



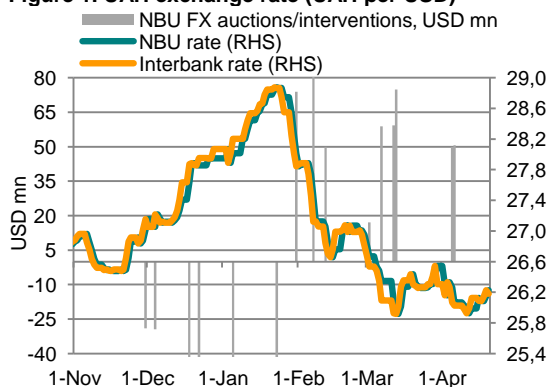
**This week in focus: Household incomes are on the rise**

Ukraine's household incomes reached UAH 2476 bn, according to Ukrstat, displaying solid 24.4% y/y growth rates. The key driver was 31.1% increase in nominal salaries, which currently represent 44.3% of total incomes, followed by social payments (35.2%). At the same time consumer spending accelerated even more (26.8% y/y) to UAH 2545 bn. We believe this figure is in line with recent NBU revision of private transfers, while we also underline very low domestic savings rate which makes future Ukraine's economy growth rates increasingly dependent on external capital flows.

*Please see page 3 for more details*

**FX and interest rates: NBU published minutes of the latest meeting**

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



Source: NBU, Reuters

**USD/UAH closed at 26.18 as of Friday the 20<sup>th</sup>**, as hryvnia weakened by a mere 0.2% week-on-week.

**Average daily FX volumes on the market amounted to the equivalent of USD 222.3mn**, USD 17.2mn lower compared to previous week.

**The NBU refrained from interventions on the market via currency auctions** this week. In April, NBU held only two currency auctions, resulting in USD 100.7mn international reserves increase via this type of intervention.

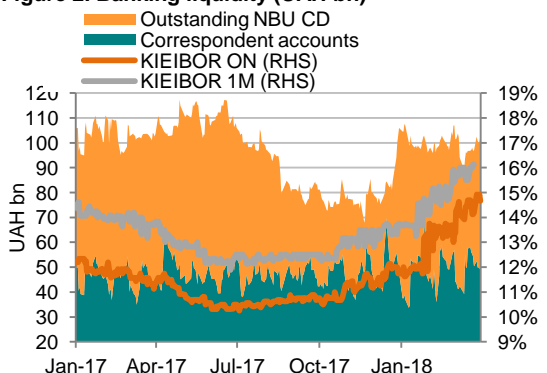
**Aggregate banking liquidity amounted to UAH 104.2bn as of Friday the 20<sup>th</sup>**, increasing by UAH 4.1 bn during the week.

**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.

Having refrained from placing in the prior primary auction, **MoF resumed its practise of issuing the bonds with the shortest maturity** at a cut off rate 17.44%. While demand reached roughly UAH 0.8bn, the MoF cap set at UAH 0.5bn, resulted in UAH 482mn proceeds to the budget or approximately half. Moreover, MoF placed 6m bonds at a cut off rate 17.2%. In contrast to that, bonds with the longest maturity at this auction were put on ice, as demand constituted a mere UAH 70mn. On the next auction which is scheduled to be on April 24<sup>th</sup>, MoF is to offer 6m, 1y and 5y, UAH denominated bonds and 2y bonds denominated in EUR.

**Currently, yields (bids) of local OVDP in UAH at 17.75% (for 6m), 17.75% (for 2Y).** 1Y USD bids were at 5.35%, while bids for VAT bonds were at 17.95%.

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

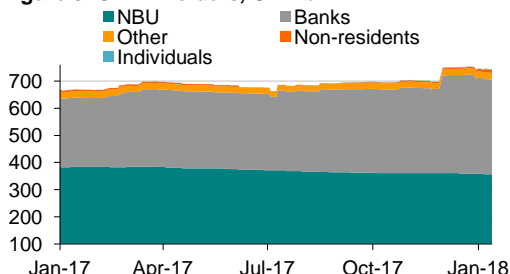


Source: Reuters, NBU, Ukrsisbank, Minfin

**Figure 5. OVDP auction combined results, 17<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	3m	17.44%	17.36%	18.00%	17.00%	17	15	767.5mn	482.3mn
UAH	6m	17.20%	17.13%	17.30%	17.10%	9	8	840.2mn	463.5mn
UAH	1y	-	-	-	-	3	0	70.4	-

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

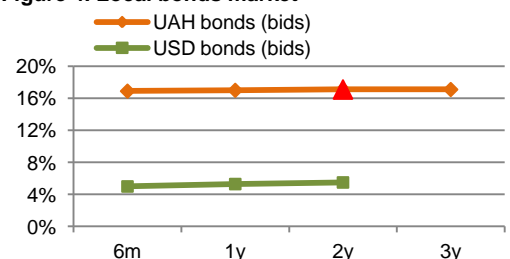


Source: NBU

**On April 20<sup>th</sup>, S&P reaffirmed Ukraine's rating at B-/B** long term and short term foreign and local currency sovereign credit rating, with stable outlook. The credit rating agency expects Ukraine to fulfil its obligations under IMF program, namely passing the reforms, in order to get the USD 1.9bn next IMF disbursement in 2018, ahead of national elections in the following year.

**Members of MPC highlighted that the current monetary stance is tight enough to bring inflation down to the target** in the midterm. There have been no events that would increase the underlying inflation pressure since the latest Board meeting. At the same time, favourable dynamic on FX market will bring down core inflation faster that was initially projected. Discussing the prospects of the monetary policy, the vast majority of policymakers believed that the main rate is unlikely to be decreased in 2018. The results of the next MPC meeting are scheduled to be released on May 24<sup>th</sup>. We stick to a view that NBU most likely will left its main rate unchanged on the next board meeting.

**Figure 4. Local bonds market**

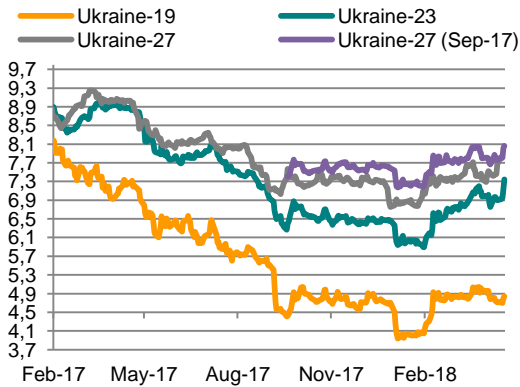


Source: Ukrsisbank



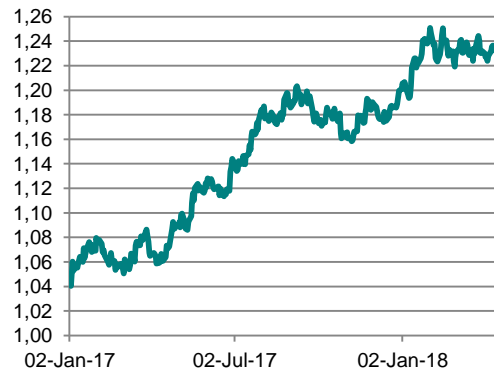
**Global markets: EU consumer prices growth comprised 1.5% in March**

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



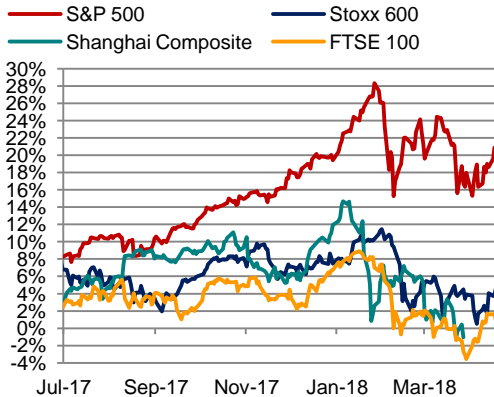
Source: Reuters

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



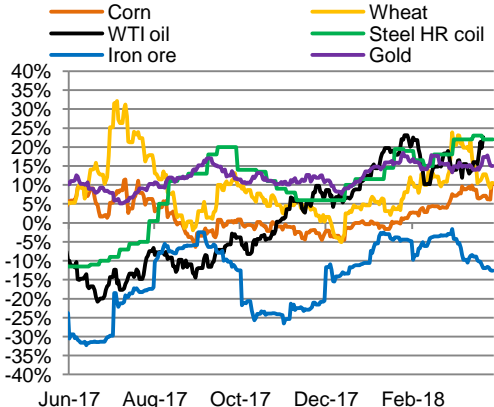
Source: Reuters

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



Source: Reuters

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



Source: Reuters

In the U.S., job market continued a trend of a tight market, with applicants for the new benefits falling to 232 000. According to Eurostat, consumer prices in the European Union increased by 1.5% in March. In the meantime, China's central bank cut the amount of money commercial banks were required to keep as reserves. In regard of equities, U.S. stock market upbeat performance during latest earnings season is slowly rewarded by the returns in the stock market.

Bond benchmarks fell, with U.S. 10y Treasuries' yield higher by 13bp week-on-week increasing to 2.96%, while German 10y Bunds' yields rose by 8bp, landing at 0.59%, Japanese 10y bonds yield's gained and ended the week at 0.060.

The S&P 500 and Nasdaq Composite were slightly positive during the week, increasing by 0.5% and 0.6%, respectively. While in the first half of week U.S. stock markets were broadly on the rise, in the second part of week markets erased almost all gains. The fear came primarily from Apple supplier report, pointing to the slowing smart phone market, putting pressure on tech sector. In general, companies generally beat expectations by the widest margin in several years. At the same time, market proved to be too slow to reward them, while punishing quickly enough those who fall short of expectations. Surprise on EPS results in the 1Q 2018 comprised 7% by far higher than the latest quarters. The gradual climbing of interest rates, namely U.S. 10y Treasuries almost reached 3%, unfolds a process that puts some pressure on the stocks. At the same time, 41% companies representing roughly 41% of S&P 500 market capitalization are scheduled to report in this week. Especially, big tech names such as Google, Amazon and Facebook will be closely watched this week.

According to figures of the Labor Department, new applicants for U.S. benefits fell 1000 to a seasonally adjusted 232 000 for the week ended April 14<sup>th</sup>, continuing the trend of a tight labor market. At the same time, economy created 103 000 jobs in March, the fewest in six months. According to latest data is considered to be near of full employment. Namely, the unemployment rate is at a 17 year low of 4.1%. It remains slightly higher than 3.8% Fed forecast by the end of the year. On top of that, Fed's Beige book latest release showed that business remained upbeat about prospects for U.S. economy.

EUR/USD rate landed at 1.2286 as of Friday the 20<sup>th</sup>, lower than the last week closing level of 1.2329, as U.S 10y treasuries climbed closer to 3% during the week.

Stoxx 600, a broader gauge of European equity performance advanced by 0.7%, while German DAX increased by 0.8% week-on-week.

Consumer prices in the European Union gained 1.5% in March on a year-on-year basis, according to Eurostat reading published on Wednesday. The more detailed data indicated that the lowest increases in consumer prices were observed in Greece (+0.2%), Denmark (+0.4%), while the highest were reached in Romania (+4.0% y/y), Estonia (+2.9% y/y), Slovakia and Lithuania (both +2.5% y/y). By components, the highest contribution to inflation came from services (0.67%), followed by food grouped together with alcohol and tobacco - (0.41%), energy (0.2%) and non-energy industrial goods (0.07%).

On Tuesday, China's central bank revealed that it would cut the amount of cash that most banks are required to hold in reserve to release cash into banking system, indicating the first decrease since February 2016. It's expected that the major part of unfrozen money will be used to repay loans from central bank. Prior the interdiction of changes the reserve requirement ratio comprised 17% for large banks and 15% for smaller banks. The new move aims to cut both by one percentage point. It will take effect since April 25<sup>th</sup> for the largest share of banks.

Crude oil prices increased, as WTI futures rose by 1.5% week-on-week and closed at USD 68.4 per barrel, while Brent 1m futures gained in line with WTI by 2.0% closing at USD 74.1 per barrel.

Gold prices increased, as NYMEX 1m futures dropped by 0.6% week-on-week and finished the week at USD 1336.7 per troy ounce.

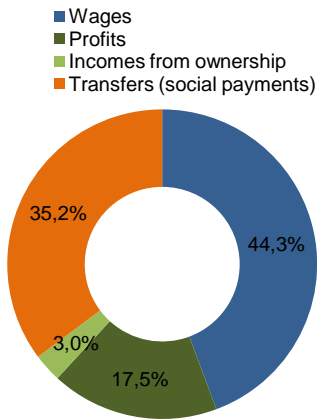
Grains were mixed, as CBOT Corn 1m futures fell 2.5% week-on-week and closed at USD 376.5 per bushel, while CBOT Wheat 1m futures landed at USD 463.3 per bushel, falling by 2.0%.

Iron ore declined as NYMEX Iron ore 62% Fe 1m futures gained by 0.7% week-on-week and closed at USD 65.05 per ton.



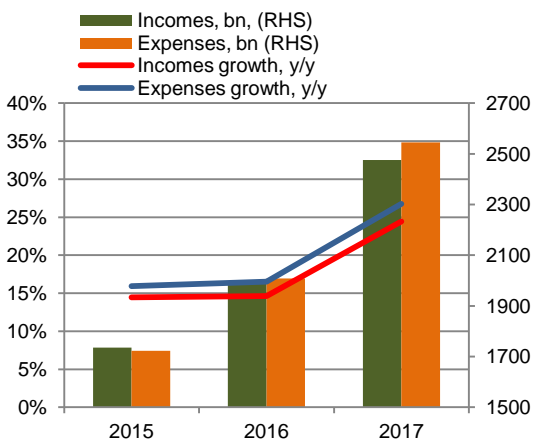
**This week in focus: Household incomes are on the rise**

**Figure 9. Incomes breakdown in 2017**



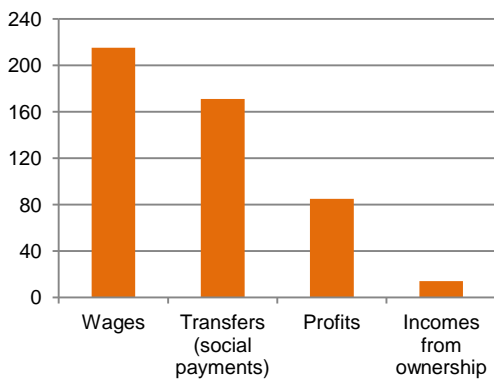
Source: Ukrstat

**Figure 10. Household incomes and expenses**



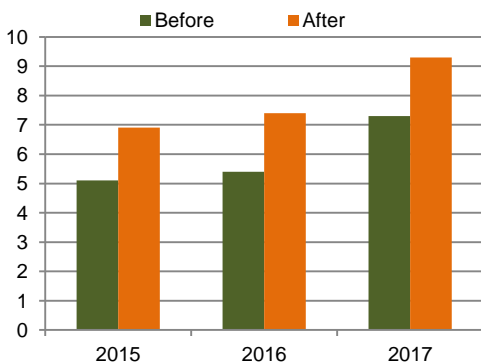
Source: Ukrstat

**Figure 11. Contribution to incomes growth, UAHbn**



Source: Ukrstat

**Figure 12. Ukraine's private transfers before and after corrections, USD bn**



Source: NBU

Ukraine's household incomes reached UAH 2476 bn, according to Ukrstat, displaying solid 24.4% y/y growth rates. The key driver was 31.1 % increase in nominal salaries, which currently represent 44.3% of total incomes, followed by social payments (35.2%). At the same time consumer spending accelerated even more (26.8% y/y) to UAH 2545 bn. We believe this figure is in line with recent NBU revision of private transfers, while we also underline very low domestic savings rate which makes future Ukraine's economy growth rates increasingly dependent on external capital flows.

In 2017, expenses of Ukrainians rose strongly as opposed to household incomes. As a result, aggregate household savings dropped significantly by UAH 69bn. In particular, incomes rose by 24.4% y/y in 2017, while expenses rose by 26.8% y/y in 2017, resulting in a burn of household liquidity cushion in the form of accumulated savings, according to Ukrstat data. At the same time, excess supply of foreign currency on the market contributed to more balanced and stable market.

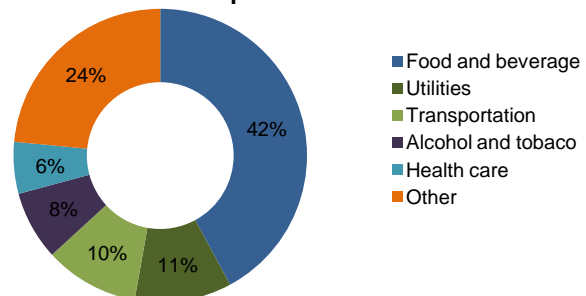
The share of wages in aggregate incomes accounted for 44% from total in 2017, increasing from 42% reported in 2016. Wages growth was the strongest among all sources of incomes. At the same time the growth of transfers in the form of social help from the budget took the second spot with a growth of 24.6% y/y in 2017. The share of profits landed at 17.5% from total, down from 19.0% in 2016.

Real disposable incomes increased by 6% y/y in 2017 by far stronger compared to a year ago. It was the strongest reading in five consecutive years, only in 2013 real disposable income growth outstripped the similar gains in 2017. In 2016, real disposable income rose by 0.3% y/y. In regard to 2017 real disposable incomes upswing, the growth was driven primarily by increased wages, as inflation effectively remained at the same level. Official minimum wage increased to UAH 3200 effective January 1st, resulting in higher incomes for Ukrainians. Besides higher official minimum wage, the gain in salaries was partly due to increased emigration to the European Union, especially to the neighboring Poland.

According to Ukrstat, in 1H 2017, household savings fell by UAH 68.6bn, driven mainly by saving in USD totaling UAH 39.2bn. As data from Ukrstat shows households sold the largest volume of their USD savings in the second and third quarters of the year, or in line with seasonal pattern reflected in NBU statistics. In the meantime, household savings fell by a mere UAH 0.4bn, while USD savings fell by UAH 17.4bn in the second half of the year. As a result household saving dropped by UAH 69 bn in 2017, while USD saving fell by UAH 56.6bn, or roughly USD 2.0bn. In 2016, households sold foreign denominated savings to support the current level of expenses totaling UAH 63.3bn, while aggregate household savings dropped less pronounced compared to 2017. At the meantime, some part of proceeds from FX selling came into the banking system in the form of deposits.

From the side of expenses, expenses on goods and services historically accounted for the largest single item in expenses, with the next closest peer trailing far behind. From 2005, the average expenses on goods and services comprised 83.8% from total, while in most recent years that share advanced to more than 90%, reaching 92.8% in 2017 the highest level in more than 10 years. The breakdown of household expenses indicates that the major single item which accounts for the largest share of expenses totaling 42% was food and beverages, followed by utilities (11%), transportation (10%), alcohol and tobacco (8%), health care (6%) and other.

**Household expenses in 2017**

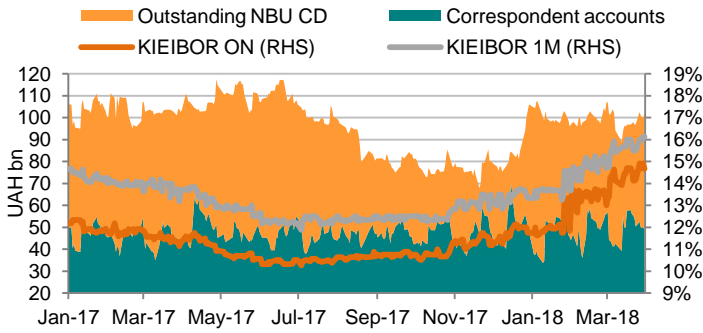


While we saw that household expenses exceeded their incomes, resulting in drop of savings, the inflow of money from migrants are partly mitigated that gap, especially after significant revision of data by NBU. According to NBU private transfers accounted for USD 9.3bn in 2017, allowing the households to spend more.



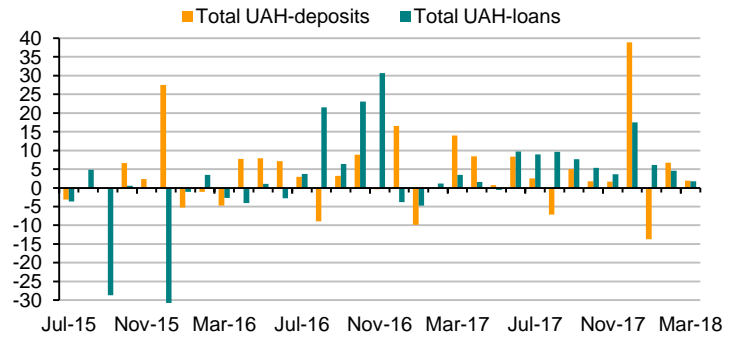
### Money market

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



Source: Reuters, NBU, UkrSibbank estimates

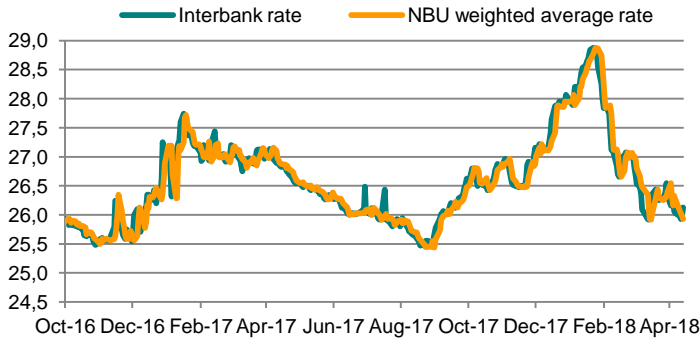
#### Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

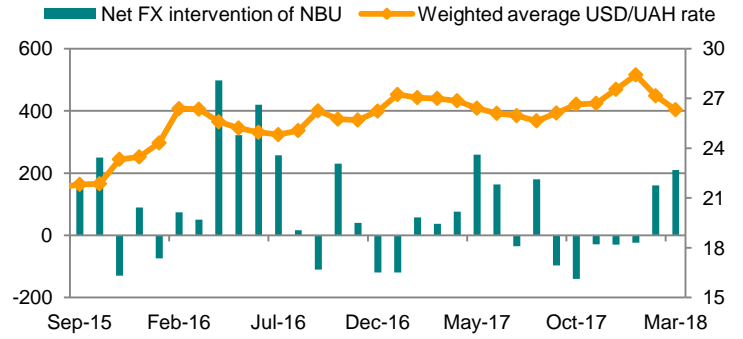
### Currency market

#### UAH exchange rate, UAH/USD



Source: Reuters

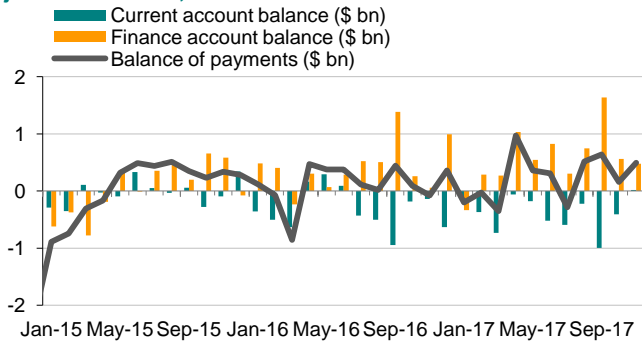
#### Net retail FX interventions of the NBU in 2015-2017, USDm



Source: NBU

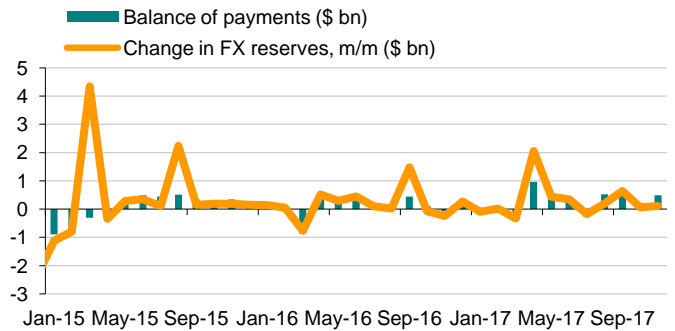
### Balance of payments

#### Major BoP accounts, USDbn



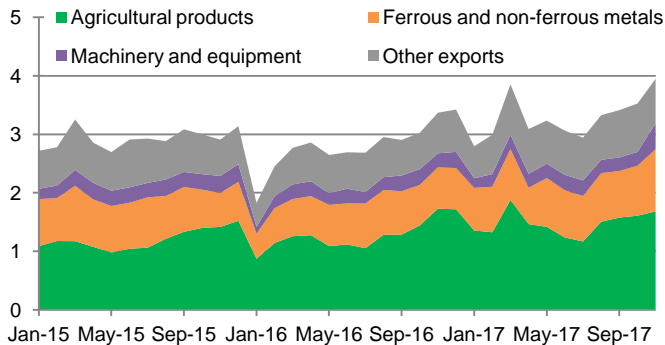
Source: NBU

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



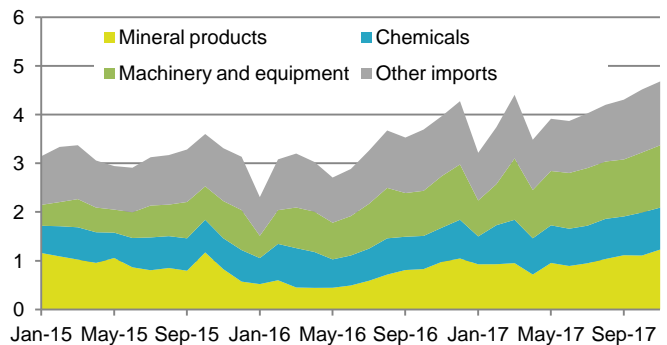
Source: NBU

#### Exports components dynamic, USDbn



Source: NBU

#### Imports components dynamic, USDbn



Source: NBU



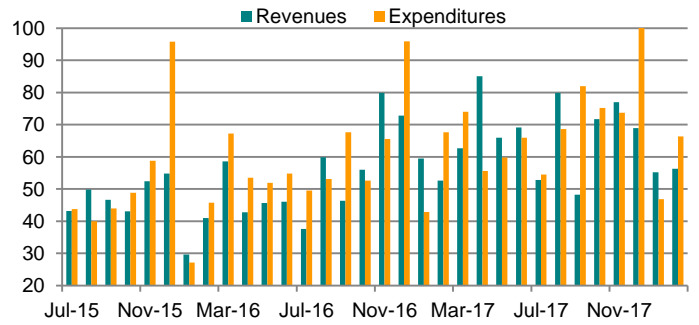
**Budget performance**

**Budget performance, UAHbn**

	Jan – 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

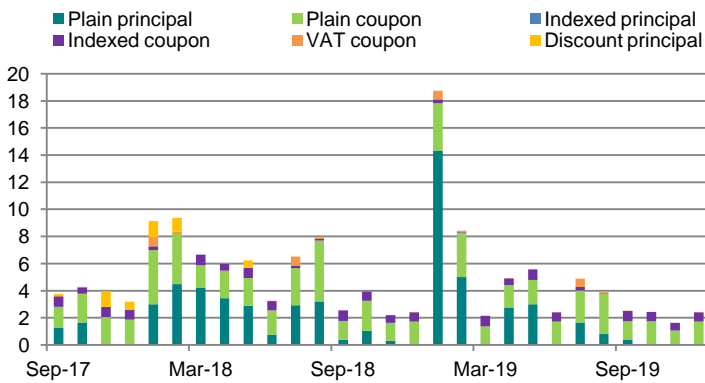
**Monthly change in budget revenues and expenditures, UAHbn**



Source: NBU, State Treasury

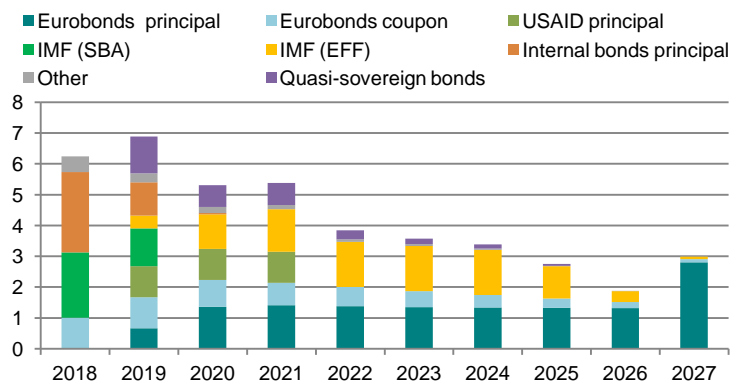
**Sovereign debt**

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



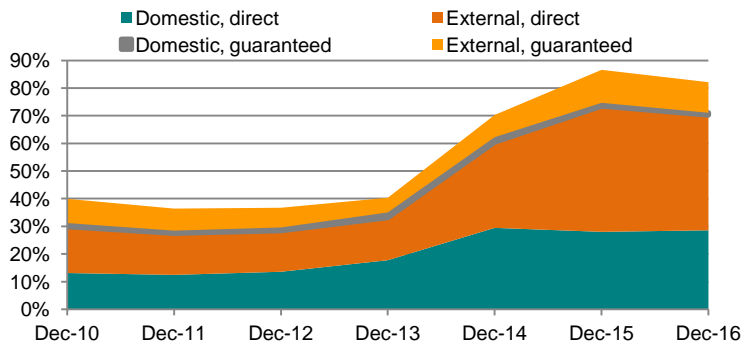
Source: NBU, UkrSibbank estimates

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



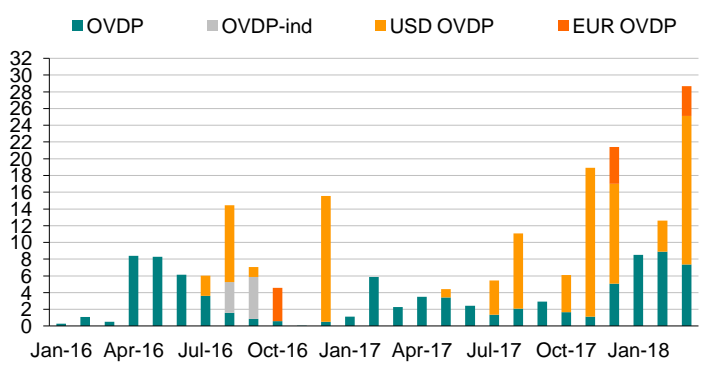
Source: Reuters, IMF, UkrSibbank estimates

**Total government debt, % GDP**



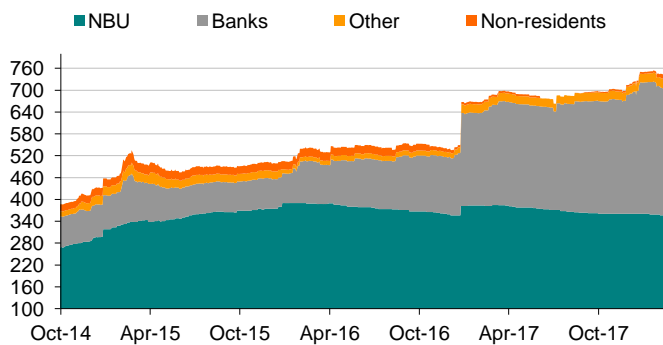
Source: MinFin

**Local borrowings, UAHbn equivalent**



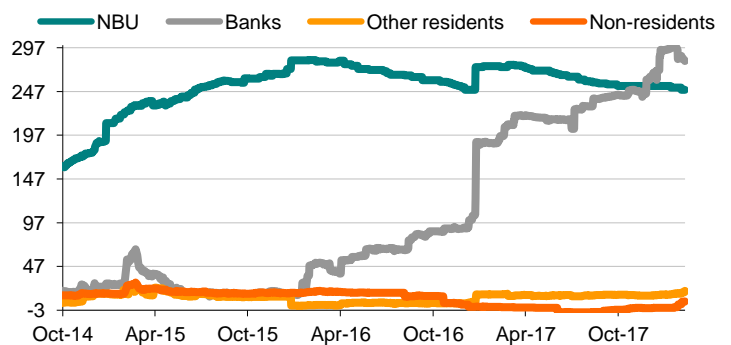
Source: NBU

**Outstanding OVDP owners structure, UAHbn**



Source: NBU

**Outstanding OVDP changes in holding, UAHbn**

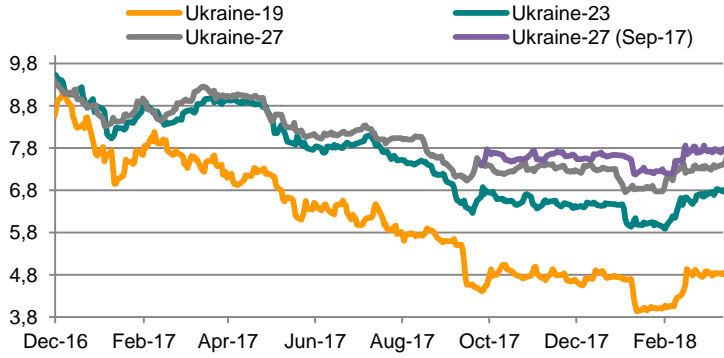


Source: NBU



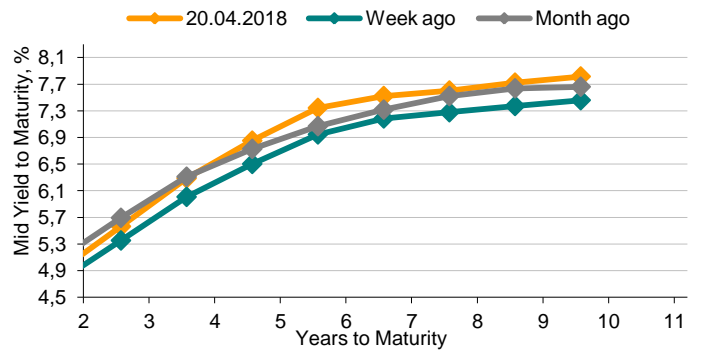
### Eurobond market

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



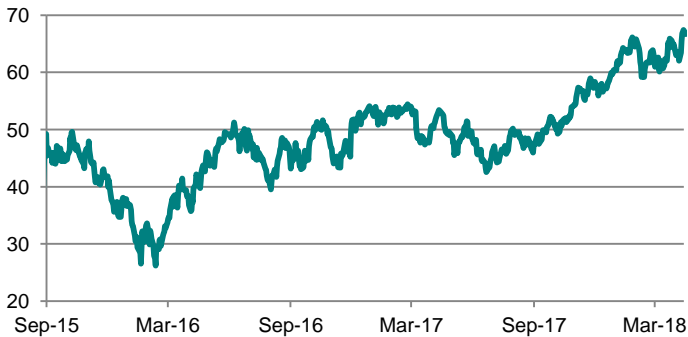
Source: Reuters

Steel CIS export HR coil, USD per ton



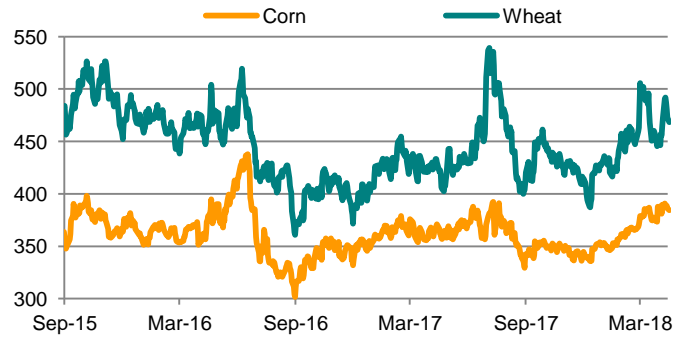
Source: Reuters

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



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