



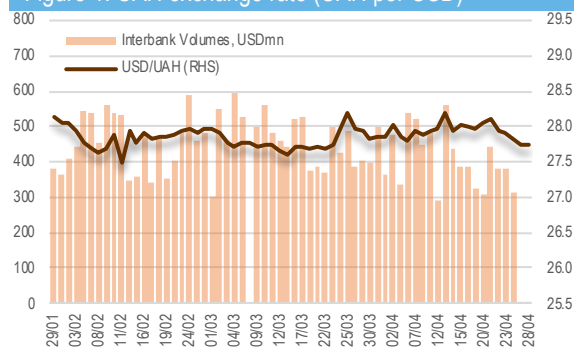
ECONOMICS | INTEREST RATES STRATEGY | FX

28 April 2021

**UKRAINIAN
CAPITAL MARKETS
WEEKLY**

	Rating	Outlook	Last update	This week in focus: Recovery appears to be on track
Fitch	B	STABLE	26.02.2021	The high-frequency growth indicators for March came out relatively good. Ukraine's retail sales rose by 7.5% on an annual basis in January-March, and industrial output narrowed decline to 2%. While weak performance in other segments (agriculture and construction) point to an up to 2% GDP decline in 1Q21, the latest data seem to suggest that the economic recovery is in place.
S&P	B	STABLE	12.03.2021	
S&P (N)	uaA	-	12.03.2021	
Moody's	B3	STABLE	12.06.2020	

Figure 1. UAH exchange rate (UAH per USD)



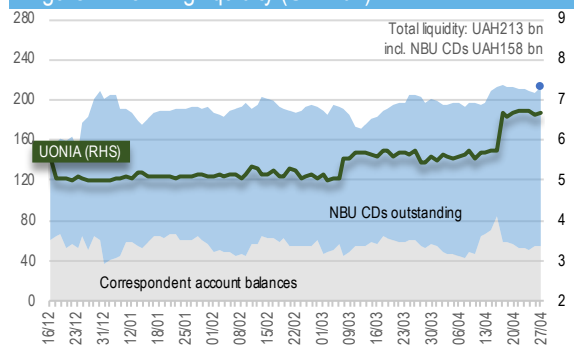
FX and interest rates: Hryvnia regains ground as Russia pulls troops back

The Ukrainian hryvnia has reversed downward trend against the U.S. dollar after Russian Defense Minister announced past Thursday (April 22) that military exercises involving troops along the border with Ukraine were over and that they would return to their permanent bases by May 1

The USD/UAH rate dipped below the 28.00 mark, down 0.6% on a preceding day, right after the order was issued, and slipped by another 0.6% to 27.75 figure in the following days through Wednesday (April 28).

As the border tension topic started losing attention, other factors came into play. **The Finance Ministry tapped into the debt market with a new issue of 8-year notes worth USD1.25bn.** The securities were priced at 6.875% per year. The deal is expected to be closed on April 30.

Figure 2. Banking liquidity (UAH bn)

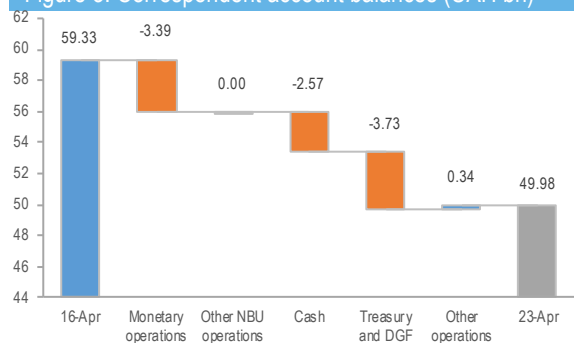


Furthermore, **FinMin went for adjusting local bonds' yields to a new policy rate.** With a central bank's statement of no more rate hikes through the end of the year, the movement may bring back foreign attention to local public debt.

Fresh FX liquidity along with sustainable inflow of export revenue might help hryvnia to appreciate against the greenback to 27.50 level in the coming weeks.

This movement, however, might be impeded by a new gas injection season. Remaining elevated gas prices in Europe keep Ukraine from replenishing its underground gas stocks. But new gas purchases look inevitable, considering the current level of gas stocks. Assuming foreign gas prices remain high, this may add to FX demand.

Figure 3. Correspondent account balances (UAH bn)



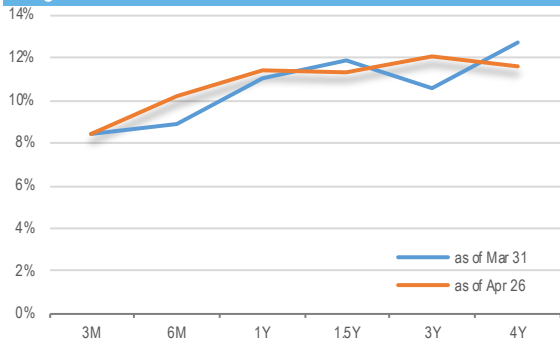
Banking liquidity contracted by 2.7% to UAH208.4bn in the week ending April 23. Balance of correspondent accounts with the NBU dropped by 15.8% to UAH50bn, position in NBU CDs increased by 2.3% - to UAH158.5bn.

Sustainable demand for cash money, draining from the system some UAH2.6bn, and State treasury operations, absorbing another UAH3.7bn, were the major drivers of the outflow.

Initially triggered by quarantine measures increased cash withdrawals are likely to persist over the next week due to the upcoming Easter Holidays.



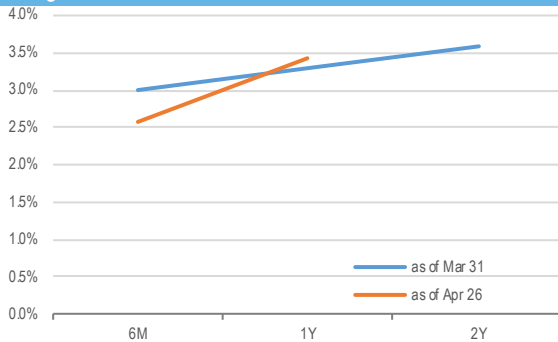
Figure 4. Local UAH bonds market



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	9.00%	9.00%	9.20%	8.75%	12	8	515.54	115.54
UAH	1Y	11.20%	11.20%	11.20%	11.20%	26	26	5,052.93	5,052.93
UAH	1.5Y	11.30%	11.30%	11.30%	11.30%	9	9	1,156.07	1,156.07
UAH	2Y	12.00%	11.96%	12.50%	11.95%	14	12	482.83	382.83
UAH	3Y	12.30%	12.28%	12.30%	12.00%	15	15	873.09	873.09
USD	1Y	3.70%	3.70%	3.70%	3.70%	32	32	21.30	21.30
EUR	1Y	2.50%	2.50%	2.50%	2.50%	17	17	41.77	41.77

Figure 5. Local USD bonds market



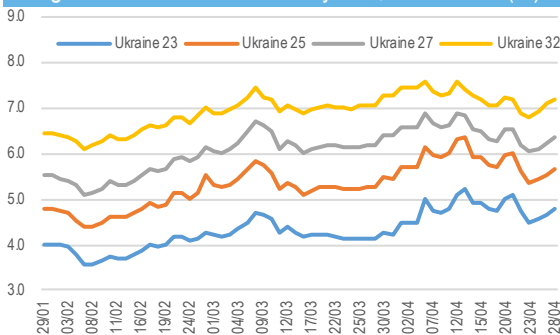
FinMin met increased demand for government bonds after adjusting their yields to the recent key rate hike.

Among the many bond issues auctioned this week, the highest appetite was seen for 1-year UAH securities. The offer draw 26 applications for UAH5bn after FinMin set the cut-off rate at 11.2% per year, up 45bp on the marginal rate seen before another rate hike on April 15.

Despite a 20-25bp cut-off rate increase, maturities beyond 2 years, which are typically of interest to offshore investors, keep experiencing a weak demand.

Return of FinMin to the international debt markets might help the ministry to draw foreign interest to local bonds too.

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



EUR/USD extends consolidation around 1.2090

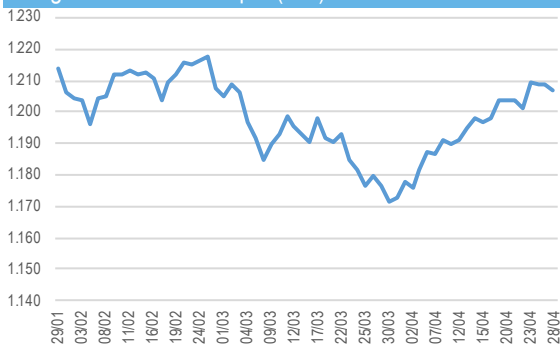
EUR/USD remains offered below the 1.2100 mark on Wednesday (April 28) ahead of another FOMC meeting.

The US Federal Reserve is set to leave its policy unchanged but will have to acknowledge the improving economic environment in the U.S.

Since the bank's March meeting, vaccines and a massive USD1.9 trillion stimulus plan have triggered a boom that is reflected in robust hiring, a pickup in inflation, a near 10% increase in retail sales and steaming hot business surveys.

And the upbeat U.S. economic data continues to strengthen investors risk appetite.

Figure 7. EUR USD spot (mid)

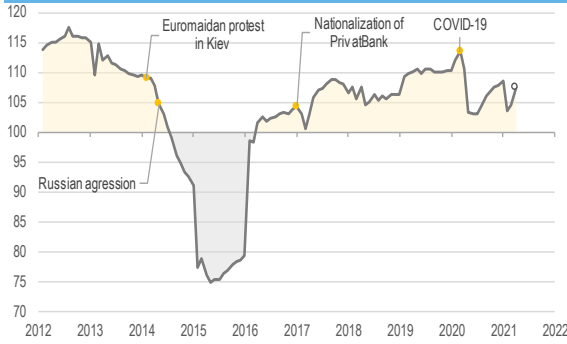


In the Old Continent the vaccine campaign appears to have gained some serious pace, propping up the better mood in the European currency. After Italy and France began easing restrictions, Spain will reportedly return to accepting British tourists in June.

Driven by rising inflation expectations and risk-on mood, the US 10-year yield rose to 1.65% with gains of more than 1%.

Figure 8. Retail sales index (cumulative)

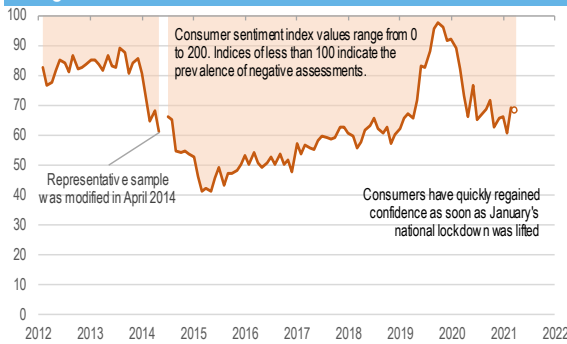
Recovery appears to be on track



The high-frequency growth indicators for March came out relatively good. Ukraine's retail sales rose by 7.5% on an annual basis in January-March, and industrial output narrowed decline to 2%. While weak performance in other segments (agriculture and construction) point to an up to 2% GDP decline in 1Q21, the latest data seem to suggest that the economic recovery is in place, with the coming out of the pandemic global economy adding shine for Ukraine's export oriented industries.

Retail sales for January through March rose 7.5% year over year, up by 2.9pp on the prior period. As low-base effect related to the first national lockdown (lasted from March 12 to May 22, 2020) comes into play, retail sales expansion may enter a double-digit growth trajectory in the coming months.

Figure 9. Consumer sentiment index



But consumers' mood remains vulnerable to remaining out of control COVID spread. The sentiment index calculated by InfoSapiens retreated 1.3 to 67.8 mark in March following another tightening of quarantine measures across the county in late February. Fragile confidence may curb spending accumulated during the pandemic precautionary savings.

Favourable data on retail sales was followed by strong statistics on industrial production, which posted in March the steepest recovery since 2018. Cumulative index for January-March narrowed annual contraction by 2.2pp from the prior month to 2%.

The robust bounce-back was largely led by manufacturing output. The biggest component of industrial production rebounded by 3.2pp in March from the prior month, reflecting the county's industry and exports increasingly benefitting from the global reopening.

In addition to this, rising industrial energy consumption coupled with unseasonably cold weather in March boosted utilities output growth to 4.1% from 2.5% in February.

Mining production, though narrowed decline by 0.6pp, lags recovery due to weak coal extraction.

The latest data seem to suggest that the economic recovery is in place. Improved business sentiment, with business outlook turned to positive (above the threshold 50 level) in all key segments of the economy but construction, supports the suggestion.

Figure 10. Industrial production indices (cumulative)

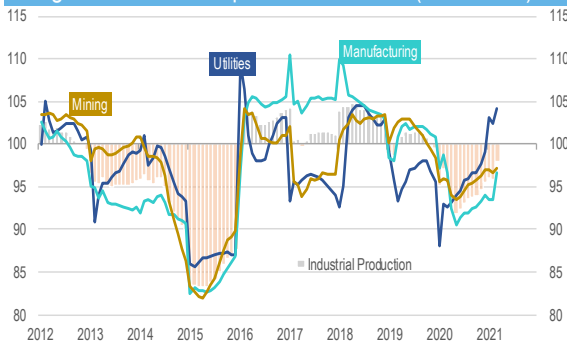
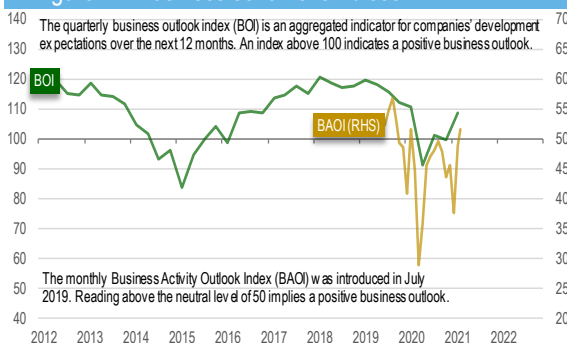


Figure 11. Business sentiment indices



Ukraine's GDP is likely to experience another negative growth in 1Q21. Poor last year's grains output, struggling services and construction segments may result in an up to 2% GDP drop, according to our estimates.

But Ukraine's business sentiment is now at levels seen before the COVID outbreak, laying the ground for industrial production to move to the positive in 2Q21. Accelerated rollout of vaccination across developed countries combined with introduced there massive fiscal stimuli add to hopes of a sustained pick-up in global activity, improving prospects for Ukraine's exports. Sustainable FX inflow may help curb local inflation, and therefore help raise households' confidence.

UKRAINIAN CAPITAL MARKETS WEEKLY

Key Macroeconomic Indicators								
	2015	2016	2017	2018	2019	2020	2021E	2022F
Real sector								
Real GDP (%YoY)	-9.8	2.4	2.5	3.4	3.2	-4.0	4.4	3.8
Industrial production (%YoY)	-12.3	4.0	1.1	3.0	-0.5	-4.5	1.5	1.0
Retail sales (%YoY)	-19.8	4.3	6.5	6.2	10.3	8.4	9.2	10.0
Unemployment rate end of year (ILO, working age)	9.1	9.3	9.5	8.8	8.2	10.1*	9.3	8.5
Nominal GDP (UAH bn)	1,989	2,385	2,984	3,561	3,975	4,194	4,370	4,537
Nominal GDP (USD bn)	90	93	112	131	155	156	156	151
Prices								
CPI (average %YoY)	48.5	14.9	14.4	11.0	7.9	2.7	7.5	5.7
CPI (end of year %YoY)	43.3	12.4	13.7	9.8	4.1	5.0	6.4	5.0
Real average wage growth (%YoY)	-20.2	9.0	19.1	12.5	9.8	7.4	3.5	3.0
Fiscal balance (% of GDP)								
State budget deficit (without Naftogaz)	2.3	2.9	1.6	2.4	1.8	5.5*	3.0	2.5
Total public debt (% of GDP)	79.4	81.0	71.8	61.0	51.6	64.4*	64.6	61.5
External balance								
Exports of goods and services (USD bn)	47.9	46.0	53.9	59.2	63.6	60.6	62.6	65.0
Imports of goods and services (USD bn)	50.2	52.5	62.7	70.6	76.1	62.3	72.5	78.0
Current account balance (USD bn)	5.0	-1.9	-3.5	-6.4	-4.1	6.6	-0.6	-3.2
Current account balance (% of GDP)	5.6	-2.0	-3.1	-4.9	-2.7	4.2	-0.4	-2.1
Net FDI (USD bn)	-0.5	3.8	3.7	4.5	5.9	-0.4	2.0	3.0
Foreign exchange reserves (end of year)	13.3	15.5	18.8	20.8	25.3	29.1	31.0	32.5
Imports coverage (months of imports of goods)	3.4	3.7	3.6	3.5	3.9	4.8	5.1	5.0
Interest and exchange rates								
NBU discount rate (% end of year)	22.0	14.0	14.5	18.0	13.5	6.0	7.5	6.0
Exchange rate (USD/UAH) end of year	24.0	27.2	28.1	27.7	23.7	28.3	29.8	31.0
Exchange rate (EUR/UAH) end of year	26.2	28.4	33.5	31.7	26.4	34.7	37.3	40.3

*estimates, no official data yet available



UKRSIBBANK
BNP PARIBAS GROUP

The bank
for a changing
world

UKRAINIAN CAPITAL MARKETS WEEKLY

FOUR WEEKS AHEAD

Mon	Tue	Wed	Thu	Fri	Sat	Sun
26.04.2021	27.04.2021	28.04.2021	29.04.2021	30.04.2021	01.05.2021	02.05.2021
NBU: Minutes		LGB* % UAH 895.1mn LGB P UAH 11,606.0mn Ukrstat: Nominal & Real Wage Fed: FOMC		IMF SDR 0.0mn NBU: BoP NBU: Cost of Real Sector External Debt	IMF SDR 45.3mn FGB % USD 78.0mn	
03.05.2021	04.05.2021	05.05.2021	06.05.2021	07.05.2021	08.05.2021	09.05.2021
		LGB* % UAH 535.0mn LGB % UAH 222.8mn	LGB % EUR 2.6mn	LGB* % UAH 203.1mn Ukrstat: Price indices Ukrstat: Business confidence NBU: FX Reserves (deadline - 7th day)		
10.05.2021	11.05.2021	12.05.2021	13.05.2021	14.05.2021	15.05.2021	16.05.2021
		LGB* % UAH 116.7mn LGB % UAH 1,098.0mn	LGB % EUR 4.7mn LGB P EUR 427.7mn NBU: Monetary Statistics	Ukrstat: GDP flash estimate	LGB* % UAH 141.3mn	
17.05.2021	18.05.2021	19.05.2021	20.05.2021	21.05.2021	22.05.2021	23.05.2021
LGB* % UAH 431.8mn		LGB* % UAH 714.9mn LGB % UAH 1,083.6mn LGB* P UAH 2,200.0mn LGB P UAH 10,771.0mn	LGB* % UAH 195.6mn	Ukrstat: Retail trade	LGB* % UAH 238.0mn	

MOST COMMON TERMS AND ABBREVIATIONS

GDP	Gross domestic product	DGF	Deposit Guarantee Fund
CPI	Consumer price index	Ukrstat	State Statistics Service of Ukraine
FDI	Foreign direct investment	NBU	National Bank of Ukraine
BoP	Balance of Payments	ECB	European Central Bank
CA	Current account	Fed	Federal Reserve System
FA	Financial account	FOMC	The Federal Open Market Committee
IIP	International investment position	MPC	Monetary policy committee meeting
VAT	Value-added tax	Minutes	Summary of MPC meeting
CD	Certificate of deposit	IMF	International Monetary Fund
FX	Foreign exchange, foreign currency	IFI	International financial institutions
UAH	Ukrainian hryvnia	LGB	Local government bonds
USD	U.S. dollar	FGB	Foreign government bonds (Eurobonds)
EUR	Euro	P	Principal due
SDR	Special drawing rights	%	Interests due
UONIA	Ukrainian OverNight Index Average	*	government bonds held by NBU or issued for recapitalization of state-owned banks
WA	Weighted average		
bp	basis point	m/m	in monthly terms; month-on-month change
pp	percentage point	TTM	trailing twelve months
y/y	in annual terms; year-on-year change	RHS	right-hand scale



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

Kostiantyn Rupchev

Head of FX Sales

(+38044) 537-50-04 kostiantyn.rupchev@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.