



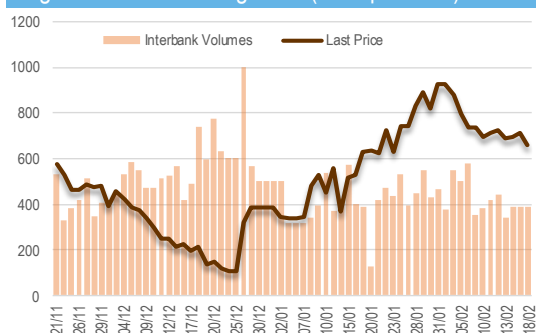
ECONOMICS | INTEREST RATES STRATEGY | FX

19 February 2020

**UKRAINIAN
CAPITAL MARKETS
WEEKLY**

	Rating	Outlook	Last update	This week in focus: Ukraine's economy stumbled in 4Q
Fitch	B	POSITIVE	06.09.2019	Ukraine's economy faced headwinds in the last quarter, delivering growth of only 1.5% y/y. The slowdown was expected against backdrop of decline in global metals demand, and warm weather. Stronger than usual local rate provided less support to export oriented industries. Going forward, we expect gradual recovery in 2020, with global impact of coronavirus likely representing the main risk.
S&P	B	STABLE	27.09.2019	
S&P (N)	uaBBB	-	12.04.2019	
Moody's	Caa1	POSITIVE	22.11.2019	

Figure 1. UAH exchange rate (UAH per USD)

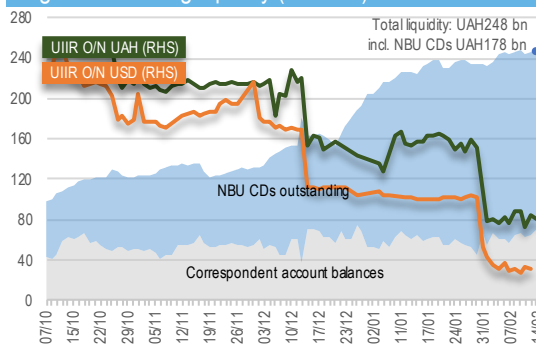


FX and interest rates: Hryvnia remains sidelined against the greenback

The USD/UAH pair continues to move sideways around 24.5 figure in the absence of significant macroeconomic drivers. There was a news report about the IMF mission visit to Ukraine in the nearest time. On the one hand it is a positive headline, confirming a mutual interest between parties in further cooperation. On the other, we expect it won't have any impact on the FX market, for non-resident investors, which could increase FX supply, seems are waiting for a final decision in this regard, not for another round of negotiations.

The central bank's (CB) operations in the interbank exchange market didn't affect the currency pair movement. Last week the National bank of Ukraine (NBU) purchased in the interbank exchange market USD165.5mn, with no sell-side interventions. It appears as if the CB took a prudent stance toward its actions in the market after its draining purchases in the last two months.

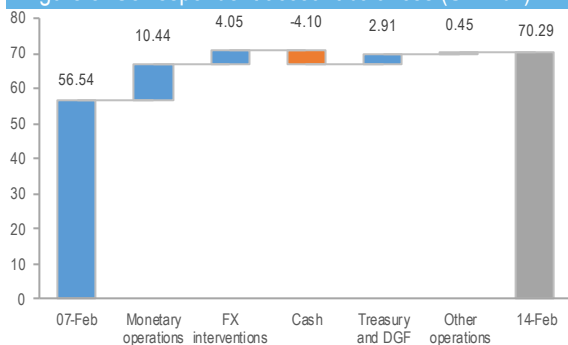
Figure 2. Banking liquidity (UAH bn)



We expect the currency pair is likely to end the week unchanged or little changed. There was an unusual demand for FX noticed in the market yesterday (Feb 18). The FX purchase, as we see it, is likely related to a one-off operation and doesn't constitute a significant distortion in the market.

Total liquidity in the banking system reached a new record high level by the end of last week; amount of available UAH funds climbed UAH3.3bn - to UAH248.2bn. Balance of commercial banks' current accounts with the CB increased by UAH13.7bn - to UAH70.3bn, and the change had mostly to do with a reduction of banks position in the NBU's O/N CDs by half - to UAH10.4bn. With amount of funds in 2-week CDs unchanged, total holdings in deposit facility with the CB decreased to UAH178bn.

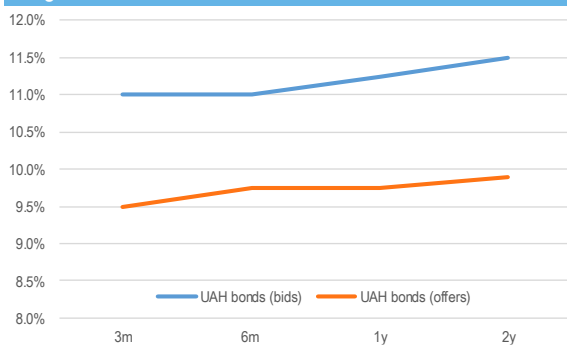
Figure 3. Correspondent account balances (UAH bn)



NBU FX interventions and cash withdrawals nearly offset each other, State treasury operations added to banks' current accounts holdings with NBU circa UAH2.9bn.



Figure 4. Local UAH bonds market

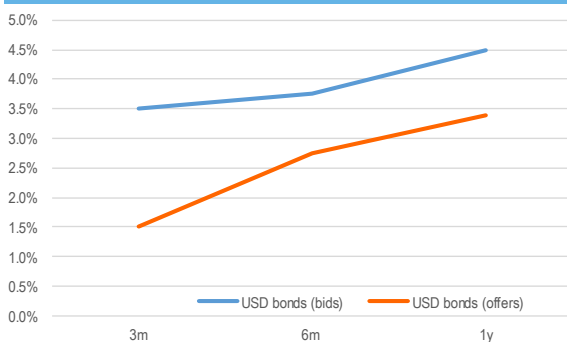


Government bond market

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	6m	10.00%	9.82%	10.75%	9.49%	17	11	623.10	333.71
UAH	1.5y	9.65%	9.63%	10.00%	9.63%	7	4	1 155.35	1 143.85
UAH	3y	10.14%	10.11%	10.50%	10.00%	7	6	42.55	32.55

Demand for government bonds pulled back on Tuesday (Feb 18), forcing FinMin to yield with interest rates. The ministry auctioned only local currency bonds with tenure 6m, 1.5y and 3y. The highest demand was seen for 1.5y bonds, which were placed with average yield at 9.63%, with cut-off interest rate lifted by 12 basis points to 9.65%. Nevertheless, none of the auctioned instruments drew demand sufficient to meet its threshold – UAH1bn for 3m bonds, UAH1.5bn for 1.5y ones, and UAH2bn for 3y securities.

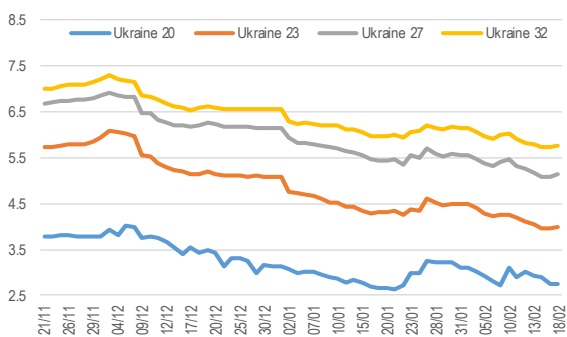
Figure 5. Local USD bonds market



Non-resident investors, by far, didn't participate in the auction, and the very offer was a manifesting indication of a weak FinMin's expectations in this regard. In turn local banks, in spite of being awash with liquidity, have limited interest to public debt as long as interest rate for central bank's standard deposit facility exceeds those for short-term government bonds. Besides, taking into account that banks nearly reached their stocks limit for public debt, we assume no more than UAH3bn can be reallocated in government bonds from 2-week CDs if we see another decisive monetary policy easing following the upcoming meeting on 12th of Mar.

At the same time, we reckon foreign accounts have not lost their appetite to local bonds, but rather temporarily shifted their focus to safe-haven assets amid swirling concerns over the coronavirus outbreak.

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



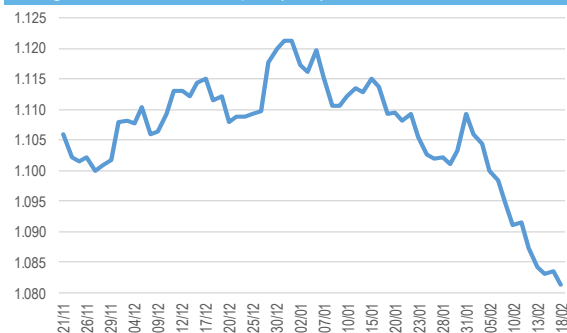
Coronavirus highlights are still on screens

The EUR retreated to its lowest in nearly three years against the USD at 1.0793 after fresh German data confirmed a fragile state of the euro zone economy.

Germany's ZEW research institute said in its monthly survey that investors' mood had deteriorated far more than expected in February, on worries coronavirus would curtail world trade. The survey added to expectations the German economy will lose more momentum in the first half as slumping exports keep manufacturers mired in a recession.

Poor euro area data has boosted speculation that monetary policy will remain looser for longer than previously expected.

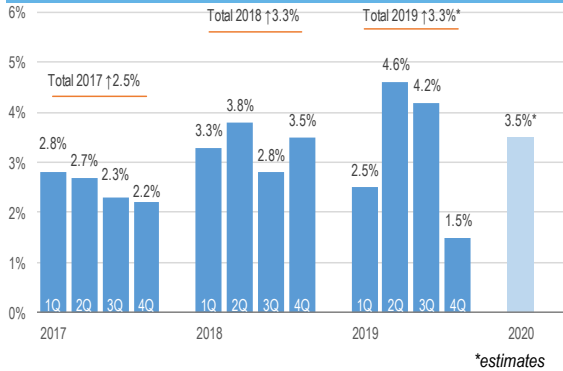
Figure 7. EUR USD spot (mid)



At the same time, with a lot of bad news priced in, the EUR would likely be sensitive to better news either on the domestic Eurozone economy or about the coronavirus.

On this backdrop, **the dollar and U.S. government debt keep on benefiting benefited as safe-haven assets.** The yield on the benchmark 10-year Treasury note, which moves inversely to price, dropped to around 1.544%.

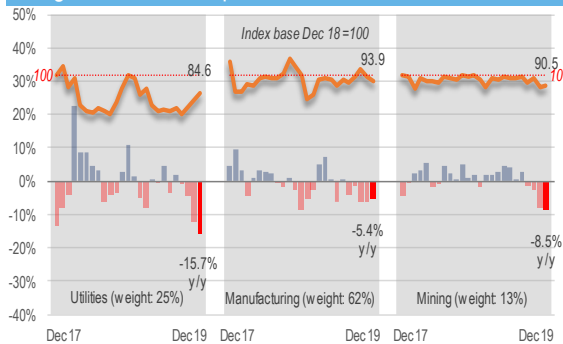
Figure 8. Evolution of GDP



Ukraine's economy stumbled in 4Q, coronavirus may impede pick up

Ukraine's economy faced headwinds in the last quarter, delivering growth of only 1.5% y/y. The slowdown was expected against backdrop of decline in global metals demand, and warm weather, which in turn, pulled down energy production. Stronger than usual local rate provided less support to export oriented industries. Going forward, we expect gradual recovery over the course of the year, with global impact of coronavirus (vs commodity prices and financial markets conditions) likely representing the main risk.

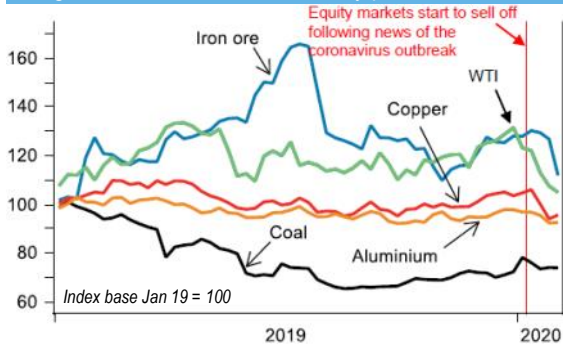
Figure 9. Industrial production breakdown



Household wallets enjoyed last year's local currency strengthening, unlike economy. While a detailed picture on the last quarter's growth is not available yet, consumer spending, which continue to be the main contributor, might have lost some nominal value due to the local currency strengthening. As we mentioned in our previous reports, retailers for a long time showed little propensity to adjust their prices to developments in the local FX market and only in late months they delivered notable cuts in order to be competitive with newcomers.

Consumer sentiment point at further growth. Consumer sentiment index in Jan lost 3.1 points (currently stands at 89 points) after gaining 0.5 points in previous month. The change contradicts to improvement in expected personal financial standing, which occurred in the same period. We see the change in Jan as a result of hryvnia devaluation since mid of Dec, for households are always painfully sensitive to abrupt currency movements. At the same time, likely improvement in personal financial standing, if come along with stable or a bit more revaluated local currency, can stimulate further increase in consumer expenses, and purchases of durable goods in particular.

Figure 10. Evolution of commodity prices



Deteriorating industrial output derails economy. The plunge in Ukraine's industrial in 2019, which amounted to 7.7% y/y, is expected to continue in 1Q20, dragging down economy growth in the current quarter and possibly the next, depending on consequences of the coronavirus impact.

The last year's decline result from several factors. Namely, unusually warm weather had its impact on both harvesting campaign and amount of utilities consumed, stronger hryvnia negatively affected overseas demand for Ukraine's products, and moving south prices for metals and iron ore in the global markets, as well as difficulties with logistics weighed on mining performance.

The coronavirus poses a headwind for activity. Industrial production is likely to decelerate further following the impact of the virus outbreak. Commodity prices have been hit by reduced demand as factories in Ch9ina were closed for an extended period during the Chinese New Year. The expected slowdown in activity is likely to cap recovery in commodity prices in the near term.

UKRAINIAN CAPITAL MARKETS WEEKLY

Key Macroeconomic Indicators								
	2013	2014	2015	2016	2017	2018	2019E	2020F
Real sector								
Real GDP (%YoY)	0.0	-6.6	-9.8	2.3	2.5	3.3	3.3*	3.5
Industrial production (%YoY)	-4.3	-10.7	-6.0	2.4	-0.1	1.6	-7.7	1.2
Retail sales (%YoY)	6.1	-11.0	-25.0	4.0	8.8	6.2	10.5	4.0
Unemployment rate end of year (ILO, working age)	7.7	9.7	11.5	9.3	8.7	8.5	8.5*	8.4
Nominal GDP (UAH bn)	1 466	1 587	1 980	2 383	2 983	3 393	3 830*	4 321
Nominal GDP (USD bn)	184	134	91	93	112	125	162*	173
Prices								
CPI (average %YoY)	-0.2	12.1	48.7	16.5	14.4	10.5	7.9	6.0
CPI (end of year %YoY)	0.5	24.9	43.3	12.4	13.7	9.8	4.1	5.5
Real average wage growth (%YoY)	8.2	-6.5	-35.0	10.0	18.9	9.7	9.8	5.5
Fiscal balance (% of GDP)								
State budget deficit (without Naftogaz)	4.2	4.9	2.3	2.9	1.6	2.4	1.8	2.3
Total public debt (% of GDP)	39.9	69.4	79.4	81.0	71.8	61.0	51.6	61.0
External balance								
Exports of goods and services (USD bn)	81.7	65.4	47.9	46.0	54.0	59.0	63.4	67.5
Imports of goods and services (USD bn)	97.4	70.0	49.6	51.8	60.8	70.5	75.5	79.3
Current account balance (USD bn)	-16.5	-4.6	1.6	-1.3	-2.4	-4.7	-1.1	-4.5
Current account balance (% of GDP)	-9.0	-3.4	1.8	-1.4	-2.1	-3.3	-0.7*	-2.6
Net FDI (USD bn)	4.1	0.3	3.0	3.4	2.3	2.5	2.5	2.4
Foreign exchange reserves (end of year)	20.4	7.5	13.3	15.5	18.8	20.8	25.3	23.5
Imports coverage (months of imports of goods)	2.9	1.5	4.4	3.7	3.6	3.4	3.9	3.3
Interest and exchange rates								
NBU discount rate (% end of year)	6.5	14.0	22.0	14.0	14.5	18.0	13.5	8.5
Exchange rate (UAH/USD) end of year	8.2	15.8	24.0	27.2	28.0	27.7	23.7	25.0
Exchange rate (UAH/EUR) end of year	11.3	23.0	26.2	28.3	33.5	31.8	26.4	29.0

*estimates, no official data yet available

Two Weeks Ahead

Date/Deadline	Event	Notes
20-Feb (Thu)	Ukrstat: Retail trade turnover	January
26-Feb (Wed)	Ukrstat: Industrial Production Index	January
28-Feb (Fri)	Ukrstat: Nominal & Real Wage	January
02-Mar (Mon)	NBU: Balance of Payments	January

Upcoming pay offs related to local government bonds

Date	Type of debt	Payment	Amount
19-Feb (Wed)	Local bonds	Coupon UAHmn	451.2
		Coupon UAHmn (capital notes)	587.2
		Principal UAHmn	1 599.7
		Principal UAHmn (capital notes)	2 900.0
20-Feb (Thu)	Local bonds	Coupon USDmn	3.0
26-Feb (Wed)	Local bonds	Coupon UAHmn	520.1
		Coupon UAHmn (capital notes)	590.4
01-Mar (Sun)	Eurobonds	Coupon USDmn	418.7

*capital notes - government bonds, which were issued for recapitalization of state-owned banks



UKRSIBBANK
BNP PARIBAS GROUP

The bank
for a changing
world

Contacts

Investment Business Group

Serhiy Yahnych

Head of Investment Business

(+38044) 537-50-82 serhii.yahnych@ukrsibbank.com

Viktoriia Nebeska

Market Making Government Bonds

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

Platon Yachmenov

Fixed Income Dealer

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

Mykhailo Kharchuk

Market Analysis

(+38044) 537-49-75 mykhailo.kharchuk@ukrsibbank.com

Distribution of Capital Markets Weekly report:

macro@ukrsibbank.com



FX Business

Oleksandr Duda

Head of FX Sales

(+38044) 537-50-02 oleksandr.duda@ukrsibbank.com

Corporate Business

Ievgen Kulikov

Head of MNC team

(+38044) 201-22-43 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.