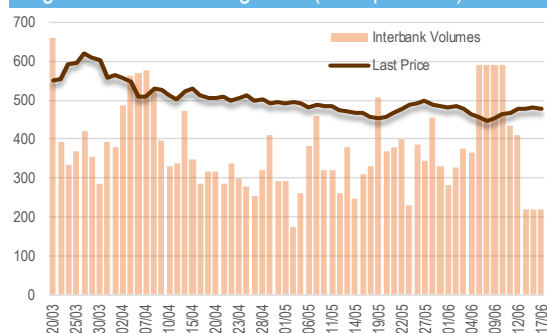


**ECONOMICS | INTEREST RATES STRATEGY | FX**

17 June 2020

# UKRAINIAN CAPITAL MARKETS WEEKLY

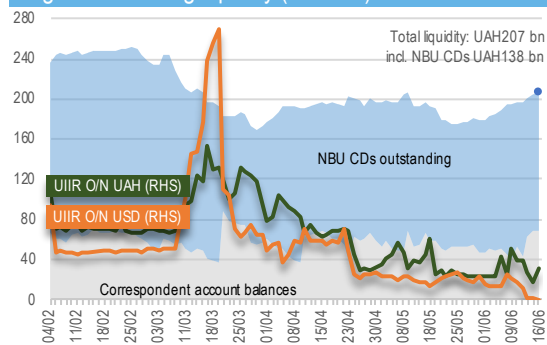
	Rating	Outlook	Last update	This week in focus:
Fitch	B	STABLE	22.04.2020	Fresh deal with IMF stands a chance of success
S&P	B	STABLE	13.03.2020	
S&P (N)	uaA	-	13.03.2020	
Moody's	B3	STABLE	12.06.2020	

**Figure 1. UAH exchange rate (UAH per USD)**

**FX and interest rates: USD/UAH retreated to 26.9 on a one-off FX demand**

29 Contrary to our expectations, the hryvnia moved south against the U.S. dollar in the end of last week and breached the 26.8 level by the end of Tuesday (June 16).

28  
27  
26 Though narrow, but material in volume demand that appeared in the market in the last days of the rich for news week was the major factor behind the change. According to market participants, the active FX purchases were likely induced by foreign accounts, which were converting back their investments into foreign currency after sizable local government bonds redemption.

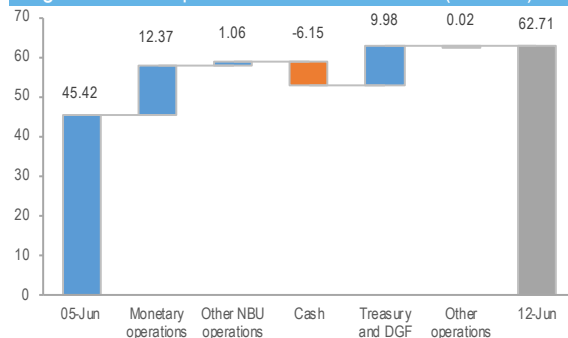
25  
24  
23  
22 As the correspondent dedicated transactions abated, the USD/UAH pair has bounced back below 26.8 figure during Wednesday's trading session.

**Figure 2. Banking liquidity (UAH bn)**


23 Given upcoming tax season, the hryvnia might regain upside momentum on the back of increasing before fiscal payments demand for local currency liquidity.

21  
19 The central bank (CB) weekly FX interventions amounted to only USD40mn, or 10 times less than a week ago.

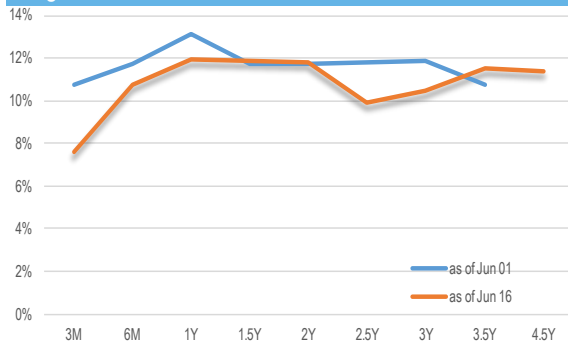
17  
15  
13  
11  
9  
7  
5 **Banking liquidity again grew above UAH200bn.** By the end last week the balance of banks' correspondent accounts with the NBU grew by 38% to UAH62bn. The change has mostly to do with redemption of the NBU certificates of deposit (CDs), which resulted in contraction of their amount outstanding by UAH12.7bn to UAH138bn. In addition to that, the CB disbursed circa UAH1.9bn of refinancing loans on Friday's liquidity auctions.

**Figure 3. Correspondent account balances (UAH bn)**


Among autonomous factors, State treasury operations brought about UAH10bn in the system, out of which circa UAH8bn were related to redemption and servicing of local currency government bonds.

Continuous cash withdrawals drained from the system about UAH6bn. Since beginning of the year total cash outstanding has increased by UAH59bn and reached UAH484bn, or 12.2% of last year's GDP.

Figure 4. Local UAH bonds market

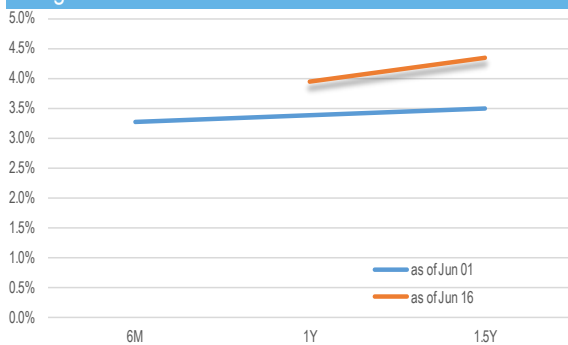


Government bond market

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	3M	7.50%	7.50%	8.50%	7.50%	21	7	1 595.16	500.00
UAH	6M	8.00%	8.00%	9.00%	7.99%	16	8	1 946.56	500.00
UAH	1.5Y	10.70%	10.57%	10.80%	10.50%	8	7	806.37	706.37
UAH	2.5Y	10.80%	10.76%	10.80%	10.70%	6	6	213.43	213.43

**FinMin again play hardball**, cutting demand so as to have lower bonds' rates after another monetary policy easing. During the last auctions on June 16 the ministry offered plain vanilla 3 and 6-month local currency instruments worth UAH500m each, and brought back mid-term hryvnia-denominated 1.5y and 2.5y bonds, which last offered before the pandemic.

Figure 5. Local USD bonds market

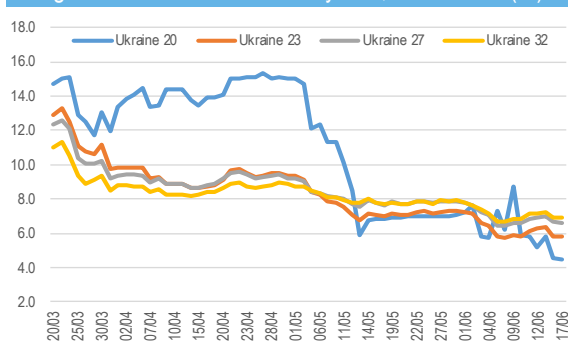


**The longer instruments received below average demand.** The total bids barely exceeded UAH1bn. The FinMin rejected two applications for UAH100mn with bids above cut-off rate at 10.7%.

**The short-term instruments drew a bid-to-cover ratio of 3.2 and 3.9 correspondingly.** That means bids from investors for the bonds exceeded the amount sold by more than 3 times. Strong reception allowed the ministry to reduce cut-off rate by 150 basis points (bps) to 7.5% for 3m bonds and 8% for 6m securities.

Significantly, that **average yield for short-term government bonds at the secondary market has effectively adjusted to the auction results.** In particular, 3m bonds at the secondary market closed lower yesterday by 192 bps percent to settle at 7.6%.

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



EUR/USD remain above 1.12 amid mixed news flow

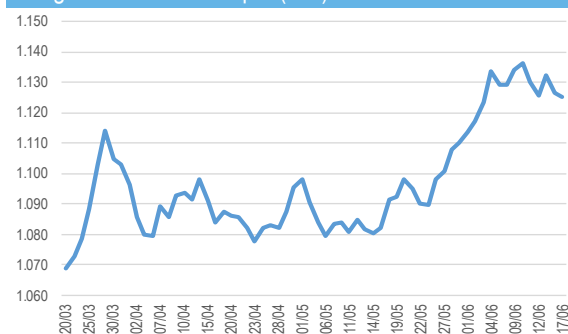
**The EUR/USD pair continue trading above 1.12, being restricted by ever changing news flow.**

On the one hand, the global risk sentiment remained well supported by the Fed's announcement to start purchasing of investment-grade US corporate bonds and a positive breakthrough in the fight against the coronavirus.

On the other, a sharp rise in the coronavirus infections in the US and Beijing and the risk of a further escalation of geopolitical tensions in Asia persuaded investors to stick to safe-haven U.S. dollar.

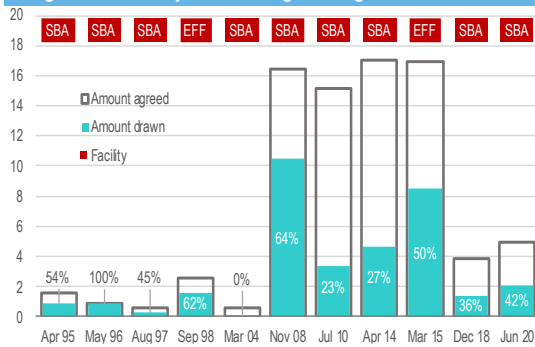
No clear price action was seen in the euro too. Eurozone data failed to impress. Inflation in May met the market's expectations, construction output fell by 14.6% in April, after shrinking by 15.7% in the previous month. The positive expectations around ongoing monetary stimulus announced by the European Central Bank, Germany and the European Commission were offset by a rising fears of a second wave of coronavirus contagion.

Figure 7. EUR USD spot (mid)



**The yield on the benchmark 10-year Treasury note edged up to 0.755%** as fixed income investors monitor the coronavirus development and the progress of the economic recovery.

Figure 8. History of Lending Arrangements, USDbn



Fresh deal with IMF stands a chance of success

Ukraine is to receive much-needed funding from the IMF - worth about USD5bn (SDR3.6bn) in total. As usual, the Fund sets conditions. This time, however, the money may come much easier and the program has a good chance of being completed. Uncertainty around a second wave of COVID and volatile political situation, however, should be held in check.

**Catching the tide.** On June 9, the Executive Board of the IMF gave the green light to an 18-month Stand-by Arrangement (SBA) for Ukraine worth SDR3.6bn. The funding is envisioned as fully going to budget support and is split into 5 instalments, with the first tranche of USD2.1bn arrived immediately after SBA approval (see Figure 9).

Figure 9. Schedule of Reviews

Date	Amount, SDRbn	Amount, USDbn
Jun.20	1.5	2.1
Sep.20	0.5	0.7
Dec.20	0.5	0.7
May.21	0.4	0.6
Oct.21	0.7	1.0

Cooperation with the IMF will also unlock financial aid from other official lenders. Over the course of 2020, the European Union is expected to disburse about USD1.1bn under its Macro-Financial Assistance program. The World Bank is projected to provide around USD1bn in budget support.

In addition to that, the IMF expects Ukraine to return to the eurobond markets in 4Q20 raising USD1bn as coming down Ukraine's sovereign spread make it possible to enter the markets.

At the same time, the Fund is skeptical about material non-resident inflows in the domestic bond market for the remainder of 2020.

**No unpopular reforms.** The Fund highlights that the new program aims to help Ukraine to cope with COVID-19 pandemic challenges and requires safeguarding achievements to date and advancing a small set of key structural reforms, to ensure that Ukraine is well-poised to return to growth when the crisis ends.

Among the key structural benchmarks are strengthening of regulation in fiscal, financial and energy sectors, moving to tackle the problem of non-performing loans in the state-owned banks and relaunching privatization. (see Figure 10 for deadlines)

**Risks are still there.** Although the economic targets are not as tough as under the preceding arrangements, situation should remain in check.

High uncertainty around COVID spread and risk of a second wave of viral outbreak is still there. The number of new cases in the country remains high. The authorities say that new containment measures are not on the table, but such a scenario is not ruled out.

Besides, there is a risk of a reform momentum slowdown after the IMF back in the picture. In recent months Ukraine's reform effort has been looking very shaky. This was partly due to COVID outbreak, being the major battlefield of all the governments around the world. At the same time, we saw a number of requests to the courts by lawmakers, including some from the president's party, to rule on the bank resolution framework, land and gas market reforms, to derail the recent achievements.

Figure 10. Structural Benchmarks

Structural Benchmarks	Deadline
1. Develop time-bound NPL reduction strategy for the state-owned banks	End-June 2020
2. Enhance competition and increase production in energy sector to achieve independence	End-August, 2020
3. Develop new organizational structures and frameworks for the fiscal authorities	End-September 2020
4. Improve bank supervision framework, enact amendments to the Banking Law	End-November 2020
5. Enact amendments to the Deposit Guarantee Fund and other laws to improve the bank liquidation mechanism, and the recovery of assets	End-October 2020
7. Strengthen corporate governance in state-owned enterprises	End-September 2020
8. Improve state budget revenue administration	January 1, 2021
9. Complete a compliance audit of COVID-related spending	End-March, 2021



# UKRAINIAN CAPITAL MARKETS WEEKLY

## Key Macroeconomic Indicators

	2014	2015	2016	2017	2018	2019	2020E	2021F
<b>Real sector</b>								
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
<b>Prices</b>								
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
<b>Fiscal balance (% of GDP)</b>								
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
<b>External balance</b>								
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
<b>Interest and exchange rates</b>								
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
15.06.2020	16.06.2020	17.06.2020	18.06.2020	19.06.2020	20.06.2020	21.06.2020
				Ukrstat: GDP (Preliminary) NBU: External Debt		
22.06.2020	23.06.2020	24.06.2020	25.06.2020	26.06.2020	27.06.2020	28.06.2020
NBU: Minutes Ukrstat: Retail trade	Ukrstat: Industrial Production			NBU: Private Remittances NBU: International Investment Position		



## Contacts

### Investment Business Group

**Serhiy Yahnych**

Head of Investment Business

(+38044) 537-50-82 [serhii.yahnych@ukrsibbank.com](mailto:serhii.yahnych@ukrsibbank.com)

**Viktoriia Nebeska**

Market Making Government Bonds

(+38044) 201-22-74 [viktoriia.nebeska@ukrsibbank.com](mailto:viktoriia.nebeska@ukrsibbank.com)

**Platon Yachmenov**

Fixed Income Dealer

(+38044) 230-48-54 [platon.yachmenov@ukrsibbank.com](mailto:platon.yachmenov@ukrsibbank.com)

**Mykhailo Kharchuk**

Market Analysis

(+38044) 537-49-75 [mykhailo.kharchuk@ukrsibbank.com](mailto:mykhailo.kharchuk@ukrsibbank.com)

Distribution of Capital Markets Weekly report:

[macro@ukrsibbank.com](mailto:macro@ukrsibbank.com)



### FX Business

**Oleksandr Duda**

Head of FX Sales

(+38044) 537-50-02 [oleksandr.duda@ukrsibbank.com](mailto:oleksandr.duda@ukrsibbank.com)

### Corporate Business

**Ievgen Kulikov**

Head of MNC team

(+38044) 201-22-43 [ievgen.kulikov@ukrsibbank.com](mailto: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.