



This week in focus: Retail sales lower, IP in red

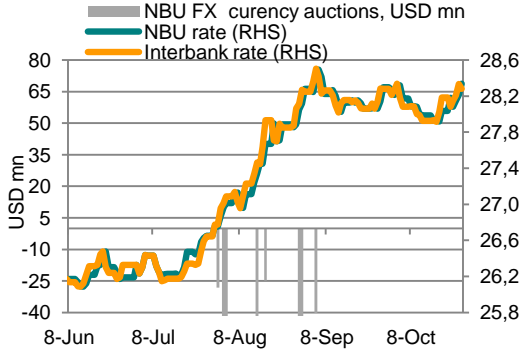
In September, retail sales decelerated to 6.9% y/y from 7.5% y/y in August. At the same time, industrial production declined by 1.3% y/y, worsening its performance compared to August.

Please see page 3 for more details

FX and interest rates:

NBU kept rate on hold at 18%; MoF placed two Eurobonds

Figure 1. UAH exchange rate (UAH per USD)



Source: NBU, Reuters

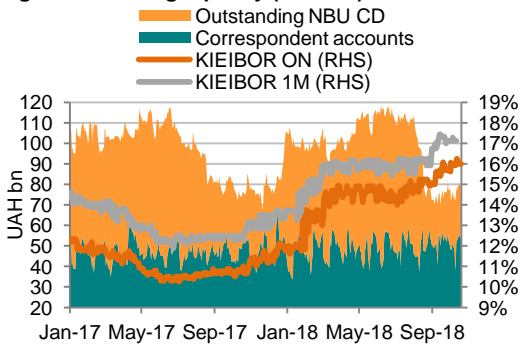
USD/UAH was at 28.34 as of Friday the 26th, as hryvnia slightly fell during the week, declining by a 0.5% on a week-on-week basis.

Central bank held no currency auctions during the week. YTD reading of central bank interventions amounted to USD 0.7bn of bought FX currency in 2018, as of October 19th

Aggregate banking liquidity exceeded UAH 80bn threshold as of Friday 26th, up from UAH 77bn from the beginning of the month. Main components contributed almost by the same magnitude, namely interventions added about UAH 4bn, followed by roughly UAH 4bn contribution from treasury operations. As opposed to that increase in cash had acted as main drag on liquidity, weighing on by about UAH 4bn from the start of October till October 26th.

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.

Figure 2. Banking liquidity (UAH bn)

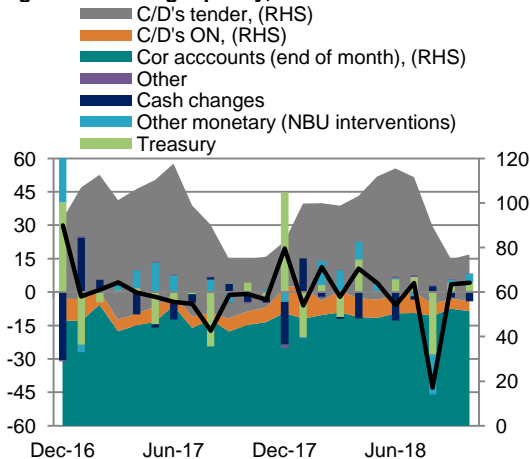


Source: Reuters, NBU, UkrSibbank, Minfin

MoF has placed 8 issues, as of October 23rd, which were evenly divided between UAH and foreign currency denominated placements. Proceeds from hryvnia bonds amounted to UAH 86.9m. The cut off rate of the 3m bonds remained intact at 19.0%, while the cut off rates of others remained the same at 18.5%. On top of that, MoF satisfied all demand on the auction, which encompassed 8 bids from primary dealers. USD denominated issues brought USD 34.4mn to the budget. Out of which, bonds with 9m maturity took the top spot by both demand and placement size. Besides that, MoF has placed also two bonds denominated in EUR. The largest issue with cut off rate of 4.6% amounted to EUR 19.2mn. On prior week there were no redemptions of bonds at all. At the same time, we also do not observe redemptions in the week ending November 2nd. Going forward, the earliest redemption will be held on November 7th. It will be followed by USD denominated issue totalling USD 132.8mn effective November 21st.

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 3. Banking liquidity, UAH bn



Source: NBU

Figure 5. OVDP auction results, 23rd of October 2018

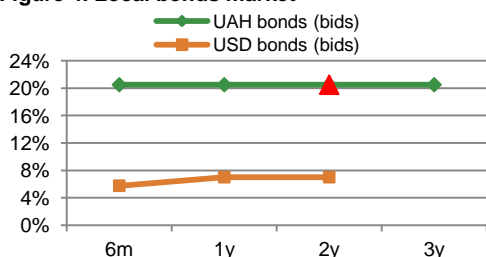
CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size	Placement size
UAH	3m	19.00%	19.00%	19.00%	19.00%	8	8	71.0mn	67.3mn
USD	9m	7.00%	7.00%	7.00%	7.00%	16	16	34.0mn	32.6mn
USD	2y	7.50%	7.50%	7.50%	7.50%	10	10	1.8mn	1.8mn
EUR	9m	4.60%	4.60%	5.00%	4.60%	10	9	37.0mn	19.2mn
EUR	1y	4.07%	4.07%	-	-	2	2	5.3mn	5.4mn

On Friday, NBU has kept its main interest rate on hold at 18.0%, citing that current monetary stance was sufficiently tight to push inflation to mid term strategy of 5% in 2020. Moreover, NBU revised its forecast of inflation, increasing its forecast of consumer prices growth to 10.1% in 2018. At the same time, we keep our inflation forecast unchanged at 10.3% in 2018. The next NBU MPC meeting will take place on December 13th.

Cabinet of Ministers has revealed ruling about gas prices increase in Ukraine. In particular, the average gas price during July-September of 2018 will be adjusted on a special coefficient to bring prices to the import parity level more smoothly. From November 1st, household gas prices will be at 70% from import parity level up to April 30th, 2019. Starting from May 1st, household gas prices will reflect 80% of import parity level (from base of prior year). And from January 1st, 2020 the price will be at import parity level without using decreasing coefficients. At the same time, Ukraine State regulatory Service rejected to approve Cabinet of Ministers resolution to hike gas prices.

MoF has placed Eurobonds for a total USD 2.0bn. In contrast to prior placement, which had been placed in September 2017, MoF issued two issues instead of only one. Namely, Ministry placed 5 year bonds and 10 bonds, maturing in February 2024 and in November 2028, respectively. Coupon rates of new bonds amounted to 8.994% and 9.75% for five and ten years respectively. The proceeds from the issuance are expected to cover budget deficit and some part will be used to repurchase USD 725mn of Eurobonds with maturity in Feb 2019.

Figure 4. Local bonds market



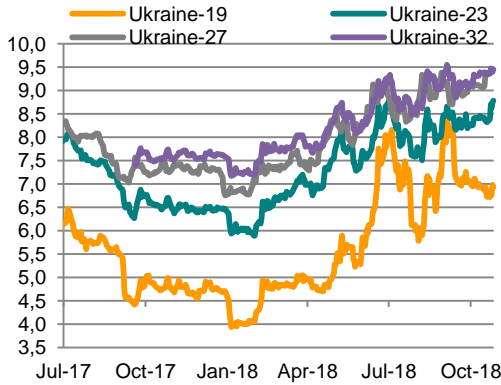
Source: UkrSibbank



Global markets:

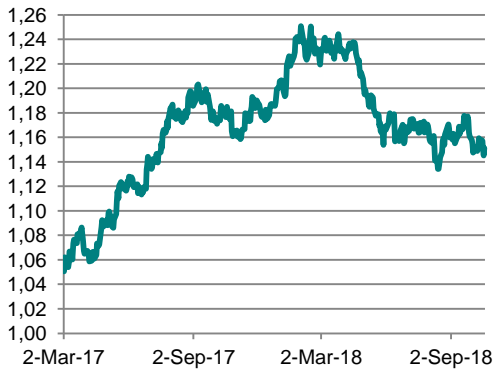
Chinese economic growth decelerates; markets strongly in red

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



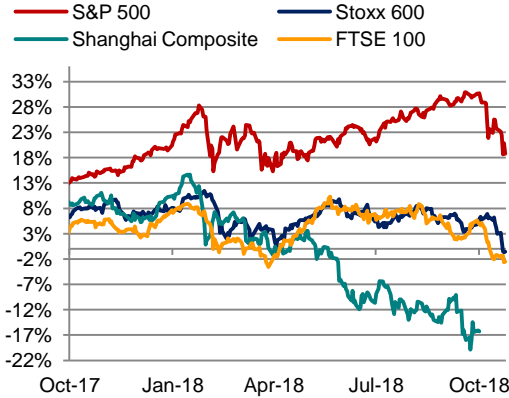
Source: Reuters

Figure 6. EUR USD spot (mid)



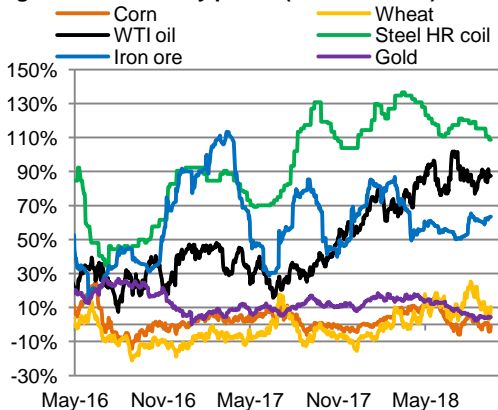
Source: Reuters

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



Source: Reuters

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



Source: Reuters

U.S. economy increased at a 3.5% annual rate in the third quarter, according to the Commerce Department data released on Friday. At the same time, economy ministers of Turkey and Germany expressed hope to expand trade ties. China's fourth quarter economic growth will be closely watched by market participants.

Bond benchmarks advanced, with U.S. 10y Treasuries' yield fell by 12bp week-on-week landing at 3.08%, while German 10y Bunds' yields fell by 10bp, landing at 0.35%, Japanese 10y bonds yields ended the week at 0.11%.

U.S. economy increased at a 3.5% annual rate in the third quarter, according to the Commerce Department data released on Friday. In prior quarter economic growth amounted to 4.2%, indicating that economy slightly cooled in the last quarter. The deceleration comes amid the backdrop of raising interest rates and their effect on housing market and demand on large purchases. At the same time, economy continued to get positive effect from Trump tax cuts. Consumer spending advanced to 4.0% from 3.8% reported in prior quarter. It was driven primarily by accelerating purchases of nondurable goods, while purchases of durable goods showed weaker growth.

Equity indexes in U.S. were strongly in the red, as S&P fell by 3.5%, while Nasdaq Composite declined by 4.0 % week-on-week. From the start of the year S&P 500 erased all gains accumulated from the start of the year, ending the week at -0.6% from January 1st, 2018. Even start of the earnings season didn't help to support stock markets.

EUR/USD rate landed at 1.1401 as of Friday the 26th, down compared to last week closing level of 1.1463.

Main stock indexes tumbled in Europe. Namely Stoxx 600 decreased by 2.1% during the week ended October 26th, while German DAX fell even more by 2.8% week-on-week.

The economy ministers of Turkey and Germany expressed hope to expand trade ties. German Economy Minister Peter Altmaier has visited Turkey with a quite big business delegation. At the same time, Turkish Treasury and Finance Minister Berat Albayrak said Turkey wanted to expand cooperation between two countries. The visit of German top officials comes months after Turkey faced financial turmoil with a decline in the value of the national currency.

China's economic growth continued to slow in October, a period in which policy makers stepped up support for businesses. In regard to fourth quarter, what happens to China's economy will be closely watched. In October, the government introduced measures to stabilize sentiment, including boosting liquidity in the banking system, coupled with new tax deductions for household and other measures. In third quarter economic growth decelerated by more than expected – to 6.5% or the slowest pace since the aftermath of the global financial crisis.

Crude oil prices tumbled, as WTI futures dropped by 2.3% week-on-week and closed at USD 67.6 per barrel, while Brent futures fell by 2.8%, landing at USD 77.6 per barrel.

Gold prices gained as NYMEX 1m futures increased by 0.9% week-on-week and finished the week at USD 1232.5 per troy ounce.

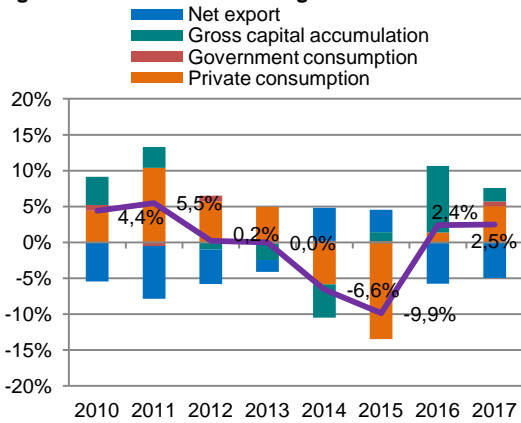
Grains prices fell, as CBOT Corn 1m futures decreased by 0.5% week-on-week and closed at USD 367.7 per bushel, while CBOT Wheat 1m futures landed at USD 505.3 per bushel, falling by 0.5% during the week.

Iron ore increased, as NYMEX Iron ore 62% Fe 1m futures increased by 1.0% on a week-on-week basis and closed at USD 72.4 per ton.



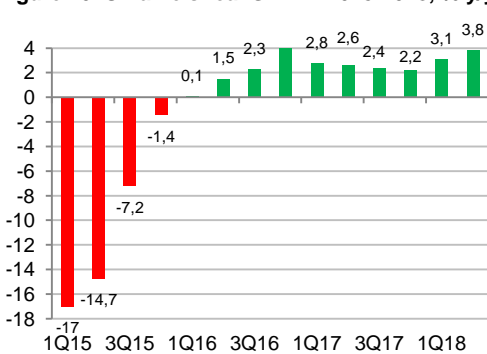
This week in focus: Retail sales lower, IP in red

Figure 9. Ukraine's real GDP growth in 2010-2017



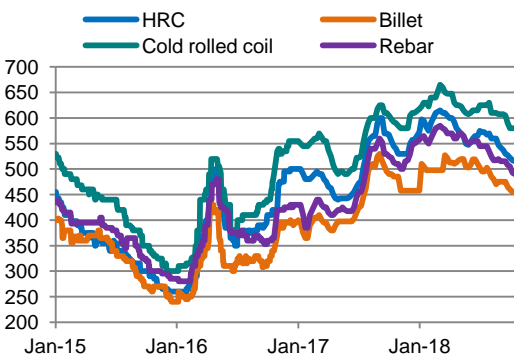
Source: Ukrstat

Figure 10. Ukraine's real GDP in 2015-2018, % y/y



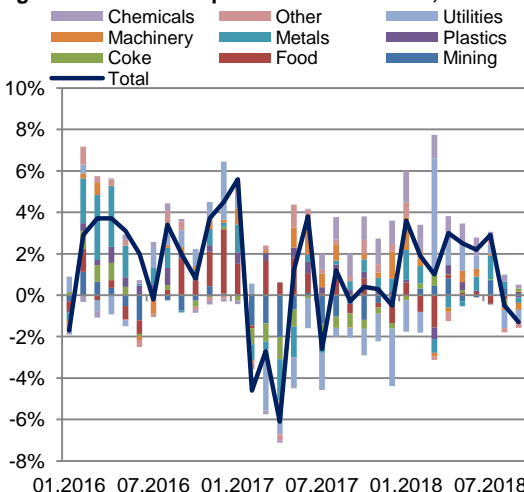
Source: Ukrstat

Figure 11. Steel prices in Black Sea region, USD/ton



Source: Thomson Reuters

Figure 12. Industrial production in Ukraine, %



Source: Ukrstat

In September, retail sales decelerated to 6.9% y/y from 7.5% y/y in August. At the same time, industrial production declined by 1.3% y/y, worsening its performance compared to August. As a result, we treat economic growth in September as quite week comparing to the last several month from two basic sectors.

Retail sales increased by 6.9% y/y in September, slightly down from 7.5% y/y in August. In 9M 2018, retail sales slightly edged up to 5.5% y/y from 5.4% y/y reported in August. Nominal average wages increased by 26.2% y/y, accelerating from 24.9% y/y reported in prior month and reached roughly UAH 9000. In prior month, average nominal wage amounted to roughly UAH 9200 in Ukraine. Deceleration of wages in August reflects seasonal pattern, and we expect it will be reversed in the next month. Meantime, real average wage gained by 15.7% y/y in September, up from 14.7% in August. The acceleration of retail sales could happen in the last months of the year, especially amid higher fiscal spending in December.

Ukraine's industrial production tumbled in September, pulled down by a weakness in a broad array of sectors. In particular, industrial output in Ukraine fell by 1.3% y/y, following 0.5% y/y drop in previous month. At the same time, on an adjusted calendar day basis decline amounted to just 0.7% y/y, as in September 2018 there was less working days compared to September 2017.

Growth in mining slowed to 0.7% y/y in September, down from 2.0% y/y in August. While growth in coal mining gained to 13.2% from 7.2% y/y in August, the growth in oil mining pared its gains to only 6.4% y/y from 7.3% y/y in prior month. In contrast to that, iron ore mining displayed higher decline in production comparing to prior month, as production declined by 3.2% y/y in September vs 0.6% y/y decline in August. As a result, for the last 9M mining output increased by 2.0% y/y.

Manufacturing output was pushed deeper in the red in September, as production declined by 1.6% y/y vs just 0.5% decline reported a month ago. Among major components only food, cook and chemical production managed to deliver positive numbers. In particular, food production, which was plagued by prior year harvest weak performance, managed to post some positive growth in September, as we expected previously. But it wasn't enough to significantly contribute, offsetting aggregate IP decline.

Chemical production demonstrated gains of 6.1% in September, albeit slowing dramatically from 30% y/y growth posted several months ago. As we pointed out earlier chemical production was poised to demonstrate weaker growth in the nearest future, especially against the backdrop of higher oil prices on international markets.

Metallurgical production was declining in September. In particular, output decreased by 1.3% y/y, reversing to decline following 1.7% y/y growth in August. Production of pig iron decreased in the country by 8.1 % y/y in September, down from 3.7% y/y in prior month. At the same time, growth in output of rolled steel decelerated to just 4.7% y/y, down from 8.1% y/y growth in prior month. In September, prices of hot rolled coils showed almost the strongest decline since the start of the year, with average September price falling by 4.3% m/m. The prices reached its peak in March 2018, with HRC price hovering above 600 USD/ton. At the same time, from that peak prices fell by around 16% to just slightly above 500 USD/ton. Devaluation in Turkey has resulted in lower export prices. At the same time prices in China declined too. Amid that background producers from Black Sea region were forced to lower prices too.

Output of machinery declined. In September, it declined by 4.5% y/y, increasing the pace of decline from 1.5% y/y decline posted in prior month. Production of wagons increased by 41.5% y/y in September, increasing strongly as compared to just 22.6% y/y growth in August. Introduction of deregulation of wagons by Ukrzaliznitsia, coupled with increased tariffs for wagons increased demand for new wagons in the country from private sector. At the same time, implementation of state railway company strategy of upgrading rolling stock acts as additional driver of demand on new wagons. As a consequence production of wagons almost doubled in 9M 2018, increasing by 87.9%.

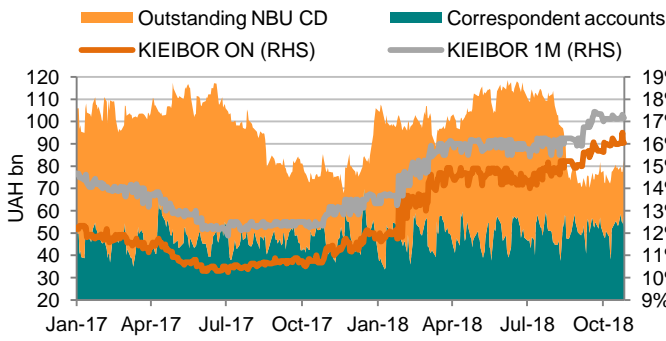
Utilities output was declining based on y/y basis. But the magnitude of that decline decelerated to only 3.9% y/y from 6.4% y/y in August.

In regard to other types of economic activity, only agricultural sector among major industries contributed in a positive way. Namely agri index rose by 11.4% y/y in September (due to mainly good results of spring crops, namely corn and sunflower), bringing cumulative 9M 2018 reading up to 4.9%, up from 2.0% in 8M 2018, or gaining more than twofold. In regard to construction, the sector displayed decline by 1.0% y/y in September, bringing YTD 9M 2018 reading to 5.4% from 5.7% in prior month. Meantime, transportation remained in the red. It was weighed down by pipeline and railway transportation. Pipeline transportation declined due to both lower volumes of gas and oil transportation by 5.3% and 3.7% in 9M 2018, respectively. At the same time, railway transportation decline stemmed from lower volumes of transported crops by 14% 9M 2018 (reflecting mainly performance of winter crops), followed by oil transportation (-11.8% in 9M 2018), coal (-4.4% in 9M 2018) and iron ore (-3.5% in 9M 2018).



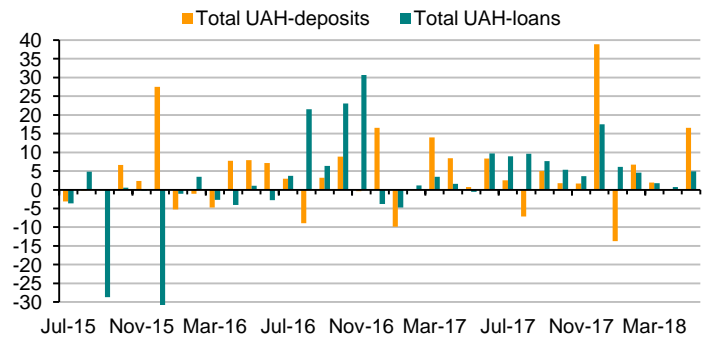
Money market

Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

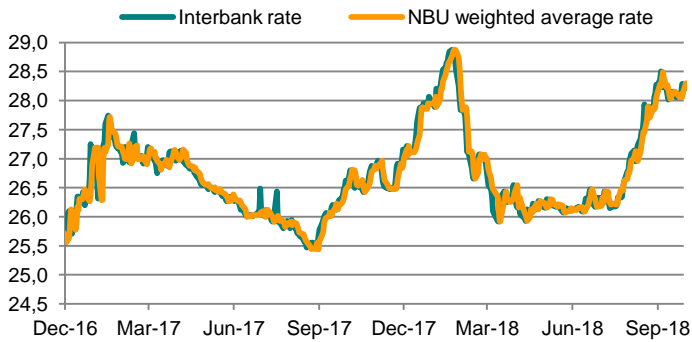
Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

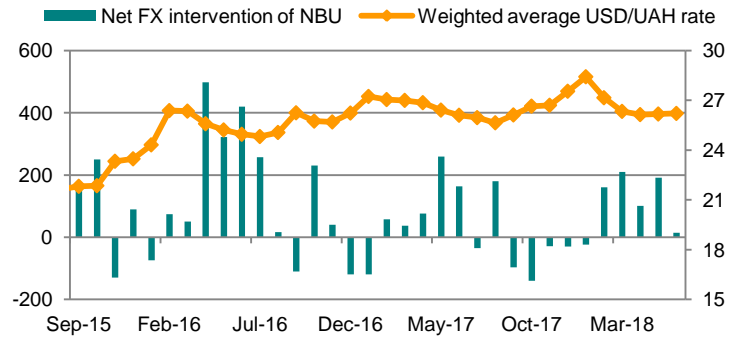
Currency market

UAH exchange rate, UAH/USD



Source: Reuters

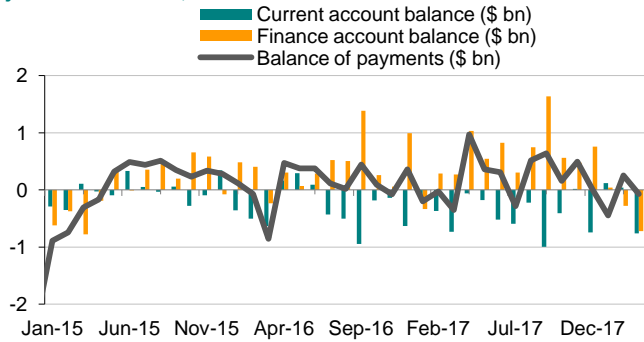
Net retail FX interventions of the NBU in 2015-2017, USDmn



Source: NBU

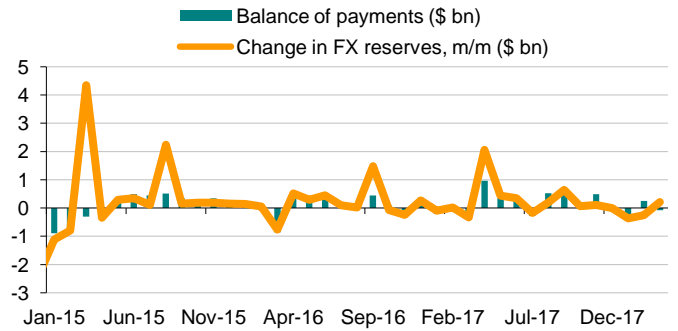
Balance of payments

Major BoP accounts, USDbn



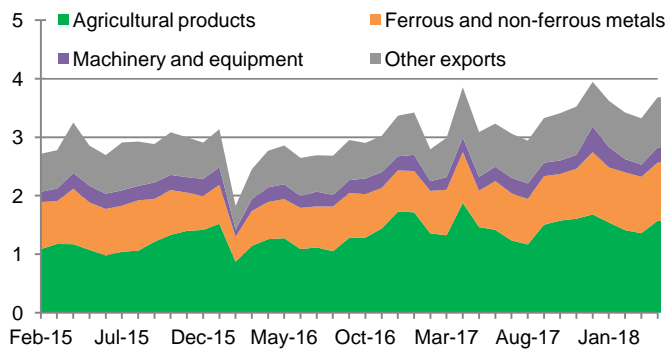
Source: NBU

BoP vs change in foreign reserves, USDbn



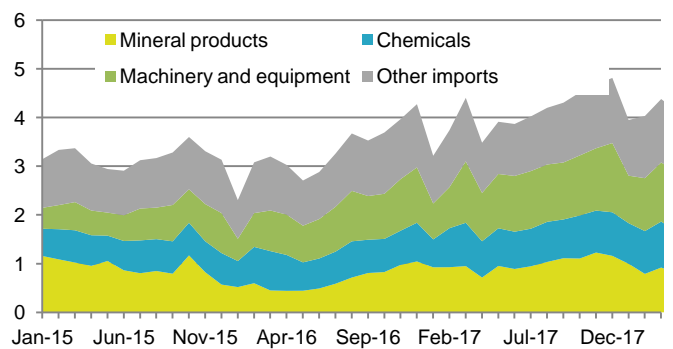
Source: NBU

Exports components dynamic, USDbn



Source: NBU

Imports components dynamic, USDbn



Source: NBU

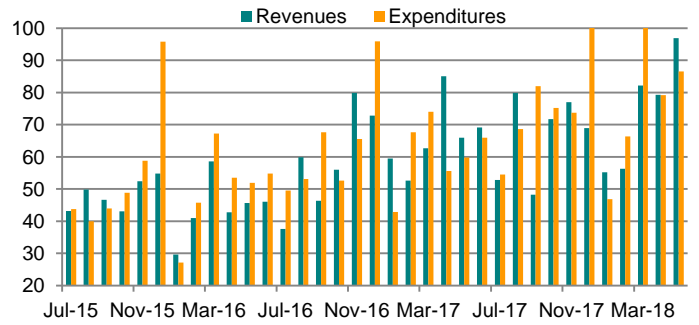


Budget performance

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

Monthly change in budget revenues and expenditures, UAHbn

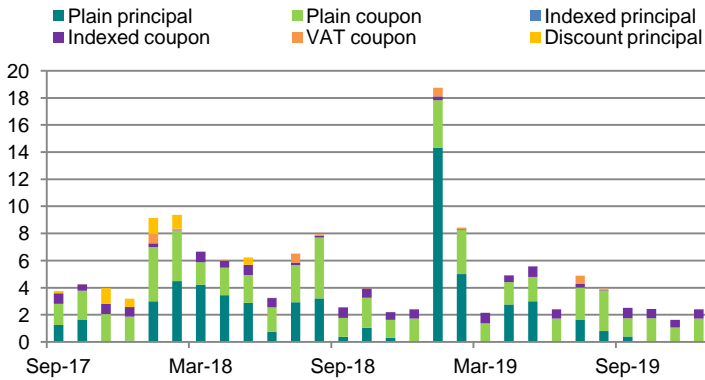


Source: NBU

Source: NBU, State Treasury

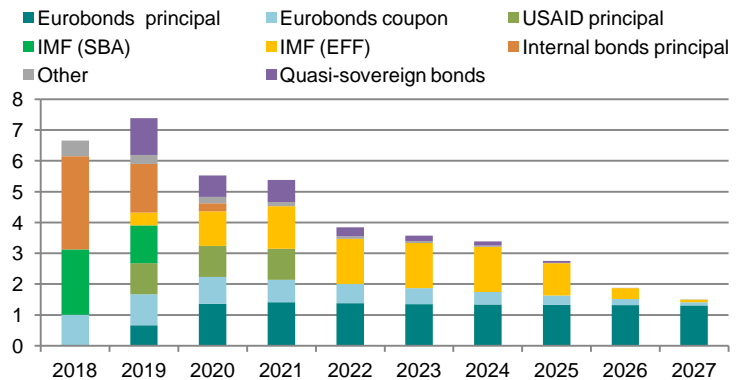
Sovereign debt

UAH- denominated debts' repayments schedule, UAHbn



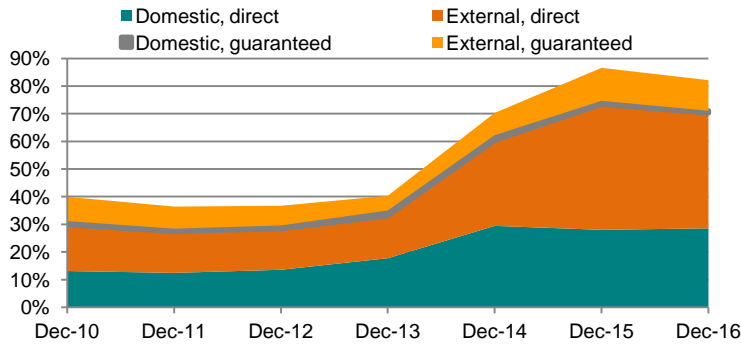
Source: NBU, UkrSibbank estimates

FX-denominated debt repayments schedule, USDbn



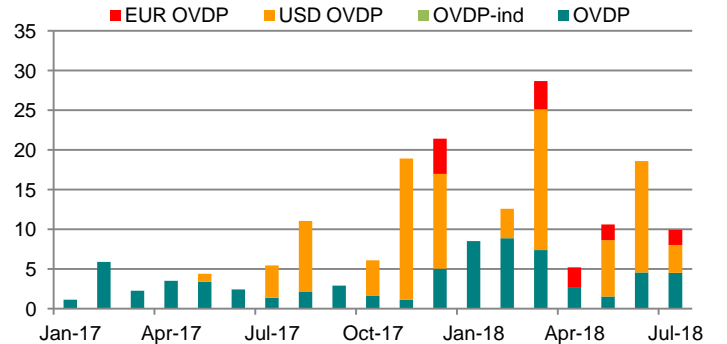
Source: Reuters, IMF, UkrSibbank estimates

Total government debt, % GDP



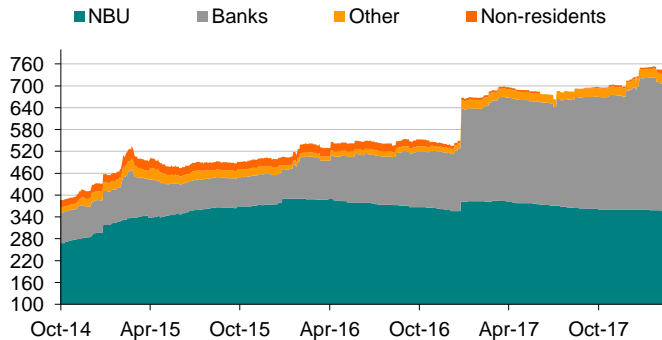
Source: MinFin

Local borrowings, UAHbn equivalent



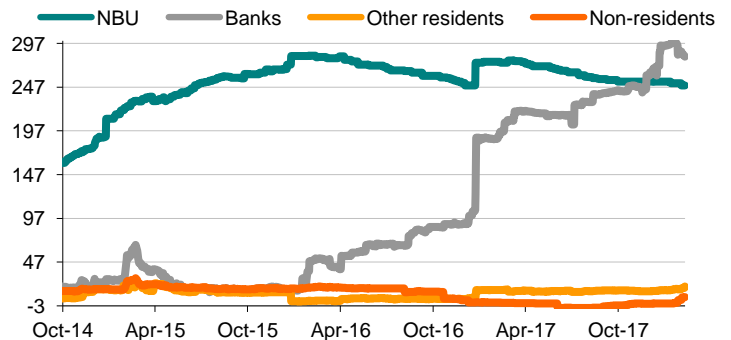
Source: NBU

Outstanding OVDP owners structure, UAHbn



Source: NBU

Outstanding OVDP changes in holding, UAHbn

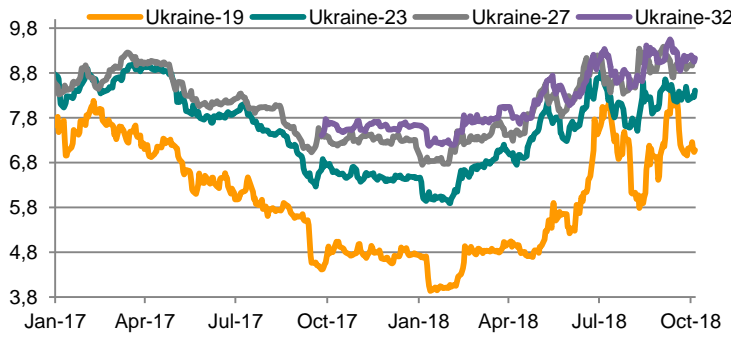


Source: NBU



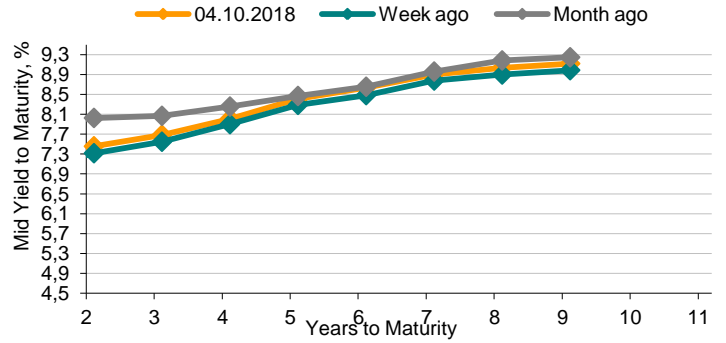
Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

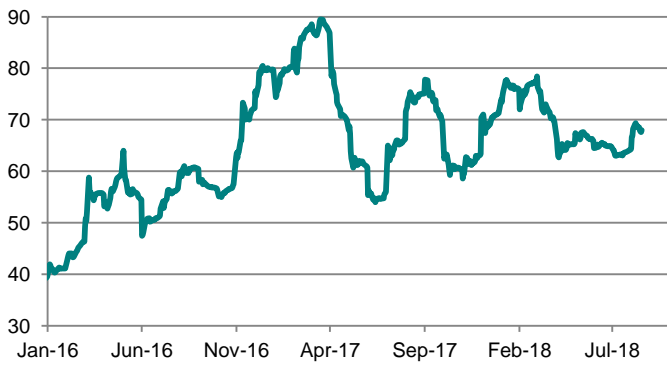
Ukraine's sovereign Eurobond yield curve



Source: Reuters

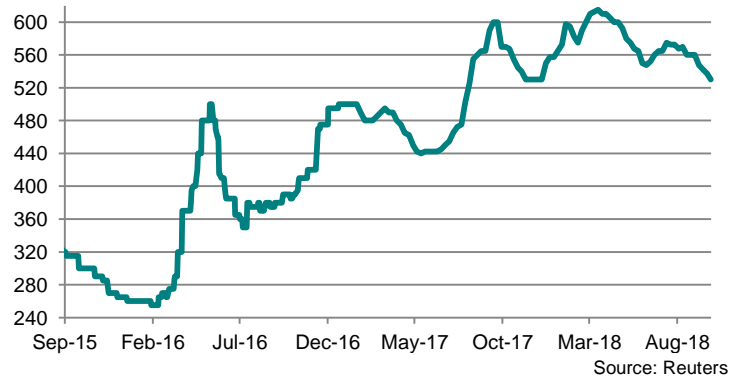
Commodity markets

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



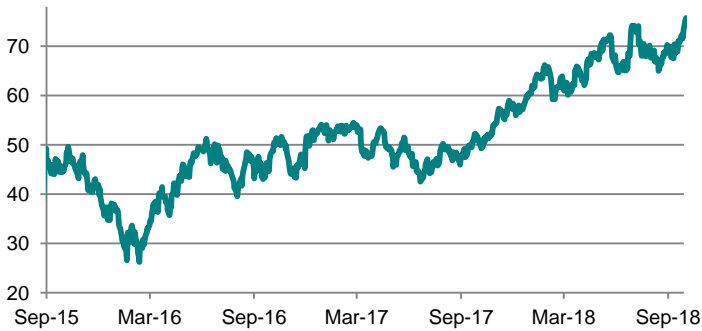
Source: Reuters

Steel CIS export HR coil, USD per ton



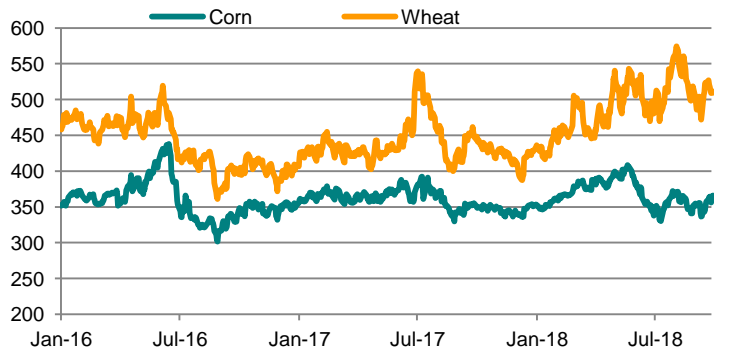
Source: Reuters

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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