**

	Jan – Feb 2017	Jan - Feb 2018
<b>Budget revenues</b>	<b>112,0</b>	<b>111,4</b>
VAT proceeds	35,3	36,0
Corporate income tax	8,8	7,4
<b>Budget expenditures</b>	<b>110,6</b>	<b>113,2</b>
Deficit / Surplus	1,5	-1,8

Source: NBU

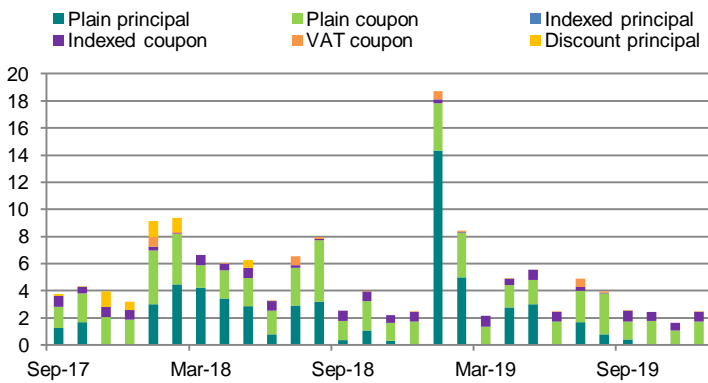
**Monthly change in budget revenues and expenditures, UAHbn**



Source: NBU, State Treasury

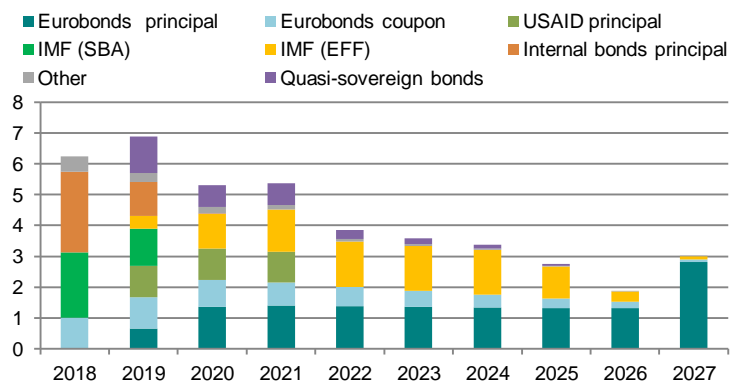
**Sovereign debt**

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



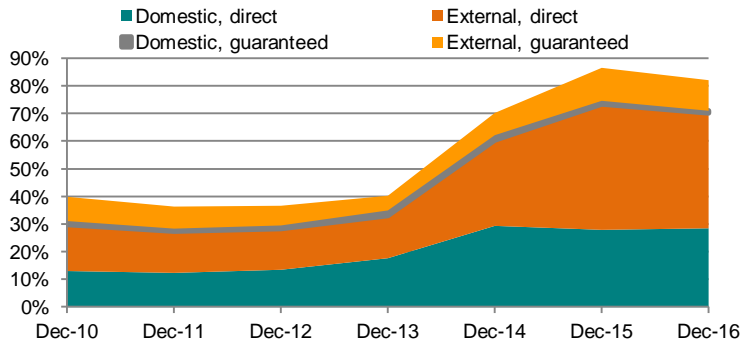
Source: NBU, UkrSibbank estimates

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



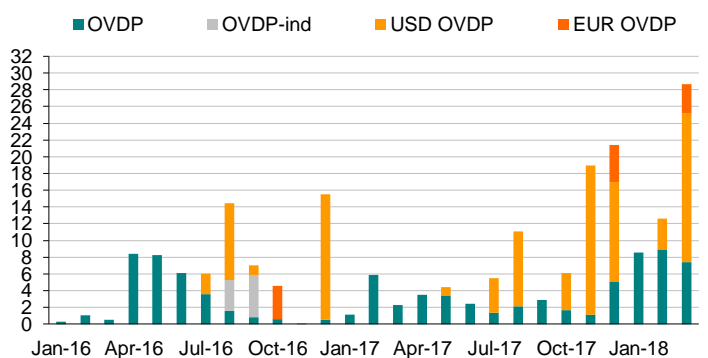
Source: Reuters, IMF, UkrSibbank estimates

**Total government debt, % GDP**



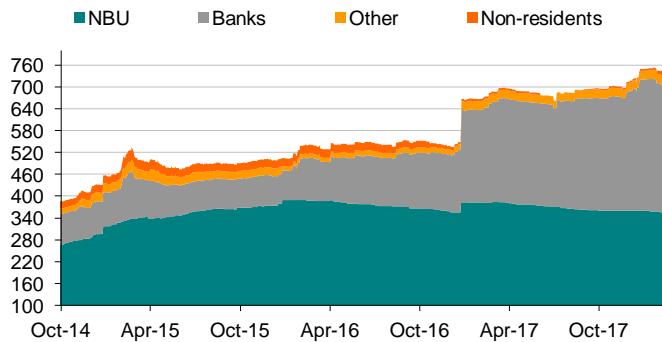
Source: MinFin

**Local borrowings, UAHbn equivalent**



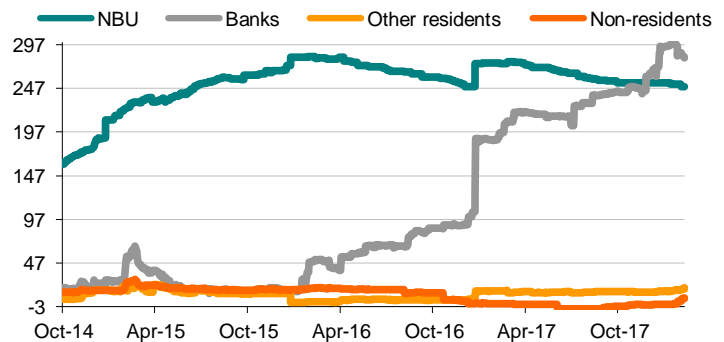
Source: NBU

**Outstanding OVDP owners structure, UAHbn**



Source: NBU

**Outstanding OVDP changes in holding, UAHbn**



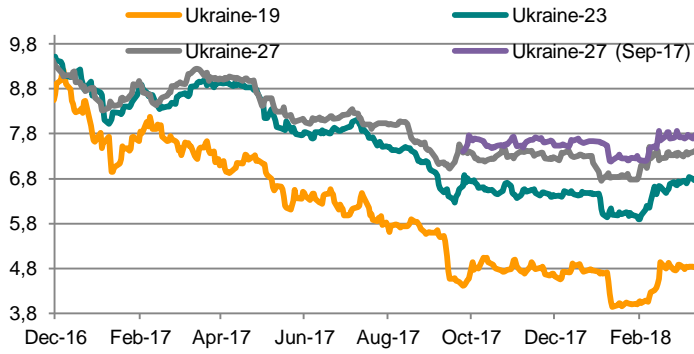
Source: NBU





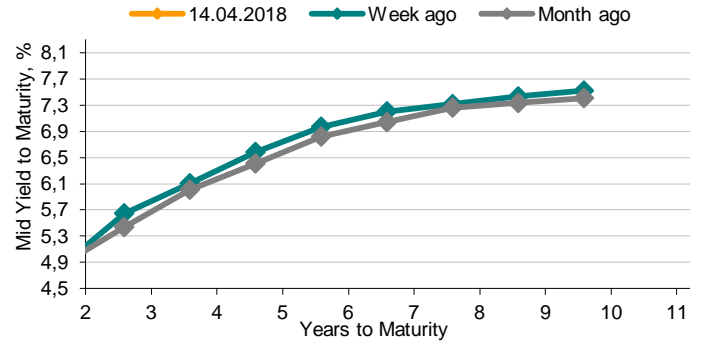
### Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

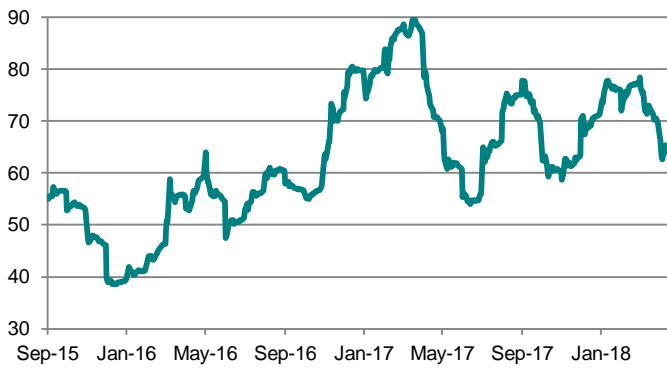
Ukraine's sovereign Eurobond yield curve



Source: Reuters

### Commodity markets

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



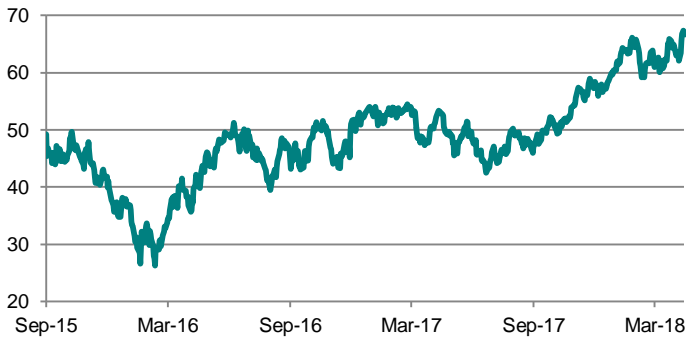
Source: Reuters

Steel CIS export HR coil, USD per ton



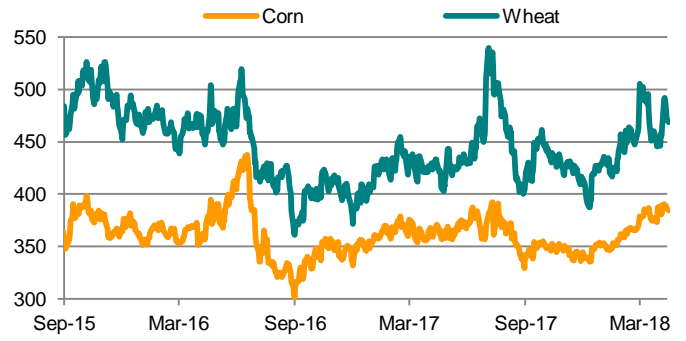
Source: Reuters

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
<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	2.5	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
<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	71.8	70.0
<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	-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
<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



## Contacts

---

### **Dmytro Tsapenko**

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

### **Serhiy Yahnych**

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

### **Oleksandr Duda**

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

### **Maksym Burynskyi**

Analyst  
(+38044) 230 48 54 [maksym.burynskyi@ukrsibbank.com](mailto:maksym.burynskyi@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.