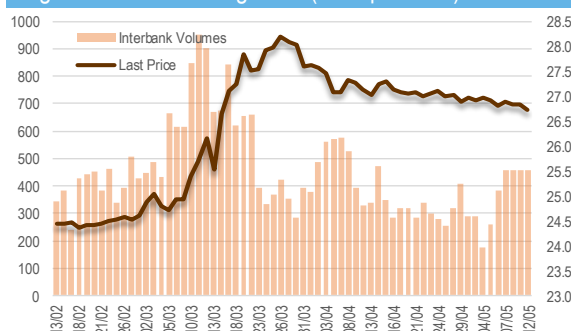


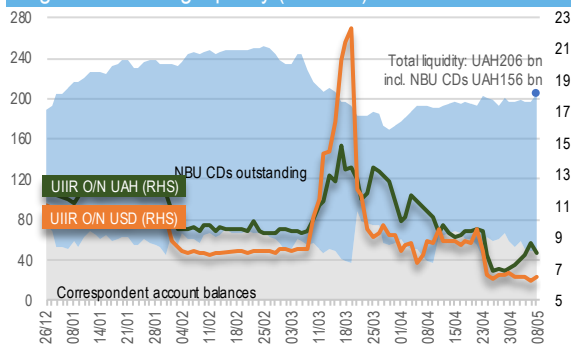
	Rating	Outlook	Last update	This week in focus: NBU steers reserves on the recovery path
Fitch	B	STABLE	22.04.2020	NBU's FX reserves are back on the recovery path: by the end of April total funds held by the NBU increased by 3.1% to USD25.7bn, with the usable amount being as many as USD16.8bn. That makes the country safe with paying back the USD1bn of U.S.-guaranteed bonds on May 29. In turn, the IMF's support to come secures the authorities against a strain on the cash position.
S&P	B	STABLE	13.03.2020	
S&P (N)	uaA	-	13.03.2020	
Moody's	Caa1	POSITIVE	22.11.2019	

Figure 1. UAH exchange rate (UAH per USD)

FX and interest rates: Hryvnia keeps benefiting from declining demand for FX

The USD/UAH rate edges lower on the back of subdued demand for foreign currency. Against the U.S. dollar, the hryvnia was up 0.3% on Tuesday at 26.75. Although picked up after a prolonged holidays, demand for FX was effectively covered by increased FX sales.

The major impediment to a more accelerated local currency appreciation constitute the central bank's interventions. Last week the NBU purchased circa USD200mn in the FX market and bought another USD65mn (early estimates) on Tuesday.

In addition to that, the state company Naftogaz Ukraine sold USD500mn on Tuesday, according to the media. Yet, the transaction did not affect the currency pair, as the funds were fully absorbed by the central bank.

Figure 2. Banking liquidity (UAH bn)


The government's movement towards easing of coronavirus containment measures from Monday might contribute to increase in consumption of imported goods. In particular, warehouse clubs, barber shops, restaurants with a summer terrace, and some stores and shopping malls are allowed to open on May 11 provided they abide by so-called normalisation rules. The effect on the FX market, however, is likely to become visible in the second half of the month.

Banking sector liquidity little changed as compared with a level a week before. By the end of last Friday total funds in the system amounted to UAH205.6bn, incl. UAH49.7bn held on correspondent accounts with the NBU.

Cash money and State treasury operations kept on following the pattern we highlighted in our previous report. Last week the correspondent liquidity flows exceeded UAH10bn and have nearly counterbalanced each other.

The central bank's FX interventions have drained UAH5.3bn out of the system.

Monetary operations are largely represented by increased allocation of excess funds into the NBU's certificates of deposits (CDs), resulting in UAH17.5bn outflow from the system.

On the other hand, **the central bank conducted its debut LTRO auction on Friday (May 11).** The acronym LTRO was coined to represent "long-term refinancing operations", which are used by the central banks to lend "long" money at low interest rates. The NBU has provided 11 banks with UAH2.4bn in flexible interest 5-year loans.

Figure 3. Correspondent account balances (UAH bn)


Figure 4. Local UAH bonds market

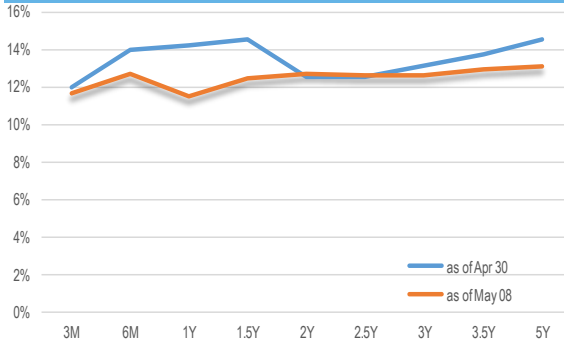
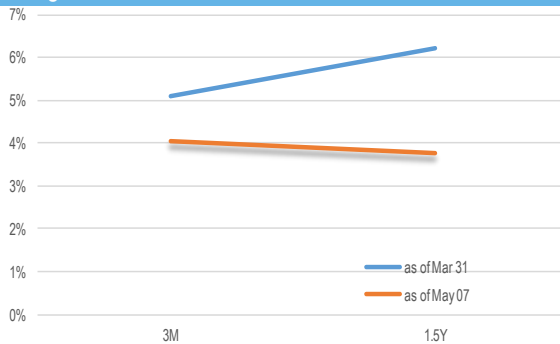


Figure 5. Local USD bonds market



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	11.30%	11.26%	11.50%	11.00%	21	20	13 402.87	13 377.87
UAH	6M	11.28%	11.28%	11.50%	11.28%	14	11	6 829.90	6 705.84

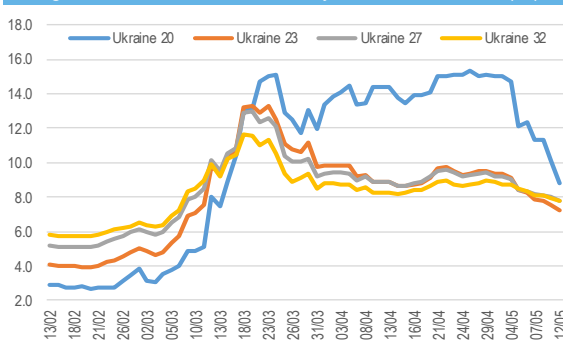
The Finance Ministry of Ukraine raised UAH19.4bn in its bond auction on Tuesday. The ministry limited its offer to local currency short-term instruments with no target volume.

The sale of new 3m bonds attracted UAH13.4bn worth of bids with a yield ranging from 11% to 11.5%. As interest rates on the secondary market continue declining, the ministry decided not to move its cut-off rate (remained unchanged at 11.3%) and rejected one offer for UAH25mn.

A second bond offered, maturing in 6m, garnered total bids worth UAH6.7bn. Unlike the previous issue, the 6m bonds were priced at 1.18-1.4 percent points below the mid range of comparable bonds on the secondary market. Nevertheless, being optimistic about market conditions, FinMin set cut-off rate at 11.28% and sacrificed 3 of 14 applications.

Local currency government bonds' yields at the secondary market have settled around 12% per annum. Resumed cooperation with the IMF might give a boost market activity and contribute to further adjustment of yields.

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



EUR/USD keeps the consolidative mood around the 1.085 level

EUR/USD continue trading on a mixed fashion in the 1.085 neighborhood.

For a while, positive coronavirus news and decision taken by several countries to reopen their economies with a gradual easing of lockdown measures contributed to recovery of risk sentiment in markets and correspondingly lowered demand for U.S. currency. Optimism, however, was cooled after the Chinese city of Wuhan, the original epicenter of the Covid-19 pandemic, reported its first new cases since lifting lockdown measures.

Despite US annual inflation tumbled in April to lowest since October 2015, market participants nearly ignored the data, reckoning there will not be outright deflation and hence more monetary policy stimulus by the Fed.

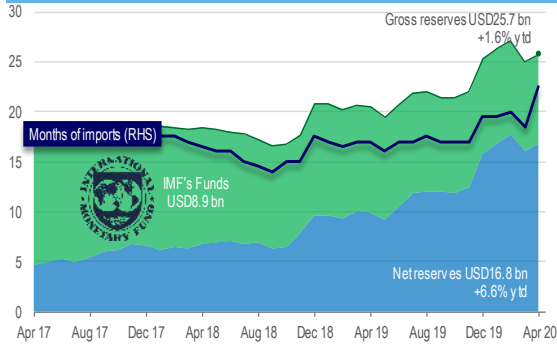
Figure 7. EUR USD spot (mid)



European currency look bleak due to renewed concerns over the coronavirus outbreak. According to the German disease and epidemic control center, Robert Koch Institute (RKI), the number of confirmed coronavirus cases rose to 170,508, with a total of 7,533 deaths reported on Tuesday.

U.S. government debt yields hold steady since last week. The yield on the benchmark 10-year Treasury note remains broadly around 0.7%. Bond yields rise as prices fall. Investors are cautious about the easing of coronavirus lockdown measures in a number of countries and put statistics on new cases on watch.

Figure 8. NBU's international reserves

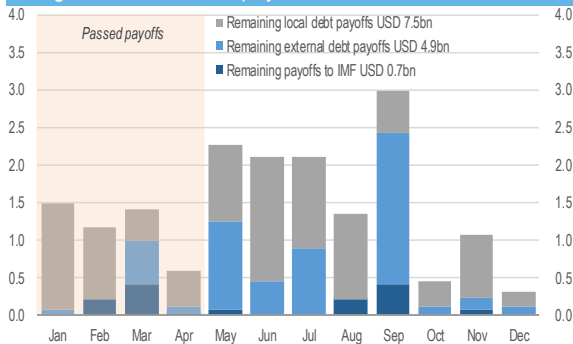


NBU steers reserves on the recovery path

Ukraine's gold and currency reserves are back on the recovery path after a drop in March: by the end of April total funds held by the NBU increased by 3.1% to USD25.7bn, with the usable amount (net reserves) being as many as USD16.8bn. That makes the country safe with paying back the USD5.6bn of external debt that comes due this year. In turn, the IMF's support to come secures the authorities against a strain on the cash position, resulting from the COVID outbreak.

COVID has reduced pressure on the FX reserves. Stabilized market conditions have allowed the NBU to press ahead with mopping up excess FX liquidity. In April, the central bank filled up FX reserves via FX interventions by USD0.8bn vs USD2.2bn spent in March to prop up the hryvnia against the virus-fueled market turmoil.

Figure 9. Public debt payments due in 2020

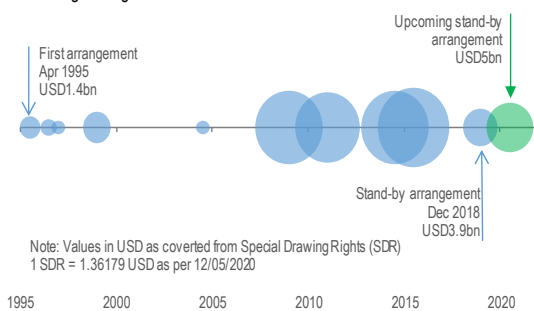


Contraction in imports, outperforming decline in exports, supported the case too. On this background reserves to import ratio, a gauge of financing coverage expressed in number of months, has hit its highest since 2015 at 4.5 worth of imports and is likely to continue ticking up going forward.

Reduced external pressure on the central bank's reserves make the country safe with repayment of USD5.6bn of external debt that comes due between now and the end of this year, incl. over USD1bn to be paid out on May 29 under maturing U.S-guaranteed bonds.

Figure 10. History of Lending Arrangements

Lending arrangements since 1995



Note: Values in USD as converted from Special Drawing Rights (SDR)
1 SDR = 1.36179 USD as per 12/05/2020

Shorter engagement implies shorter repayment period. Ukrainian authorities are on the verge of final approval of a banking law (so called "anti-Kolomoisky' bill"), which unlocks further cooperation with the IMF. The Parliament is conducting the second reading of the law on Wednesday, May 13.

In turn, the Fund has stated recently, that negotiations with Ukraine's authorities have shifted to 18-month Stand-by arrangement (SBA) from 36-month Extended Fund Facility (EFF) program worth USD5.5bn. The former is aimed at supporting countries' external financing needs with short-term financing, while the main purpose of latter is to provide assistance to countries experiencing serious payment imbalances.

Indeed, the SBA seems better fit the county's needs and profile, with front-loaded disbursements allowing for timely financing of the government's fiscal policy. Worth noting, however, that amounts drawn under a SBA are to be repaid over 3–5 years, unlike up to 10 years within EFF. This implies new "spikes" in public debt repayment in 2024-25 with annual charges exceeding USD10bn.

UKRAINIAN CAPITAL MARKETS WEEKLY

Key Macroeconomic Indicators

	2014	2015	2016	2017	2018	2019	2020E	2021F
Real sector								
Real GDP (%YoY)	-6.6	-9.8	2.4	2.5	3.4	3.2	-4.5	3.8
Industrial production (%YoY)	-15.0	-5.1	6.6	-0.5	1.1	-6.7	-1.8	0.0
Retail sales (%YoY)	-11.0	-25.0	4.0	8.8	6.2	10.5	-10.9	9.2
Unemployment rate end of year (ILO, working age)	9.3	9.1	9.3	9.5	8.8	8.2	10.1	9.3
Nominal GDP (UAH bn)	1 587	1 989	2 385	2 983	3 559	3 975	4 117	4 633
Nominal GDP (USD bn)	131	90	93	112	131	154	144	154
Prices								
CPI (average %YoY)	12.1	48.7	16.5	14.4	10.5	7.9	6.0	5.5
CPI (end of year %YoY)	24.9	43.3	12.4	13.7	9.8	4.1	7.5	6.0
Real average wage growth (%YoY)	-6.5	-35.0	10.0	18.9	9.7	9.8	-5.5	3.5
Fiscal balance (% of GDP)								
State budget deficit (without Naftogaz)	4.9	2.3	2.9	1.6	2.4	1.8	7.5	3.0
Total public debt (% of GDP)	69.4	79.4	81.0	71.8	61.0	51.6	64.4	64.6
External balance								
Exports of goods and services (USD bn)	65.4	47.9	46.0	54.0	59.0	63.4	50.5	55.6
Imports of goods and services (USD bn)	70.0	49.6	51.8	60.8	70.5	75.5	59.5	66.6
Current account balance (USD bn)	-4.6	1.6	-1.3	-2.4	-4.7	-1.1	-1.0	-2.1
Current account balance (% of GDP)	-3.4	1.8	-1.4	-2.1	-3.3	-0.7	-0.7	-1.3
Net FDI (USD bn)	-0.3	3.0	3.3	2.6	2.4	2.5	1.0	3.5
Foreign exchange reserves (end of year)	7.5	13.3	15.5	18.8	20.8	25.3	23.5	26.5
Imports coverage (months of imports of goods)	1.5	4.4	3.7	3.6	3.4	3.9	4.7	4.8
Interest and exchange rates								
NBU discount rate (% end of year)	14.0	22.0	14.0	14.5	18.0	13.5	6.0	5.0
Exchange rate (UAH/USD) end of year	15.8	24.0	27.2	28.0	27.7	23.7	29.5	31.0
Exchange rate (UAH/EUR) end of year	23.0	26.2	28.3	33.5	31.8	26.4	33.0	34.7

Two Weeks Ahead

Mon	Tue	Wed	Thu	Fri	Sat	Sun
11/05/2020	12/05/2020	13/05/2020	14/05/2020	15/05/2020	16/05/2020	17/05/2020
	NBU: Monetary Statistics (Preliminary)					
18/05/2020	19/05/2020	20/05/2020	21/05/2020	22/05/2020	23/05/2020	24/05/2020
			Ukrstat: Retail trade	Ukrstat: Industrial Production		



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