



**This week in focus:**

**Spring crops upbeat performance puts agri on strong footing**

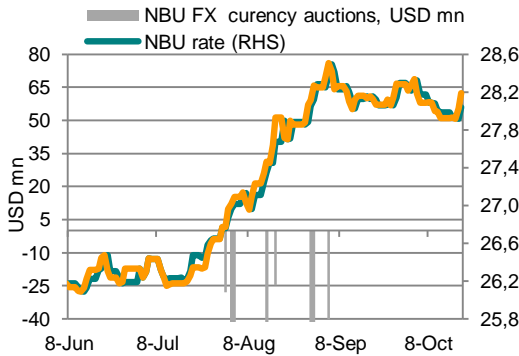
Having delivered bad performance in prior season, spring crops are on track to strongly outperform prior year results, as yields of corn were higher by 45% y/y, followed by sunflower with a yield stronger by another 14% y/y. At the same time, wheat performance was weighed down by yield, declining by as much as 9% in latest season.

*Please see page 3 for more details*

**FX and interest rates:**

**IMF staff has agreed SBA program for Ukraine**

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



Source: NBU, Reuters

**USD/UAH was at 28.04 as of Friday the 19<sup>th</sup>**, as hryvnia slightly strengthened during the week, gaining by a 0.2% on a week-on-week basis.

**Central bank returned to selling FX on the market for the first time since beginning of September.** As a result of a net basis regulator has sold USD 20mn during the week. Meantime, YTD reading of central bank interventions decreased to USD 712.2mn of bought FX currency in 2018, as of October 12<sup>th</sup>

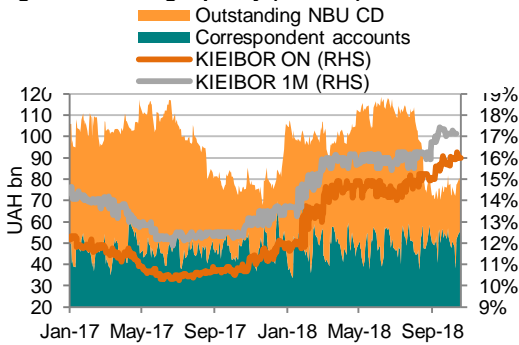
**Aggregate banking liquidity amounted to UAH 78.5bn as of Friday the 19<sup>th</sup>**, up by less than UAH 1bn or UAH 0.7bn during the week. From the start of the month liquidity decreased by about 1.2bn, as of October 19<sup>th</sup>. Changes in cash kept acting as the main drag on banking liquidity during the month. Having reduced liquidity by UAH 6n cumulatively in the first two weeks of the month, they reduced liquidity by another UAH 2bn in the week ended October 19<sup>th</sup>. At the same time, treasury operations added to liquidity about UAH 0.4bn during the week.

**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.

**For a second week in a row, MoF conducted two primary auctions during the week.** On the first auction, it offered 5 hryvnia bonds and 4 USD denominated issues. Out of 5 UAH bonds, only one issue was placed by Ministry of Finance, while three issues received no demand at all, followed by the longest issue, which received a mere UAH 2mn in demand. In regard to UAH bond, MoF rejected almost all demand, satisfying only roughly 6% from that in order to keep cut off rate at previous level at 19.0%. All in all, MoF attracted USD 41.3mn of proceeds from dollar denominated bonds. While the cut off of the shortest issue was 7.0%, the cut off of the other three issues were at 7.5%. On the second primary auction, MoF offered only one issue denominated in dollars, with a cut off rate at 7.0%, which should be matured in 9 months. Having attracted USD 241.8mn on the second auction, total proceeds in hard currency amounted to USD 283.1mn during the week ended October 19<sup>th</sup>. By the end of the month there are only two bonds to be redeemed. Namely, On October 24<sup>th</sup> they both will mature, including bond denominated in EUR totalling EUR 210mn and hryvnia bond totalling UAH 1.4bn.

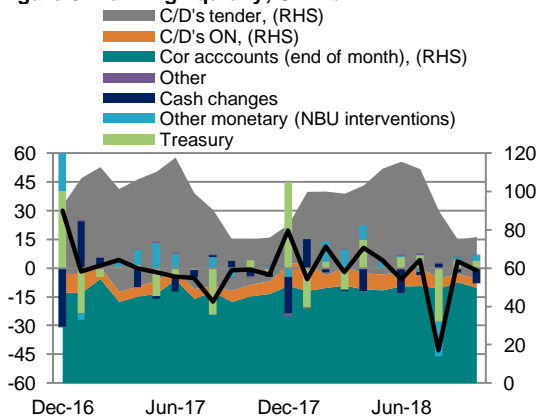
**Currently, yields (bids) of local OVDP in UAH at 20.50% (for 6m), 20.50% (for 2Y).** 1Y USD bids were at 7.00%, while bids for VAT bonds were at 20.50%.

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



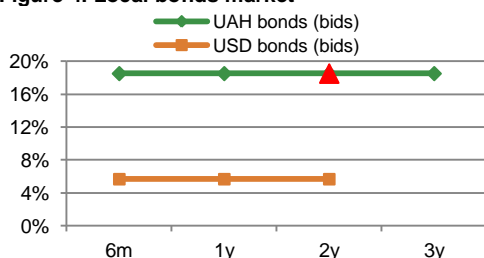
Source: Reuters, NBU, UkrSibbank, Minfin

**Figure 3. Banking liquidity, UAH bn**



Source: NBU

**Figure 4. Local bonds market**



Source: UkrSibbank

**Figure 5. OVDP auction combined results, 16<sup>th</sup> 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%	20.00%	19.00%	8	6	107.5mn	7.1mn
USD	9m	7.00%	7.00%	8.00%	7.00%	10	8	14.7mn	8.3mn
USD	1.5y	7.50%	7.50%	7.50%	7.50%	6	6	7.5mn	7.6mn
USD	1.5y	7.50%	7.50%	7.50%	7.50%	2	2	0.1mn	0.1mn
USD	2y	7.50%	7.50%	7.50%	7.50%	7	7	25.3mn	25.3mn

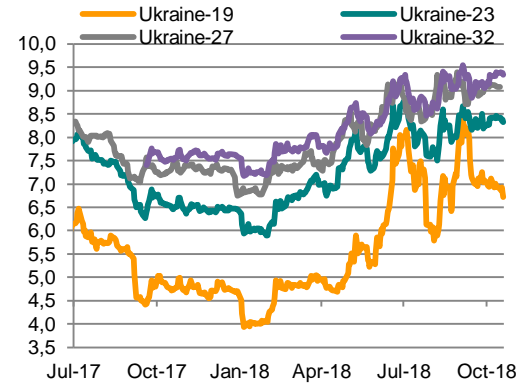
**The international Monetary Fund staff and Ukraine have reached agreement on economic policies for a new 14 – month Stand-By Arrangement (SBA).** The new program will replace the arrangement under the Extended Fund Facility EFF, approved in March 2015. The new program will amount SDR 2.8bn (or USD 3.9bn). IMF mentioned in the press release that Board approval is expected later in this year, following parliamentary approval of the state budget on the next year. On Friday, Verchovna Rada approved state budget in the first reading. At the same time government increased household's gas price by 23.5% as of November. While we previously mentioned that the difference between industrial and household's prices was more than 40% in report published August 14<sup>th</sup> (which should add approximately 1.2% to inflation in this year). After that, the industrial price advanced even higher resulting in gap between two prices in roughly 60%. Comments of CEO of Naftogaz that household gas prices will be increased by about 20% in 2018, resulted in our lower expectations of effect of hike on CPI, which we reduced in the Weekly published on October 16<sup>th</sup>, to 0.5-0.6% additional increase of CPI in 2018. And that was in line with October 19<sup>th</sup> decision of Cabinet of Ministers regarding gas price hike.



**Global markets:**

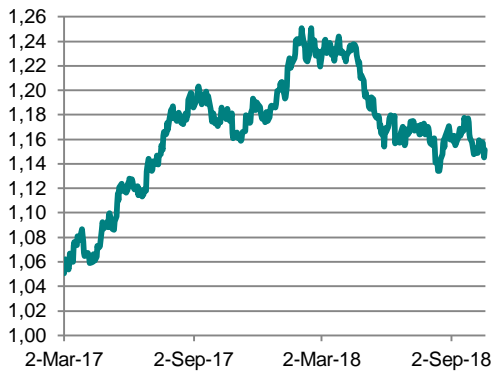
**Chinese economic growth decelerates**

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



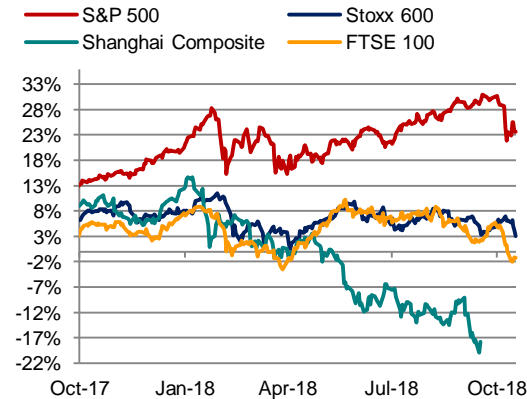
Source: Reuters

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



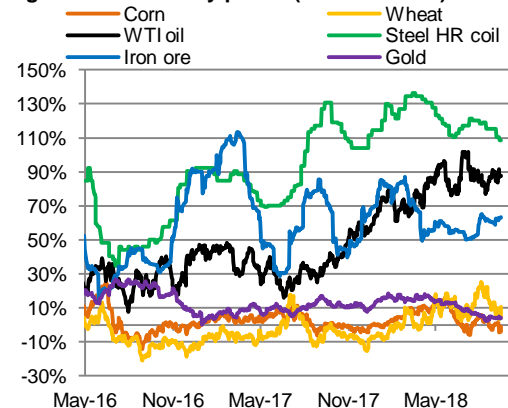
Source: Reuters

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



Source: Reuters

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



Source: Reuters

**In U.S. jobs openings gained in August to a record, beating previous estimates. Meantime, Chinese economic growth decelerated to slowest digit since 2019, amid the backdrop of trade war with U.S. and deleveraging campaign in the country.**

**Bond benchmarks were mixed**, with U.S. 10y Treasuries' yield gained by 6bp week-on-week landing at 3.20%, while German 10y Bunds' yields fell by 6bp, landing at 0.43%, Japanese 10y bonds yields were flat during the week, remaining at 14.9%.

**Job market in U.S. was doing better.** Unemployment dropped to 3.7%, the lowest level since 1969. At the same time, economy added 134 000 jobs in September, with unemployment dropping to 3.7%. U.S. jobs openings gained in August to a record. In particular, number of positions waiting to be filled increased by 59k to 7.14m (estimate was 6.9) from upwardly revised 7.08m in July, according to Job Openings and Labor Turnover Survey. Meantime, hiring increased to 5.78m, hiring rate advanced to 3.9%. On top of that, quits rate was unchanged at 2.4%, as 3.58m Americans quit their jobs, down from 3.61m

**Equity indexes in U.S. were mixed, as S&P was flat, while Nasdaq Composite declined by 0.6 % week-on-week.**

**EUR/USD rate landed at 1.1513 as of Friday the 19<sup>th</sup>**, down compared to last week closing level of 1.1562.

**Main stock indexes advanced in Europe. Namely Stoxx 600 gained by 0.6%** during the week ended October 19th, while German DAX increased by just 0.3% week-on-week.

**European Union wants to reduce strain with Italy over its dramatically high spending plan for 2019 year.** European commission commissioner Pierre Moscovice said that no decision had yet been made about whether or not budget of Italy would pass assessment of European Commission, with reduced tensions and constructive dialogue as a top priority of that. At the same time, Italy's national bank revealed that today economy expanded by only 0.1% in the third quarter of 2018, which means that Italy's growth halved from the second quarter.

**Chinese economic growth has decelerated to slowest digit since 2009, albeit partly due to ongoing trade war with United States and deleveraging campaign.** According to official data released on Friday, real GDP advanced by 6.5% y/y in 3Q 2018, missing expectations for 6.6% growth or by just 0.1%. On a quarter-on-quarter basis, Chinese economy increased by 1.6%. On top of that, Chinese officials from central bank mentioned that tax cuts could exceed the equivalent of 1% of GDP in the next year, in a pledge of a more proactive fiscal policy to support the Chinese economy.

**Crude oil prices tumbled**, as WTI futures dropped by 3.7% week-on-week and closed at USD 69.1 per barrel, while Brent futures fell by 0.8%, landing at USD 79.8 per barrel.

**Gold prices gained** as NYMEX 1m futures increased by 0.6% week-on-week and finished the week at USD 1225.3 per troy ounce.

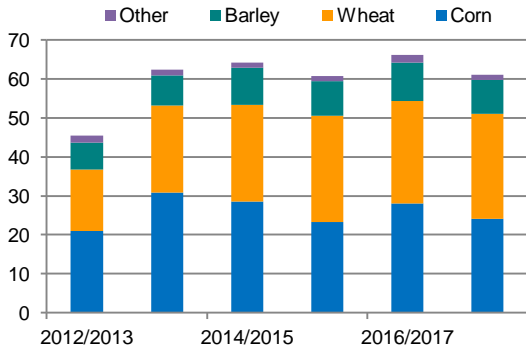
**Grains prices fell**, as CBOT Corn 1m futures decreased by 1.8% week-on-week and closed at USD 367.0 per bushel, while CBOT Wheat 1m futures landed at USD 514.8 per bushel, falling by 0.5% during the week.

**Iron ore increased**, as NYMEX Iron ore 62% Fe 1m futures increased by 1.3% on a week-on-week basis and closed at USD 71.4 per ton.



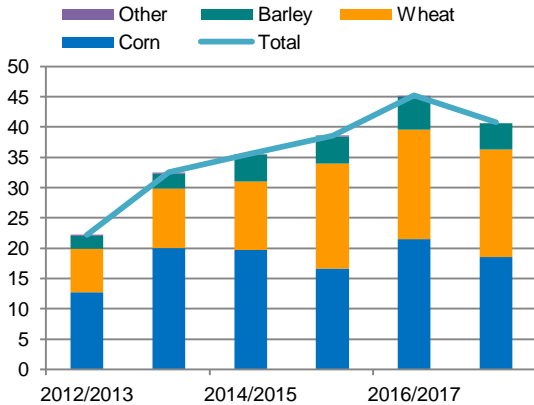
**This week in focus: Spring crops upbeat performance puts agri on strong footing**

**Figure 9. Grains produced in Ukraine, mn t**



Source: Ukrstat

**Figure 10. Grains exported from Ukraine, mn t**



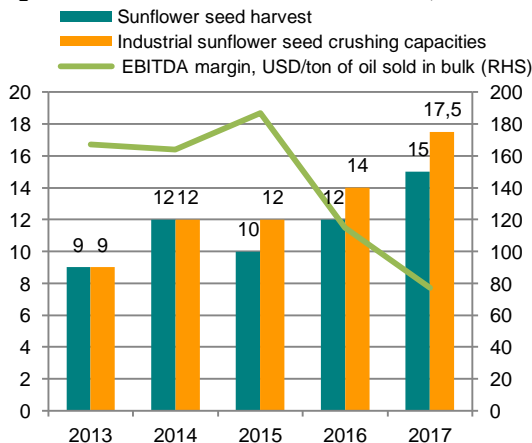
Source: Ukrstat

**Figure 11. Main agri crops**

	2017MY	2018MY
<b>Corn harvested, mn t</b>	7	11,9
Area, mn ha	1,6	1,9
Yield, t/ha	4,35	6,31
<b>Wheat harvested, mn t</b>	26,5	25,1
Area, mn ha	6,5	6,6
Yield, t/ha	4,17	3,8
<b>Sunflower harvested, mn t</b>	9,8	11,6
Area, mn ha	5,1	5,2
Yield, t/ha	1,94	2,21

Source: Ministry of Agriculture (data as of mid of October)

**Figure 12. Sunflower seed market balance, mn t**



Source: National Academy of Agricultural Sciences in Ukraine, Kernel

Having delivered bad performance in prior season, spring crops are on track to strongly outperform prior year results, as yields of corn were higher by 45% y/y, followed by sunflower with a yield stronger by another 14% y/y. At the same time, wheat performance was weighed down by yield, declining by as much as 9% in latest season. Plans to add crushing capacity will increase harvest of sunflower seeds in the nearest future, tapping the resources of Western Ukraine in contrast to South East region, which accounted for two thirds of sunflower seed production in recent time. We expect stronger export proceeds of agri segment in 1H2019, as well as good prospect in the midterm.

In previous year (2017/2018 marketing year), spring crops performance was the main reason of tumbled overall harvest, as corn and sunflower yields declined the most due to weather. In this 2018/2019 marketing year, which officially started as of July 1st, wheat yields declined the most among all other crops, whose performance usually determined the result of winter crops. At the same time, yearly results from spring harvesting campaign proved to be much stronger compared to a previous year. More importantly, we treat spring crops as those which deliver more impact on economic growth in the country. Especially it's hard to underestimate the contribution of sunflower seed harvest to the economic growth. In particular, almost all harvest had been undergoing process of manufacturing, transforming into the product with higher added value such as sunflower oil. Sunflower oil production is the most important driver of food production component (accounting for almost one third from food production) of overall industrial production in the country, followed by meat production (with a share almost 20% from food production). At the same time, food production (accounting for roughly 20% from aggregate IP) one of the most important drivers of industrial production in the country.

**The weather was more favorable for corn and sunflower seeds. As a consequence, the yields of corn and sunflower skyrocketed in 2018.** As of October 11th, 2018 Ukraine farmers harvested 11.9 mn t of corn from area of 1.9 mn ha. It's quite remarkable that yield on corn is 45% higher in most recent season, while the yield on sunflower is higher by also solid 14% as compared to the same period a year ago (data as of mid of October).

Extremely high crushing margins over the past 8 years brought significant investments into sunflower crushing business, resulting in overcapacity coupled with falling crushing margins. While we saw crushing margins hovering around USD 200 per ton, in prior season they declined to around USD 50 per ton. In regard to supply demand balance on the market in most recent season, it's somewhat stronger in 2018/2019 marketing year compared to previous one. In particular, capacities to crush seeds are expected to be at 17.7 mn ton in line with a year ago figure. At the same time, the amount of harvest will be higher. As a result crushing margin of manufacturing companies, which was plagued in prior season to be around USD 50 per ton (the lowest level in many years), is to be higher in new season, bringing more profits to crushers in the country and strengthening their balance sheets.

The positive effect from larger sunflower seeds harvest was also can be seen from the perspective of export. The price of sunflower seeds is lower by approximately USD 200 per ton of the price of sunflower oil. At the same time price of sunflower oil was exceeded USD 700 per ton threshold. Adding positively to growth in export and acting as support for hryvnia in some perspective. In prior year, exports revenue from sunflower oil export amounted to USD 4.3bn.

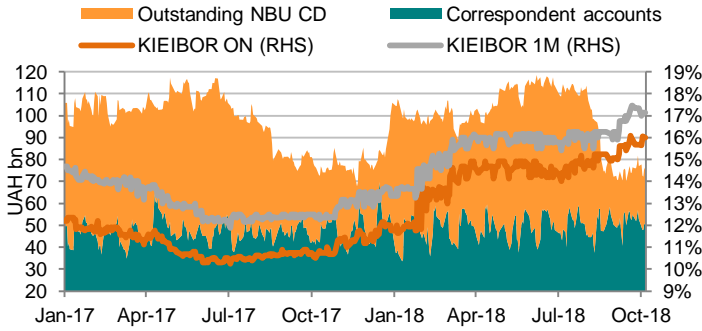
Going forward, some market leaders are pursuing a strategy to expand its operations by building new crushing capacities, especially in the Western Ukraine, where historically the share of sunflower seeds in planting area was the lowest among all regions. Especially in contrast to South-East region with the highest share and accordingly the lowest available yield on that planted area. It's expected that Western Ukraine can increase sunflower seed production by about 2 mn t over the next few years. As of now, the total acreage under sunflower was 7.7% in West, while acreage in South-East region reached almost one third of total planted area or 33%. Sunflower is a type of agricultural product which drains soil. As a result the higher share of sunflower in overall harvest, the lower yields. And accordingly to that, the yield in Western Ukraine was recently at 2.7 t/ha vs 2.1 t/ha in South East, which is a region the most heavily planted with sunflower and accounting two thirds of the sunflower seeds production in the country.

**Winter crops were affected by anomaly volatile weather, as temperature moved down and up.** The temperature in autumn was anomaly cold. In March, there was a winter type of weather with temperature much lower compared to average normal level. As a result of that, vegetation of crops was lapsing very slowly. As a consequence, vegetation period of crops up to the end of the March slowed. The process of active phase of vegetation fell short from normal level by around 1-3 weeks. In the meantime, it reversed sharply in the first decade of April, when hot weather started to expand, resulting in a resumption of process of vegetation and fast development of the crops. While at the beginning of the April there was optimal temperature for crop development, but in 2nd and 3rd decades of April and 1st decade of May the degree of heat was excessive and on top of that dry. It was the warmest period of time for the same period for the last 20 years. Due to that maturation of winter crops happened on several week early resulting in lower yields compared to a previous year. As a result, farmers harvested only 25.1mn t from area of 6.6 mn ha with yield of 3.8 t/ha (or by around 9% lower) in 2018 year.



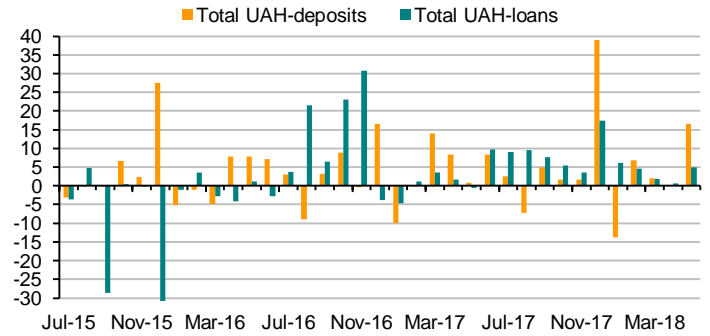
**Money market**

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



Source: Reuters, NBU, UkrSibbank estimates

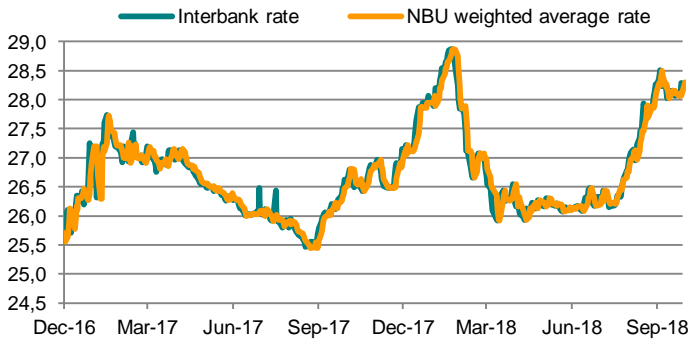
**Monthly change in local currency loans and deposits, UAHbn**



Source: the NBU

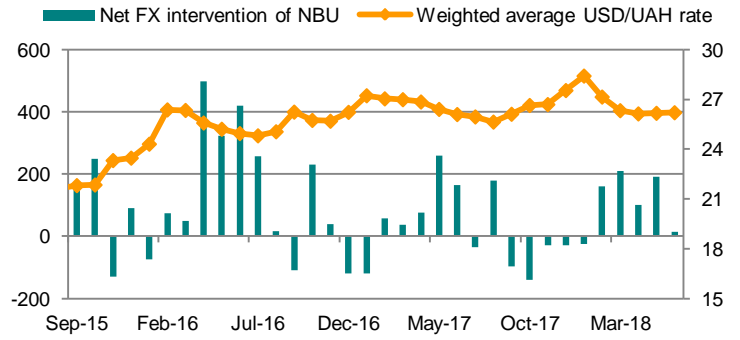
**Currency market**

**UAH exchange rate, UAH/USD**



Source: Reuters

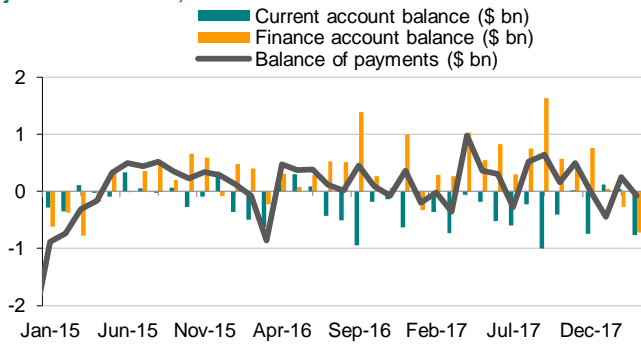
**Net retail FX interventions of the NBU in 2015-2017, USDmn**



Source: NBU

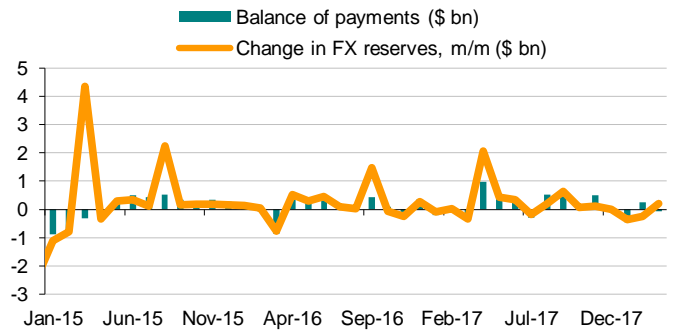
**Balance of payments**

**Major BoP accounts, USDbn**



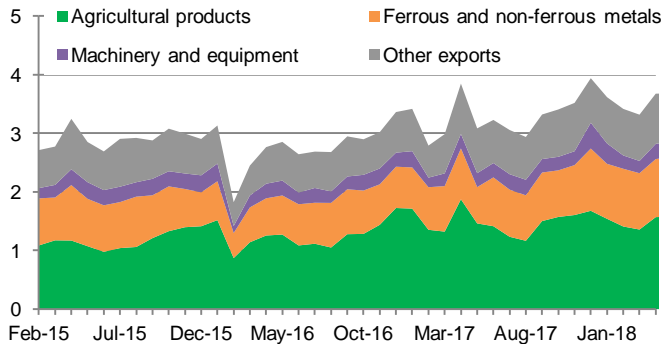
Source: NBU

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



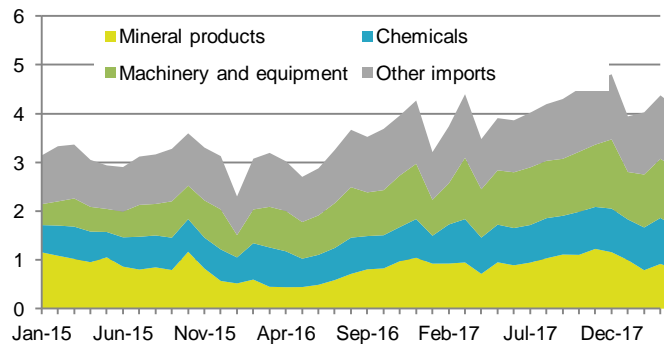
Source: NBU

**Exports components dynamic, USDbn**



Source: NBU

**Imports components dynamic, USDbn**



Source: NBU





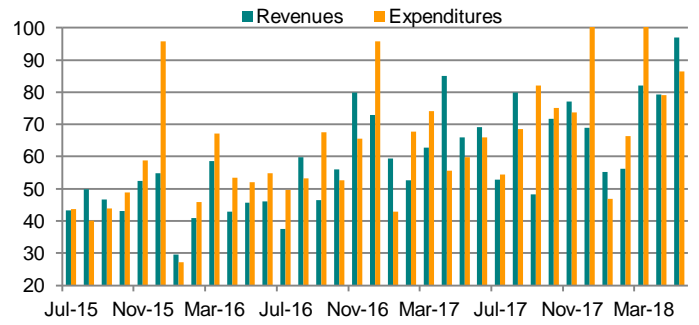
**Budget performance**

**Budget performance, UAHbn**

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

Source: NBU

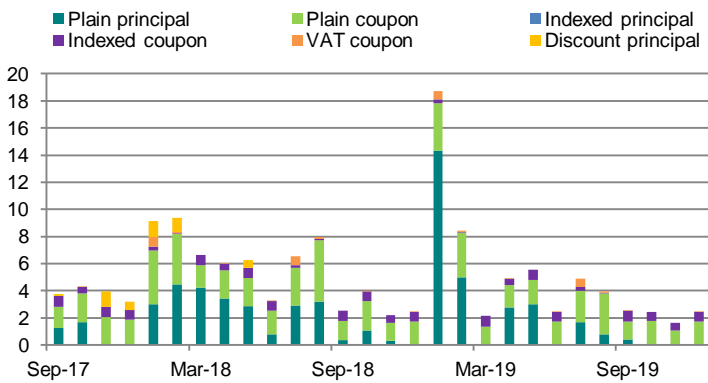
**Monthly change in budget revenues and expenditures, UAHbn**



Source: NBU, State Treasury

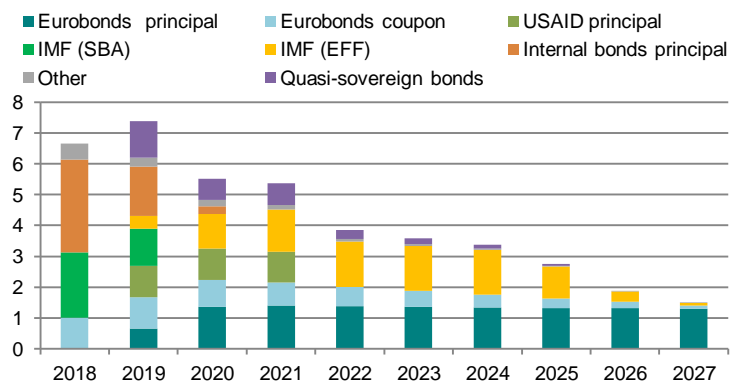
**Sovereign debt**

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



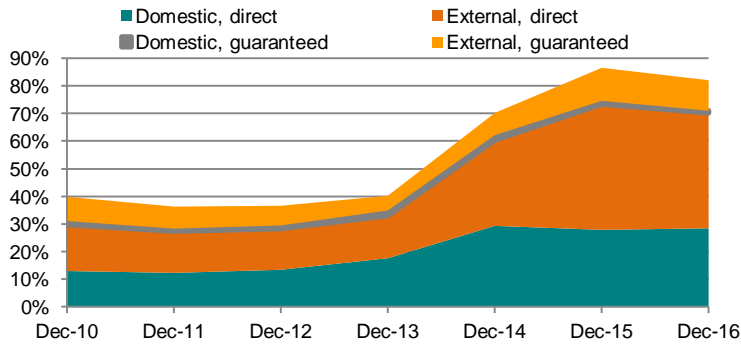
Source: NBU, UkrSibbank estimates

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



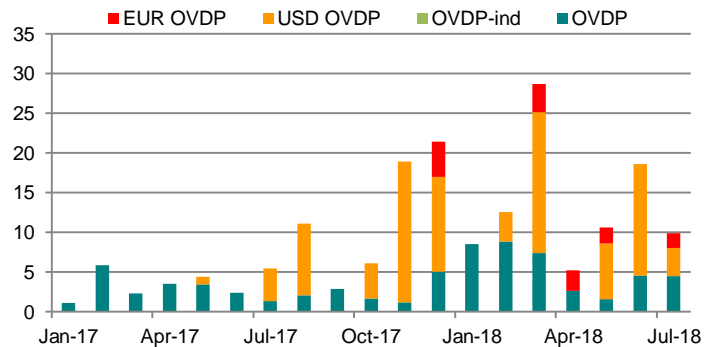
Source: Reuters, IMF, UkrSibbank estimates

**Total government debt, % GDP**



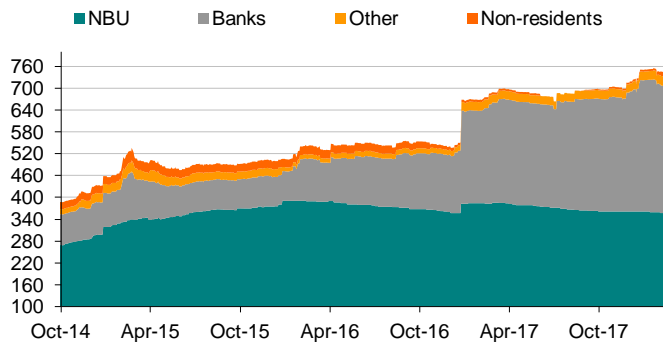
Source: MinFin

**Local borrowings, UAHbn equivalent**



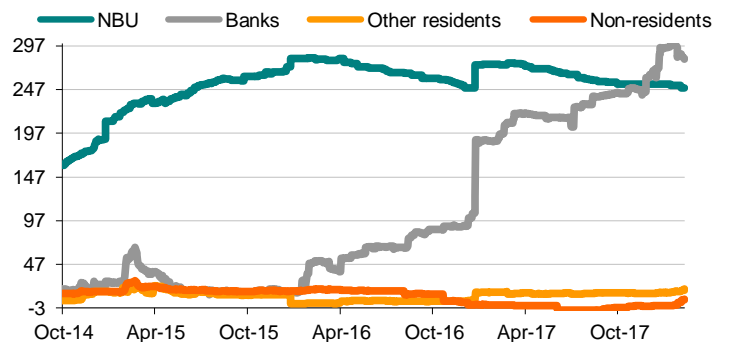
Source: NBU

**Outstanding OVDP owners structure, UAHbn**



Source: NBU

**Outstanding OVDP changes in holding, UAHbn**

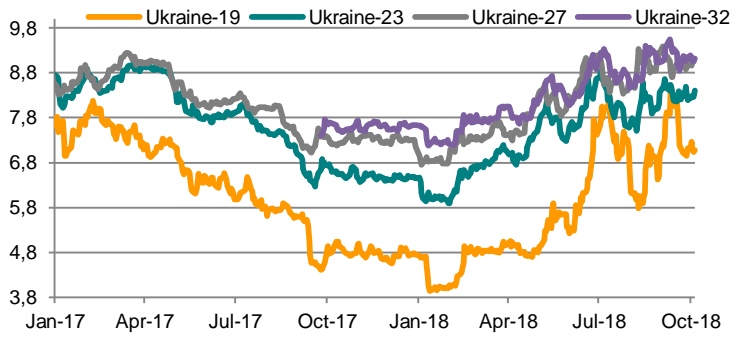


Source: NBU



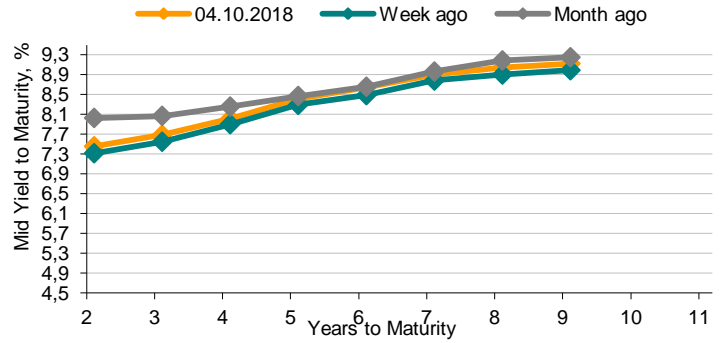
### Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

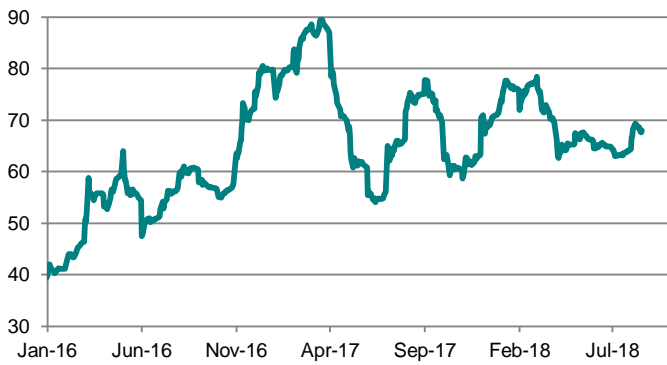
Ukraine's sovereign Eurobond yield curve



Source: Reuters

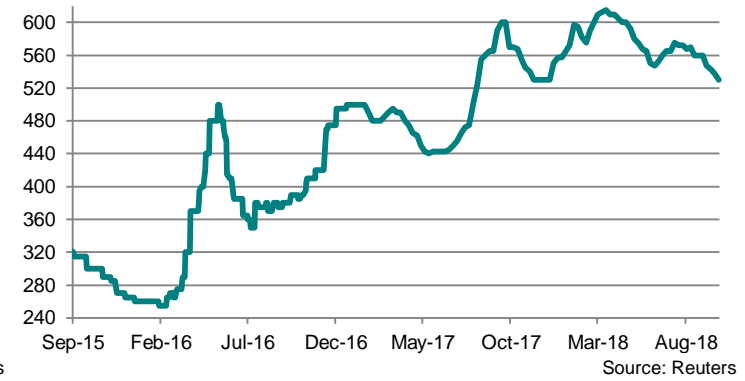
### Commodity markets

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



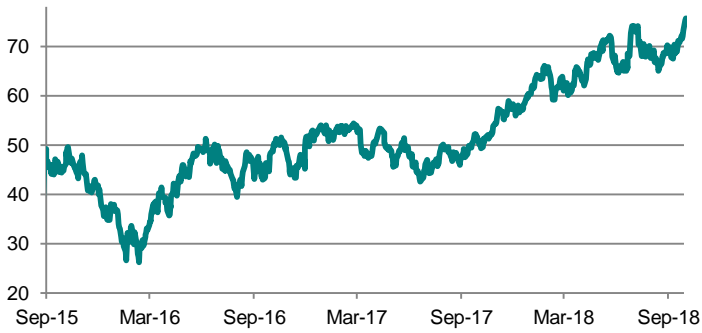
Source: Reuters

Steel CIS export HR coil, USD per ton



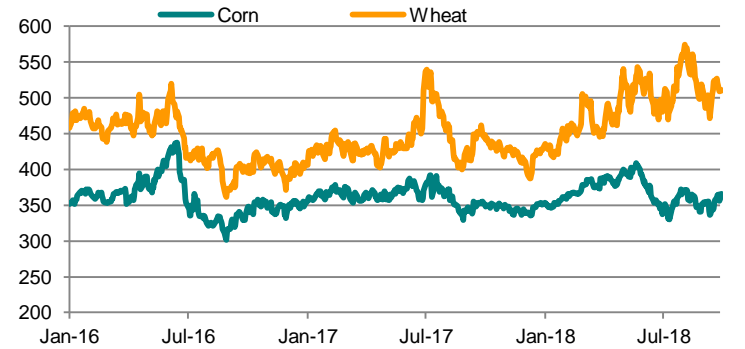
Source: Reuters

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
<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	3.4
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
<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	11.5
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
<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	61.0
<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	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
<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	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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