



This week in focus:

November inflation: new tariffs

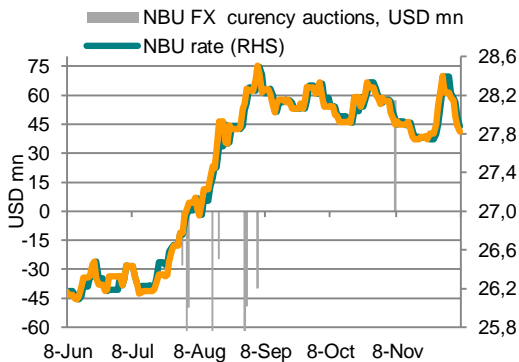
According to our expectations, Ukraine's inflation pushed higher on y/y basis, reaching 10.0% y/y. While recent weakening of oil prices should contain consumer inflation, vivid domestic demand, coupled with adjustment of heating tariffs should keep inflation rates close to double digit area. We continue to expect 10.3% in 2018 and 9.3% in 2019.

Please see page 3 for more details

FX and interest rates:

NBU reserves advanced to USD 17.7bn

Figure 1. UAH exchange rate (UAH per USD)



Source: NBU, Reuters

USD/UAH was at 27.88 as of Friday the 7th, as hryvnia strengthened during the week, gaining by 1.8% week-on-week.

Having sold USD 85mn on a net basis, as of week ended November 30th, central bank interventions resulted in USD 272.4mn of bought hard currency, as of week ended December 7th. Out of which, USD 242.4 was bought through interventions under single rate, and USD 30mn via matching tool. Using matching, NBU bought USD 10mn and sold USD 50mn during the week. YTD reading of central bank interventions dropped to USD 1.3bn of bought FX currency in 2018, as of December 7th.

Banking liquidity ended around UAH 80bn, as of December 7th. NBU interventions to buy USD 272.4mn on the market pushed liquidity higher by UAH 7.6bn during the week. At the same time, treasury operations added approximately UAH 2bn to liquidity as well. In contrast to that, increase in cash outside banks sliced UAH 2.7bn from liquidity during the week.

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.

In line with previous auctions the latest MoF primary action was characterized by small demand. As a result, MoF managed to collect just UAH 106mn to the budget, with roughly half of the proceeds coming from the hryvnia bonds and half from bonds in hard currencies. The cut off rate of the shortest UAH denominated bonds remained intact at 19.0%. Ministry of Finance satisfied all demand on the issue or all 11 bids out from 11 applied by primary dealers. The 6 month UAH bonds trailed behind with total proceeds lower by several times compared to the shortest UAH bonds. In regard of bonds in foreign currencies there were four of them. Out of which 3, were denominated in USD, following EUR denominated issue. The largest amount of funds to the budget came from USD bonds with 1 year maturity and cut of rate at 7.25%. There are only two bonds scheduled to be redeemed in December. In particular, one USD bond totalling USD 132.5mn with maturity on December 14th and one UAH denominated bond totalling UAH3.8bn with maturity on December 19th.

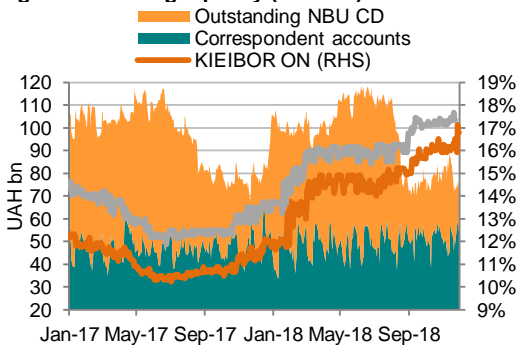
Currently, yields (bids) of local OVDP in UAH at 21.50% (for 6m), 21.50% (for 2Y). 1Y USD bids were at 7.50%, while bids for VAT bonds were at 21.50%.

Figure 5. OVDP auction results, 4th of December 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%	11	11	54.2mn	51.3mn
UAH	6m	18.50%	18.50%	18.50%	18.50%	6	6	10.3mn	9.4mn
USD	6m	6.70%	6.70%	6.70%	6.70%	3	3	0.26mn	0.25mn
USD	1y	7.25%	7.25%	8.25%	7.25%	6	5	0.72mn	0.67mn
USD	2y	7.50%	7.50%	7.50%	7.50%	4	4	0.56mn	0.57mn
EUR	1y	4.60%	-	-	-	2	2	0.11mn	0.11mn

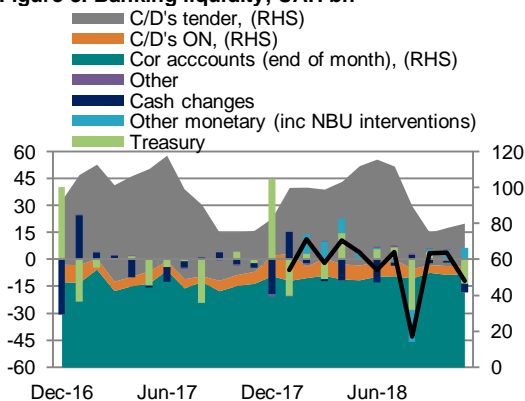
Ukraine's international reserves has increased by 5.8% m/m in November and amounted to USD 17.7bn, as of December 1st. The main source of increase in reserves stemmed from Eurobonds placement amounting to USD 2.0bn, followed by USD 82.9mn proceeds from local bond placements. In November, Ukraine redeemed USD 725mn of short-term Eurobonds, issued previously in August. On top of that, Ukraine paid to IMF USD 439.1mn, followed by USD 238.2mn of other debt servicing payments. At the same time, NBU has bought USD 357.8mn of hard currency on the market during the month and has sold USD 125mn, resulting in net purchase of USD 232.8mn.

Figure 2. Banking liquidity (UAH bn)



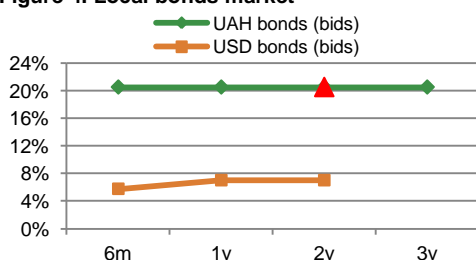
Source: Reuters, NBU, UkrSibbank, Minfin

Figure 3. Banking liquidity, UAH bn



Source: NBU

Figure 4. Local bonds market

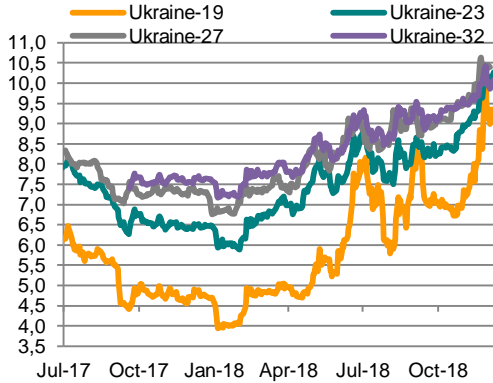


Source: UkrSibbank



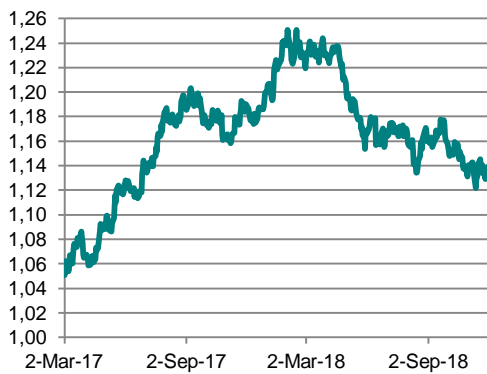
Global markets: The pace of job creation decelerated in November

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



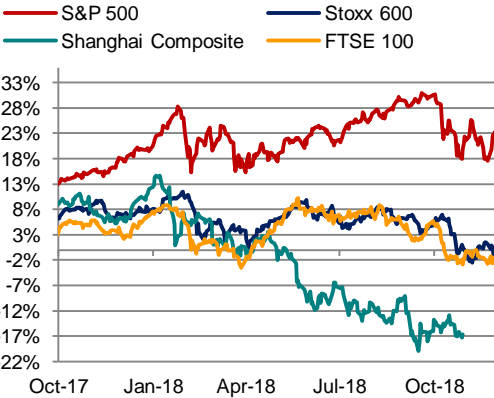
Source: Reuters

Figure 6. EUR USD spot (mid)



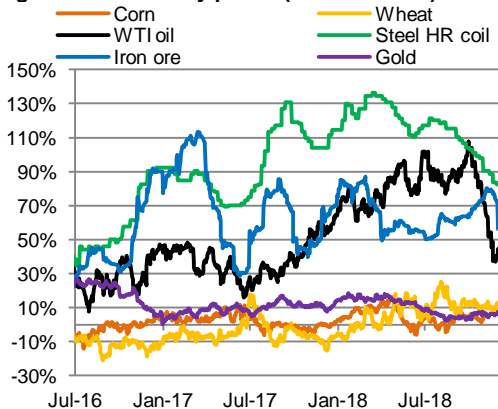
Source: Reuters

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



Source: Reuters

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



Source: Reuters

Jobs market in U.S. posted 155 000 new jobs in November, indicating deceleration compared with October reading. Japan's parliament voted to support economic partnership agreement with the European Union, which is expected to cover about 37% of the global trade. At the same time, consumer prices in China showed signs of deceleration in November.

Bond benchmarks advanced, with U.S. 10y Treasuries' yield fell by 16bp week-on-week landing at 2.85%, while German 10y Bunds' yields fell by 6bp, landing at 0.25%, Japanese 10y bonds yields ended the week at 0.05%.

Jobs in the U.S increased by 155 000 in November, according to Friday's release of the Bureau of Labor Statistics. It marked a deceleration compared to a previous month more robust 237 000 gain. The report has also underscored that the unemployment rate remained unchanged at 3.7% along with growth in wage increasing by 3.1%. The last month's weak numbers appears to be quite disappointing after strong month in October. But it's particularly difficult to sustain above 200 000 jobs each month, maintaining unemployment rate at 3.7% at a historic low level. The Fed is widely expected to increase its interest rates on the next FOMC meeting scheduled on December 18-19.

Having jumped strongly in prior week, equity indexes tumbled, as S&P dropped by 4.6%, while Nasdaq Composite declined by 4.9 % week-on-weeks. Equities declined last week after the news that Meng Wanzhou (CFO of Chinese tech giant Huawei Technologies) was arrested in Canada and faced extradition to the U.S. for allegedly breaching U.S. over Iran.

EUR/USD rate landed at 1.1376 as of Friday the 7th, down compared to last week closing level of 1.1315.

Main stock indexes in Europe dropped sharply, as Stoxx 600 declined by 3.4% during the week, while German DAX fell by 4.2% week-on-week.

Japan's parliament voted in favor of economic partnership agreement with the European Union. And approval by the European Council and European Parliament are the only impediments to agreement. Following completion of ratification process, the trade zone will start of the first day of the second month. According to the agreement, Japan and EU will eliminate from 94% to 99% of tariffs in such fields like farm, forestry and fisheries products and mining and manufactured goods. It's expected that the agreement will cover about 37% of the global trade in the nearest future.

Chinese consumer prices eased on an m/m basis, according to National Statistic Bureau data. At the same time, producer price index increased by 2.7% in November on y/y basis, following 3.3%. During the month raw materials prices increased by 4.6% on y/y basis, down from 6.7% increase in October, which acted as the main drag on consumer prices. Recently, China's central bank cut has cut the level of cash that banks need to hold as reserves several times during the year. The slowdown in consumer prices was caused primarily by food prices, in particular to spread of swine fever.

Crude oil prices moved higher, as WTI futures increased by 3.3% week-on-week and closed at USD 52.6 per barrel, while Brent futures advanced by 5.0%, landing at USD 61.7 per barrel.

Gold prices gained as NYMEX 1m futures increased by 2.2% week-on-weeks and finished the week at USD 1246.8 per troy ounce.

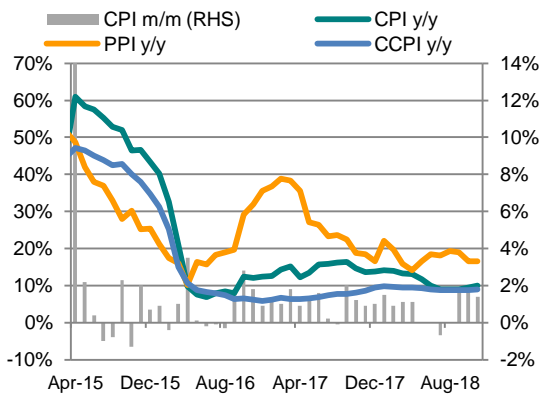
Grains prices were on the rise, as CBOT Corn 1m futures increased by 2.0 % week-on-week and closed at USD 374.0 per bushel, while CBOT Wheat 1m futures landed at USD 519.5 per bushel, expanding by 0.7% during the week.

Iron ore dropped, as NYMEX Iron ore 62% Fe 1m futures declined by a 7.6% on a week-on-week basis and closed at USD 66.76 per ton.



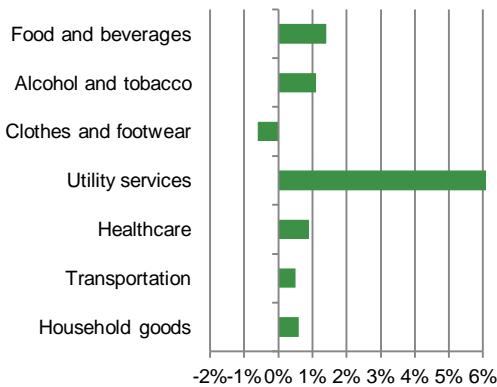
This week in focus: November inflation: new tariffs

Figure 9. Inflation rates in 2015-2018



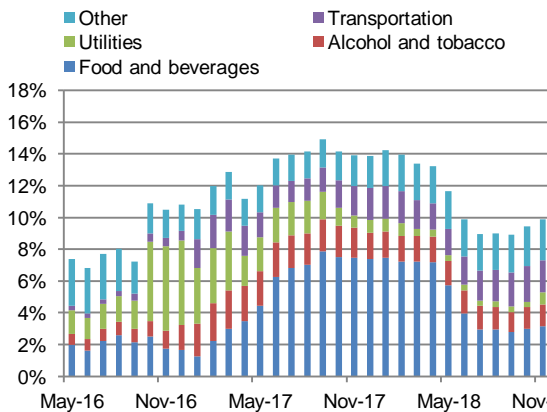
Source: Ukrstat

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



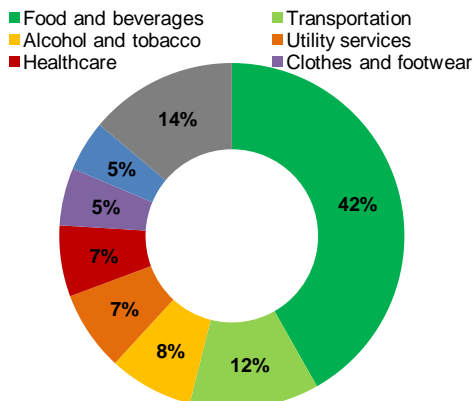
Source: Ukrstat

Figure 11. Inflation drivers in 2016-2018, %



Source: Ukrstat

Figure 11. CPI basket



Source: Ukrstat

November inflation: new tariffs

According to our expectations, Ukraine's inflation pushed higher on y/y basis, reaching 10.0% y/y. While recent weakening of oil prices should contain consumer inflation, vivid domestic demand, coupled with adjustment of heating tariffs should keep inflation rates close to double digit area. We continue to expect 10.3% in 2018 and 9.3% in 2019.

Food prices delivered acceleration in growth to 7.5% y/y from 7.2% y/y in October. The reading based on m/m dynamic posted some deceleration to 1.4% from 1.5% m/m reported in October. Once again prices of vegetables took the top spot, as measured by increase in them on m/m basis, namely they increased by 9.1% m/m, which was slightly lower compared to 8.8% m/m increase in October. Besides that, the strongest increase in prices delivered milk (4.5% m/m) and bread (3.3% m/m). In contrast to that, but in line with prior month dynamic, prices of fruits and vegetables weighted on the food basket component of CPI the most, by 4.5% m/m and by 1.7% m/m, respectively. In regard to other major components of food basket, they for the most part contributed positively to inflation in November.

Prices in utilities basket of CPI were on the rise in November, as they increased by 6.1% m/m during the month. Prices of natural gas for households, which was a subject of long negotiations and the main point of controversy with IMF, has increased by 22.9% m/m in October, according to Ukrstat. From the beginning of the year and on y/y basis up to November they posted 0% increase. As a result on y/y basis prices advanced by the same 22.9% or in line with print on m/m basis. We expect utility prices component will continue to exert upward pressure on CPI in the coming months. On top of gas price increase, we will see increase in the heating tariffs starting from December. The structure of the heating tariffs shows that the largest part of them roughly 80% comprises a cost to buy a natural gas, followed by 7% share of wages and 5% electricity costs. As a result, hike in heating for households will be smaller than 22.9% increase in gas prices (most likely in the range of 16-19%).

Transportation prices displayed strong deceleration of prices increase on m/m basis, as volatility of oil prices was remarkable in October and November. While transportation basket posted 3.1% m/m increase in October, based 6.0% m/m increase in oil prices, according to Ukrstat, the growth in transportation basket of CPI amounted to just 0.5% m/m in November, as the major component - namely price of oil - delivered decline of 1.3% m/m in November, erasing some gains posted earlier. Even despite that, the prices of auto passenger transportation increased by 3.5% m/m.

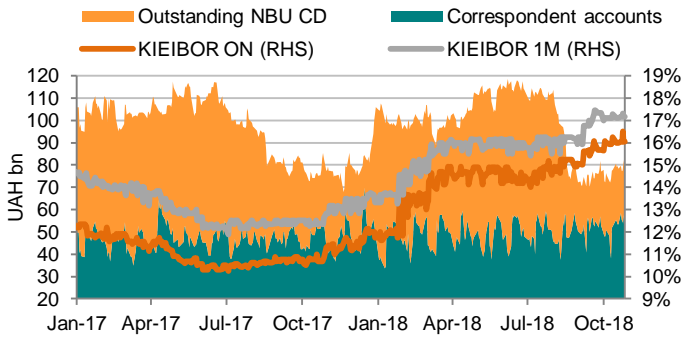
Core consumer prices (inflation without impact of energy and regulated tariffs) moved higher by 1.1% m/m decelerating from 1.3% m/m reported in prior month. At the same time, prices showed some acceleration on y/y basis as well, as they increased to 8.9% y/y in November from 8.8% y/y reported in October.

All in all, we expect the main interest rate will likely remain the same at 18.0% on the next Monetary Policy Committee effective December 13th, as next IMF tranche arrival will alleviate risks coming from other directions. However, provided recent acceleration in inflation, we cannot fully exclude another hike.



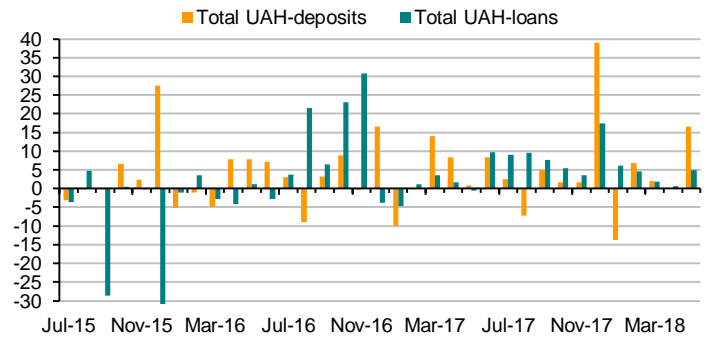
Money market

Banking liquidity vs. money market rates, %



Source: Reuters, NBU, UkrSibbank estimates

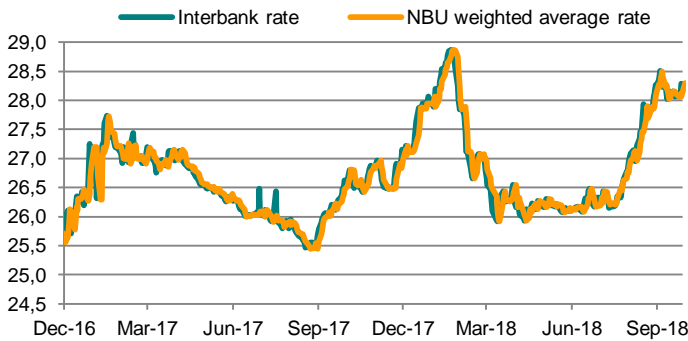
Monthly change in local currency loans and deposits, UAHbn



Source: the NBU

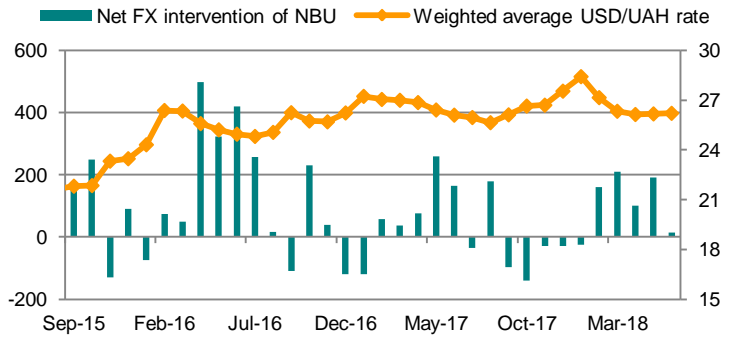
Currency market

UAH exchange rate, UAH/USD



Source: Reuters

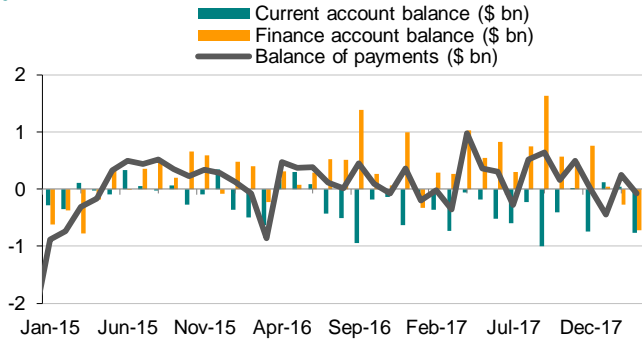
Net retail FX interventions of the NBU in 2015-2017, USDmnn



Source: NBU

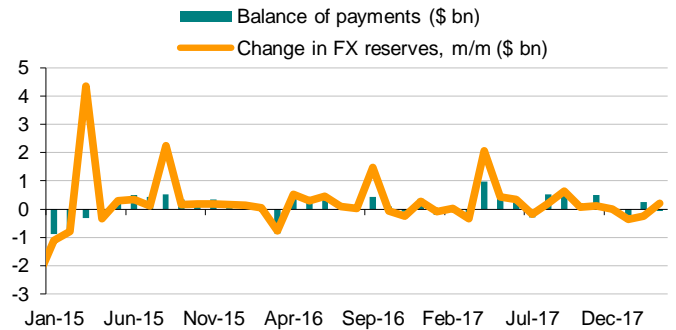
Balance of payments

Major BoP accounts, USDbn



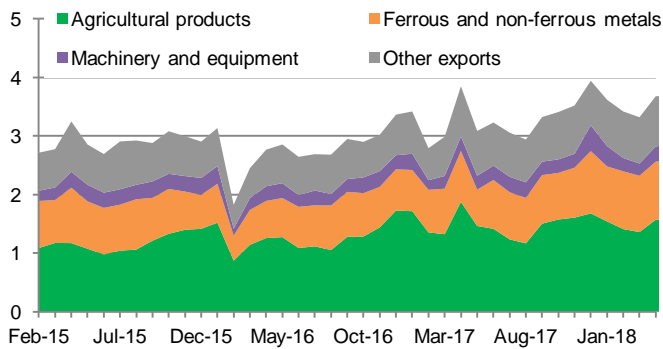
Source: NBU

BoP vs change in foreign reserves, USDbn



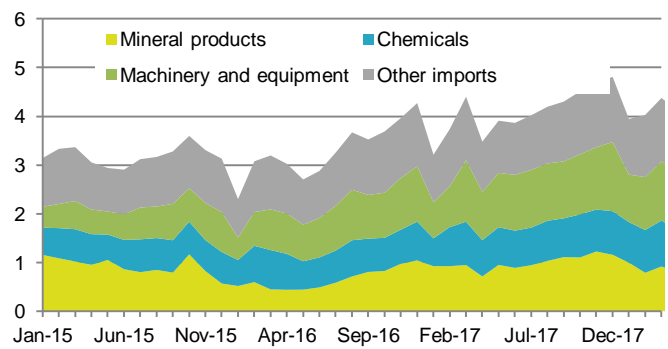
Source: NBU

Exports components dynamic, USDbn



Source: NBU

Imports components dynamic, USDbn



Source: NBU



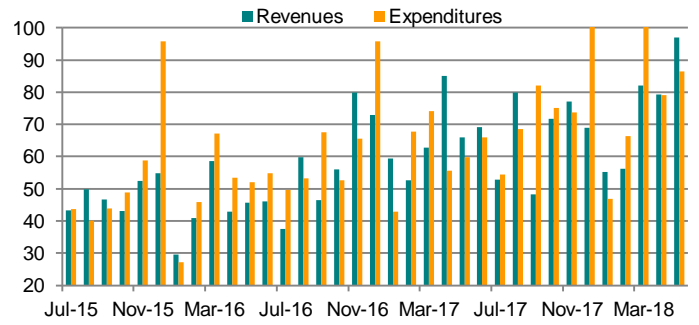
Budget performance

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

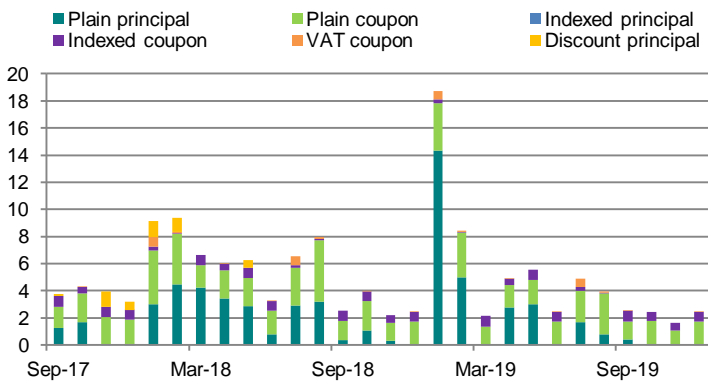
Monthly change in budget revenues and expenditures, UAHbn



Source: NBU, State Treasury

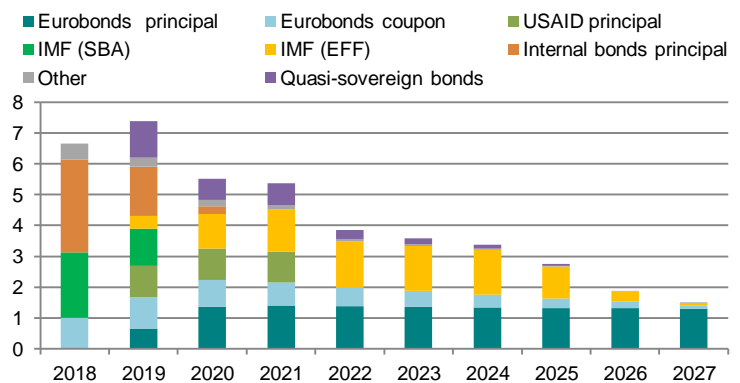
Sovereign debt

UAH- denominated debts' repayments schedule, UAHbn



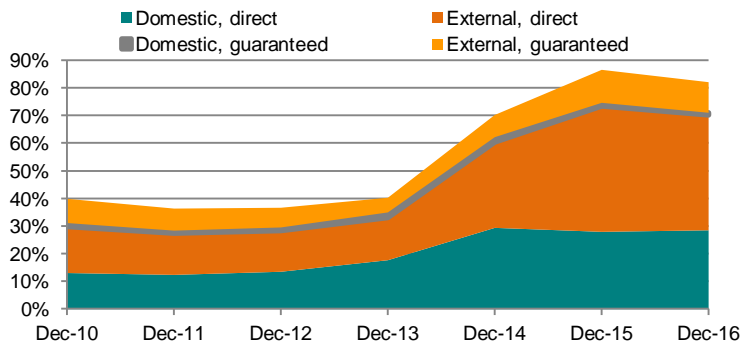
Source: NBU, UkrSibbank estimates

FX-denominated debt repayments schedule, USDbn



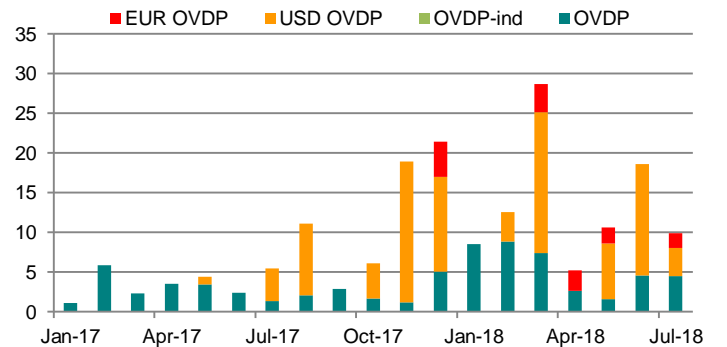
Source: Reuters, IMF, UkrSibbank estimates

Total government debt, % GDP



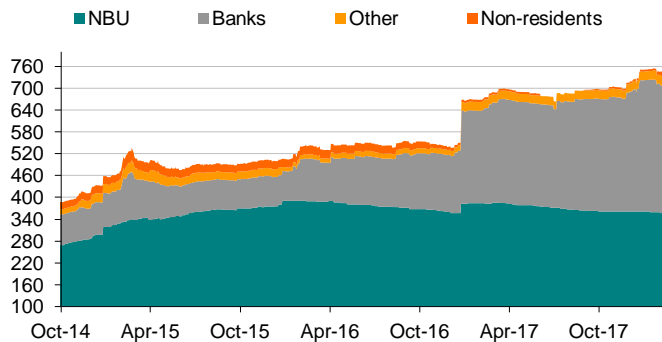
Source: MinFin

Local borrowings, UAHbn equivalent



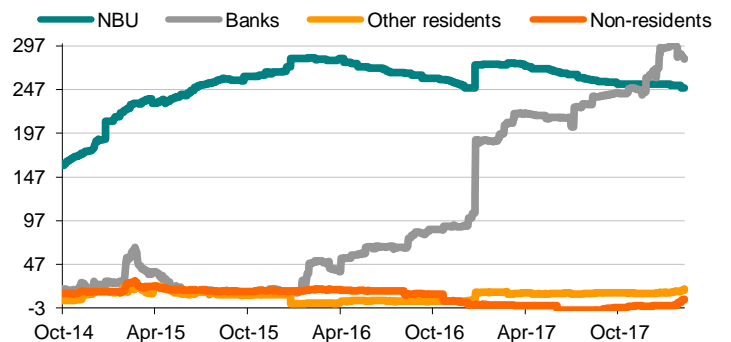
Source: NBU

Outstanding OVDP owners structure, UAHbn



Source: NBU

Outstanding OVDP changes in holding, UAHbn

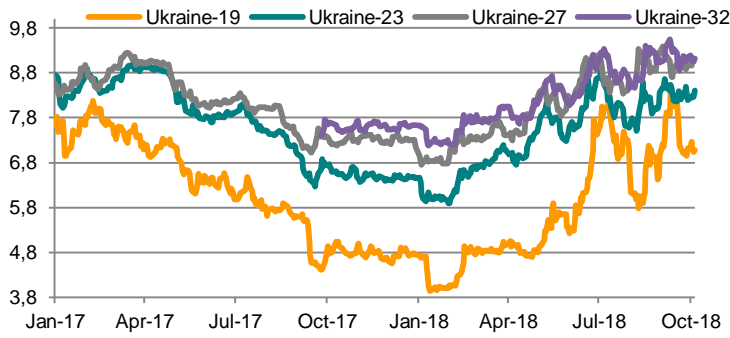


Source: NBU



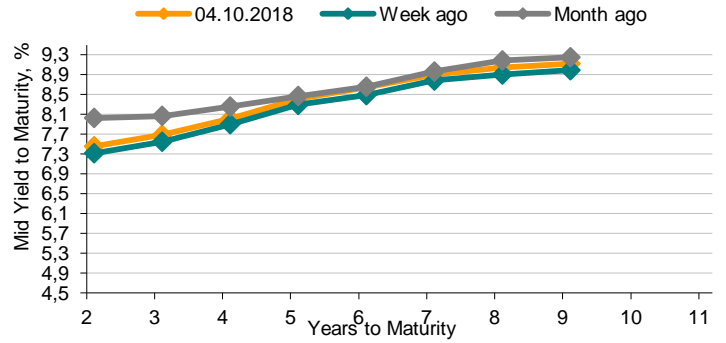
Eurobond market

Ukraine's sovereign Eurobond yields, %



Source: Reuters

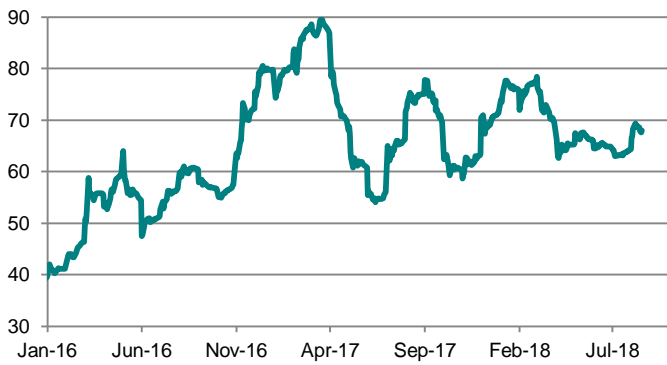
Ukraine's sovereign Eurobond yield curve



Source: Reuters

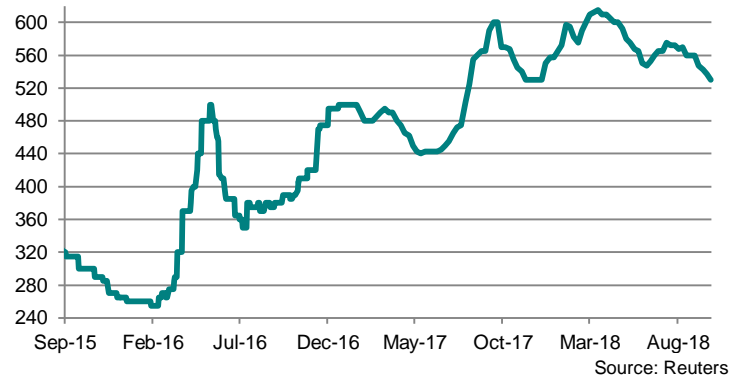
Commodity markets

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



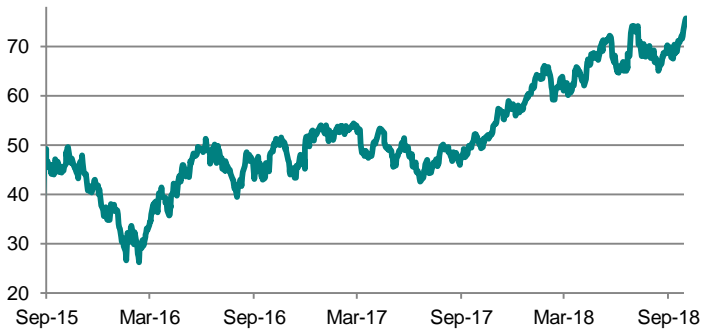
Source: Reuters

Steel CIS export HR coil, USD per ton



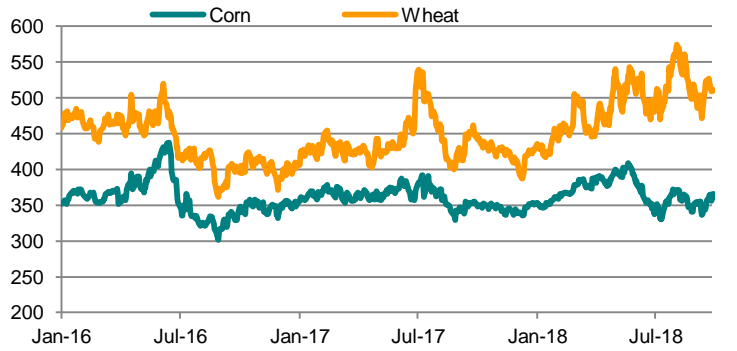
Source: Reuters

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	-4.9
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

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