

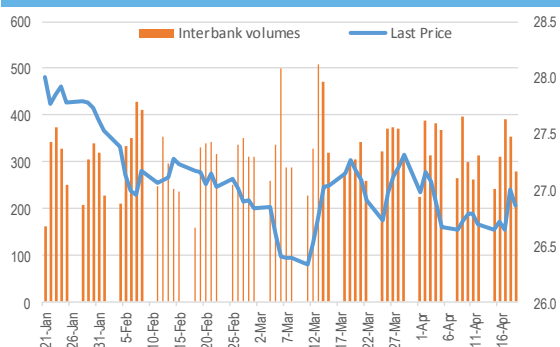
This week in focus: Landslide victory of alternative candidate

	Rating	Outlook	Last update
Fitch	B-	STABLE	03/08/2019
S&P	B-	STABLE	04/12/2019
Moody's	Caa1	STABLE	12/21/2018
S&P (N)	uaBBB	-	04/12/2019

Volodymyr Zelensky has won run-off election with highest support from voters in history of independent Ukraine. The candidate has gained 73.22%, the Central Election Commission (CEC) has stated on Apr 22. Ukraine managed to hold free elections with democratic and peaceful transition of power, according to international observers' statements. However, uncertainty is still in place. In this light upcoming parliament elections are vital for more certain mid-term outlook.

Figure 1. UAH exchange rate (UAH per USD)

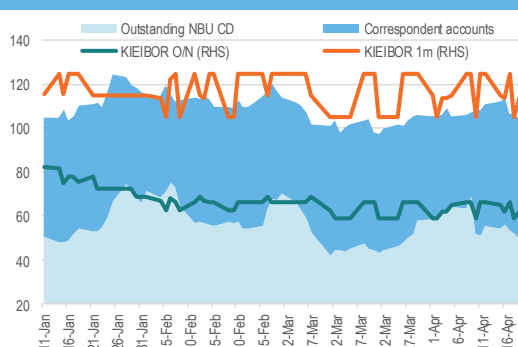
UAH resisted pressure from the cash market



UAH was little changed against USD during last week despite high uncertainty around the presidential election run-off. Some volatility in the interbank market was noticed on the eve of voting due to pressure from the cash market. However, key international observers' statements that the second round of election was mostly conducted in line with international election standards restored confidence in the market and send UAH quotations back below 27 (to 26.65 as of Apr 23).

Currently we see steady supply of USD in the market, supporting UAH. However, market is closely watching the election winner's team first actions and statements, hence market's sentiments may change just overnight. Taking this into account, **we expect upcoming prolonged holidays in Ukraine will weigh on UAH rate.**

Figure 2. Banking liquidity (UAH bn)



Ukrainian banking liquidity shrank by UAH6.8bn to UAH103.8bn by the end of last week, with investments in CDs down by UAH5.9bn to UAH49.39bn. Despite NBU FX interventions, which generated inflow of UAH1.2bn, drop in liquidity was mainly driven by banks conversion of UAH5.3bn on correspondent accounts into cash.

We expect banking liquidity will continue decreasing on the eve of upcoming prolonged holidays.

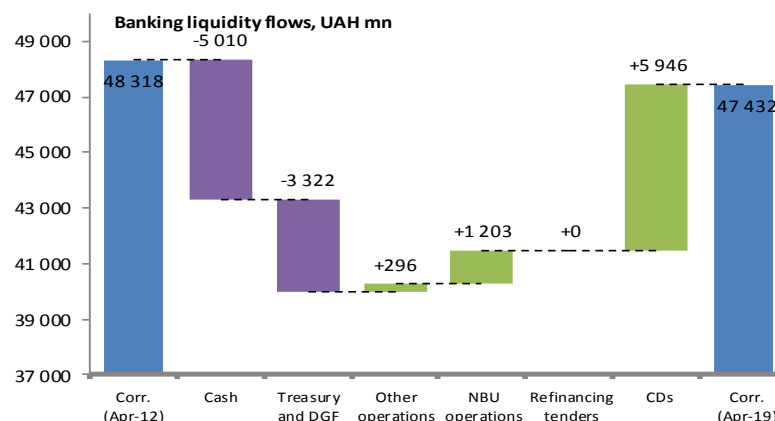
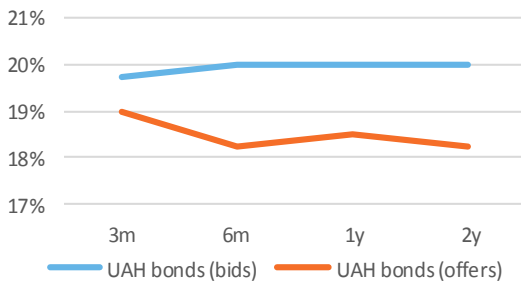


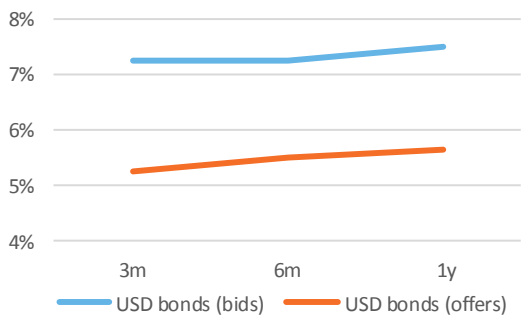
Figure 3. Local UAH bonds market



Government bond market

CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size, mn	Placement size, mn
UAH	3m	19.00%	18.97%	19.50%	18.95%	25	9	3 549.08	1 500
UAH	6m	19.00%	18.99%	19.00%	18.90%	17	17	3 337.96	3 337.96
UAH	1y	18.50%	18.50%	18.50%	18.50%	6	6	552	552
UAH	1.5y	18.25%	18.25%	18.25%	18.25%	7	7	811.3	811.3
UAH	2y	18.00%	17.89%	18.00%	17.95%	13	13	2 698.8	2 698.8
UAH	5y	16.00%	16.00%	16.20%	16.00%	3	2	3 492.4	3 202.4
USD	1.5y	7.25%	7.25%	7.25%	7.25%	18	18	5.84	5.84
USD	1.5y	3.85%				1	1	73	73
USD	2y	7.75%	7.75%	7.75%	7.75%	9	9	2.99	2.99

Figure 4. Local USD bonds market



MinFin again managed to rise over UAH13bn (equivalent) on the primary auction held April 23th. This time, however, the ministry decided to limit the offer of short-term notes and satisfied only 9 applications for UAH1.5bn of 25 applications for UAH3.55bn, reducing the rate from 19.50% to 19.00%. We assume that was due to upcoming tomorrow NBU's monetary committee meeting on the key rate. Majority of funds were attracted through placement of 6m bonds for UAH3.34, 2y for UAH2.7bn and 5y for UAH3.2. Cut-off rates for UAH bonds stood at 16.00%..19.00%. USD bonds were offered in 7.25%..7.75%, but for securities for USD73mn with fixed interest rate at 3.85% and embedded put option.

On the secondary market without any changes, yields (bids) of local UAH bonds were at 19.75% (for 6m), 20.00% (for 2Y). 1Y USD bids were at 7.75%, while bids for VAT bonds were at 20.50%. Offers are 0.25%-0.50% below yields offered on the primary market. Trading activity on the secondary market is low.

Figure 5. EUR/USD spot (mid)



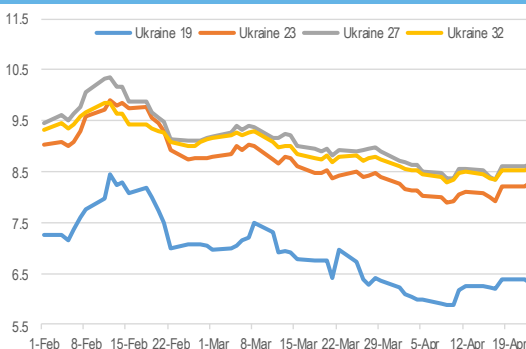
USD rises on strong data

The dollar advanced against the euro, traders favor the greenback ahead of the release on Apr 26 of U.S. gross domestic product data for the Q1 2019. Furthermore, USD has found support in recent weeks on the back of a gradual rise in U.S. 10Y Treasury yields and signs of strength in the world's top economy.

In the euro zone the picture was less bullish: activity in Germany's manufacturing sector shrank for a fourth straight month in April.

We expect USD will stay at its highs for a while. Traders will be keenly watching the U.S. GDP report due Friday for further clues on the health of the U.S. economy, while the euro will continue decline on the background of weak data in Europe and problems in Italy - the country's weak economy and concern about a growing budget deficit have raised worries about Italy's ratings outlook.

Figure 6. Ukraine's Eurobond yields, bid/ask mid (%)



The yield on the benchmark 10-year Treasury note fell 1.9% during last week to about 2.5493% by the end of Tue. The U.S. debt found support in better-than-expected U.S. retail sales data. On Wed bond yields rebound slightly as investors shifted their focus to corporate results.

We expect 10-year Treasury will continue drifting upper as U.S. first quarter GDP data, which is expected on Friday, can strengthen markets' confidence in the world's top economy and consequently can boost appetite to equity market.

Figure 7. Election results: Regional breakdown



Landslide victory of alternative candidate

Volodymyr Zelensky has won run-off election with highest support from voters in history of independent Ukraine. The candidate has gained 73.22%, the Central Election Commission (CEC) has stated on Apr 22 after processing 100% of the voting protocols. Mr Zelensky obtained support from across the country but Lviv region. The inauguration of the newly elected President of Ukraine should take place no later than June 3, 2019. At the earliest it can happen on May 3rd.

At the moment the key message is that Ukraine managed to hold free elections, with key international observers stated that voting in the second round of the presidential election was well-organized, transparent and efficient.

Another genuinely impressive achievement is expected democratic and peaceful transition of power, with Mr Poroshenko called Mr Zelensky to congratulate on victory for presidency after the results of the exit polls were announced - a rarity in the post-Soviet region.

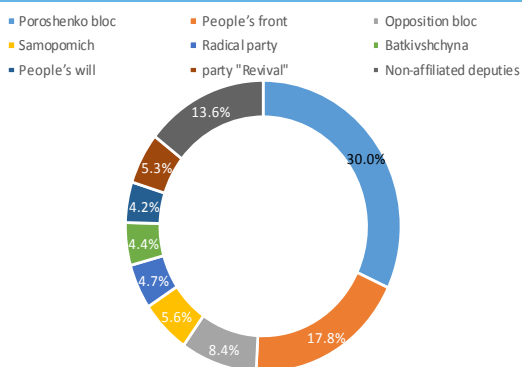
However, high uncertainty is still in place. Mr Zelensky performed a brilliant election campaign with systematic approach, but we don't know much more about how he will perform as President. His election program offers popular promises but lacks concrete commitments. As a debutant in politics, we expect Mr Zelensky will face many challenges on the delivery of his promises - to maintain Ukraine's Western-leaning course, to end the military conflict, to fight corruption, to launch the land market, to conduct the real gas sector reform, to continue healthcare and fiscal reforms. In this light upcoming parliament elections are vital for more certain mid-term outlook.

From one side Mr Zelensky is surrounding himself with reformers, the likes of ex-Economy Minister Aivaras Abromavicius, former Finance Minister Oleksandr Danyliuk. From the other side, **so far there are no much detail about possible appointments** and authorities his team will be vested with. The Constitution grants the President with authority to nominate the Minister of Defense, the Minister of Foreign Affairs, the Prosecutor General and regional governors.

Election Timeline

Date	Event
till May 1	Presidential elections, 2nd round results
May 3 – Jun 3	Presidential inauguration
May 27	Deadline for dissolution of the Verkhovna Rada
till Jul 28	Parliamentary elections, start of campaign
Oct 27	Parliamentary elections, voting
till Nov 11	Parliamentary elections, results
till Dec 16	New parliament convenes its first meeting
till Jan 16	A coalition of parliamentary factions shall be formed

Figure 9. Deputy factions in the parliament



Besides, the President possesses such powers as the dissolution of the Rada in specific cases. Zelensky's team spokesman said that there are no reasons at the moment for dissolution. Yet he added, that one of the first election promises to be fulfilled will be bills on the lifting of parliamentary immunity and the impeachment of the president. **We expect voting on this initiative will be an acid test for the parliament willingness to support the new President.**

We should also notice, that some deputies speak out for dissolution of the Rada on their own initiative. Besides, there was a news report that court sent an official request to the Rada asking to confirm that the coalition is existent. If there is no coalition for one month the president has the right to dismiss the Rada. The deadline for this issue is May 27, as under Ukrainian law, the dissolution of parliament becomes impossible six months before the next elections.

The main immediate challenges that Mr Zelensky will face once he takes office are IMF program continuation to maintain macroeconomic stability and the conflict in eastern Ukraine. As for the IMF, we suppose some difficulties might arise in passing the first review under the current arrangement (scheduled for mid-May) as without any support in the parliament, it would be difficult to adopt lacking laws. In particular, the Rada is yet to approve the so-called "split law". In addition to that, the IMF may stipulate that a new law on illegal enrichment to be presented before the review. **We suppose, the further cooperation will depend on broad consultations between the IMF and the new team.**

UKRAINIAN CAPITAL MARKETS WEEKLY

Key Macroeconomic Indicators								
	2013	2014	2015	2016	2017	2018	2019F	2020F
Real sector								
Real GDP (%y/y)	0.00	-6.60	-9.80	2.30	2.50	3.30	2.70	3.00
Industrial production (%y/y)	-4.30	-10.70	-6.00	2.40	-0.10	1.60	0.00	1.20
Retail sales (%y/y)	6.10	-11.00	-25.00	4.00	8.80	6.10	5.00	4.00
Unemployment rate end of year (ILO, working age)	7.70	9.70	11.50	9.30	8.70	8.50	8.50	8.40
Nominal GDP (UAH bn)	1466	1587	1980	2383	2983	3393	3830	4321
Nominal GDP (USD bn)	183.50	133.70	91.20	93.10	112.10	125.00	129.50	135.90
Prices								
CPI (average %y/y)	-0.20	12.10	48.70	16.50	14.40	10.50	9.20	8.10
CPI (end of year %y/y)	0.50	24.90	43.30	12.40	13.70	9.80	8.50	7.20
Real average wage growth (%y/y)	8.20	-6.50	-35.00	10.00	18.90	9.70	8.00	6.00
Fiscal balance (% of GDP)								
State budget deficit (without Naftogaz)	4.20	4.90	2.30	2.90	1.60	2.40	2.40	2.30
Total public debt	39.90	69.40	79.40	81.00	71.80	61.00	60.00	61.00
External balance								
Exports of goods and services (USD bn)	81.70	65.40	47.90	46.00	54.00	59.00	61.50	63.70
Imports of goods and services (USD bn)	97.40	70.00	49.60	51.80	60.80	70.50	73.30	75.80
Current account balance (USD bn)	-16.50	-4.60	1.60	-1.30	-2.40	-4.70	-4.20	-4.80
Current account balance (% of GDP)	-9.00	-3.40	1.80	-1.40	-2.10	-3.30	-3.20	-3.50
Net FDI (USD bn)	4.10	0.30	3.00	3.40	2.30	2.50	2.30	2.40
Foreign exchange reserves (end of year)	20.40	7.50	13.30	15.50	18.80	20.80	19.50	20.50
Imports coverage (months of imports of goods)	2.90	1.50	4.40	3.70	3.60	3.40	3.30	3.30
Interest and exchange rates								
NBU discount rate (% end of year)	6.50	14.00	22.00	14.00	14.50	18.00	16.50	13.00
Exchange rate (UAH/USD) end of year	8.20	15.80	24.00	27.20	27.95	27.70	31.50	32.50
Exchange rate (UAH/EUR) end of year	11.30	23.00	26.20	28.30	33.50	31.80	37.80	39.00



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