



This week in focus: Ukraine's inflation has gained momentum in October

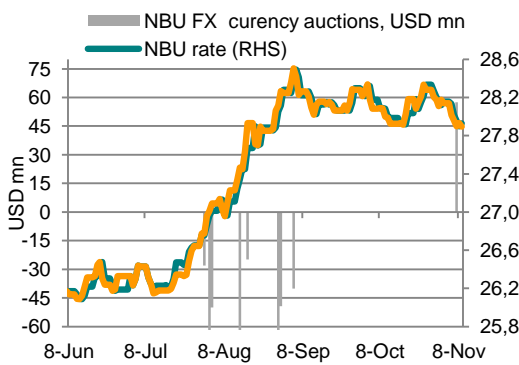
In line with our expectations, inflation in Ukraine has accelerated to 9.5% y/y in October from 8.9% y/y reported a month ago. We keep our inflation forecast unchanged at 10.3% in 2018, observing some risk tilted to the upside.

Please see page 3 for more details

FX and interest rates:

Ukraine's reserves amounted to USD 16.7bn in October

Figure 1. UAH exchange rate (UAH per USD)



Source: NBU, Reuters

USD/UAH was at 27.93 as of Friday the 9th, as hryvnia appreciated during the week, increasing by a 0.8% on a week-on-week basis for second week in a row.

Central bank interventions were strongly concentrated on buying hard currency from the market. During the week NBU has conducted currency auction as market balance was tilted more to the excess supply. While NBU announced the auction to buy up to USD 100mn, banks initially applied for USD 92.7mn. But auction resulted in only USD 57.4 of bought currency from the market. In the meantime, NBU has utilized other instruments to buy excess currency. As a consequence, NBU has bought USD 157.4mn from the market. As a result, YTD reading of central bank interventions amounted to USD 1bn of bought FX currency in 2018, as of November 9th.

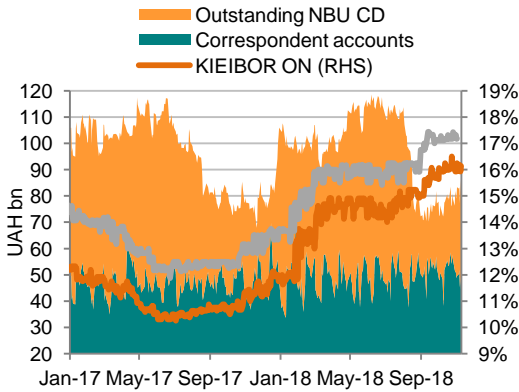
Aggregate banking liquidity hovered above UAH 80bn as of Friday 9th. At the same time from the start of the month liquidity was primarily driven by both NBU interventions and treasury operations, adding approximately UAH 5bn each to the banking liquidity. In contrast to that, increase in cash outside banking system kept acting as a main drag on liquidity in recent time, decreasing liquidity by about UAH 4bn.

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.

MoF has placed 5 bond issues during the week ended November 2nd, namely 4 hryvnia denominated issues and one USD-denominated. Among UAH bonds the shortest has taken a top spot by demand and placement size. On top of that, USD denominated issue had brought the largest amount of proceeds to the budget. Out of 20 bids, Ministry of Finance satisfied only 19, resulting in proceeds effectively totalling USD 21.5mn. While the maximum bids on the previous auction were at 19.4%, the highest bids at latest auction advanced to 20.0%, as of November 6th. Despite that, MoF has effectively kept its cut off rate on hold at 19.0%, satisfying almost all demand on the auction. In regard to redemptions, there was solid UAH 5.6bn bond maturing on November 7th. The next large UAH denominated redemption will be on November 28th, amounting to UAH 5.3bn.

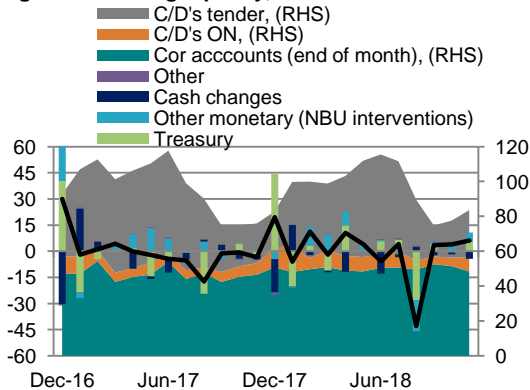
Currently, yields (bids) of local OVDP in UAH at 20.50% (for 6m), 20.50% (for 2Y). 1Y USD bids were at 7.50%, while bids for VAT bonds were at 20.50%.

Figure 2. Banking liquidity (UAH bn)



Source: Reuters, NBU, UkrSibbank, Minfin

Figure 3. Banking liquidity, UAH bn

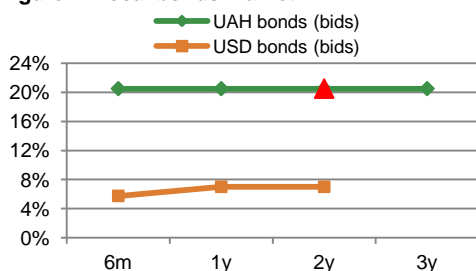


Source: NBU

Figure 5. OVDP auction results, 6th of November 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%	17	15	552.9mn	470.7mn
UAH	6m	18.50%	19.00%	18.50%	18.50%	7	3	77.7mn	7.0mn
UAH	9m	18.50%	18.50%	18.50%	18.50%	5	5	58.4mn	52.1mn
UAH	1y	18.50%	18.50%	19.00%	18.50%	6	5	105.3mn	78.9mn
USD	1y	7.50%	7.50%	7.75%	7.40%	20	19	21.6mn	21.5mn

Figure 4. Local bonds market



Source: UkrSibbank

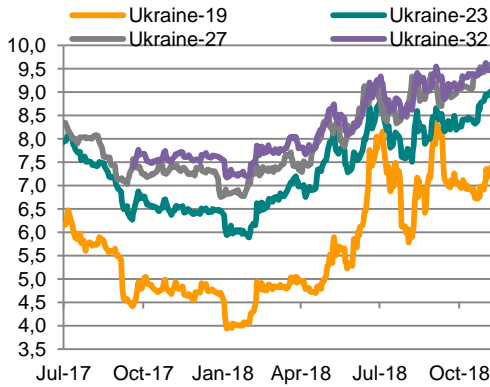
According to NBU pres-release, Ukraine international reserves amounted to USD 16.7bn in October, increasing by 0.6% on a m/m basis. In October, NBU has repurchased USD 269mn of hard currency and has sold USD USD 70.0mn respectively. As a consequence, central bank has bought on a net basis roughly USD 200mn during the month. At the same time, government managed to refinance as much as USD 790.7mn of local debt denominated in hard currencies. During the month, were scheduled redemptions totalling USD 853mn, out of which USD 777.8mn were in the form of local bonds denominated in hard currencies. As a result, Ukraine's international reserves have effectively covered 2.8 months of future imports, as of November 1st. Last but not least, reserves have increased to USD 18.1bn, as of November 5th, following completion of Eurobonds placement by the government.



Global markets:

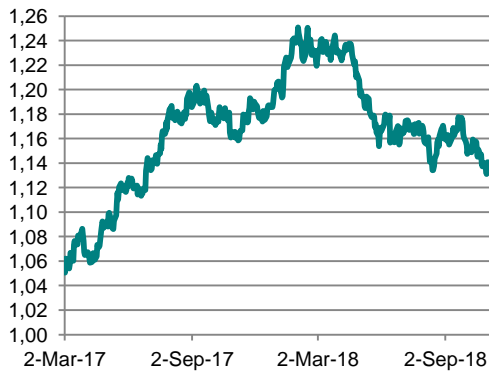
Fed kept its target range unchanged at 2-2.5%

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



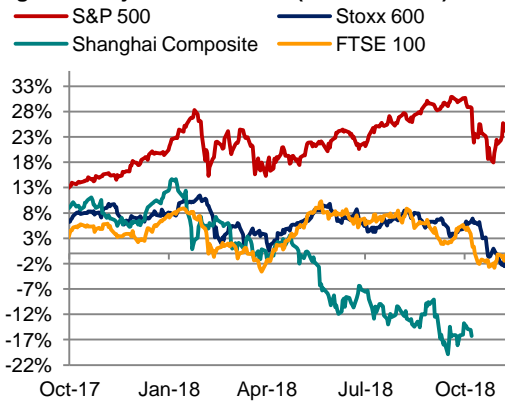
Source: Reuters

Figure 6. EUR USD spot (mid)



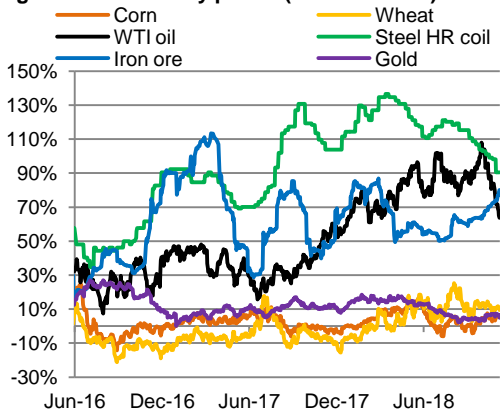
Source: Reuters

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



Source: Reuters

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



Source: Reuters

On Thursday, markets were highly expecting next interest rate decision from Federal Reserve chaired by Jerome Powell. In the meantime, the International Monetary Fund has lowered its forecast for economic growth in Europe for both 2018 and 2019. In regard to Asia, Chinese factory gate inflation decelerated for a fourth month in a row.

Bond benchmarks increased, with U.S. 10y Treasuries' yield fell by 3bp week-on-week landing at 3.19%, while German 10y Bunds' yields decreased by 3bp, landing at 0.41%, Japanese 10y bonds yields ended the week at 0.12%.

On Thursday, markets were highly expecting next interest rate decision from Federal Reserve chaired by Jerome Powell. Amid a wage growth acceleration in the county the central bank has kept its target range at 2-2.5 per cent. At the same time, Fed remained on track to keep gradually tightening borrowing costs, as economy remained at healthy footing. The statement from FOMC reflected little change in the Federal Reserve outlook for the economy since last September meeting. The Fed's policy statement didn't explicitly notice the recent volatility in U.S. stock markets that resulted in strong sell off in October.

Equity indexes advanced, as S&P gained by 2.1%, while Nasdaq Composite increased less by 0.7 % week-on-week.

EUR/USD rate landed at 1.1334 as of Friday the 9th, down compared to last week closing level of 1.1385.

Main stock indexes increased in Europe. Namely Stoxx 600 increased by 0.5% during the week, while German DAX climbed slightly only by 0.1% week-on-week.

The International Monetary Fund has lowered its forecast for economic growth in Europe for both 2018 and 2019. The IMF had forecasted growth in the region at 2.3% in 2018, lower than last year's 2.8%. At the same time, economic growth for 2019 was forecast to decline to 1.9%. As far as in its May economic outlook IMF had forecasted growth to reach 2.6% in 2018, following by 2.3% in 2019. In regard to short-term risks they were mainly linked to escalating trade tensions. But on the longer horizon growth could slow due to delays in implementing fiscal adjustment and structural reforms.

Chinese Premier Li Kequing mentioned that Beijing aims to further open its economy in the face of increasing protectionism. He made remarks in an article in Singapore's Straits Times newspaper. According the Li Kequing, China has opened its doors to the world, and will never close and open even wider. On top of that, recent slew of statistic revealed that factory inflation in China slowed for a fourth month in a row, amid the steadied consumer prices. In particular, PPI increased by 3.3% in October from year earlier. The consumer price index advanced by 2.5%, in line with previous month increase. Decelerating PPI indicates that domestic demand remains sluggish even despite eased central bank policies.

Crude oil prices moved lower, as WTI futures decreased by 4.7% week-on-week and closed at USD 60.2 per barrel, while Brent futures fell by 3.6%, landing at USD 70.2 per barrel.

Gold prices declined as NYMEX 1m futures decreased by a mere 2.0% week-on-weeks and finished the week at USD 1206.4 per troy ounce.

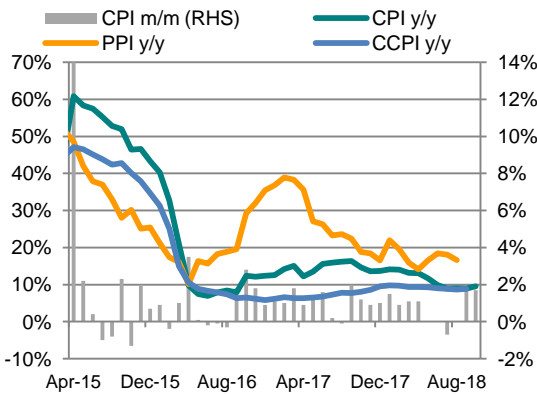
Grains prices fell, as CBOT Corn 1m futures decreased by 0.4% week-on-week and closed at USD 369.8 per bushel, while CBOT Wheat 1m futures landed at USD 502.0 per bushel, declining by 1.3% during the week.

Iron ore increased, as NYMEX Iron ore 62% Fe 1m futures increased by a solid 3.6% on a week-on-week basis and closed at USD 75.6 per ton.



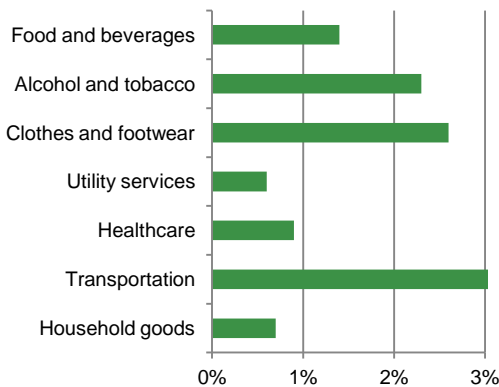
This week in focus: Ukraine's inflation has gained momentum in October

Figure 9. Inflation rates in 2015-2018



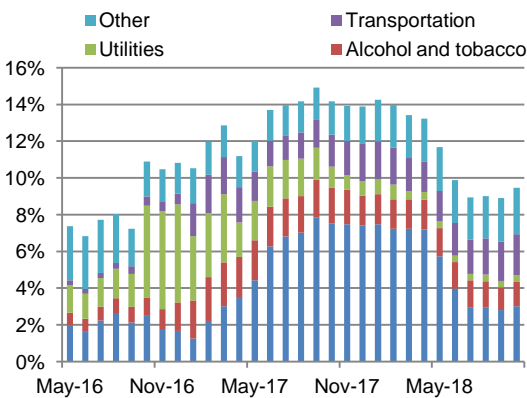
Source: Ukrstat

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



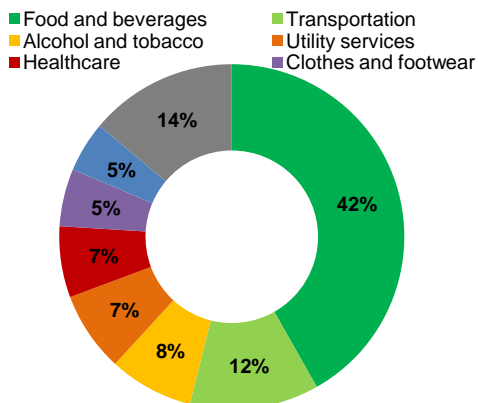
Source: Ukrstat

Figure 11. Inflation drivers in 2016-2018, %



Source: Ukrstat

Figure 12. CPI basket



Source: Ukrstat

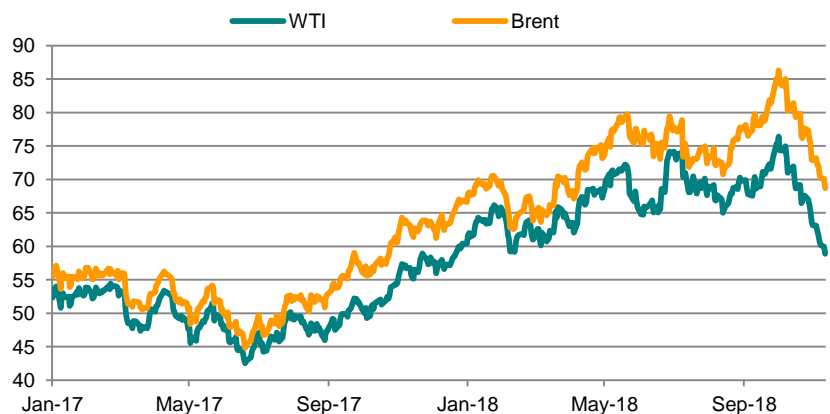
In line with our expectations, inflation in Ukraine has accelerated to 9.5% y/y in October from 8.9% y/y reported a month ago. We keep our inflation forecast unchanged at 10.3% in 2018, observing some risk tilted to the upside.

Food prices posted gains of 7.2 y/y, accelerating from 6.8% y/y declared in September. Meantime, on a m/m basis prices slightly decelerated to 1.4% m/m from September's 1.6% m/m increase. Prices of vegetables increased the most in October by 8.8% m/m, followed by milk (+3.6% m/m), bread (+2.7%), eggs (+2.7% m/m) and meat (+0.8 m/m). As opposed to that, prices of fruit and sugar declined by 4.6% m/m and 2.3% m/m respectively.

Utilities prices were effectively flat during the month, as prices increased by 0.6% m/m in October. Government has already announced household's gas prices increase by 23.5% since November 1st. We expect to see acceleration in inflation stemming from utilities component in the next consumer prices release of Ukrstat covering November performance.

Transportation prices increased by a solid 3.1% m/m in October, accelerating from quite strong 2.8% m/m rise reported a month ago. Having gained by 5.4% m/m in September, prices of fuel gained by 6.0% m/m in October, resulting in 24.5% y/y rise during month. Prices in transportation services followed suit and increased by 2.4% m/m, as prices in passenger auto and railway transportation increased by 2.5% m/m and 1.9% m/m, respectively. We expect growth in prices coming from transportation category to subside in November, provided average Brent price dropped by about 11% m/m (as of November 13th) against the backdrop of more or less stable exchange rate in Ukraine in the first half of November.

International fuel prices, USD per barrel



Industrial prices increased by a mere 0.3% m/m in October, decelerating strongly from 1.2% m/m rise in prior month. At the same time, prices decelerated to 16.6% y/y from 18.9% y/y rise reported a month ago. On y/y basis prices in mining decelerated to 17.5% y/y from 17.7% in September, contributing mildly to aggregate industrial prices basket in October. Prices in mining increased by 2.7% m/m. It was driven by 5.2% m/m increase in prices of iron ore mining and by 1.7% m/m increase in prices of oil mining. Prices in manufacturing advanced by 1.1% m/m in October, as prices in food (+1.2% m/m), metallurgy (+1.0% m/m), chemicals (+2.8% m/m) and coke (2.6% m/m) increased the most.

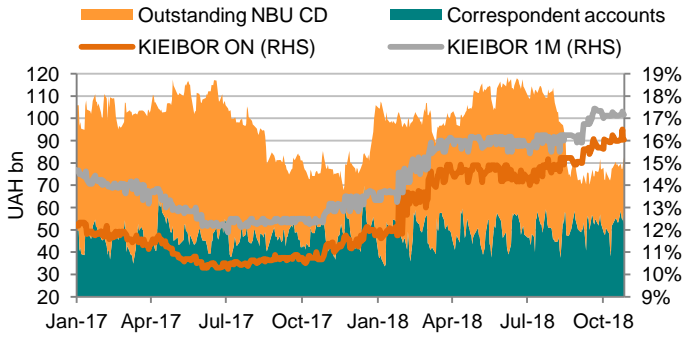
Core CPI gained by 1.3% m/m in October, following 1.9% m/m gain in a previous month. In line with acceleration on m/m basis prices have also increased on a y/y basis and reached 8.8% y/y, followed by 8.7% y/y in September. The stickiness of y/y reading below 9% threshold is remarkable; at the same time increase in prices in October suggest that during the month inflation was driven rather by more fundamental factors, as opposed to non-recurring.

The next Monetary Policy Committee is scheduled to be held on December 13th. Prospects of next IMF tranche, coupled with November's inflation dynamic will clarify the interest rate path in the nearest time going forward. We keep our inflation forecast at 10.3% by the end of 2018, observing some risk tilted to the upside.



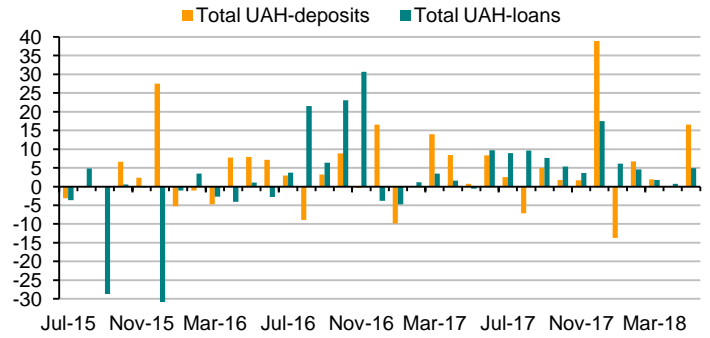
Money market

Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

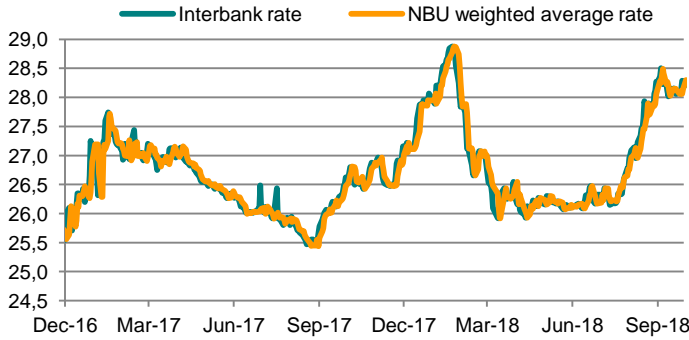
Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

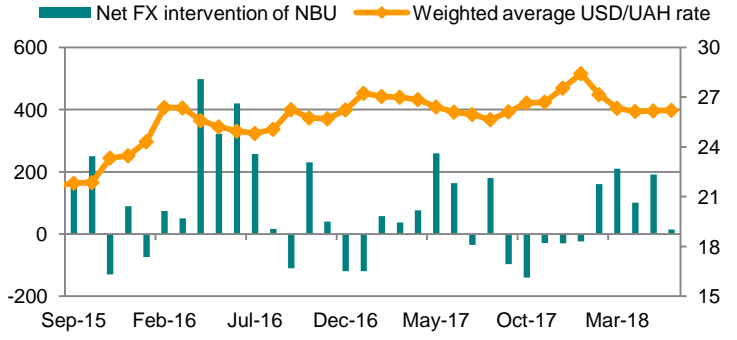
Currency market

UAH exchange rate, UAH/USD



Source: Reuters

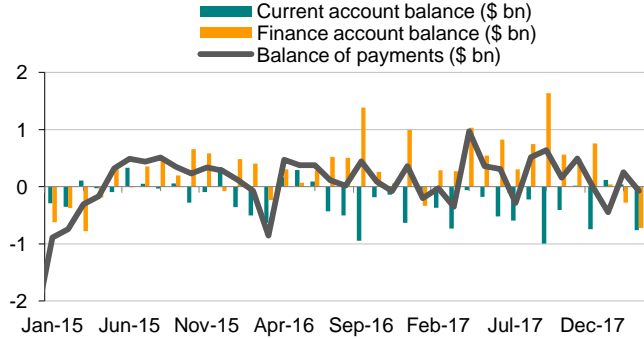
Net retail FX interventions of the NBU in 2015-2017, USDmnn



Source: NBU

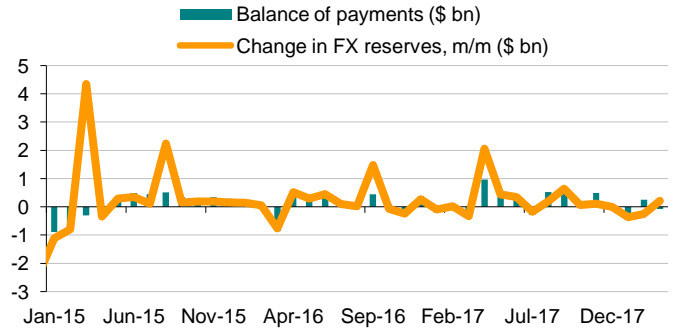
Balance of payments

Major BoP accounts, USDbn



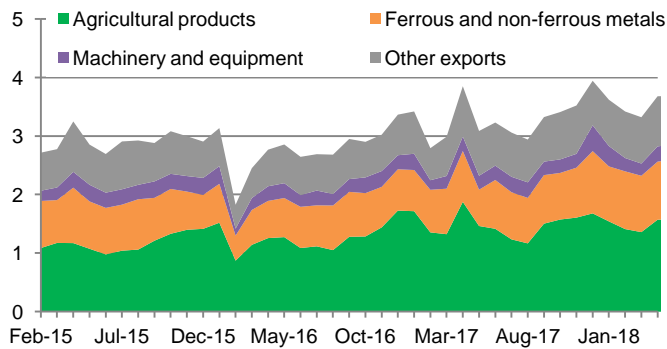
Source: NBU

BoP vs change in foreign reserves, USDbn



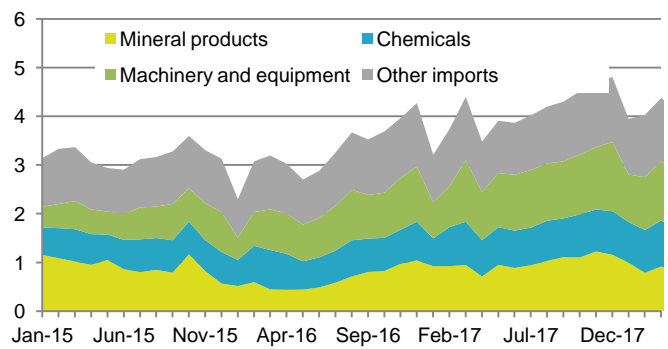
Source: NBU

Exports components dynamic, USDbn



Source: NBU

Imports components dynamic, USDbn



Source: NBU



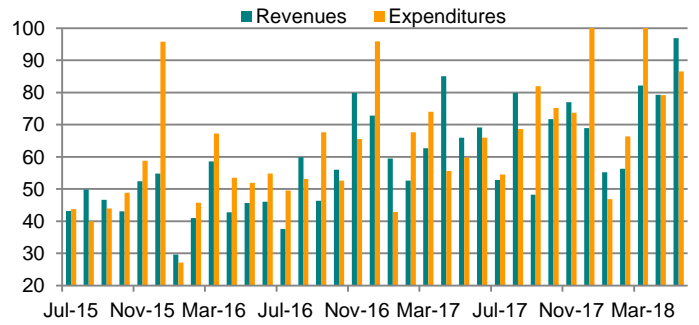
Budget performance

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

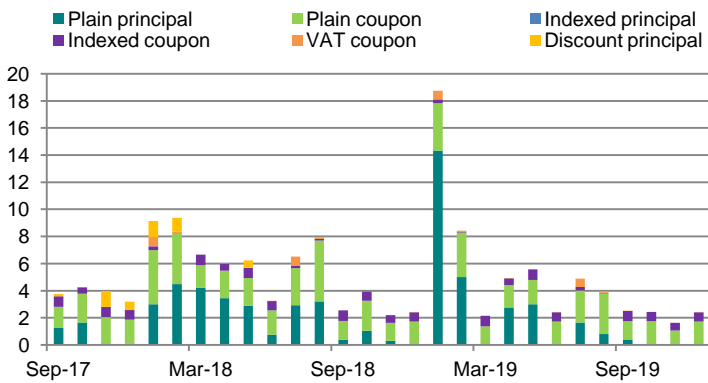
Monthly change in budget revenues and expenditures, UAHbn



Source: NBU, State Treasury

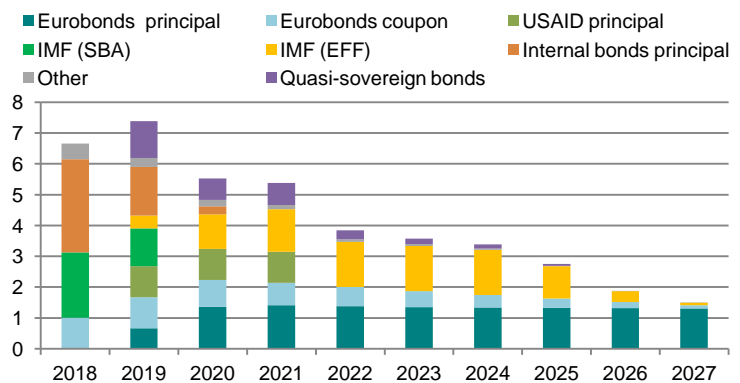
Sovereign debt

UAH-denominated debts' repayments schedule, UAHbn



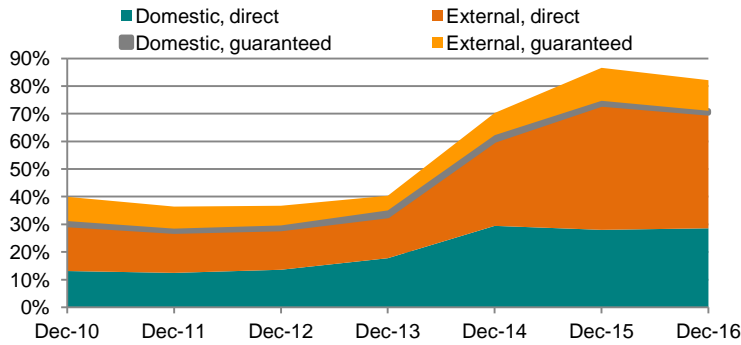
Source: NBU, UkrSibbank estimates

FX-denominated debt repayments schedule, USDbn



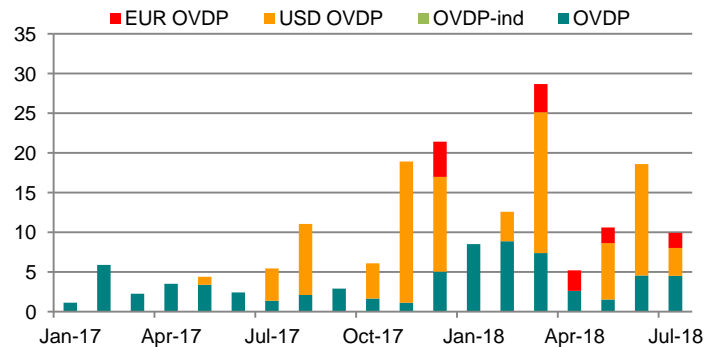
Source: Reuters, IMF, UkrSibbank estimates

Total government debt, % GDP



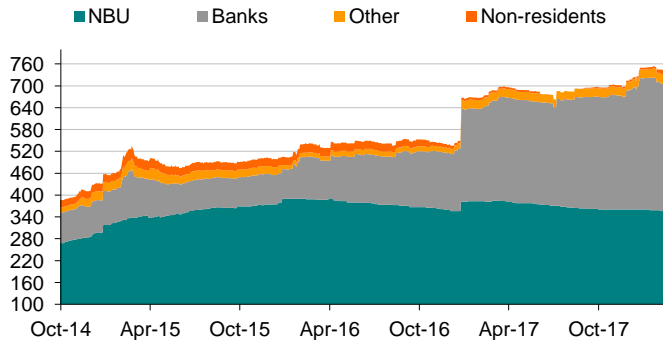
Source: MinFin

Local borrowings, UAHbn equivalent



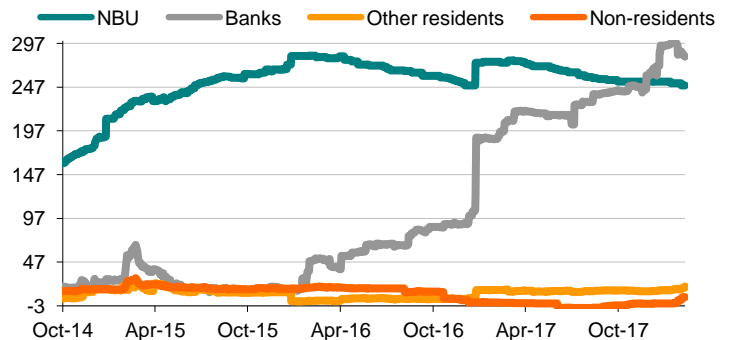
Source: NBU

Outstanding OVDP owners structure, UAHbn



Source: NBU

Outstanding OVDP changes in holding, UAHbn

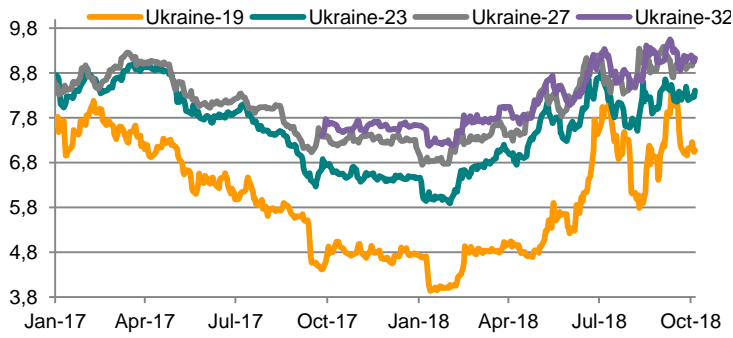


Source: NBU



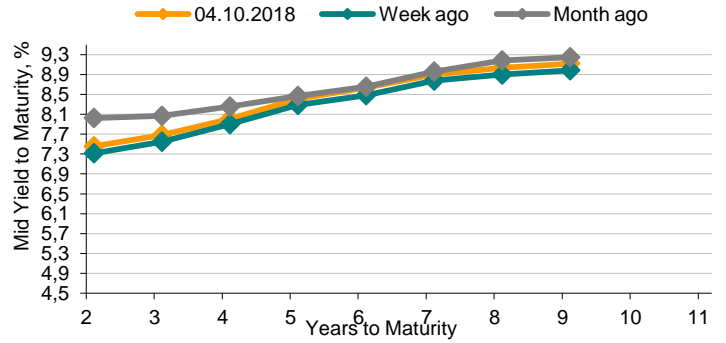
Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

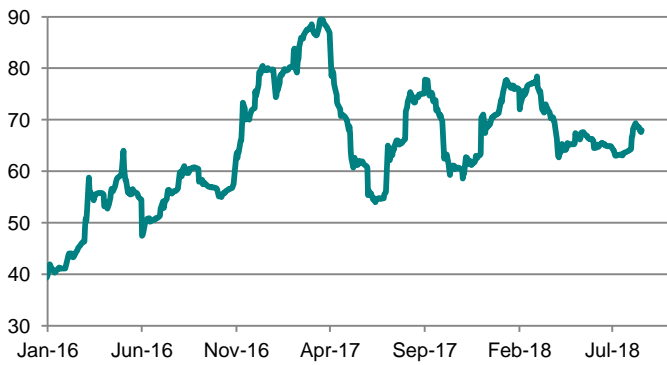
Ukraine's sovereign Eurobond yield curve



Source: Reuters

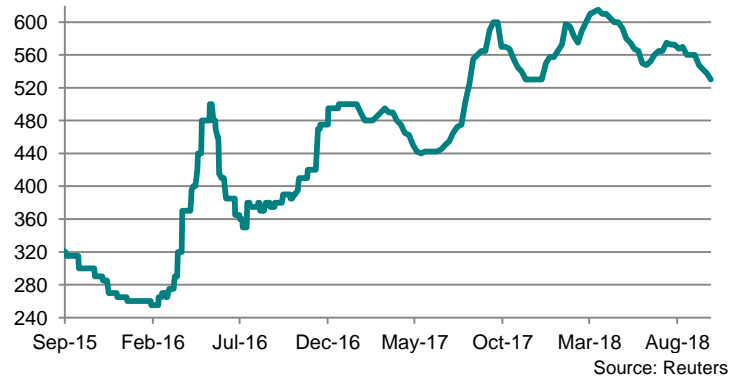
Commodity markets

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



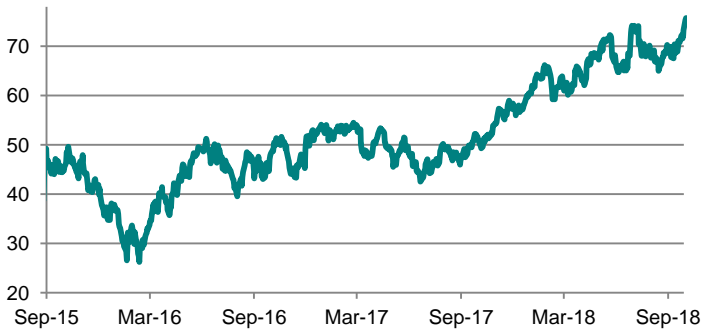
Source: Reuters

Steel CIS export HR coil, USD per ton



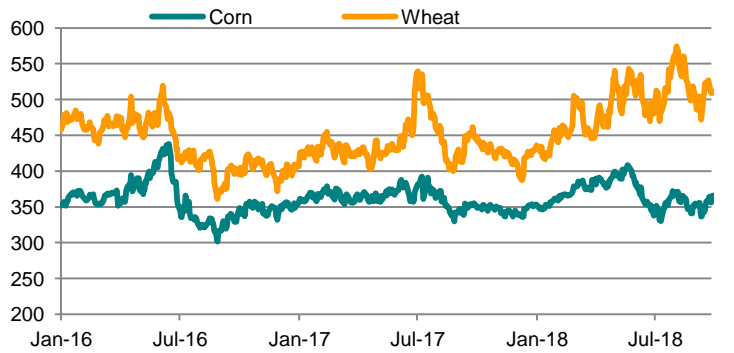
Source: Reuters

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



Contacts

Investment Business

Serhiy Yahnych

Head of Investment Business

(+38044) 537 5082 serhii.yahnych@ukrsibbank.com

Maksym Burynskyi

Research Analyst

(+38044) 230 48 54 maksym.burynskyi@ukrsibbank.com

Viktoriia Nebeska

Brokerage Local Securities & Custody Sales

(+38044) 201 22 74 viktoriia.nebeska@ukrsibbank.com

Platon Yachmenov

Advisor Local Securities

(+38044) 230 48 54 platon.yachmenov@ukrsibbank.com



FX Business

Oleksandr Duda

Head of FX Sales

(+38044) 537 5002 oleksandr.duda@ukrsibbank.com

Corporate Business

Ievgen Kulikov

Head of MNC team

ievgen.kulikov@ukrsibbank.com

Important Disclaimer

This document has been prepared by group of investment business of PUBLIC JOINT STOCK COMPANY "UKRSIBBANK" that is the part of BNP Paribas Group (hereafter – JSC "UkrSibbank") in strict compliance with related Ukrainian legislation.

JSC "UkrSibbank" is the sole owner of the contents of this document (as well as the graphics, the layout, and the text) which is protected by (Ukrainian and international) copyright laws. No materials featured herein can be reproduced or used in any format, in whole or in part, without the prior written consent of JSC "UkrSibbank".

This document is a marketing communication, not intended for public use, and is not considered to be an independent investment research. The document has not been prepared in accordance to legal requirements designed to provide the independence of investment research, and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The information and opinions contained in this report have been obtained from, or are based on public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. Nothing in this report can be rendered as explicit or implicit investment recommendation.

To the fullest extent permitted by law, neither JSC "UkrSibbank", nor any other BNP Paribas group company, accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report.

This document is intended to be distributed on the territory of Ukraine, to non-US persons only (most broad definition of US persons must be applied).

By accepting this communication, a recipient hereof agrees with abovementioned limitations.