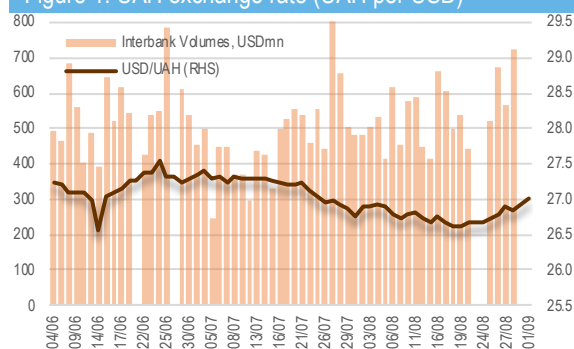
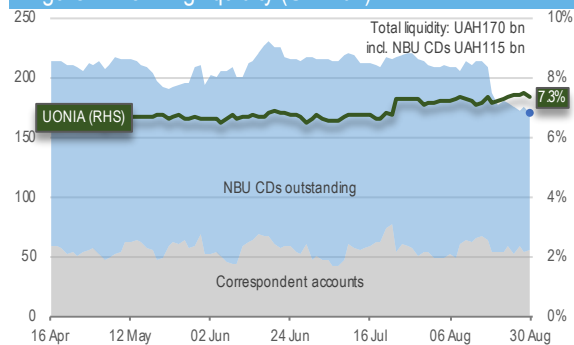


	Rating	Outlook	Last update	This week in focus: GDP growth remains robust even in rocky recovery
Fitch	B	POSITIVE	06.08.2021	Ukraine's GDP jumped by 5.4% y/y in April-June, making the beginning of economic recovery from the impact of the pandemic. Although the fastest since 2010, the 2Q growth surprised to the downside against a strong rebound in most of industries. Considering much slower than expected economic growth in 1H21, we cut our forecast for 2021 to 3.1%.
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: USD/UAH retreats above 27.00 mark**

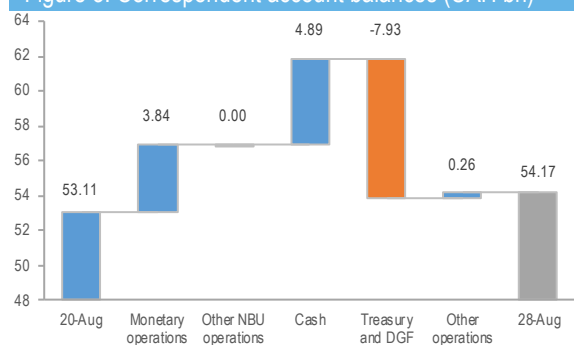
After rising to 26.61 area in the week preceding to the recent prolonged holidays, **the USD/UAH pair lost its traction and now trades above a key barrier of 27.00.**

While the week started on a positive note, the trend in the pair reversed on Tuesday with the USD/UAH losing 0.3% on the day. With a UAH3.2bn interest payment on local government bonds (on Wednesday) that were actively marketed among non-residents, the reverse could have been caused by an increased demand for FX from foreign accounts. Expecting for another key rate hike at the monetary policy meeting on September 9, investors cut demand for public debt to the lowest since beginning of the year, preferring to withdraw their incomes instead of refinancing.

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


**FX supply remains strong.** A similar retreat was observed last week, likely driven by a pent-up demand accumulated during the prolonged holidays. Nevertheless, the pair nearly halved loses over one trading session on Monday. And a sizable FX inflow forced the central bank to step in with interventions. While some of Monday's FX supply could be attributed to IT companies, regularly selling FX before paying out monthly salaries, there is also a persistent supply of foreign currency liquidity by exporters.

**If, however, sustained through the end of the week, the downtrend in hryvnia could develop into a seasonal pattern,** when the UAH depreciates against the USD on the back of increased demand for FX from agro producers.

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


We assume FX financing, both received end expected (see weekly of August 18 for details) could help lessen seasonality this year. That said, the expected amounts are likely to arrive no sooner than in the last decade of the month. By that time, speculations could draw the rate close to our 3Q forecast of 27.50.

**Banking liquidity dropped to UAH175bn** by the end of last week, down 3.1% on the week and 18% since our last report.

The decline entirely results from State treasury operations, most of which represent seasonal tax collection. The outflow, however, greatly exceeds those in the preceding years. Besides, it have had little effect on demand and cost of hryvnia liquidity at the interbank market. This could hint that there was also a one-off transaction in the outflow, like transfer of profits by some state-owned entity to the single treasury account of the government.

Figure 4. Local UAH bonds market

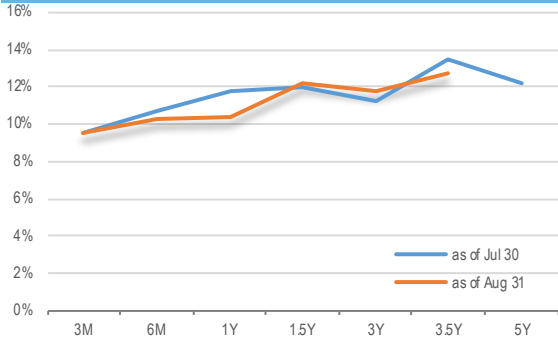
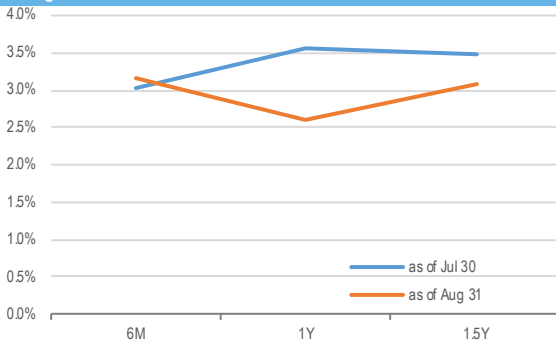


Figure 5. Local USD bonds market



Government bond market

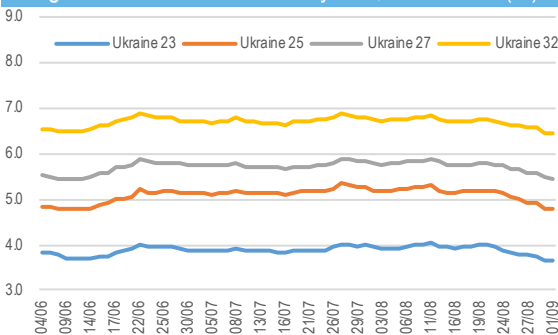
CCY	Maturity	Cut-off rate	WA rate	Max bid rate	Min bid rate	Number of bids	Bids accepted	Bid size, mn	Placement size, mn
UAH	1Y	11.15%	11.15%	11.15%	10.75%	17	17	94.59	94.59
UAH	1.5Y	11.30%	11.30%	11.30%	11.30%	11	11	1 227.90	1 227.90
UAH	2Y	12.09%	12.09%	12.25%	12.09%	14	13	364.01	264.01
UAH	3Y	12.45%	12.40%	12.45%	12.30%	9	9	1 084.22	1 084.22
UAH	5.5Y	12.75%	12.75%	12.75%	12.75%	17	17	278.41	278.41
USD	2Y	3.90%	3.90%	3.90%	3.90%	51	51	128.36	128.36

**FinMin borrowed UAH6.5bn** from the local debt market on Tuesday (August 31), accepting all but a one outstanding bid. There was a wide range of instruments offered, including UAH-denominated bonds maturing from 1 to 5.5 years, and 2-year USD-denominated bonds.

**The increase in amount of funds raised was achieved through offering of foreign currency bonds**, receiving 51 bids worth UAH128.3mn in total with a single bid rate of 3.9% per annum. All of the applications were accepted. Yet, because a high take-up has mostly to do with a pent-up demand, this could suggest a limited depth there at future auctions.

**Demand for local currency bonds again was low.** Having received UAH53.4bn into its single account over the last two weeks, FinMin could afford holding rates unchanged for longer. In turn, market participants have little interest to buy government bonds at the current levels of rates, especially in the face of a growing probability of another key rate hike.

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



EUR/USD rebounds above 1.1800 mark on risk-on mood

**An onset of a risk-friendly environment on the global markets brought about a selling pressure around the U.S. dollar**, driving the EUR/USD pair from nine-month troughs above the 1.1800 barrier.

The risk sentiment has turned in favour of the optimists on the Fed's Chairman statements at Jackson Hole Symposium. Jerome Powell acknowledged that the central bank aims to taper its USD120bn a month bond-buying program this year, but stressed the need for more robust employment data before any further decisions would be made.

The renewed USD weakness seems followed the release of U.S. employment report for August, which proved to be much worse than expected, hence further cooling down tapering speculation. This came ahead of the release of the August's nonfarm payroll report on Friday. Investors will be looking at this report closely too.

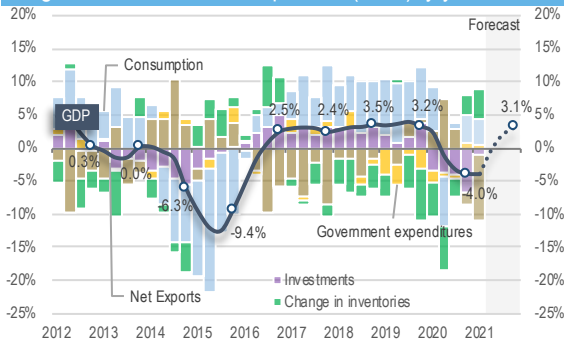
Investors, however, cannot ignore worries about the gaining momentum spread of the Covid delta variant. And **support for the greenback could come in the form of renewed coronavirus concerns.**

The U.S. Treasury yields has traded choppily in recent weeks but generally been moving upward. The yield on the benchmark 10-year Treasury note ticked up 34 basis points to 1.307% over the last two weeks.

Figure 7. EUR USD spot (mid)



Figure 8. Gross domestic product (GDP), y/y

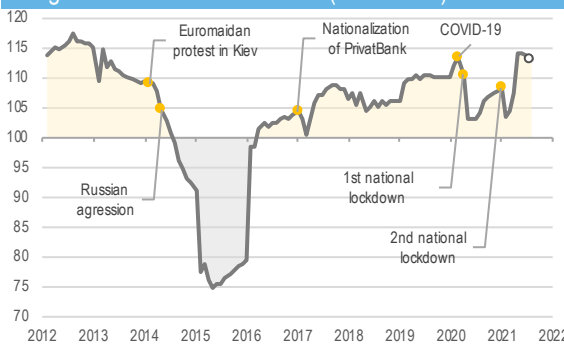


GDP growth remains robust even in rocky recovery

Ukraine's GDP jumped by 5.4% y/y in April-June, making the beginning of economic recovery from the impact of the pandemic. Although the fastest since 2010, the 2Q growth surprised to the downside against a strong rebound in most of industries. Before release of a detailed statistics on September 20, we assume the slower than expected pick-up could result from a sharp drop in inventories. With price for most commodities remaining elevated, this factor could keep weighing on GDP through the year end. Considering much slower than expected economic growth in 1H21, we cut our forecast for 2021 to 3.1%.

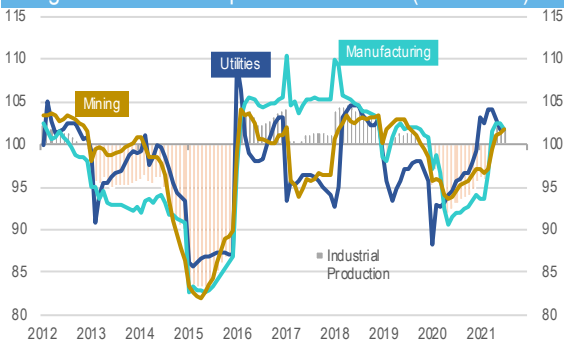
Country's GDP grew almost as much in the 2Q21 as some forecasters expected for the entire year. Since beginning of the year consensus growth forecast have improved to 4.3% from 3.6%, according to the survey conducted by the NBU, with the best expectation ranging from 5.3% to 5.6% in the four quarters of 2021. The new flash estimate from the Ukrstat shows that the economy grew just by 5.4% in the 2Q after a 11.4% drop in the correspondent period of 2020.

Figure 9. Retail turnover index (cumulative)



**The weak recovery is particularly surprising amid a strong rebound in most of industries. Retail sales for January through July rose 13% y/y**, led by sustainable spending on food, building materials, furniture, as well as pharmaceutical products. Some slowdown in June and July could result from increased expenditures on services. As daily infections have notably dropped from the levels seen in April, consumer switched their interest to services and tourism in particular.

Figure 10. Industrial production indices (cumulative)

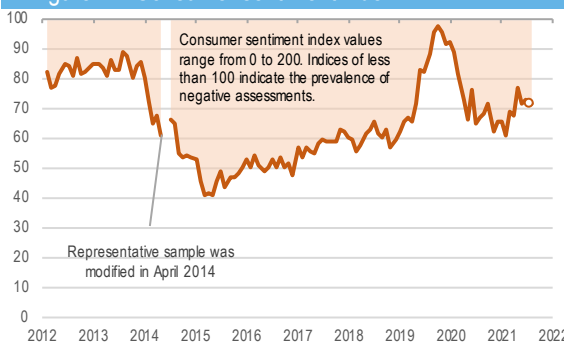


**Industrial production also looks promising.** The cumulative IP index for January-July advanced 1.8% compared to the corresponding period of 2020, deriving support from the global reopening. Despite iron ore prices have shed some of their gains since mid-July, demand for iron ore remains high, and supply constraints are still there. Assuming this should impede swift losing of the remaining price gain, we hold our expectations that industrial production may come out of 2021 much stronger than before the pandemic.

Looking at the agriculture, and construction industries, they performed weakly in 1H21. But the correspondent indices nearly rebound to the level seen in 2Q20, implying a little downside pressure on 2Q21 GDP on this side.

Considering expenditures, **we assume a sharp drop in inventories was the major drag.** This looks reasonable against a weak last year's agricultural harvest, a rampant global demand for steel and iron ore, and a slower than last year buildup in energy reserves. Because of record high prices for energy commodities, volume of natural gas in storage sites dropped by 21% (as of mid-August), coal reserves contracted 3.4 times, petrol and diesel stocks shrank by 18% and 32% correspondingly.

Figure 11. Consumer sentiment index



Even if agricultural and metallurgical industries manage to pile up inventories in 4Q (provided strong harvest and cooled demand for steel and iron ore), low energy commodities stocks may keep weighing on GDP through the year end.

Worth also pointing out, that consumers' mood remains vulnerable to news on the COVID. The sentiment index retreated 1.6 to 71.3 mark in July as a threat of new lockdowns reappeared amid an increase in coronavirus cases caused by a surge in the Delta variant. This has not affected spending yet, and running vaccination campaign could lessen a likely impact of the potential wave. That said shoppers could pull back if lockdowns are reinstated.

**Considering the above, we cut our GDP growth forecast for 2021 to 3.1%.**

# UKRAINIAN CAPITAL MARKETS WEEKLY

Key Macroeconomic Indicators								
	2015	2016	2017	2018	2019	2020	2021E	2022F
<b>Real sector</b>								
Real GDP (%YoY)	-9.8	2.4	2.5	3.4	3.2	-4.0	3.1	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	4 748	5 319
Nominal GDP (USD bn)	90	93	112	131	155	156	171	186
<b>Prices</b>								
CPI (average %YoY)	48.5	14.9	14.4	11.0	7.9	2.7	9.2	7.1
CPI (end of year %YoY)	43.3	12.4	13.7	9.8	4.1	5.0	9.0	5.0
Real average wage growth (%YoY)	-20.2	9.0	19.1	12.5	9.8	7.4	8.0	3.0
<b>Fiscal balance (% of GDP)</b>								
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
<b>External balance</b>								
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	-1.7
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
<b>Interest and exchange rates</b>								
NBU discount rate (% end of year)	22.0	14.0	14.5	18.0	13.5	6.0	8.5	6.0
Exchange rate (USD/UAH) end of year	24.0	27.2	28.1	27.7	23.7	28.3	28.0	29.8
Exchange rate (EUR/UAH) end of year	26.2	28.4	33.5	31.7	26.4	34.7	32.3	36.1

\*estimates, no official data yet available



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# UKRAINIAN CAPITAL MARKETS WEEKLY

## FOUR WEEKS AHEAD

Mon	Tue	Wed	Thu	Fri	Sat	Sun
30.08.2021	31.08.2021	01.09.2021	02.09.2021	03.09.2021	04.09.2021	05.09.2021
	NBU: BoP NBU: Gross External Debt Future Payments	LGB* % UAH 125.8mn LGB % UAH 3 253.6mn FGB % USD 334.6mn FGB P USD 974.1mn		LGB* % UAH 135.0mn		
06.09.2021	07.09.2021	08.09.2021	09.09.2021	10.09.2021	11.09.2021	12.09.2021
Ukrstat: Business confidence	NBU: FX Reserves (deadline - 7th day)	LGB* % UAH 682.7mn LGB % UAH 1 066.7mn	NBU: MPC Ukrstat: Price indices ECB: MPC NBU: Monetary Statistics			
13.09.2021	14.09.2021	15.09.2021	16.09.2021	17.09.2021	18.09.2021	19.09.2021
IMF SDR 295.5mn		LGB % UAH 118.3mn LGB* % UAH 199.6mn LGB P UAH 1 000.0mn FGB % USD 94.3mn	IMF SDR 59.7mn	NBU: External Debt		
20.09.2021	21.09.2021	22.09.2021	23.09.2021	24.09.2021	25.09.2021	26.09.2021
NBU: Minutes Ukrstat: GDP Ukrstat: Retail trade		LGB % UAH 162.5mn LGB* % UAH 864.8mn Ukrstat: Industrial Production Fed: FOMC			FGB % USD 110.6mn	

## 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



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