



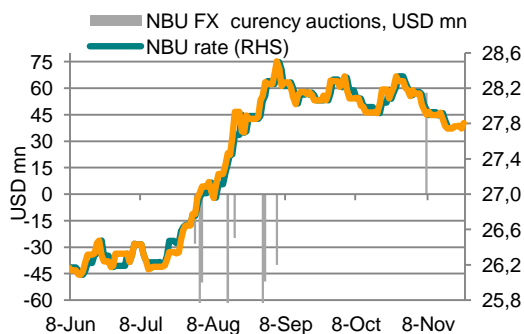
**This week in focus: IP and retail sales data: a mixed bag**

Growth in industrial production was delivered for the most part by calendar day effect in October. According to preliminary Ukrstat data, Ukraine's real GDP growth decelerated to 2.8% in 3Q 2018. The main reason of that was an early start of harvesting campaign in Ukraine in this year, which boosted 2Q 2018 GDP growth numbers, and contributed lower to 3Q 2018 GDP growth. All in all, we keep our 2018 real GDP growth forecast at 3.4%.

*Please see page 3 for more details*

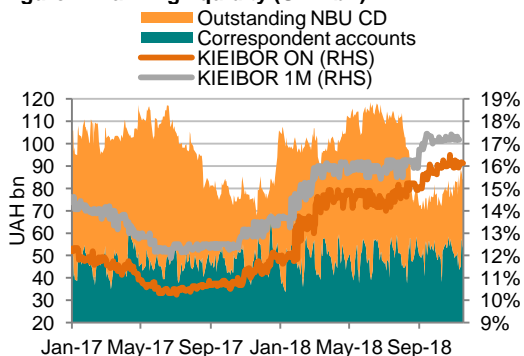
**FX and interest rates: Verchova Rada has adopted 2019 state budget**

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



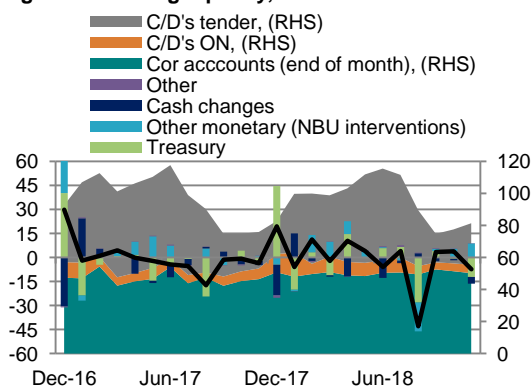
Source: NBU, Reuters

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



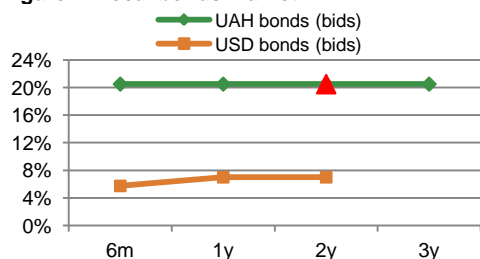
Source: Reuters, NBU, UkrSibbank, Minfin

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



Source: NBU

**Figure 4. Local bonds market**



Source: UkrSibbank

**USD/UAH was at 27.75 as of Friday the 23<sup>rd</sup>.** On November 26, Verchovna Rada adopted Martial law in Ukraine, effecting 10 districts and lasting for 30 days, which can put pressure on the hryvnia going forward.

**Central bank continued to buy FX on the market extending the purchases for a five consecutive week in a row.** NBU purchases of FX amounted to USD 52.7mn during the week ended November 24<sup>th</sup>. The main instruments utilized during the week by the central bank were operations under single rate. YTD reading of central bank interventions amounted to USD 1.1bn of bought FX currency in 2018, as of November 24<sup>th</sup>.

**In prior week, the liquidity continued to be under pressure mainly due to operations with treasury account.** The strongest decline stemming from fiscal system occurred on Monday, amounting to UAH 5.6bn. At the same time, on Friday treasury operations contributed meaningfully in a way that increased liquidity. In particular, treasury account added UAH2.3bn, reflecting primarily the refund of VAT. As a result of that, cumulatively treasury operations reduced liquidity by 4.5 for the week ended November 24<sup>th</sup>. In contrast to that, other drivers contributed positively. Cash has acted in a manner that added UAH 1.8bn to banking liquidity, followed by interventions of the central bank amounting USD 52.7mn during the week and adding more than UAH 1bn to banking liquidity as of week ended November 24<sup>th</sup>. In regard to VAT reimbursement, Treasury has reimbursed UAH 4.6bn (according to latest data) cumulatively from the start of the month, as of the end of November 23<sup>rd</sup>. In prior month, it was reimbursed slightly more than UAH 10bn.

**Money market rates remained flat:** cost of ON funds is around 18.00/19.00, 1 week is 18.00/19.00 while 1M is 18.50/19.50, according to our calculations.

**MoF issued three UAH denominated bonds and 3 bonds denominated in USD.** Ministry of Finance proceeds from the shortest UAH bonds declined. While in previous auction MoF rejected some bids that were above 19.0%, this time Ministry satisfied effectively all demand, as all bids were at 19.0 or a cut off rate for the 3 month bonds established earlier. 6m bonds have brought the lowest proceeds to the budget. The Ministry satisfied only those bids that were not higher than the cut off rate of the previous auctions at 18.5%. On all other issues primary dealers applied for with a rates in line with a cut off rates for the previous auctions and as a consequence all demand was realized during the auction. The shortest USD denominated issue attracted the major part of proceeds to the budget. The cut off rate on 1y bonds remained at 7.25%. USD bonds with maturity slightly more than 12 month, namely 14 months, were placed at a cut off rate of 7.5%.

**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 5. OVDP auction results, 20<sup>th</sup> of November 2018**

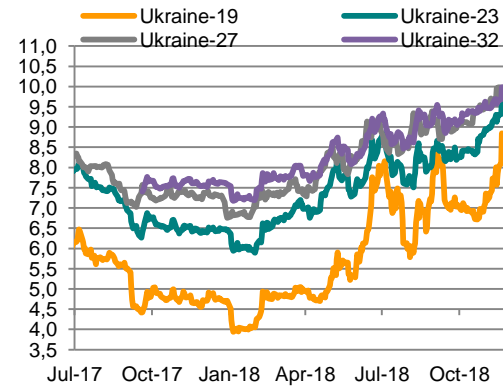
CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size	Placement size
UAH	3m	19.00%	19.00%	19.00%	19.00%	7	7	180.8mn	173.8mn
UAH	6m	18.50%	18.50%	19.00%	18.50%	3	2	25.8mn	0.8mn
UAH	9m	18.50%	18.50%	18.50%	18.50%	5	5	7.8mn	7.9mn
USD	6m	6.70%	6.70%	7.00%	6.70%	5	5	28.7mn	27.5mn
USD	1y	7.25%	7.25%	7.50%	7.25%	10	8	11.6mn	11.0mn
USD	1y	7.50%	7.43%	8.00%	7.00%	14	13	2.3mn	2.1mn

**On Friday, Ukraine's parliament Verchovna Rada approved state budget on the next year.** According to the document, minimum wage will be increased, coupled with increase and recalculation of pensions from March 1<sup>st</sup>, 2018 for 11.5mn of pensioners. The major part of the budget will be spend on social sphere. In particular, out of UAH 177.6bn, UAH 166.5bn will be allocated to Pension Fund. Incomes of the budget are envisioned at UAH 928.5bn, while expenses at UAH 1112.1bn. As a result, the budget deficit is expected to be UAH89.9bn. State budget was developed based on 3.0% of expected real GDP growth in the next year and 7.4% increase in consumer prices in 2019.



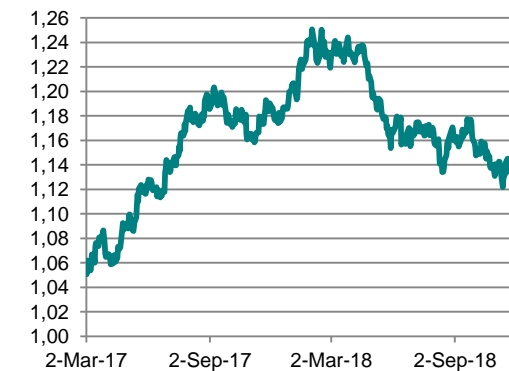
**Global markets: Brexit costs are to be 700-1100 pounds per person**

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



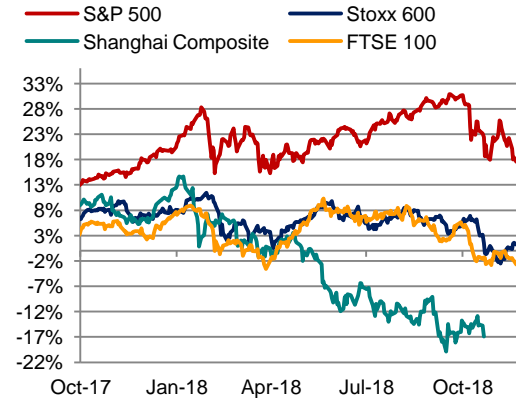
Source: Reuters

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



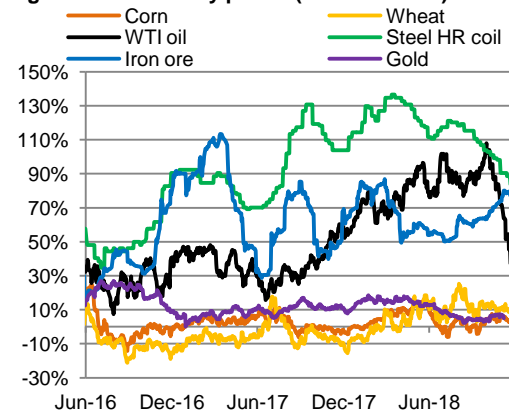
Source: Reuters

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



Source: Reuters

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



Source: Reuters

The recent governmental report described the impact of climate change on the U.S. by the end of the century. While another report showed the economic impact of Brexit on citizens in U.K. In regard to China, industrial profits have decelerated in October, pointing out on further weakening of economy.

**Bond benchmarks advanced**, with U.S. 10y Treasuries' yield fell by 2bp week-on-week landing at 3.05%, while German 10y Bunds' yields fell by 4bp, landing at 0.34%, Japanese 10y bonds yields ended the week at 0.09%.

**On Friday, U.S government issued a report titled the Fourth National Climate Assessment volume 2, which supplemented studies made a year ago about the impact of climate change.** Congressionally mandated report showed forecasted impact of global warming on every corner of Americans. It followed Trump last year intention to withdraw the country from 2015 Paris agreement to fight climate change. The main reason of that was a statement that the rules of Paris agreement would hurt U.S. economic growth, coupled with quite small effect on environment. Report indicated that with continued growth in emissions at historic rates, losses from that on an annual basis are forecasted to reach hundreds of billions of dollars by the end of the century. The most prominent effect on that are expected to feel the poor, hurting human health and causing other damages.

**Equity indexes remained in red, as S&P declined by 3.8%, while Nasdaq Composite plummeted by 4.3 % week-on-week.** From the start of the year, S&P fell by 1.5% reversing into decline after posting strong gains in 2017.

**EUR/USD rate landed at 1.1340 as of Friday the 24<sup>th</sup>,** down compared to last week closing level of 1.1451.

**Main stock indexes in Europe followed suit their U.S. counterparts and extended losing streak.** Namely Stoxx 600 decreased by 0.3% during the week, while German DAX declined by 0.5% week-on-week.

**According to a report produced by the National Institute of Economic and Social Research Brexit deal is likely to result in substantial long-term economic costs in a range of 700-1100 pounds per person each year compared to remaining in the block.** Report also highlights that withdrawal agreement is less economically damaging that breaking out of EU without a deal at all. The Institute, which published the report examined two scenarios: Britain receiving Canada-style free trade agreement with the EU after solving Irish border question and the UK remaining in the customs union of the block. And Canada-style option showed worse results, with economic hit amounting to 4% of national income or 1090 – 2030 pounds costs per person per year by 2030.

**According to the National Bureau of Statistics, industrial profits in China increased by 3.6% in October on a y/y basis,** reaching 548 billion yuan. It marked the 7-month low, indicating deceleration from 4.1% increase reported in previous month. In its report the Bureau also cited slowdown in factory gate inflation and high comparative base effects, as the major drivers of deceleration. On top of that, industrial firm's revenue growth decelerated to 9.4% in 10M 2018 from 9.6% in 9M 2018. As was observed previously, mining and metal producers and state-owned enterprises still represented the lion's share of profit gains. In 10M 2018 profits of industrial firms in China increased by 13.6%, down from 14.7% increase in 9M 2018.

**Crude oil prices plummeted,** as WTI futures tumbled by 10.7% week-on-week and closed at USD 50.4 per barrel, while Brent futures dropped by 11.9%, landing at USD 58.8 per barrel. Oil has effectively exacerbated their decline in last week.

**Gold prices were flat** as NYMEX 1m futures increased by 0.2% week-on-weeks and finished the week at USD 1221.0 per troy ounce.

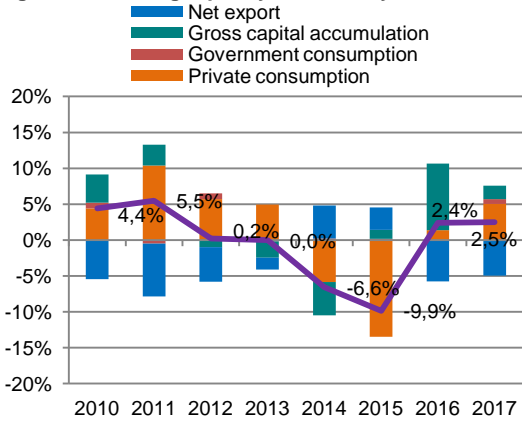
**Grains prices decreased,** as CBOT Corn 1m futures dropped by 1.6% week-on-week and closed at USD 359.0 per bushel, while CBOT Wheat 1m futures landed at USD 499.8 per bushel, falling by 1.4% during the week.

**Iron ore increased,** as NYMEX Iron ore 62% Fe 1m futures decreased by a 1.2% on a week-on-week basis and closed at USD 74.2 per ton.



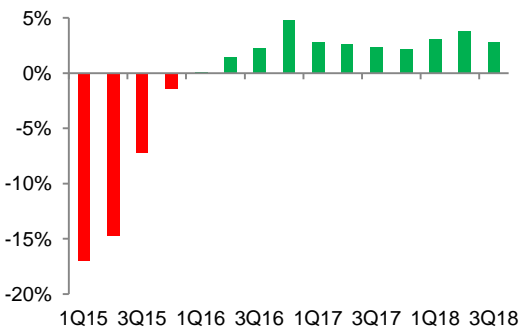
**This week in focus: IP and retail sales data: a mixed bag**

**Figure 9. Banking liquidity seasonality, UAHbn**



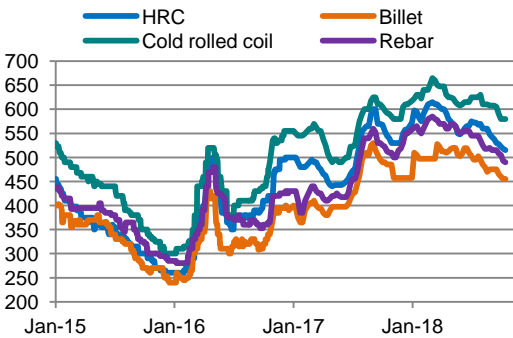
Source: NBU

**Figure 10. Contribution of treasury account to liquidity, UAHbn**



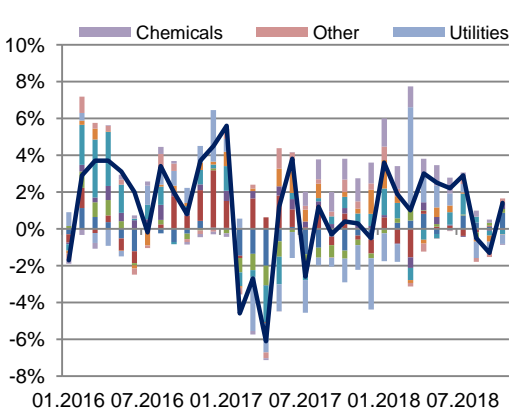
Source: NBU

**Figure 11. Contribution of cash to liquidity, UAHbn**



Source: NBU

**Figure 11. Industrial production, %**



Source: NBU

Growth in industrial production was delivered for the most part by calendar day effect in October. According to preliminary Ukrstat data, Ukraine's real GDP growth decelerated to 2.8% in 3Q 2018. The main reason of that was an early start of harvesting campaign in Ukraine in this year, which boosted 2Q 2018 GDP growth numbers, and contributed lower to 3Q 2018 GDP growth. All in all, we keep our 2018 real GDP growth forecast at 3.4%.

Retail sales decelerated to 5.0% y/y growth from 6.9% y/y reported in September. According to the latest available data, average salary in Ukraine amounted to UAH 9042. On a y/y basis average wages gained by 23.0% y/y. In regard to real wages growth, they showed increase by 12.9% y/y in September. State budget on the next year envisioned increase in minimum official wage to UAH 4173 from UAH 3723 effective from January 1<sup>st</sup>, 2018. The next increase in minimum salary is smaller by only 12.1%, following prior increase of 16.3%. At the same time, higher wage could boost private consumption in Ukraine but that contribution to economic growth will be partly mitigated by increased imports from abroad.

In October, industrial production gained by 1.4%, following 1.3% drop in September. According to data presented by Ukstat, industrial production growth was driven for the most part by one more calendar day in October 2018 vs October 2017. On an adjusted calendar day basis increase in production was only by a meager 0.3% y/y. At the same time, as measured by sectors, the largest contribution to growth came from mining, as all subsectors there posted higher digits.

**Mining advanced to 5.2% of y/y growth in October from 0.7% reported a month ago.** It was driven by a broader increased mining in all subsectors. In particular, in coal mining (+14.2% y/y from 13.2% y/y a month ago) production increased the most followed by, oil mining (+7.5% y/y from +6.4% y/y in September). On top of that, iron ore mining reversed from decline to growth of 2.5% y/y in October.

**Manufacturing sector delivered more strong results compared to a month ago performance, gaining by 2.1%, following 1.6% drop in production.** It happened even amid the backdrop of falling output in the two heavyweight sectors, namely in metals and food production. Having risen slightly in prior month, food production turned into red, declining by a mere 0.3% y/y in October.

**Chemical production posted lower output in October compared to year ago.** While we previously mentioned about sharp deceleration in that sector, especially in September to just 6.1% y/y, it turned into decline for the first time for a many months in a row.

**Metallurgical production remained in the negative mode.** While in previous month it registered a decline and dropped by 1.3% y/y, in October the digit improved by a mere 0.1%, indicating smaller decline of 1.2% y/y. Pig iron decline in production improved to 3.3% y/y after falling by 8.1% y/y in September. In contrast to that, production of rolled steel showed weaker results. While in prior month output increased by 4.7% y/y, it reversed to 2% y/y of decline in October.

**Machinery subsector has remained in decline in October.** At the same time, production showed some improvement, as it fell by only 0.3% y/y in October vs quite solid 4.5% y/y in September. Production of wagons gained by 23.2% y/y after reaching 41.5% y/y in September. In 10M 2018, production of wagons increased by 78.1% compared to the same period a year ago.

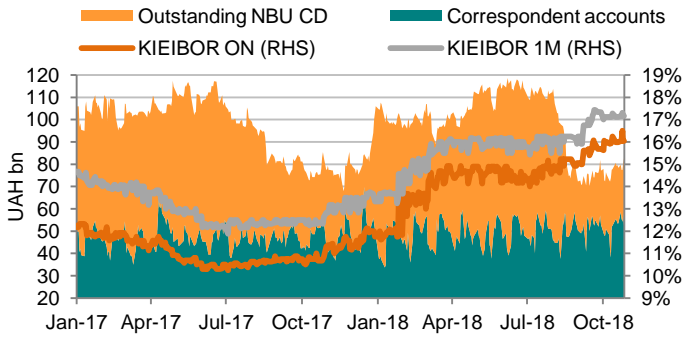
**Output in utilities sector remained in the regime of fall.** It fell by only 3.6% y/y in October, improving slightly from 3.9% y/y drop reported a month ago.

**In regard to sectoral breakdown, among major industries solid digits of growth posted only mining.** On top of higher industrial production, economic growth in the country was strongly supported by agricultural sector. Having delivered 11.4% y/y growth in September, the sector posted even more upbeat performance in October, as production increased by 28.5% y/y, putting a 10M 2018 reading higher to 9.0% y/y or as much as twice higher compared to a 9M 2018. Due to strong spring crops performance, the harvest amounted roughly 68mnt (the latest available data), setting a new record, and this will be reflected primarily in 4Q 2018. As a result, we keep our 2018 real GDP growth forecast at 3.4%.



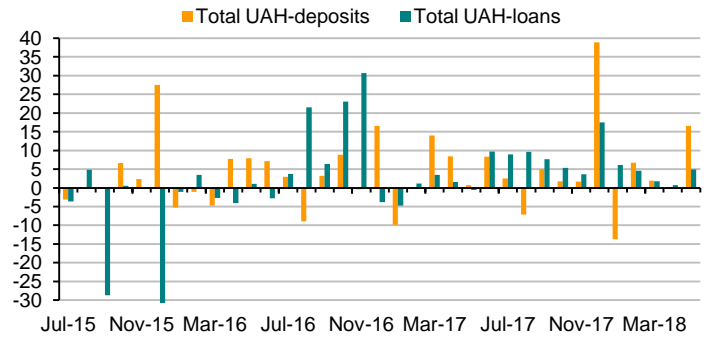
### Money market

Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

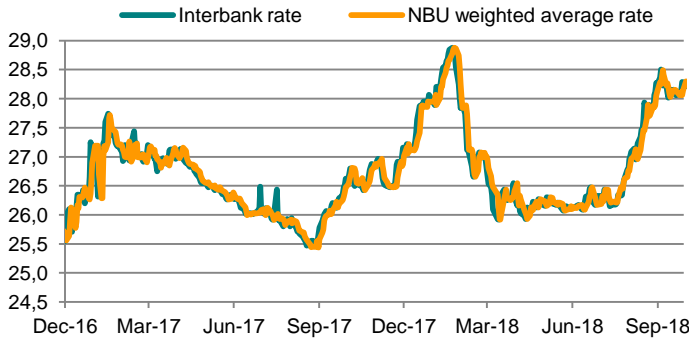
Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

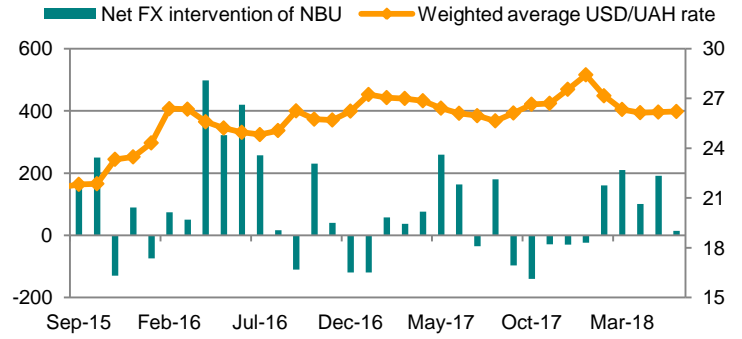
### Currency market

UAH exchange rate, UAH/USD



Source: Reuters

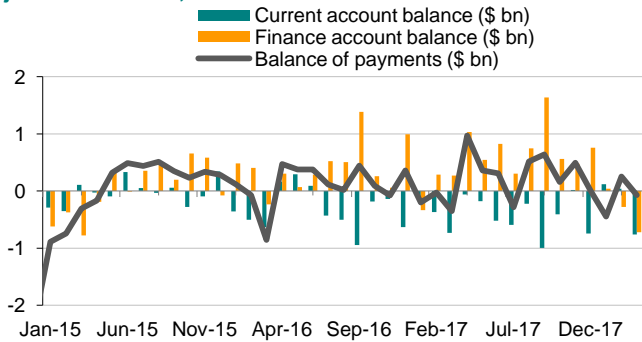
Net retail FX interventions of the NBU in 2015-2017, USDm



Source: NBU

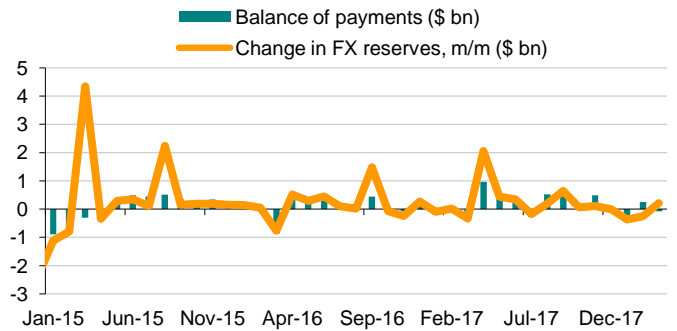
### Balance of payments

Major BoP accounts, USDbn



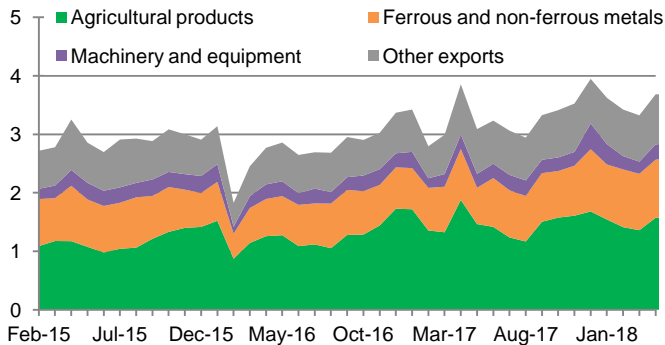
Source: NBU

BoP vs change in foreign reserves, USDbn



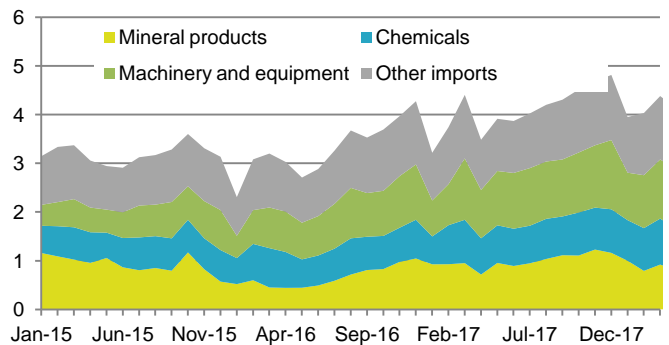
Source: NBU

Exports components dynamic, USDbn



Source: NBU

Imports components dynamic, USDbn



Source: NBU





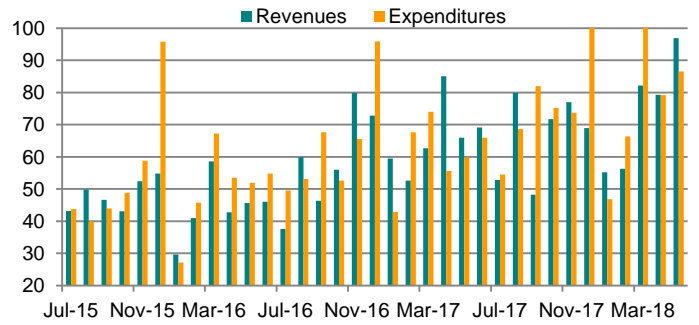
**Budget performance**

**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

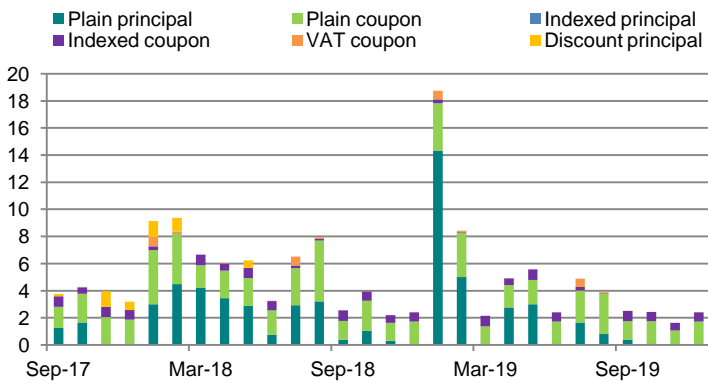
**Monthly change in budget revenues and expenditures, UAHbn**



Source: NBU, State Treasury

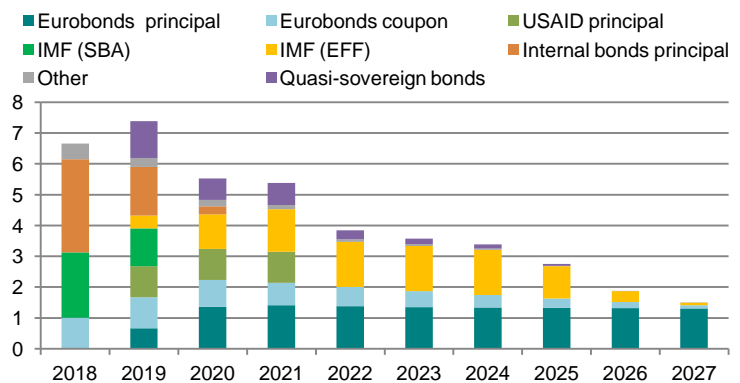
**Sovereign debt**

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



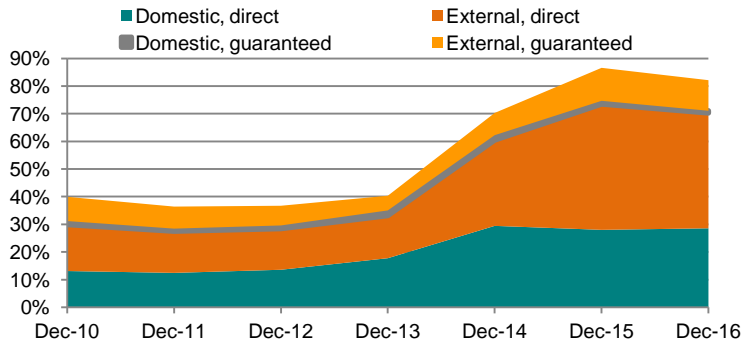
Source: NBU, UkrSibbank estimates

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



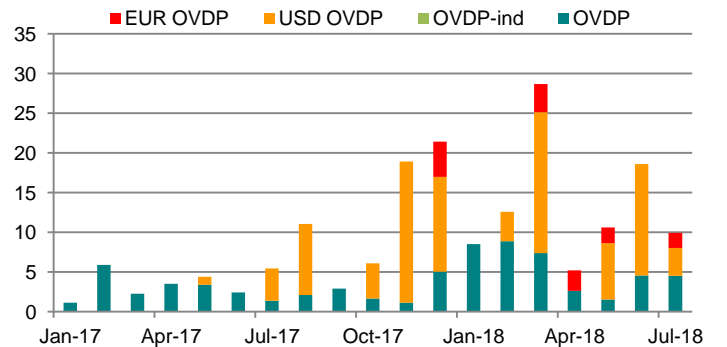
Source: Reuters, IMF, UkrSibbank estimates

**Total government debt, % GDP**



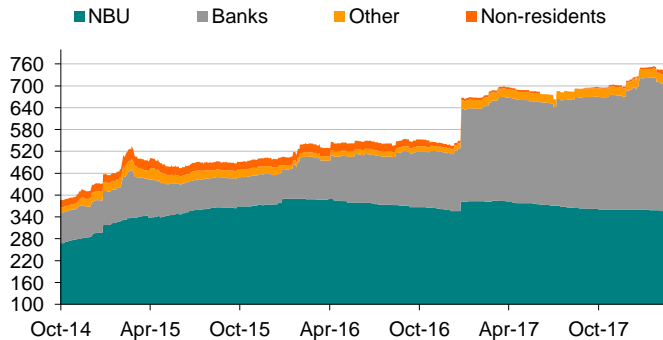
Source: MinFin

**Local borrowings, UAHbn equivalent**



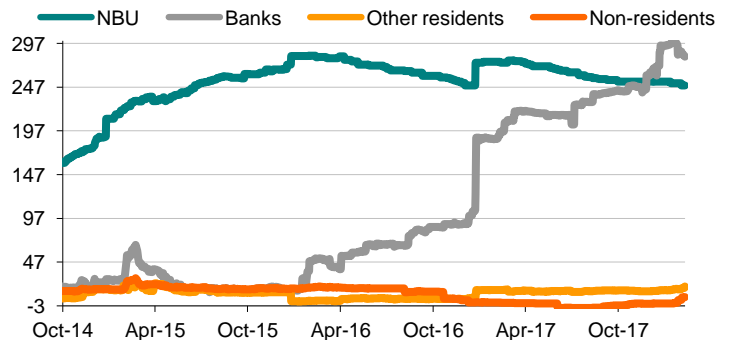
Source: NBU

**Outstanding OVDP owners structure, UAHbn**



Source: NBU

**Outstanding OVDP changes in holding, UAHbn**

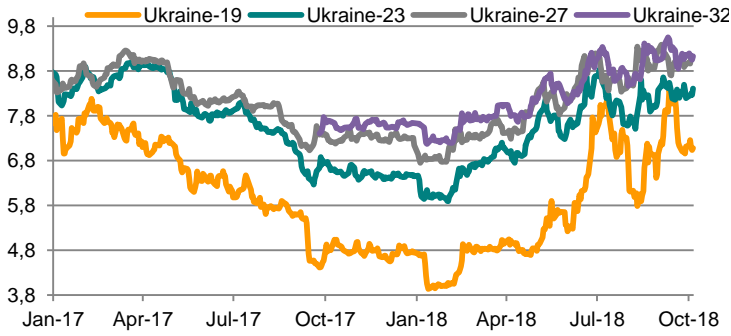


Source: NBU



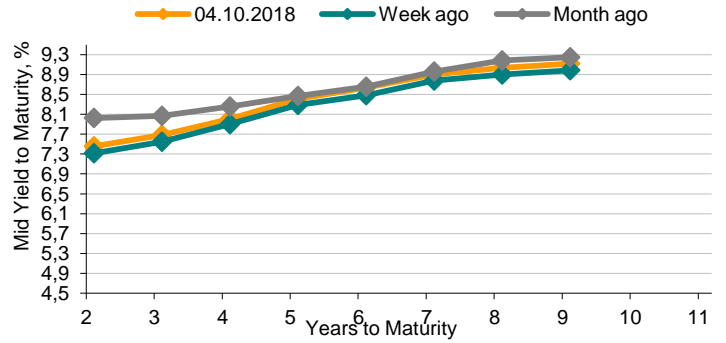
### Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

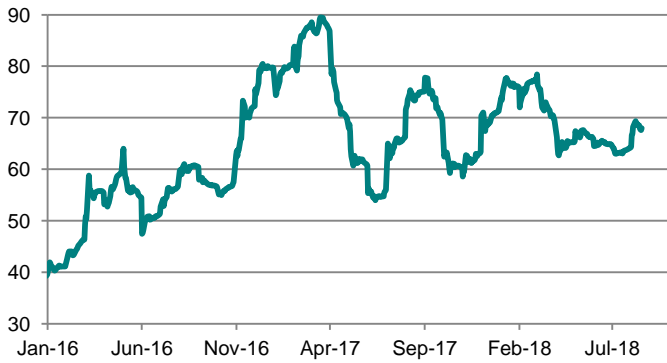
Ukraine's sovereign Eurobond yield curve



Source: Reuters

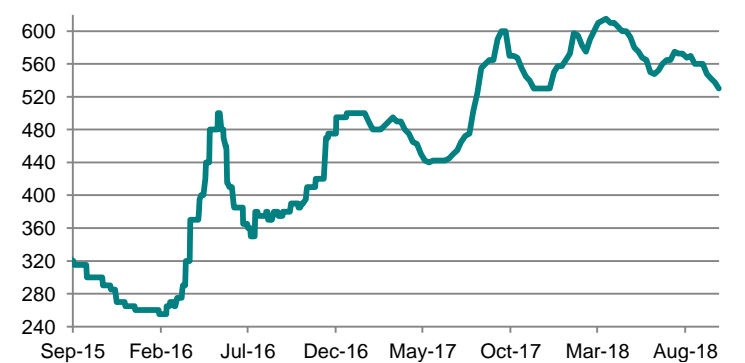
### Commodity markets

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



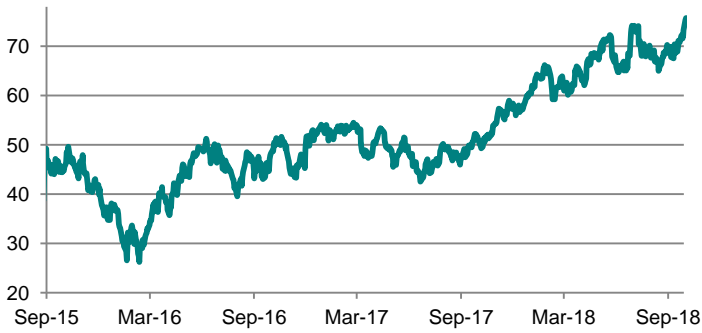
Source: Reuters

Steel CIS export HR coil, USD per ton



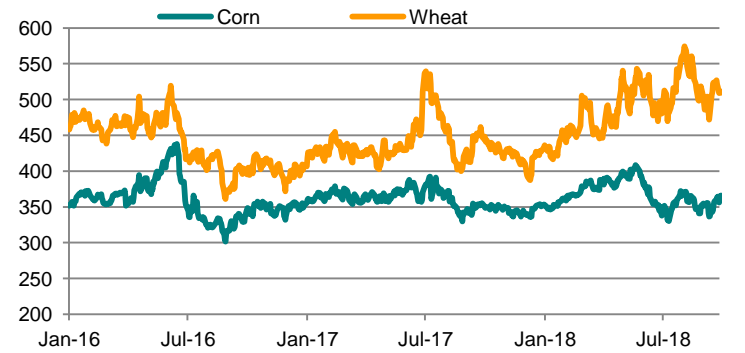
Source: Reuters

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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