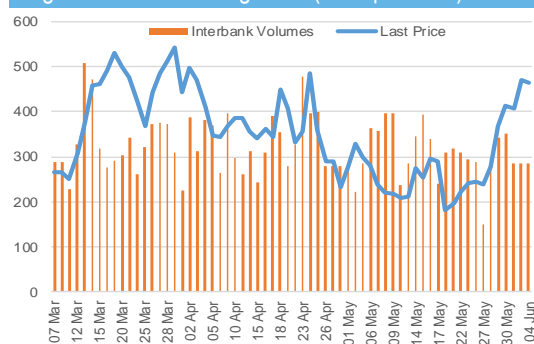


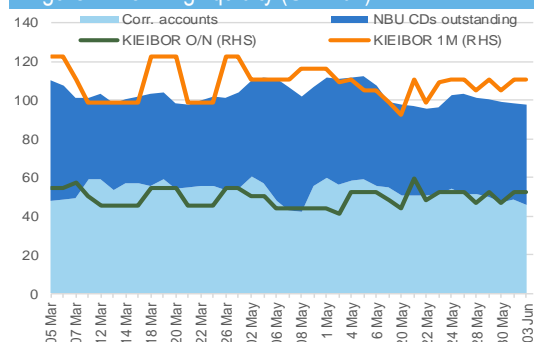
	Rating	Outlook	Last update	This week in focus: Ukraine's balance of payments surplus became a deficit
Fitch	B-	STABLE	08.03.2019	Ukraine's balance of payments (BoP) recorded a small deficit of USD45mn in April after the surplus of USD645mn recorded in the previous month. The current account in April was almost balanced. We expect that material repayments on state debt in May, as well as a seasonal pumping of gas into storage facilities will pose a further pressure on the BoP.
S&P	B-	STABLE	12.04.2019	
S&P (N)	uaBBB	-	12.04.2019	
Moody's	Caa1	STABLE	21.12.2018	

Figure 1. UAH exchange rate (UAH per USD)


FX and interest rates: UAH breached 27-mark; unlikely to slip further

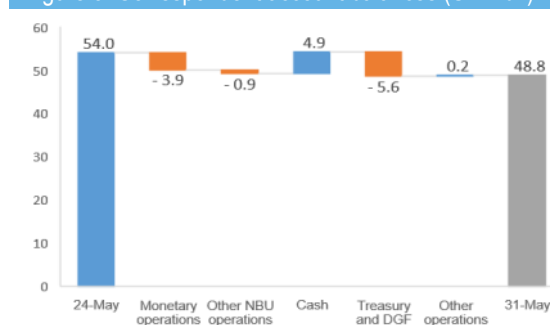
Last week's UAH depreciation due to a temporary factor - value-added tax (VAT) refunds, developed into a sharp downturn as new downside factors emerged. While UAH was trading around 26.8 through the last days of May, on the first trading day of June UAH dropped below 27 in tandem with emerging market (EM) assets, which depreciated after trade tensions between the United States and China shifted into a higher gear.

Against the background of deteriorating external financial conditions, as well as increased uncertainty in Ukraine, the NBU acted as net seller of FX currency last week, id est sold USD43mn, while bought USD11.5mn. The last time the central bank acted as a net seller of currency was the week on March 11-15.

Figure 2. Banking liquidity (UAH bn)


USD/UAH is likely to stay under pressure for some time. Ukrainian exporters used to reduce supply of FX on the market after receiving VAT refunds as their demand for hryvnia temporarily decreases significantly. Fresh FX injections from foreign investors might provide support to UAH, but we expect limited inflow from non-residents, since increasing recession fears about global economy on the backdrop of continuing trade wars will draw interest to safe-haven assets.

Banking liquidity declined below UAH100bn by the end of last week. According to the NBU the amount of cash deposited by banks at the central bank decreased by 10% to UAH49bn as of May 31, while investments in CDs increased by 2% to UAH49.6bn.

Figure 3. Correspondent account balances (UAH bn)


Throughout the last week Ukrainian money market conditions were influenced by multiple factors. On one hand businesses were depositing month's cash revenues into their accounts, hence supporting liquidity supply. On the other hand, there were large amount repayments to the NBU on refinancing debts made by some banks. Another sources of liquidity drain were monthly tax repayments to the State Treasury and FX market volatility, which induced the NBU to come in the market with net sales of USD in order to support local currency.

Looking ahead, we expect banking liquidity is likely to continue decreasing by the end of the week as some exporters might be willing to take advantage of high UAH quotations against USD. Besides we don't rule out some additional demand for UAH from foreign accounts, which are interested in buying local currency bonds.

Figure 4. Local UAH bonds market

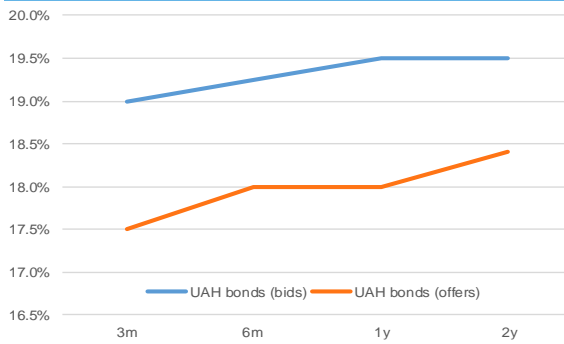
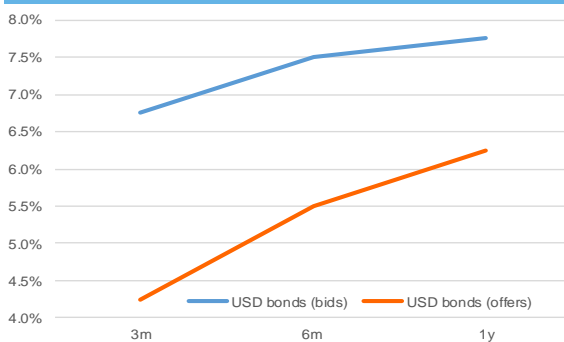


Figure 5. Local USD bonds market

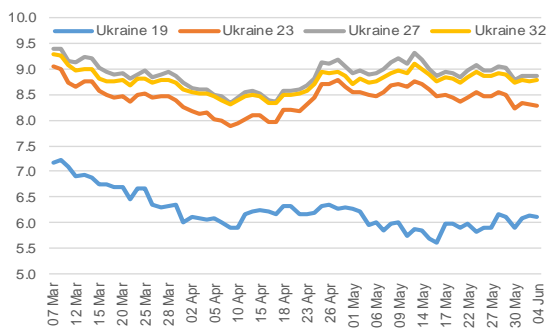


Government bond market

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	18.00%	18.00%	18.50%	17.70%	8	6	596.74	110.94
UAH	6m	18.50%	18.47%	18.50%	18.40%	9	9	346.42	346.42
UAH	1y	18.50%	18.50%	18.50%	18.50%	7	7	712.61	712.61
UAH	2y	17.95%	17.95%	17.95%	17.95%	4	4	220.65	220.65
UAH	3y	17.00%	17.00%	17.00%	17.00%	2	2	568	568
USD	8m	7.25%	7.25%	7.25%	7.25%	4	4	76.21	76.21
USD	1y	7.25%	7.25%	7.25%	7.25%	8	8	25.72	25.72
USD	2y	7.75%	7.53%	7.75%	7.25%	10	10	1.63	1.63
USD	1.5y	3.85%	-	-	-	1	1	26	26
USD	1.5y	3.85%	-	-	-	1	1	73	73
EUR	6m	4.60%	4.52%	4.60%	4.50%	7	7	18.2	18.2
EUR	1y	4.60%	4.60%	4.60%	4.60%	8	8	17.96	17.96

FinMin attracted UAH8.4bn (equivalent) on the primary auction held on June 4. Among local currency bonds the highest demand was for 1y securities (UAH0.7bn), which were sold at the same rate as a week before - 18.50% per annum. Regarding USD bonds, there were two 1.5-year non-market issues with put option, totaling USD99mn. The bonds were sold to one buyer at rate 3.85%. Among market issues the highest demand was for 8m securities (USD76.21mn), which were sold at rate 7.25%. In addition to traditional UAH and USD denominated bonds, the FinMin offered EUR denominated bonds worth more than EUR36mn in total. The bonds were sold at rate 4.60% per annum.

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



USD dipped to seven-week lows on rising risks to global growth

A wave of risk-aversion on the back of increasing trade tensions between the U.S. and China and the U.S. and Mexico has backfired USD after weeks of support. The EUR/USD plunged to 1.1275 as of June 5. Top U.S. stats as well as developments in the old continent were ignored for a moment. Traders are guessing how Fed will respond to a trade conflict-related risks, which pose a threat to U.S. and global economy outlook.

On Tuesday, June 4, Fed chairman Jerome Powell signaled that the central bank was open to easing monetary policy and would be keeping an eye on current developments in the economy.

Figure 7. EUR USD spot (mid)

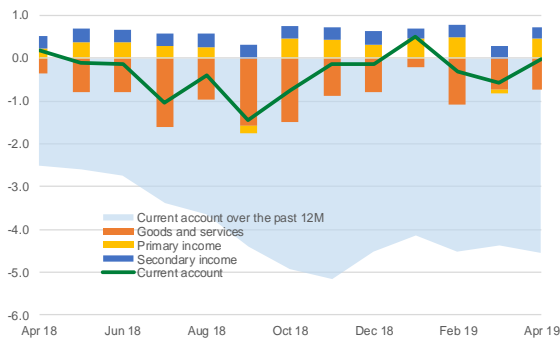


As recession fears are sweeping across the world, trade tensions and negotiations are expected to remain a hot topic for the foreseeable future and might also influence ECB decision on interest rates. The central bank is to meet for a key rate decision tomorrow, on June 6. **The euro holds in breath ahead of the ECB.**

The benchmark 10-year Treasury yield continued to collapse on concerns about slowing global growth and the escalated trade war. It has fallen to 2.081% this week, the lowest level since September 2017, and the yield on the note is now below that of the 3-month bill, inverting part of the so-called yield curve. **An inverted yield curve is seen by experts as a sign that an economic recession may be on the horizon.**



Figure 8. Current account balance, USD bn

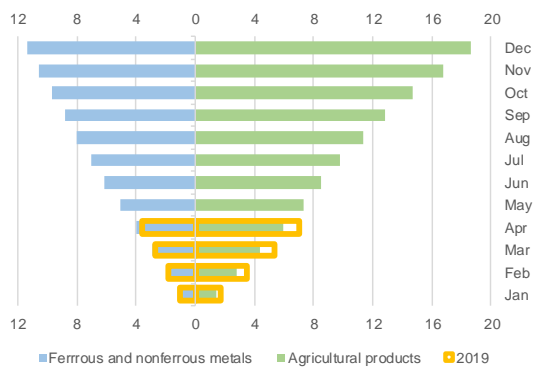


Ukraine's balance of payments surplus became a deficit

Ukraine's balance of payments (BoP) recorded a small deficit of USD45mn in April after the surplus of USD645mn recorded in the previous month, according to the National bank of Ukraine (NBU). The current account in April was almost balanced, with the deficit narrowed to USD8mn from USD564mn a month before.

Going into the numbers, trade deficit, which was on a narrowing trend in March, expended marginally to USD736mn from USD725mn. The main reason behind the negative dynamic was decrease in exports of agricultural products on the back of unfavorable price conjecture. At the same time, cumulative exports of grain products in January-April stayed above the one in the respective period of the last year (USD7.05bn vs USD5.9bn), thanks to a record-high grain crop in 2018.

Figure 9. Cumulative contribution to exports, USD bn

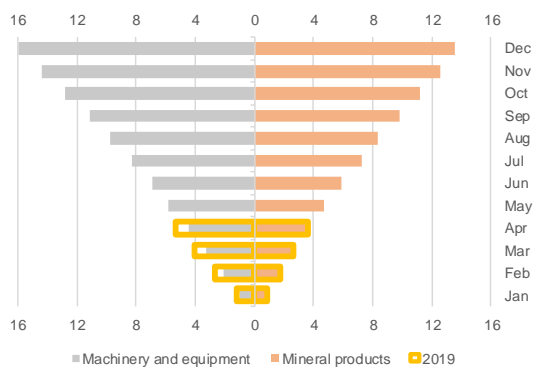


On the imports' side we saw mineral products purchases, which include energy imports, raised to USD1bn in April from USD0.84bn in March. This increase largely reflects seasonal active natural gas purchases by the Naftogaz for its subsequent sale in the autumn-winter period. The season used to last till the end of summer.

The current account deficit was almost offset by the surplus of primary and secondary income at USD471mn and USD257mn respectively.

The financial account in April was almost balanced: the outflow amounted to only \$38 million. The net inflow of FDI in April was \$290 million. In January-April this year, the net inflow of FDI amounted to USD1.1bn.

Figure 10. Cumulative contribution to imports, USD bn

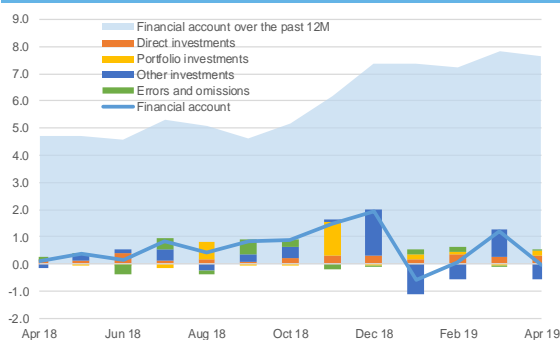


The net increase in the external position of the banking system for operations with portfolio and other investments amounted to USD684mn and was due to the redemption of Eurobonds by state-owned banks in the amount of USD383mn, as well as an increase in assets for currency and deposits by USD283mn.

The net increase in the external position of the real sector (excluding foreign direct investment) was USD288mn and was due to the action of the following multidirectional factors: an increase in net foreign debt on trade credits and increase in cash currency outside banks.

We expect that material repayments on state debt, that were made in May, as well as a seasonal active pumping of gas into storage facilities by Naftogaz will pose a further pressure on the current and financial accounts. We might see increase of non-residents portfolios of UAH government bonds after the NBU has set a link with Clearstream securities depository. On the other hand, we expect no material inflow during coming months due to growing political uncertainty related to the snap parliament elections.

Figure 11. Financial account balance, USD bn



UKRAINIAN CAPITAL MARKETS WEEKLY

Key Macroeconomic Indicators								
	2013	2014	2015	2016	2017	2018	2019F	2020F
Real sector								
Real GDP (%YoY)	0.00	-6.60	-9.80	2.30	2.50	3.30	2.70	3.00
Industrial production (%YoY)	-4.30	-10.70	-6.00	2.40	-0.10	1.60	0.00	1.20
Retail sales (%YoY)	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 %YoY)	-0.20	12.10	48.70	16.50	14.40	10.50	9.20	8.10
CPI (end of year %YoY)	0.50	24.90	43.30	12.40	13.70	9.80	8.50	7.20
Real average wage growth (%YoY)	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	16.00	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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