



This week in focus:

CPI: disinflation is yet to come, expect no change in NBU rate

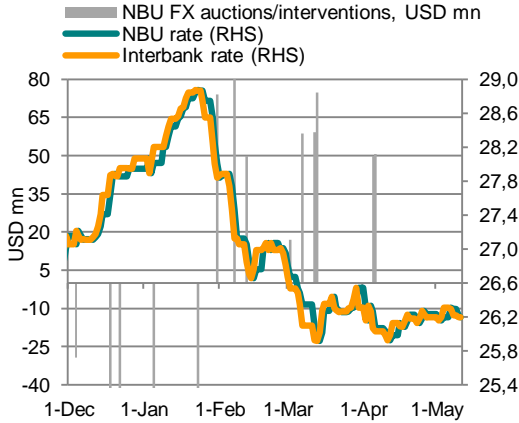
Ukraine's inflation slightly edged lower to 13.1% y/y in April, following 13.2% y/y reading in March. While decline in inflation in March was down due to utilities, the fall in prices in May is to be driven primarily by categories included in a food component of CPI, namely vegetables and fruits. We continue to expect some gradual decline in inflation with full year reading landing at 10.9%.

Please see page 3 for more details

FX and interest rates:

NBU: reserves rose; matching is being ramped up

Figure 1. UAH exchange rate (UAH per USD)



Source: NBU, Reuters

USD/UAH closed at 26.20 as of Friday the 11th, as hryvnia were levelling off during the week, strengthening slightly by the same 0.4% week-on-week by which it declined in preceding week.

Average daily FX volumes on the market amounted to the equivalent of USD 225.8mn, USD 14.3mn higher compared to previous week. At the same time it was partly due to +1 working day.

The NBU held no currency auctions, preferring to intervene solely through matching this week in line with a previous week. While in the first week of May central bank bought USD 10mn, on the prior week those purchases accounted for USD 52mn, matching tightly with a proclaimed principle to buy USD 10 per day. Altogether, NBU bought on a net basis USD 1.1bn YTD, as of May 10th.

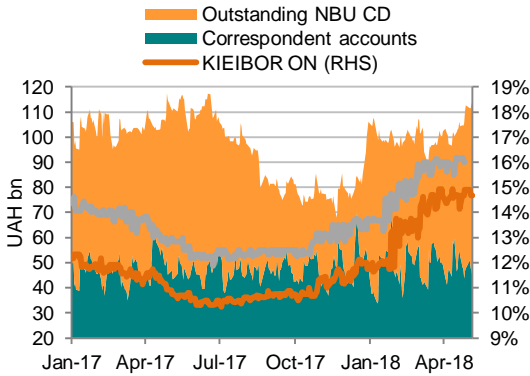
Aggregate banking liquidity amounted to UAH 112.6bn as of Friday the 11th, starting a decline by UAH 1.8 bn during the week from previous peak of UAH 114bn reached in prior week. In recent time, banking liquidity advanced to highs last seen in June of 2017 or roughly a year ago.

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 put on ice 3m bonds on the previous auction, MoF issued them on the latest auction, placing them at the same cut off rate at 17.44%. While MoF set a cap on both 3m and 6m issues at UAH 0.5bn, the demand fell short of that level, especially for 6m bonds. The longest issue with a maturity of 3y took the second spot by demand as well as by placement size. On the next primary auction, which is scheduled to be held on May 15th, MoF is to offer the line up of bonds with maturity 6m, 9m, 1y and 2y. During the previous week USD denominated bonds totalling USD 112.1mn had been redeemed, which was effectively the major redemption in May. Tomorrow are to be redeemed bonds totalling UAH 1.5bn, while on May 23rd, are to be redeemed bonds for a total UAH 2.4bn (the largest single redemption by the end of May).

Currently, yields (bids) of local OVPD in UAH at 17.90% (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)

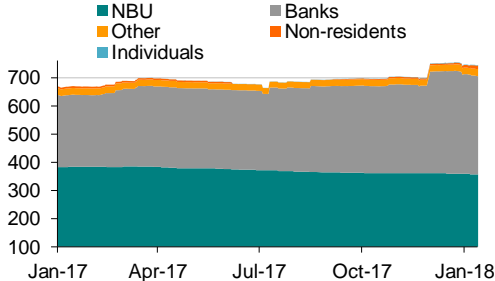


Source: Reuters, NBU, UkrSibbank, Minfin

Figure 5. OVPD auction combined results, 8th of May 2018

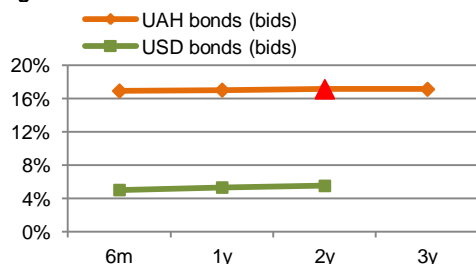
CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size	Placement size
UAH	3m	17.44%	17.40%	17.50%	17.35%	23	21	481.4mn	442.4mn
UAH	6m	17.20%	17.20%	17.35%	17.20%	8	5	136.2mn	48.9mn
UAH	9m	17.25%	17.22%	17.25%	17.15%	5	5	184.0mn	163.0mn
UAH	1y	17.00%	17.00%	17.10%	17.00%	4	3	112.2mn	101.1mn
UAH	3y	16.15%	16.15%	16.50%	16.10%	10	9	434.2mn	242.5mn

Figure 3. OVPD holders, UAH bn



Source: NBU

Figure 4. Local bonds market



Source: UkrSibbank

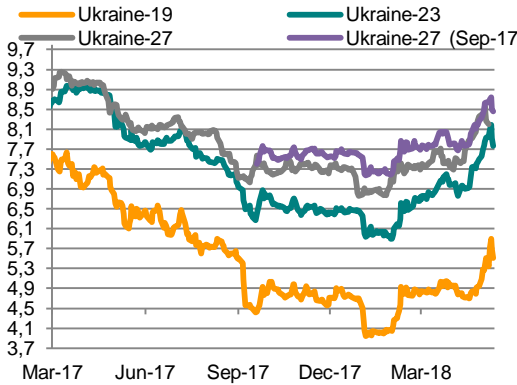
Ukraine's international reserves amounted to USD 18.4bn, up by 1.3% m/m, as of May 1. While in prior month reserves fell mainly due to payments related to government debt servicing, NBU interventions were the main source of growing reserves in April. In particular, debt servicing comprised USD 127.4mn during the month. In the meantime, NBU interventions accounted for USD 326.7mn, out of which USD 100.7mn were bought via currency auctions. At the same time, NBU had sold USD 24.0mn through RFQ, resulting in NBU net buying at USD 302.7mn in April. On top of that, EUR 83.6mn of proceeds were directed to reserves from government local bonds placements denominated in hard currency. Besides foregoing, reserves were affected by revaluation of financial instruments, amounting USD 59.2mn during the month. NBU' reserves covered 3.3 months of future import by the end of April 2018.



Global markets:

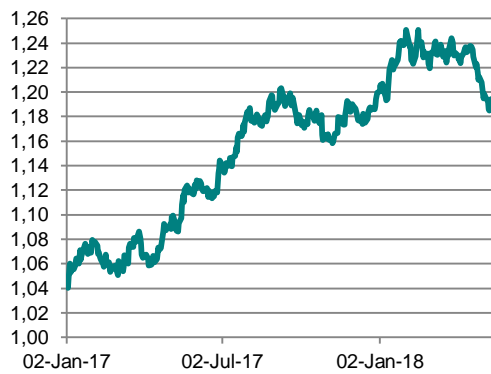
U.S. CPI reading falling short of expectations

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



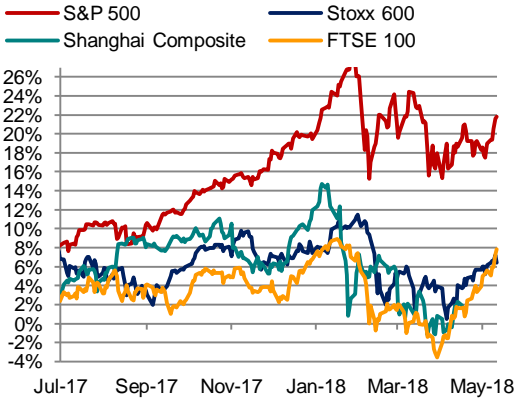
Source: Reuters

Figure 6. EUR USD spot (mid)



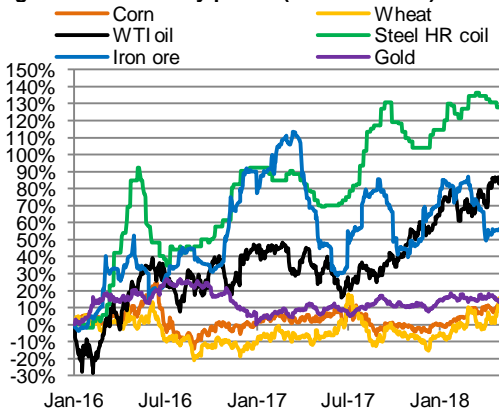
Source: Reuters

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



Source: Reuters

Figure 8. Commodity prices (Jan-2016=100)



Source: Reuters

Consumer prices in the United States advanced less than expected in April, allowing Federal Reserve not to hasten with interest rates rises. In the meantime, economy of the euro area showed signs of deceleration, despite much upbeat performance in the previous year.

Bond benchmarks decreased, with U.S. 10y Treasuries' yield higher by 2bp week-on-week increasing to 2.97%, while German 10y Bunds' yields advanced by 1bp, landing at 0.56%, Japanese 10y bonds yield's ended the week at 0.046. While the modest U.S. CPI increase pushed yields in country higher initially, yields gained a bit more after that, resulting in growing yield on a week-on-week basis.

The U.S. stock markets were broadly advancing during the week, as S&P 500 rose week-on-week by 2.4%, while Nasdaq Composite rose by 2.7%. Stock rally during the week was paltry due to modest increase in U.S. inflation, setting aside worries of more than expected interest rates hike. On top of that, U.S. stocks market the best week of gains since March.

Consumer prices in the United States advanced less than expected in April, allowing Federal Reserve not to hasten with interest rates rises. According to Labor Department, CPI increased by 0.2%. On a twelve basis consumer prices rose by 2.5%. At the same time, CPI less volatile food and energy components, gained by 0.1%. In the meantime, core CPI rose 2.1% y/y in April in line with March's increase. In a statement last week, Fed's officials said the expected annual inflation to be close to the symmetric 2% target over the medium term.

EUR/USD rate landed at 1.1942 as of Friday the 11th, lower than the last week closing level of 1.1958.

Stoxx 600, a broader gauge of European equity performance advanced by 1.4%, matching the increase in German.

Economy of the euro area showed signs of deceleration, despite much upbeat performance in the previous year. Euro zone GDP growth amounted to 2.5% in Q1 2018, down from 2.8% in the previous quarter, with a growing worry that the slowdown might continue further. At the same time, quarter-on-quarter growth fell to 0.4% in 1Q 2018, while it was 0.7% in 4Q 2017. ECB policymakers cited concerns of possible disruption in foreign trade, which hampered investors and manufacturers confidence recently.

Consumer price index in China rose by 1.8% y/y, slowing from 2.1% y/y recorded in March. In the meantime, core CPI advanced by 2.0% y/y, remaining unchanged from March. Moreover, China's producer's prices edged higher for the first time since April, stemming mainly from increasing commodities prices. In particular, PPI advanced by 3.4% y/y in April. Softening price pressure could give central bank of China room to loosen its monetary policy later this year.

Crude oil prices increased, as WTI futures rose by 1.4% week-on-week and closed at USD 70.7 per barrel, while Brent 1m futures gained by 3.0% closing at USD 77.1 per barrel.

Gold prices increased, as NYMEX 1m futures rose by 0.5% week-on-week and finished the week at USD 1319.0 per troy ounce.

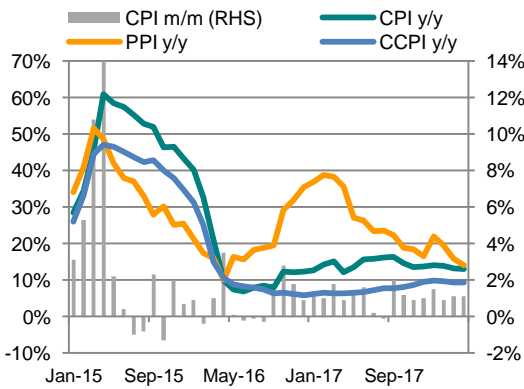
Grains declined, as CBOT Corn 1m futures fell 2.3% week-on-week and closed at USD 389.8 per bushel, while CBOT Wheat 1m futures landed at USD 489.5 per bushel, falling by 7.2%.

Iron ore rose as NYMEX Iron ore 62% Fe 1m futures gained by 0.8% week-on-week and closed at USD 67.5 per ton.



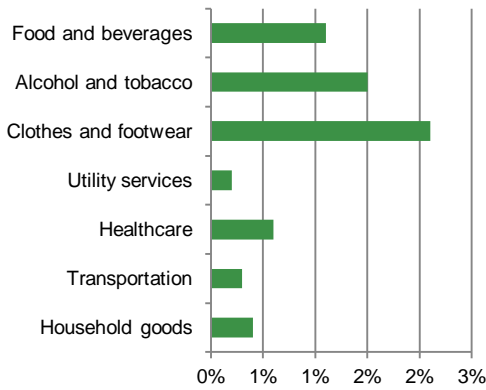
This week in focus: CPI: disinflation is yet to come, expect no change in NBU rate

Figure 9. Inflation rates in 2015-2018



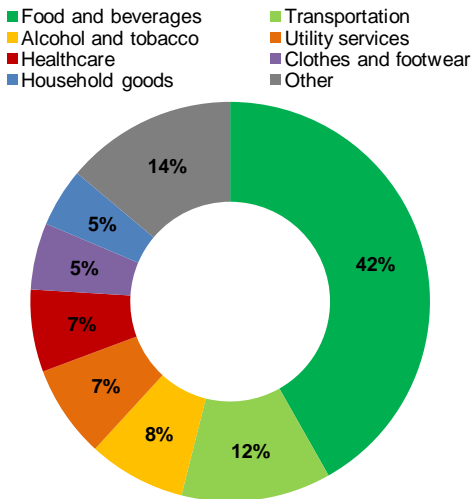
Source: Ukrstat

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



Source: Ukrstat

Figure 11. CPI basket



Source: Ukrstat

Ukraine's inflation slightly edged lower to 13.1% y/y in April, following 13.2% y/y reading in March. While decline in inflation in March was down due to utilities, the fall in prices in May is to be driven primarily by categories included in a food component of CPI, namely vegetables and fruits. We continue to expect some gradual decline in inflation with full year reading landing at 10.9%.

Food prices delivered gains of 1.1% m/m, keeping the same pace for a second month. Having beaten prior month pace of expansion by far, meat prices gained by 2.6% m/m in April, while in annualized terms running at 26.1%. As we pointed out earlier (in Weekly devoted BoP) export of poultry was one of the few rays of light in most recent statistic reflecting performance of agri in March. In regard to poultry, which by far accounts for the largest part of this category, there were both contraction of sales to domestic market and expansion of export sales, according to 1Q 2018 production reports of industry leaders, with the effect most likely lasting in following months. In regard to more volatile food basket components such as fruits and vegetables, their price increases were more smooth in April compared to a year ago. We expect them to continue good performance compared a year ago (i.e. disinflation!), as cold weather and early frosts in Autumn were not on the agenda in 2018, as opposed to 2017.

Utility prices increased to an extent, leaving them almost the same as month before. In particular, those gains indicated that prices were edged up by a mere 0.2% m/m or almost flat. Having posted the strong disinflationary contribution in prior month, the price gains are to be on the rise again as soon as government allows household gas prices to be increased in accordance with an import parity principle. The exact time horizon of that IMF requirement is not yet fully cleared, but it's highly likely to happen this year, with corresponding effect on CPI in the heating season. All in all, utility prices gained by 5.6% y/y in April.

Transportation prices rose mildly by 0.3% m/m, remaining almost flat or closely in line with utility prices performance in April. While the price of oil fell by 0.7% m/m, the prices of transportation services increased in the range from 1.2 to 2.2% m/m. Transportation prices increased by 13.6% y/y in April.

Core inflation posted its pace of expansion lower in April, gaining by 0.6% m/m. While the pace of expansion declined in April on a m/m basis, the 12 month gauge proved to be resilient, as it reading remained intact for two month at 9.4% y/y.

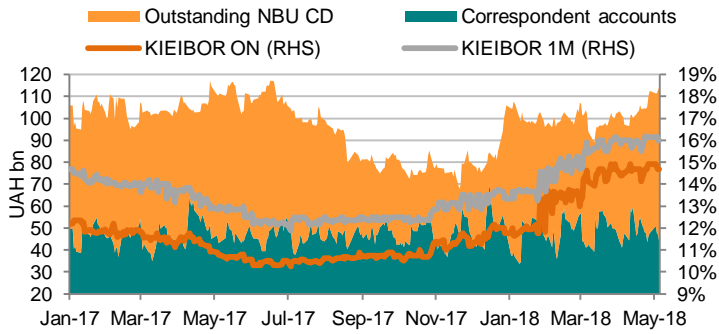
Having delivered a four month streak of loosening inflation pressure in 2018, factory gate prices (PPI) tumbled to 14.1% y/y in April. The most prominent declines were registered in coal mining with the paces of prices growth almost halving on y/y basis during the month. It was followed by drop in utility sector prices, while moves in prices in aggregate manufacturing sector were not strongly affected by industries included in this subcategory.

Having kept the rate on hold in April, the NBU next monetary committee is scheduled to be held on May 23-24th, with results being revealed on the second day. We expect no change in NBU main interest rate, provided the rhetoric of the latest NBU minutes. At the same time, the inflation trajectory remains in line with a forecasted path without sharp upswings.



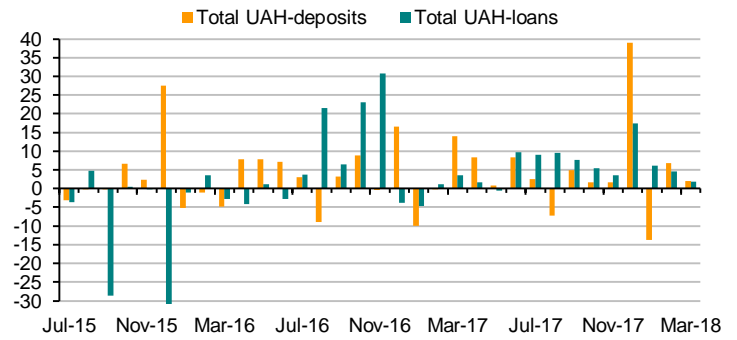
Money market

Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

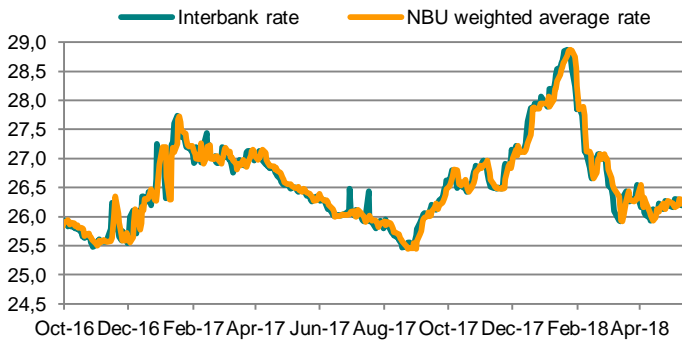
Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

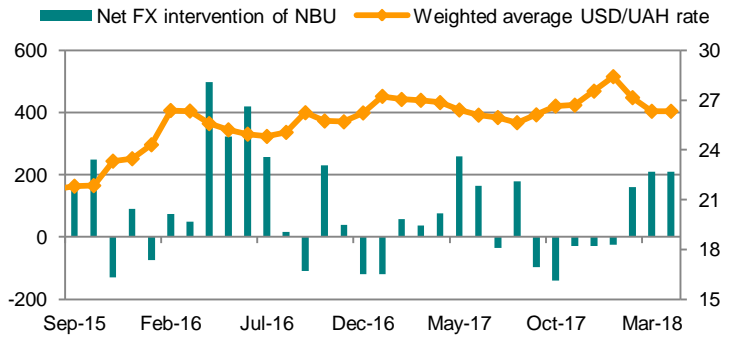
Currency market

UAH exchange rate, UAH/USD



Source: Reuters

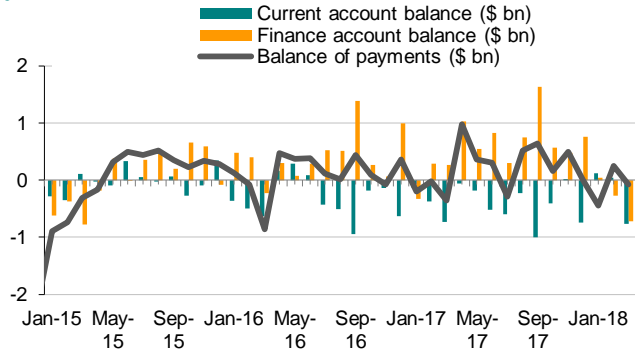
Net retail FX interventions of the NBU in 2015-2017, USDmn



Source: NBU

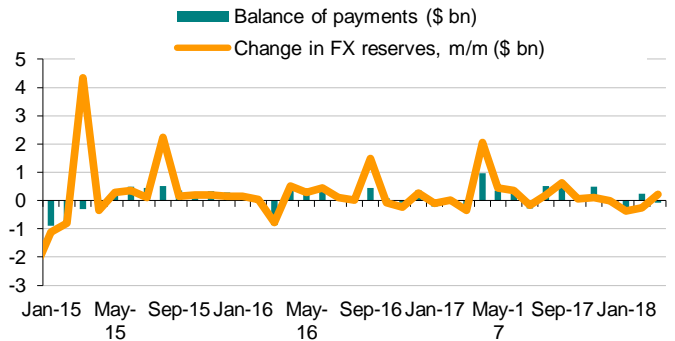
Balance of payments

Major BoP accounts, USDbn



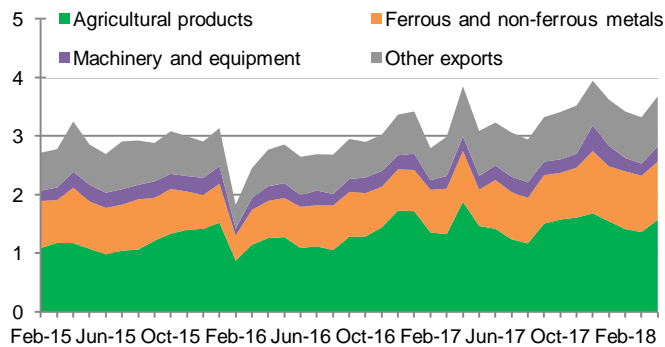
Source: NBU

BoP vs change in foreign reserves, USDbn



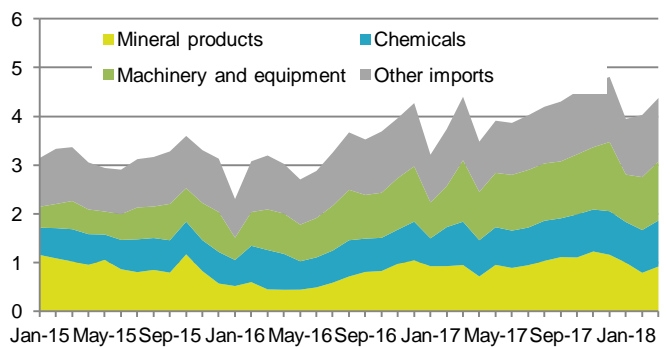
Source: NBU

Exports components dynamic, USDbn



Source: NBU

Imports components dynamic, USDbn



Source: NBU



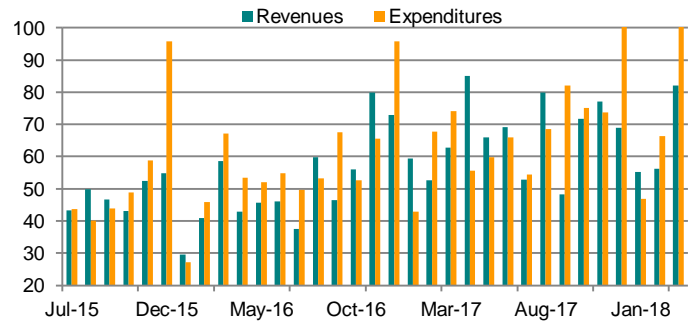
Budget performance

Budget performance, UAHbn

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

Source: NBU

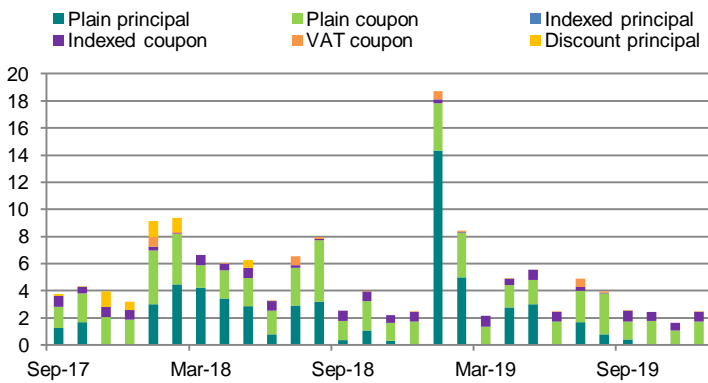
Monthly change in budget revenues and expenditures, UAHbn



Source: NBU, State Treasury

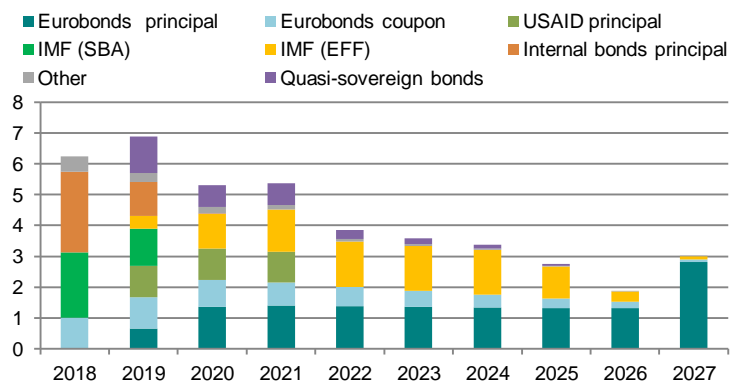
Sovereign debt

UAH- denominated debts' repayments schedule, UAHbn



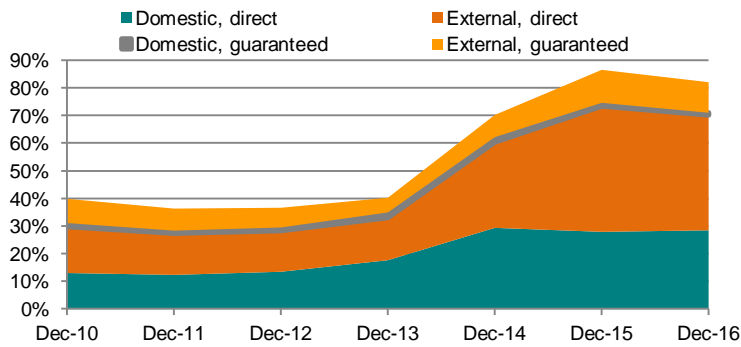
Source: NBU, UkrSibbank estimates

FX-denominated debt repayments schedule, USDbn



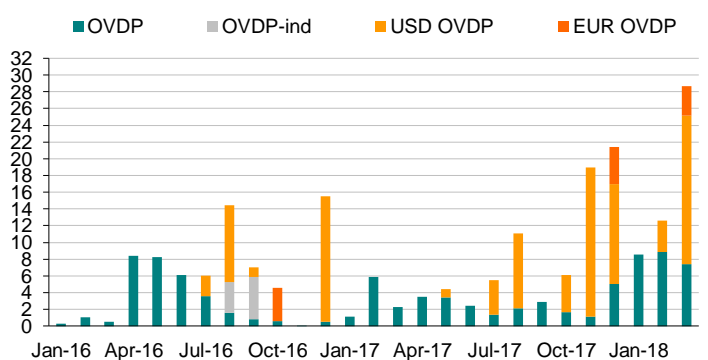
Source: Reuters, IMF, UkrSibbank estimates

Total government debt, % GDP



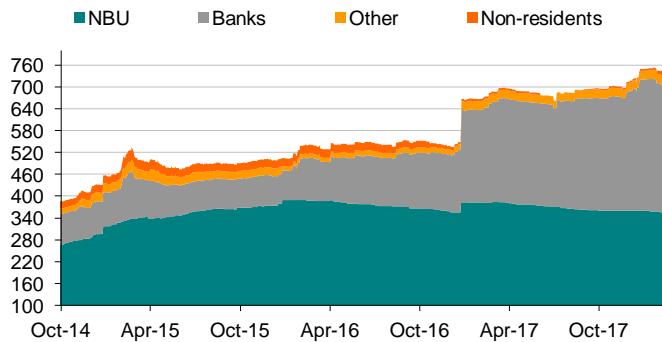
Source: MinFin

Local borrowings, UAHbn equivalent



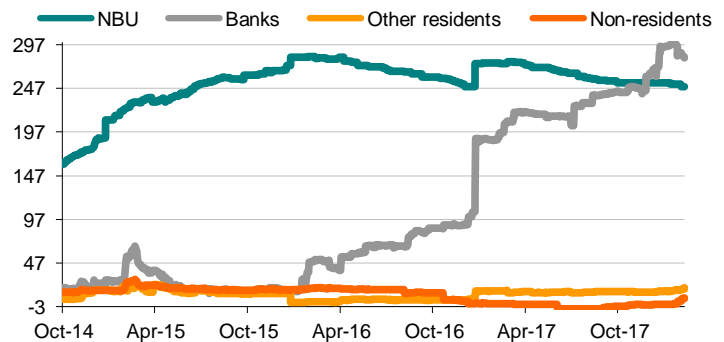
Source: NBU

Outstanding OVDP owners structure, UAHbn



Source: NBU

Outstanding OVDP changes in holding, UAHbn

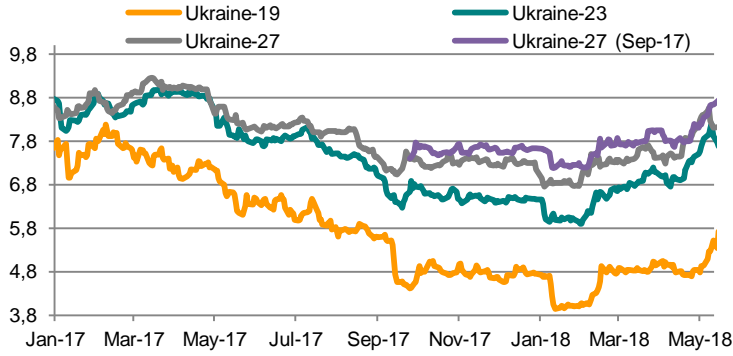


Source: NBU



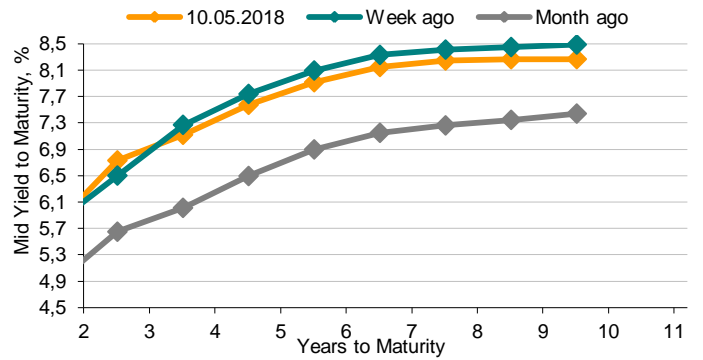
Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

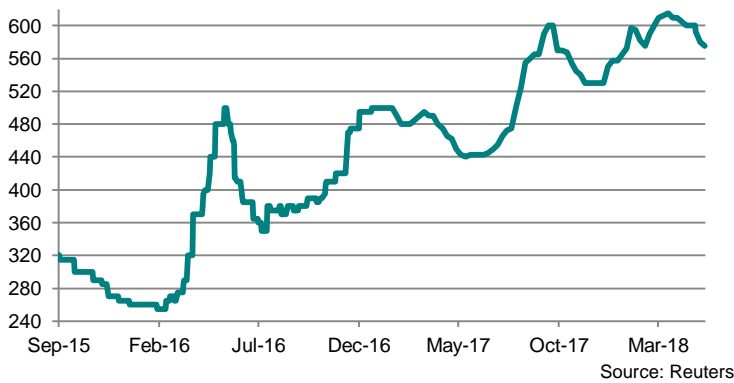
Ukraine's sovereign Eurobond yield curve



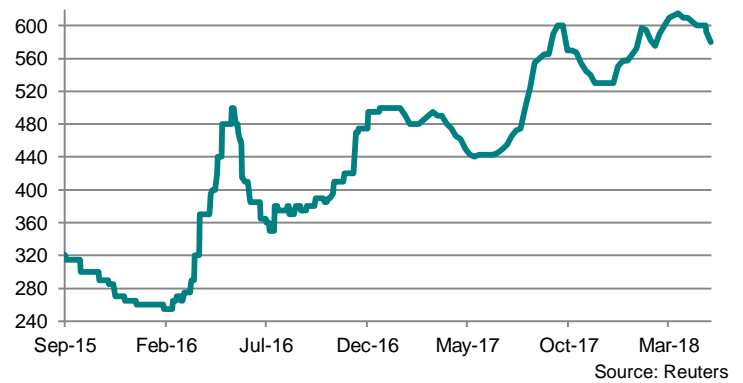
Source: Reuters

Commodity markets

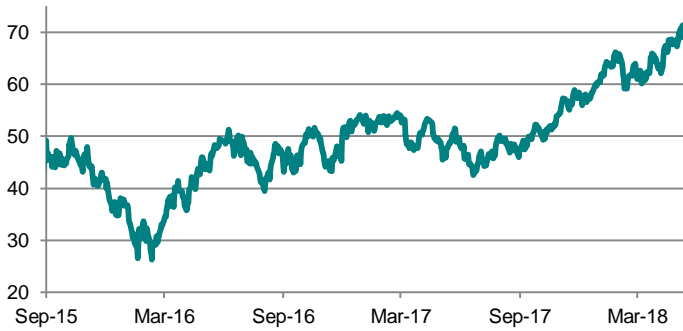
Iron ore 62% Fe (nearest active future at NYMEX), USD per ton



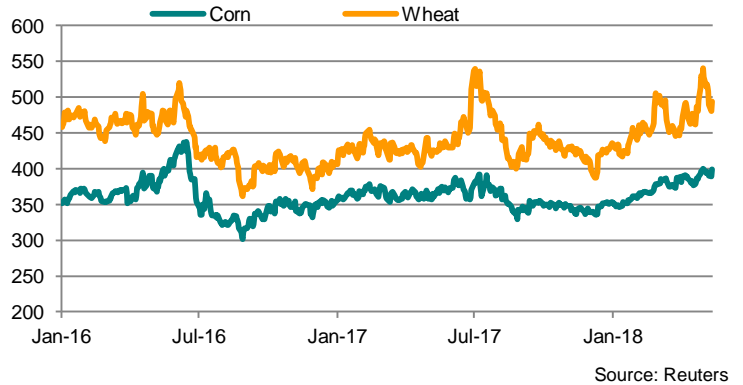
Steel CIS export HR coil, USD per ton



WTI oil (nearest active future at NYMEX), USD per barrel



Corn and wheat (nearest active future at CBT), USD per bushel





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	17.00*
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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