



This week in focus:

Sep data display pressure stemming from energy price

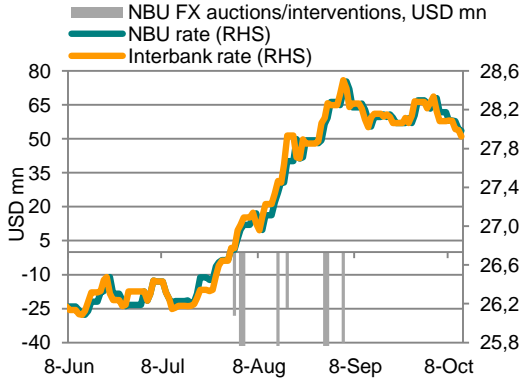
In September inflation slightly decelerated in y/y terms to 8.9% y/y from 9.0% y/y reported a month ago. At the same time, prices increased by 1.9% m/m during the month, driven by food basket (+1.6% m/m) and transportation basket (+2.8% m/m) in September.

Please see page 3 for more details

FX and interest rates:

IMF revised down Ukraine real GDP growth forecast for 2019

Figure 1. UAH exchange rate (UAH per USD)



Source: NBU, Reuters

USD/UAH was at 27.98 as of Friday the 12th, as hryvnia slightly strengthened during the week, gaining by a 0.7% on a week-on-week basis.

Average daily FX volumes on the market amounted to the equivalent of USD 243.0mn, down by USD 60.8mn week-on-week.

For the fifth time in a row NBU held no currency actions during the week. Having acted primarily via matching, central bank bought USD 42.0mn, as of week ended October 12th or slightly more than a week ago. On top of that NBU increased international reserves by USD 23.5mn, which were bought through interventions of single rate. Meantime, YTD reading of central bank interventions increased to USD 732.2mn of bought FX currency in 2018, as of October 12th.

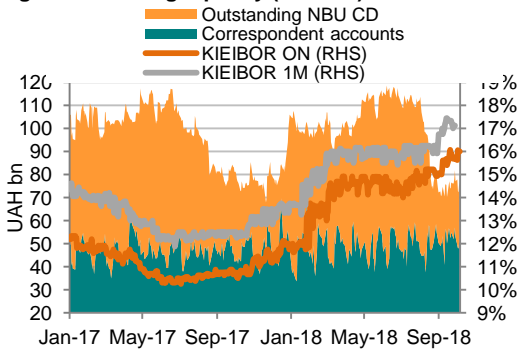
Aggregate banking liquidity amounted to UAH 77.8bn as of Friday the 12th, up by UAH 2.5bn during the week. At the same time, from the start of the month liquidity increased by only 0.5bn, as of October 11th. Increase in cash acted as a main drag on liquidity in October, slicing UAH 6bn from banking liquidity during the first two weeks of month. In contrast to that all other major component contributed positively. In particular, treasury operations added UAH 3.3bn, followed by UAH 3.2bn increase in liquidity due to NBU interventions, as central bank managed to buy USD 130mn during the first two weeks of October from the market.

Money market rates remained flat: cost of ON funds is around 16.50/18.25, 1 week is 17.00/18.75 while 1M is 18.50/19.50, according to our calculations.

In line with placements during the week ended October 5th, the **cut off rate of the shortest bonds remained intact at 19.0% at an auction during the week ended October 12th** for a two consecutive auctions. At the same time, issuances of 3m bonds were accompanied with lower applied demand from primary dealers, which amounted to UAH 52mn, down from UAH 1bn of demand in a prior auction. The shortfall of demand on UAH was partly explained by reallocation some portion of it to USD instruments, which posted quite solid combined demand of about USD 184mn during the auction. At the same time, it was a second auction during the prior week. At the first auction, among hryvnia denominated instruments the shortest bonds attracted the largest amount of demand. Out of UAH 1.9bn of demand, MoF satisfied around 90% of all bids. USD bonds with 1.5y maturity took the top spot by demand of by placement size among all USD bonds.

Currently, yields (bids) of local OVDP in UAH at 20.50% (for 6m), 20.50% (for 2Y). 1Y USD bids were at 7.00%, while bids for VAT bonds were at 20.50%.

Figure 2. Banking liquidity (UAH bn)



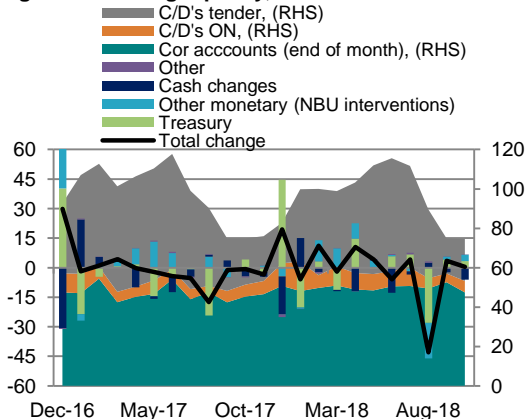
Source: Reuters, NBU, UkrSibbank, Minfin

Figure 5. OVDP auction combined results, 11th of October 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	19.00%	19.00%	19.00%	19.00%	3	3	52.4mn	50.6mn
USD	9m	7.00%	7.00%	7.50%	7.00%	6	4	30.3mn	25.1mn
USD	1.5y	7.50%	7.50%	7.90%	7.50%	4	3	100.3mn	101.6mn
USD	2y	5.95%	5.77%	7.00%	5.50%	9	5	53.8mn	49.2mn

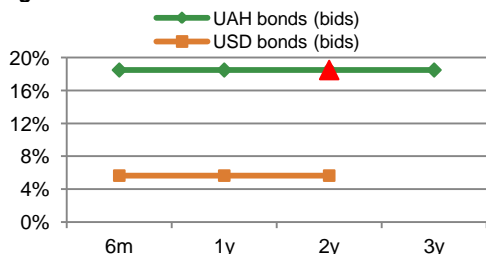
International Monetary Fund reduced its expectation of Ukraine's economic growth in 2019 year to 2.7% from 3.3% forecasted previously. In the meantime, IMF lowered its forecast of economic growth in 2020 to 3.4% from 4% forecasted previously. In contrast to that, it revised up its forecast of real GDP growth to 3.5% from 3.2% in 2018. In regard to consumer prices, there was a revision of expectation as well. Namely, average increase in consumer prices was increased to 10.9% y/y in 2018 (up by 0.1%), followed by 7.3% y/y in 2019 (up by 0.7%). At the same time, expectations of CPI increase on year end basis remained the same at 9.0% y/y in 2018 and 6.2% in 2019. The estimate of C/A deficit was improved to USD 3.9bn in 2018 and increased to USD 5.2bn in 2019. In terms of exchange rate, IMF expects average USD UAH exchange rate at 27.07 during 2018, followed by 28.66 in 2019 and 29.92 in 2020.

Figure 3. Banking liquidity, UAH bn



Source: NBU

Figure 4. Local bonds market



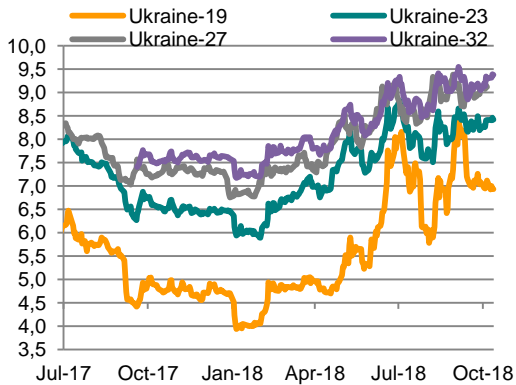
Source: UkrSibbank



Global markets:

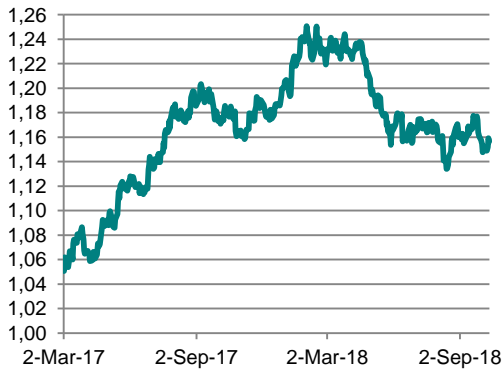
Global markets in red

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



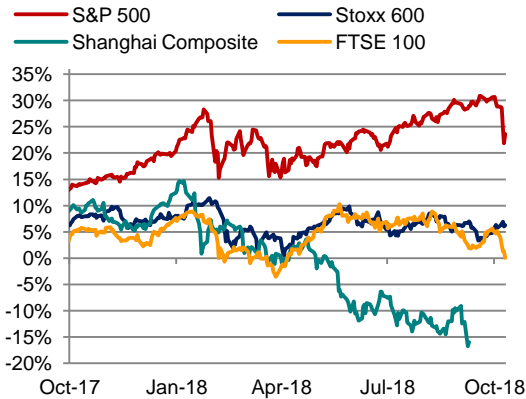
Source: Reuters

Figure 6. EUR USD spot (mid)



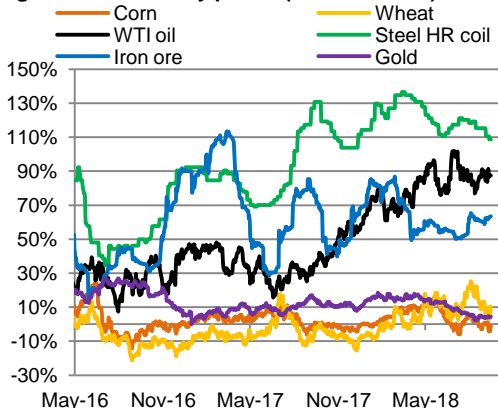
Source: Reuters

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



Source: Reuters

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



Source: Reuters

Consumer prices in U.S. rose less than expected by only 0.1% m/m in September, followed by 0.2% increase in prior month. Meantime, German government confirmed that it anticipated Germany to grow by only 1.8% in 2018 falling short of previous expectation.

Bond benchmarks increased, with U.S. 10y Treasuries' yield decreased by 9bp week-on-week landing at 3.16%, while German 10y Bunds' yields fell by 7bp, landing at 0.50%, Japanese 10y bonds yield's ended the week at 0.15% remaining at the prior week level.

Consumer prices in the United States advanced less than expected by only 0.1% m/m in September after raising 0.2% in month ago, according to data from Labor Department. The reading based on twelve month basis showed some deceleration in inflation to 2.3% in September from 2.7% in August. At the same time the reading adjusted for volatile food and energy components inched up by 0.1% keeping the same pace of advance at a level of prior month. On a twelve month basis, core CPI rose by 2.2% by the same pace as in August. The deceleration in CPI growth was partly related to 0.5% drop in energy prices during the month.

Equity indexes in U.S. were strongly in the red, as S&P fell by 4.1% and Nasdaq Composite declined by 3.7 % week-on-week. It was one of the toughest weeks for stock markets during the year, pushing markets in the strongest correction observed since the beginning of the year. At the same time, start of the corporate earnings season should alleviate some concerns on the market and shift investor attention to strong fundamentals.

EUR/USD rate landed at 1.1562 as of Friday the 12th, slightly up compared to last week closing level of 1.1523.

Main stock indexes in Europe declined. Namely Stoxx 600 fell by 4.6% during the week ended October 12th, while German DAX declined even more by 4.9% week-on-week, outperforming major peer in the United States.

On Thursday, German government confirmed that it anticipated Germany to grow by only 1.8% in 2018, which was the sharp downward revision from earlier forecast of 2.3%. On top of that, real GDP growth was expected to be lower by 1.8% in 2018 vs. 21.1% expected earlier. Peter Altmaier, the economic minister, said the downward revision was based on smoldering trade conflicts worldwide, coupled with shortfall of skilled workers. Germany accounted for one third of EU economy and it's dependent heavily on manufacturing exports, especially car exports, which added exposure of the region to a global trade conflicts.

On Friday, IMF published its Regional Economic Outlook report with focus on Asia-Pacific region. According to that report, the direct impact from the tariff war between U.S. and China is quite small. At the same time the impact on investor confidence was more detrimental to China economy, especially amid the plunging financial markets in the country. From the start of the year Chinese stock fell by around 20%. IMF forecast of Chinese economic growth was at 6.6% in 2018, while the real GDP growth for the next year was downgraded to 6.2%.

Crude oil prices tumbled, as WTI futures dropped by 4.0% week-on-week and closed at USD 71.3 per barrel, while Brent futures fell by 4.4%, landing at USD 80.4 per barrel.

Gold prices gained as NYMEX 1m futures increased by 1.4% week-on-week and finished the week at USD 1218.1 per troy ounce.

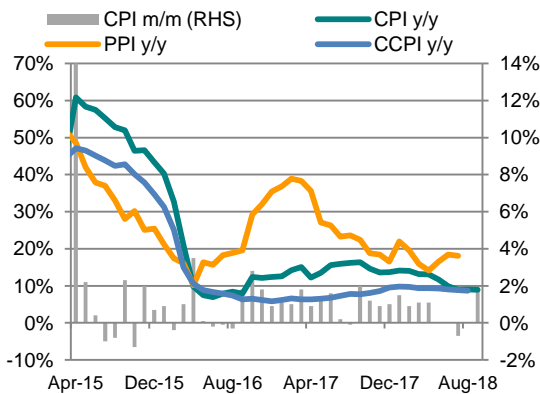
Grains prices were mixed, as CBOT Corn 1m futures increased by 1.5% week-on-week and closed at USD 373.8 per bushel, while CBOT Wheat 1m futures landed at USD 517.3 per bushel, falling by 0.7% during the week.

Iron ore increased, as NYMEX Iron ore 62% Fe 1m futures slightly increased by 1.8% on a week-on-week basis and closed at USD 70.5 per ton.



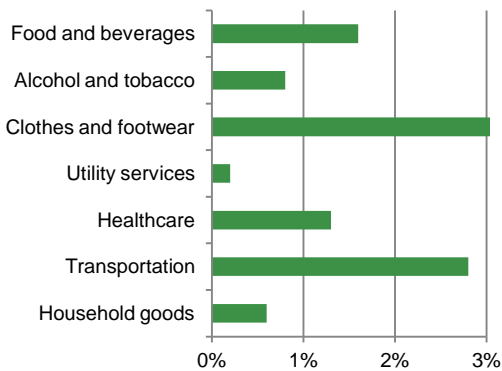
This week in focus: Sep data display pressures stemming from energy price

Figure 9. Inflation rates in 2015-2018



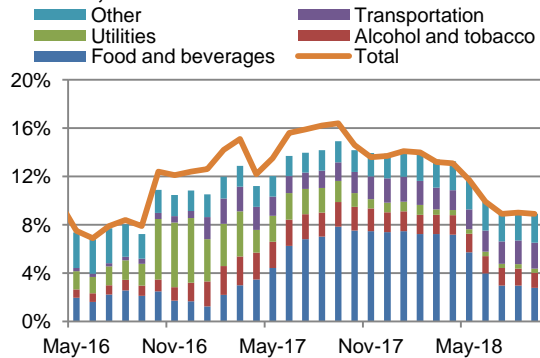
Source: Ukrstat

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



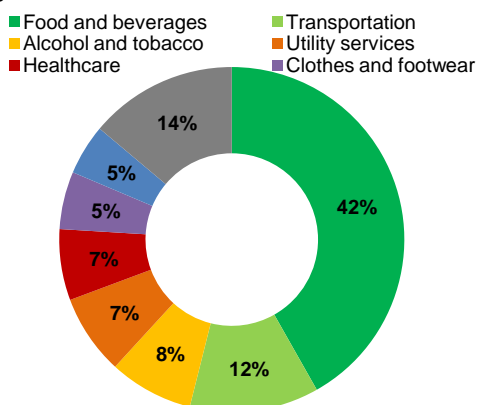
Source: Ukrstat

Figure 11. Interests and dividends paid to non-residents, USDbn



Source: Ukrstat

Figure 12. CPI basket



Source: Ukrstat

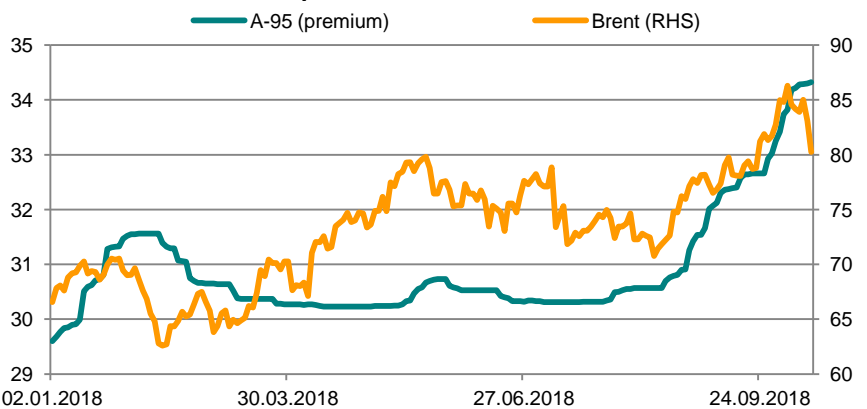
In September inflation slightly decelerated in y/y terms to 8.9% y/y from 9.0% y/y reported a month ago. At the same time, prices increased by 1.9% m/m during the month, driven by food basket (+1.6% m/m) and transportation basket (+2.8% m/m) in September.

Food basket posted 6.8% y/y increase in prices on y/y basis, down from 7.1% y/y rise in prices in August. Prices in the food basket posted 1.6% m/m gains in September driven by a wide a range of products alike to bread (+3.3% m/m), meat (+2.8% m/m) and eggs (+14.1% m/m). At the same time, prices of fruits dropped by 2.9% m/m, while prices of vegetables declined slightly less, namely by 1.5% m/m in September. To some extent, it was a residual effect from prior month when prices of fruits and vegetables fell by 6.2% m/m and 10.5% m/m respectively. In regard to sugar, it prices experienced a seasonal drop by about 0.1% m/m, as sugar beets from new harvest began to be processed on sugar plants.

Utilities prices advanced by a mere 0.2% m/m in August, which was somewhat less comparing to 0.5% m/m gain in August. On y/y basis prices followed suit and decelerated to 4.6% y/y in September from 4.8% y/y in August. Looming hike of household's gas prices is to be the main driver of increase in utilities basket prices going forward. As of now, the only remained pitfall was state budget for the next year. Should the Parliament to vote for the state budget, IMF is to disburse funds in the aftermath of that. We expect impact of increased gas prices to add 0.5-0.6% to the inflation in 2018.

Transportation basket prices were on the rise recently. In September, prices increased by 2.8% m/m, exceeding almost twofold increase in prices delivered a month ago of about 1.5% m/m. For the most part, it was driven by increased prices of oil on the international markets, which recently reached highs, that haven't been seen since 2014 year and hovering at around USD 85 per barrel for Brent. In Ukraine, prices of fuel increased by 5.4% m/m, bringing twelve month reading at 17.7% y/y in September.

Fuel prices local vs international



Core prices advanced by 1.9% m/m in September, or in line with headline reading. At the same time, the reading based on y/y basis remained intact for a two consecutive month.

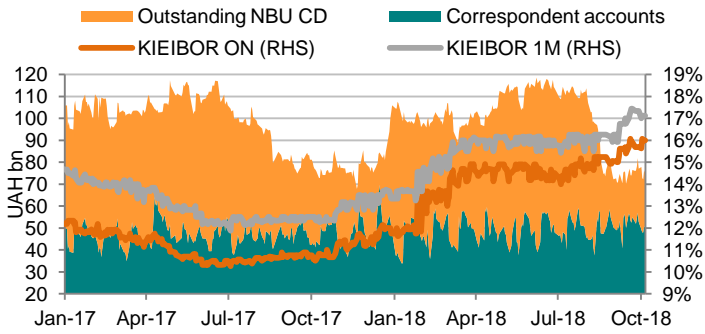
Industrial prices showed some deceleration in growth on m/m basis, as prices increased by 1.2% m/m in September vs 1.3% m/m in August. In the meantime, prices in the mining activity advanced the most among all subsectors, namely growing by 2.0% m/m, followed by 1.8% m/m increase in prices in manufacturing sector. As opposed to that prices in utilities fell by 0.6% m/m in September. At the same time on a y/y basis prices increased by 18.9% y/y, down from 19.3% y/y in August. Prices in mining activity decelerated on y/y basis to 17.7% y/y, while in manufacturing fell also to 13.5% y/y. In contrast to that, prices in utilities sector slightly advanced, landing at 33.9% y/y during the month.

While we mentioned previously (please see our weekly report dated September 11th), that it's quite likely that inflation could decelerate in September that proved to be the case. Going forward we expect prices to be moving higher in the nearest future. We expect prices to rise by 10.3% y/y in 2018.



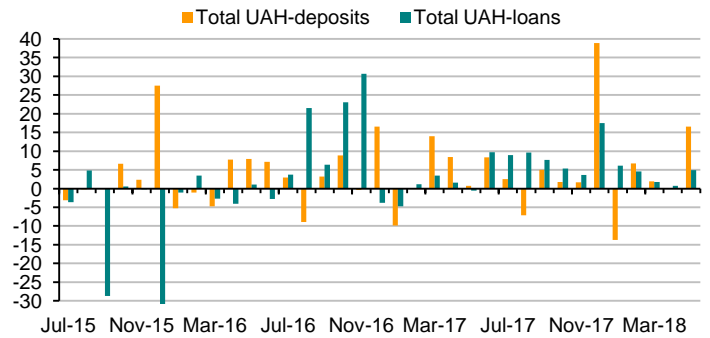
Money market

Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

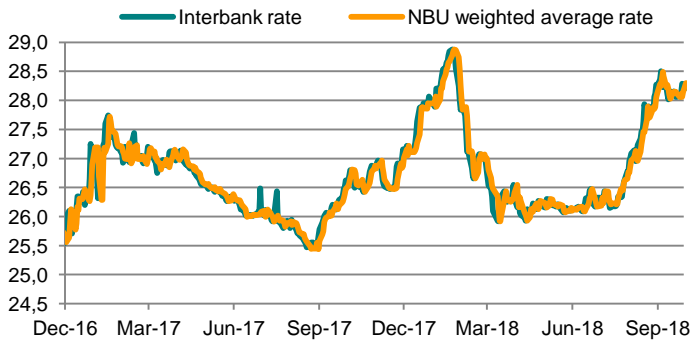
Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

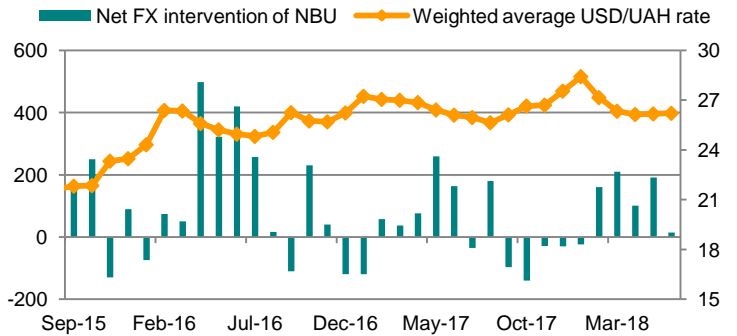
Currency market

UAH exchange rate, UAH/USD



Source: Reuters

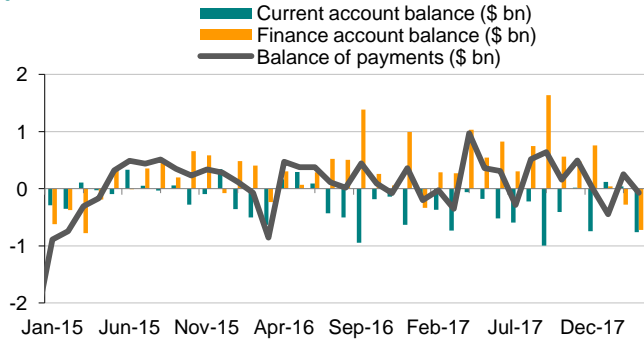
Net retail FX interventions of the NBU in 2015-2017, USDmn



Source: NBU

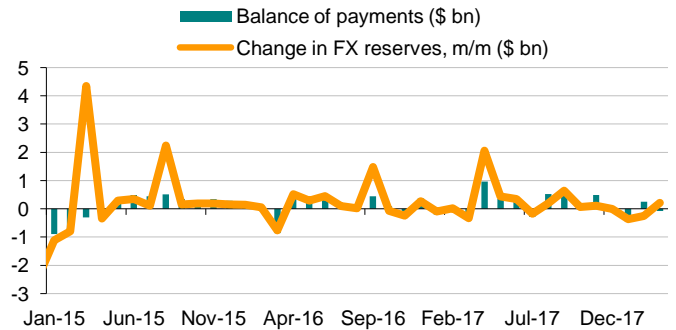
Balance of payments

Major BoP accounts, USDbn



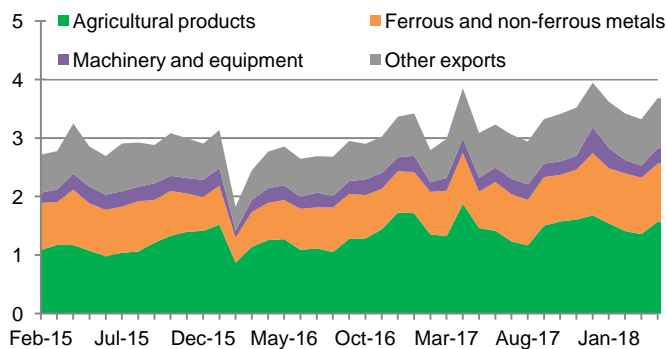
Source: NBU

BoP vs change in foreign reserves, USDbn



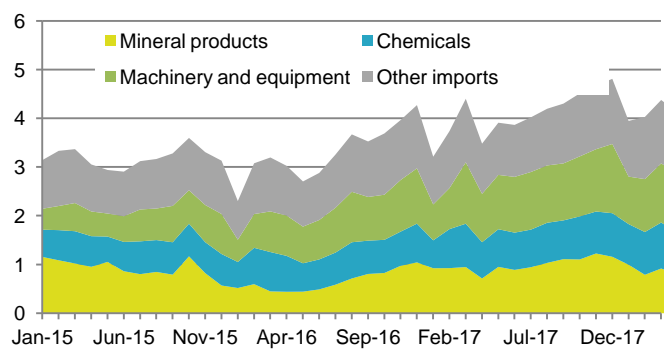
Source: NBU

Exports components dynamic, USDbn



Source: NBU

Imports components dynamic, USDbn



Source: NBU



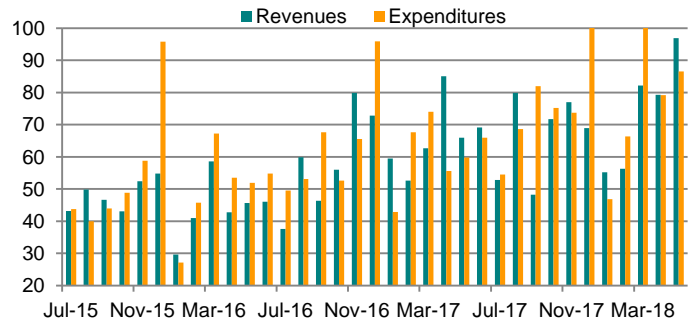
Budget performance

Budget performance, UAHbn

	Jan – May 2017	Jan - May 2018
Budget revenues	325,8	369,7
VAT proceeds	77,3	93,0
Corporate income tax	28,4	50,6
Budget expenditures	300,0	379,9
Revenues - Expenses	25,7	-10,2

Source: NBU

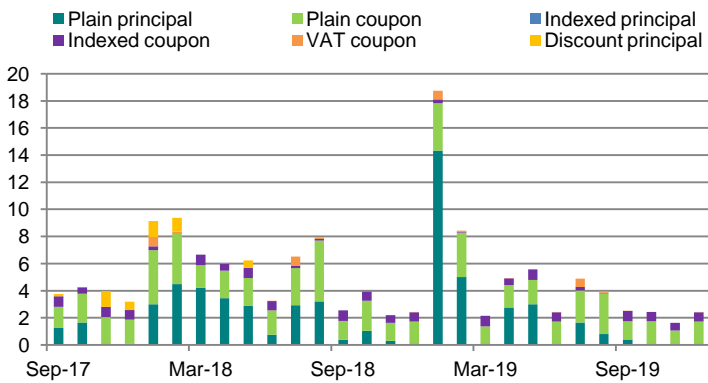
Monthly change in budget revenues and expenditures, UAHbn



Source: NBU, State Treasury

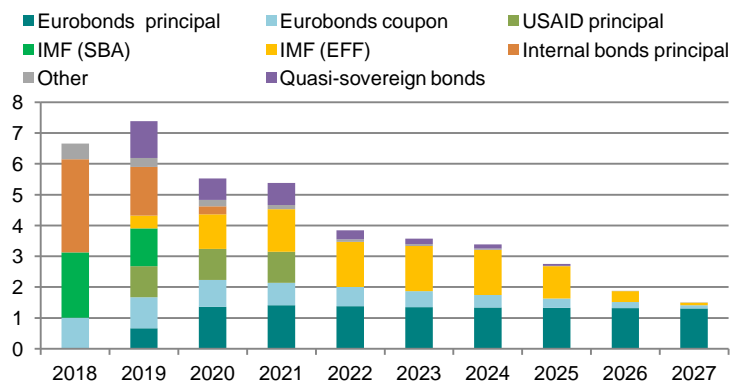
Sovereign debt

UAH- denominated debts' repayments schedule, UAHbn



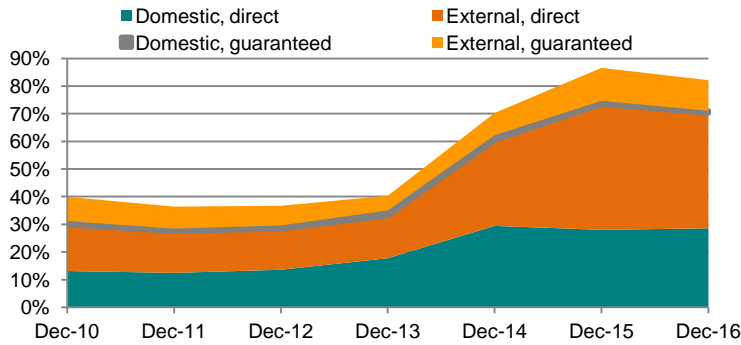
Source: NBU, UkrSibbank estimates

FX-denominated debt repayments schedule, USDbn



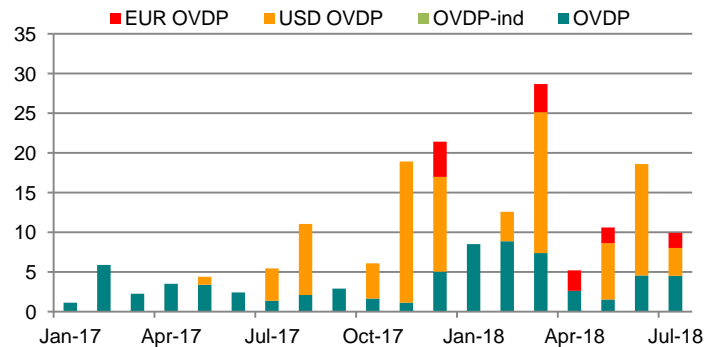
Source: Reuters, IMF, UkrSibbank estimates

Total government debt, % GDP



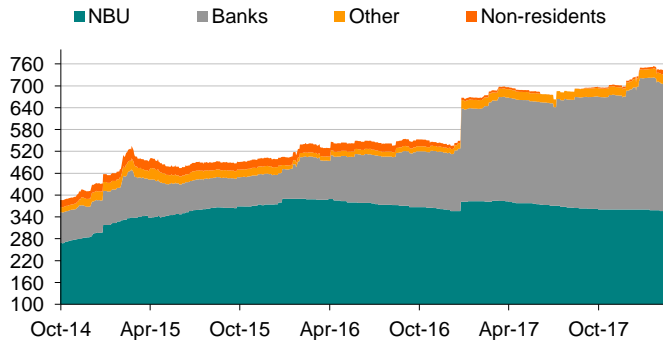
Source: MinFin

Local borrowings, UAHbn equivalent



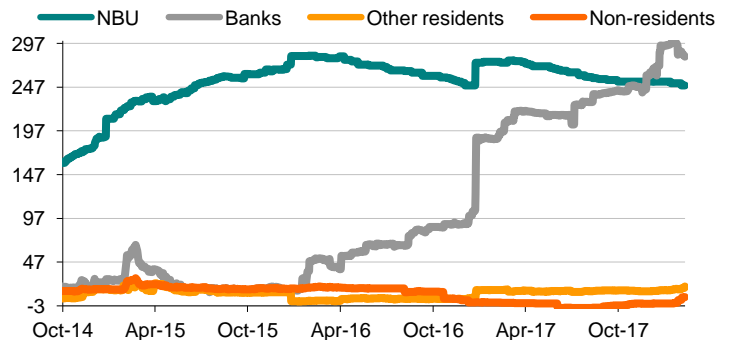
Source: NBU

Outstanding OVDP owners structure, UAHbn



Source: NBU

Outstanding OVDP changes in holding, UAHbn

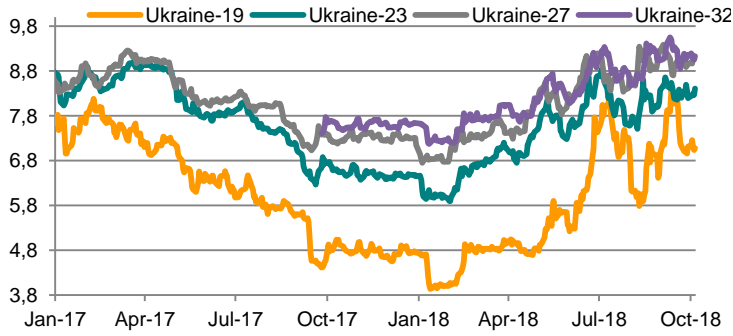


Source: NBU



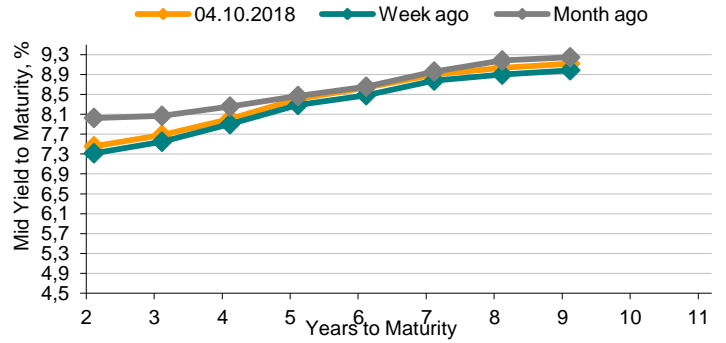
Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

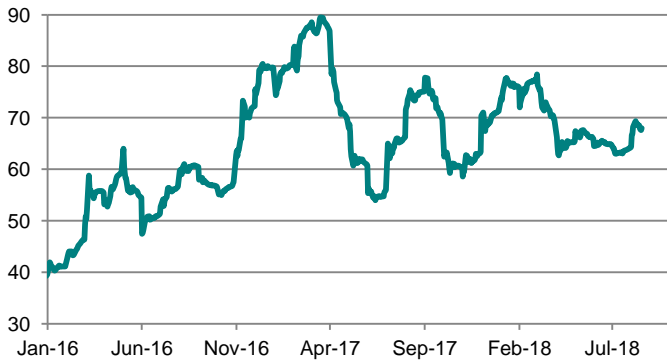
Ukraine's sovereign Eurobond yield curve



Source: Reuters

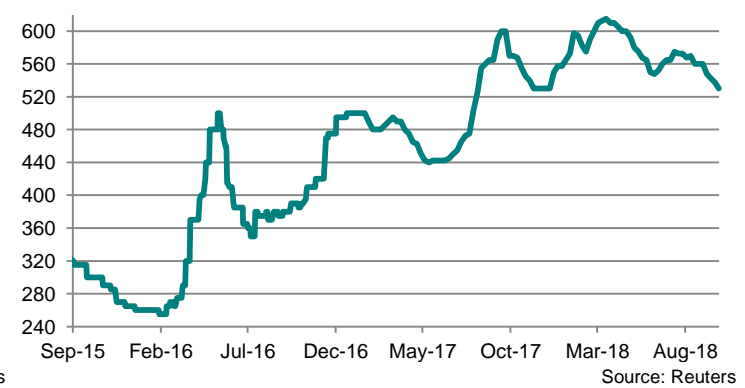
Commodity markets

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



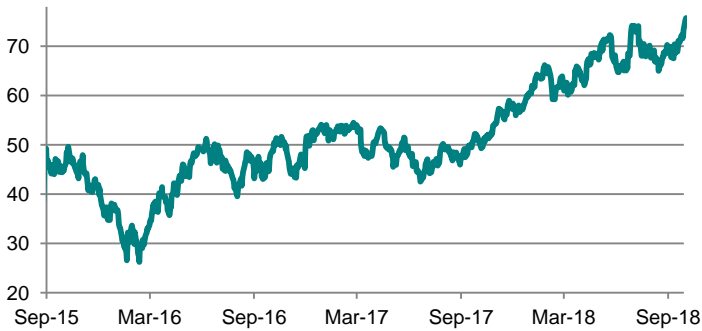
Source: Reuters

Steel CIS export HR coil, USD per ton



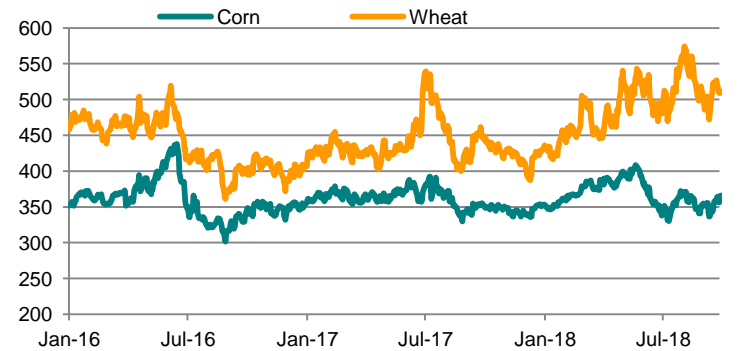
Source: Reuters

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	3.4
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	3393.0
Nominal GDP (USD bn)	178.9	112.8	136.1	163.1	175.8	183.5	133.7	91.2	93.1	112.1	125.0
Prices											
CPI (average %YoY)	25.2	15.9	9.4	8.0	0.6	-0.2	12.1	48.7	16.5	14.4	11.5
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	10.3
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	61.0
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	1.6	-1.3	-2.4	-4.0
Current account balance (% of GDP)	-7.1	-1.5	-2.2	-6.3	-8.1	-9.0	-3.4	1.8	-1.4	-2.1	-3.3
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	19.5
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	3.2
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	18.00*
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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