



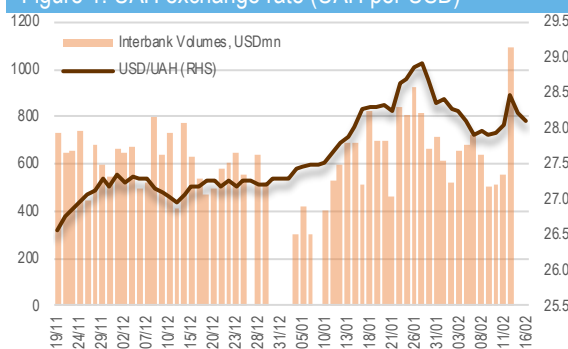
ECONOMICS | INTEREST RATES STRATEGY | FX

17 February 2022

**UKRAINIAN
CAPITAL MARKETS
WEEKLY**

| | Rating | Outlook | Last update | This week in focus: Inflation is sticky and NBU is likely to tighten... |
|---------|--------|---------|-------------|---|
| Fitch | B | STABLE | 04.02.2022 | Ukraine's headline inflation was unchanged in January at 10.0% y/y, failing to return back to single digit area. We now expect the key policy rate to peak at 11% this year, provided gradual stabilization of geopolitical situation. It is only poor growth prospects this year that are likely to stop tightening cycle, and not inflation getting back to target quickly. |
| 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)

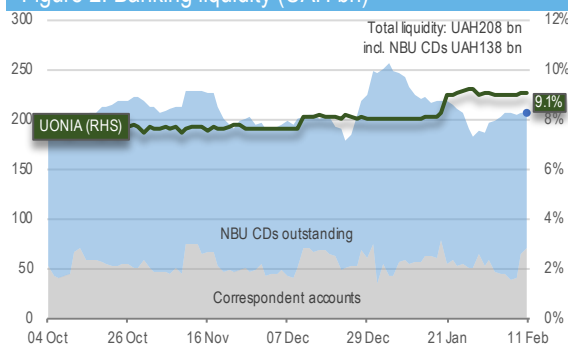


FX and interest rates: USD/UAH sees another round of escalation-easing story

The USD/UAH has again regained upside traction. The recent pair recovery from the 4-year low, that culminated in hryvnia reapproaching 28.00 level per U.S. dollar, was interrupted by another blast of news on an imminent Russian invasion of Ukraine. Hryvnia lost roughly 1.6% of its value over Monday's trading session on numerous warnings that came at the weekend of a very distinct possibility that Russia would choose to act militarily in the next few days. Russian missile drills in the Black Sea added to market concerns, for a likely naval blockade would cut off Ukraine's major trading route.

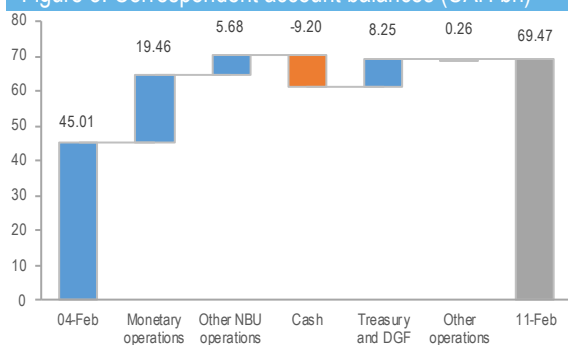
But the fear grip has much weakened since Tuesday, thanks to the global efforts in supporting Ukraine. Apart from military support, commitments for financial support worth some USD2bn in total were granted to the country over the last two days. And this help will come on top of EUR1.2bn of macrofinancial aid from the EU announced earlier.

Figure 2. Banking liquidity (UAH bn)



Assuming no escalation in the border tension, we admit hryvnia returning below the 28.00 key level against the greenback. But we see few opportunities for the pair to move far below this figure. Precautionary FX hoarding is likely to persist for some more time. Besides, we expect high demand for FX from the Naftogaz, which has resumed gas imports to build up its reserves by the next heating season.

Figure 3. Correspondent account balances (UAH bn)



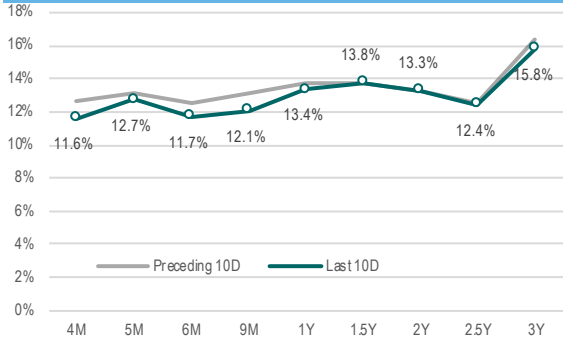
Banking liquidity recovered above UAH200bn. As of the end of Friday (February 11), the balance of correspondent accounts with the NBU was UAH69.5bn, up 54.3% from a week ago, and the position in the central bank's CDs narrowed by 12.5% to UAH138.2bn.

Fresh liquidity came from the NBU and State treasury. The central bank injected roughly UAH15bn over the last two weeks via FX purchases. Another UAH21bn returned in the system from the State treasury account.

The cash channel was the only source of liquidity outflow, with UAH9.2bn being withdrawn over the last week. The outflow, however, was generally in line with those in the first half of February in preceding years.



Figure 4. Local UAH bonds market

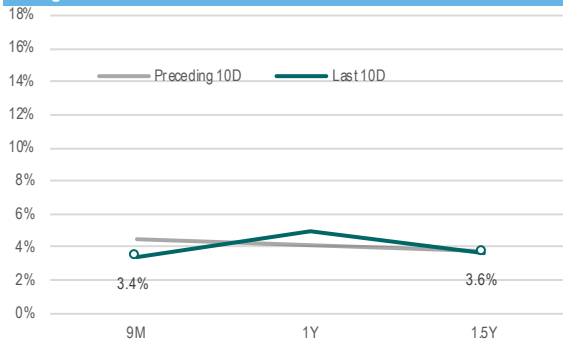


Government bond market

| 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 | 4M | 11.60% | 11.60% | 11.60% | 11.60% | 8 | 8 | 57.90 | 57.90 |
| UAH | 9M | 12.00% | 11.93% | 12.10% | 11.93% | 8 | 7 | 16.08 | 11.10 |

Another government debt auction came close to failure. Seems perceiving a cool demand, FinMin offered only UAH-denominated bonds with maturity 4 and 9 months. The issue of 4-month bonds attracted bids for just UAH57.9mn. And this likely was achieved after the ministry lifted the cut-off rate by 10bp to 11.6% per annum. Demand for 9-month bonds was UAH16.1mn but one bid worth circa UAH5mn was rejected. The cut-off rate for the issue was set at 12% per annum, up 50bp from previous auction.

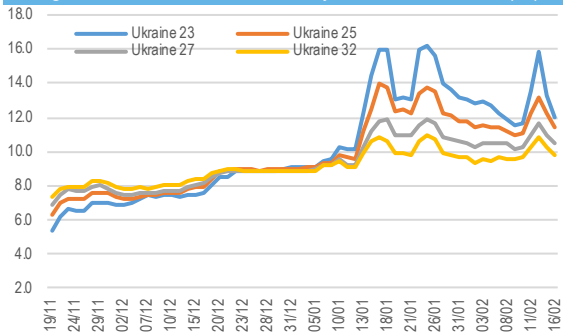
Figure 5. Local USD bonds market



Low demand at the primary market results from very volatile market conditions. During the whole last week a brisk demand for government bonds prevailed at the secondary market, pushing yields on Ukrainian debt down by 50-100bp along the curve. The sharp change in the investment mood followed after the weekend's warnings of an impending Russian invasion of Ukraine.

Demand for public debt could recover as soon as at the next auction, provided no escalation in the conflict follows. But the take-up could remain low. Having received commitments for generous financial support, the ministry is unlikely to make notable price concessions.

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



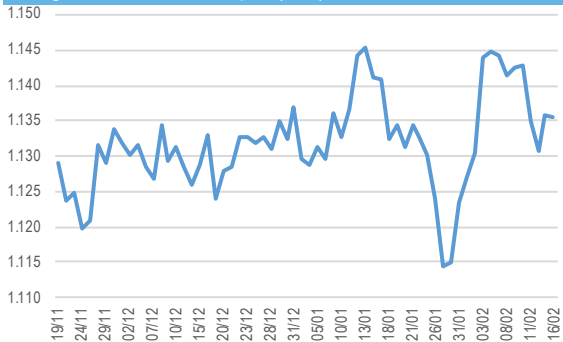
EUR/USD seesaws around 1.1400

The EUR/USD pair seesaws around the 1.1400 mark, struggling to gain any meaningful traction amid ever-changing Russia-Ukraine tension.

Moscow's Tuesday announcement of a pullback was met with skepticism around the world, with the NATO claiming to see no signs of drawdowns at Ukraine's border.

The market attention was also on the commentaries from ECB officials. A likely deepening of the crisis could result in disruptions in the energy supply to Europe. This induced fresh speculation of a potential entrenching of inflation expectations and a likely interest rate hike by the ECB at some point by year-end.

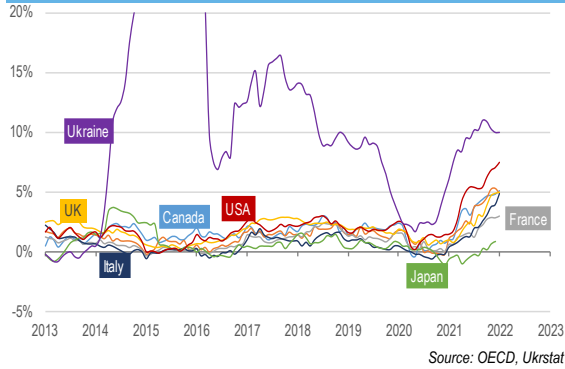
Figure 7. EUR USD spot (mid)



The greenback, however, does not seem to be running out of support. Better-than-expected U.S. macroeconomic statistics sponsored a noticeable bounce in the buck. Besides, there is speculation that the Federal Reserve might raise rates by a full 50 basis points in March. The minutes from the central bank's January meeting revealed that the Fed would end the QE by March, as scheduled on the December meeting. Also, Fed policymakers would like to remove policy accommodation faster than they anticipate and "soon" would like to raise the Federal Funds Rate (FFR).

The yield on the benchmark 10-year Treasury note reached 2.036% by Wednesday (February 16). The growth was driven by the fresh stats on U.S. inflation. The 12 months through January CPI jumped 7.5%, the biggest year-on-year gain since February 1982.

Figure 8. Inflation (CPI) annual growth rate

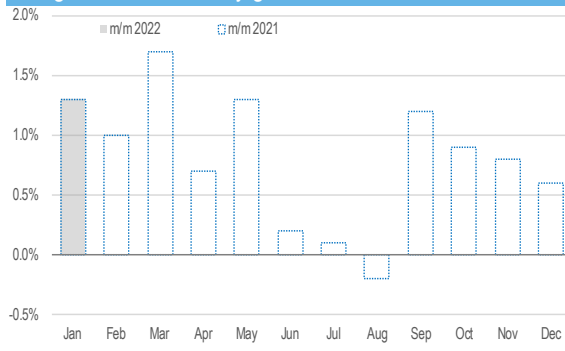


Inflation is sticky and NBU is likely to tighten...

Ukraine's headline inflation was unchanged in January at 10.0% y/y, failing to return back to single digit area as expected by us, consensus and the NBU. We now expect the key policy rate to peak at 11% this year (+100bp from now), provided gradual stabilization of geopolitical situation. It is only poor growth prospects this year that are likely to stop tightening cycle, and not inflation getting back to target quickly.

It is rather surprising to see consumer prices growth in Ukraine remaining at 10% y/y against a skyrocketing 69% y/y surge in production prices, inflation spike across the developed world, elevated global energy prices, and a volatile local currency, magnifying effects of all the above. We admit the actual CPI calculation methodology could omit some changes in consumers' behavior following the Covid outbreak, hence underestimating the real price growth. That said the timely response by the NBU and a comparatively moderate government deficit in 2021 had their tangible impact too.

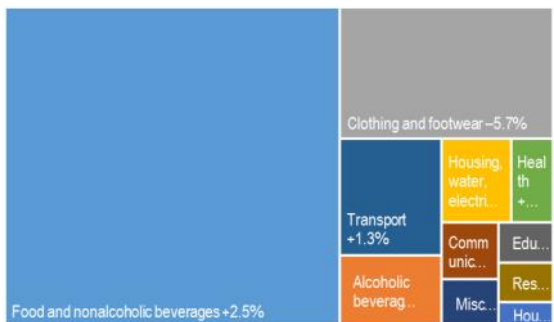
Figure 9. CPI monthly growth rate in Ukraine



Food and transportation services were the major inflation drivers in January. Both items very much represent the energy story, with costly gas resources fueling a 20.5% m/m price increase in vegetables, and heading north oil prices pushing up price tags at fuel stations (up 2.6% m/m).

Stripped of the foregoing components, core inflation slowed to 7.6% y/y in January from 7.9% y/y in December. But such deceleration is rather a temporary improvement than a beginning of price stabilization.

Figure 10. Contribution to monthly inflation in Ukraine



A gaining momentum broad-based CPI growth is becoming nearly as prevalent across the globe as the coronavirus itself. A significant portion of imports in daily consumption coupled with increased volatility in the local currency make Ukraine particularly vulnerable to offshore inflation.

Inflation may also reaccelerate when actual energy prices are taken into account. The current heating tariffs and non-commercial natural gas prices mostly reflect the costs of the resource injected into underground facilities over 2019-2020. Moreover, the increase in consumers' fixed costs could give rise to further wage adjustments, adding to a risk of a wage-price spiral.

Worth noting, however, that **persistent conflict concerns may displace inflation expectations**. Leaving aside a war scenario, which would require a separate forecast, a typical at times of heightened concerns rise in demand for cash and FX, in particular, could crowd money out of consumption, hence giving way for price stabilization. In this case, continued FX sales by the NBU could prove to be a much more powerful policy tool than the key rate itself. The central bank has mopped up over UAH40bn of hryvnia liquidity from the banking system via FX market interventions. The gradual pick-up in UONIA that followed could point to hryvnia liquidity decline to a deficiency level. Announced by the NBU an increase in reserve requirements starting from March 11 will add to hryvnia demand, hence reinforcing the key rate transmission mechanism.

Figure 11. Inflation (CPI) expectations (12m ahead)



Considering also other policy measures in the pipeline, we see an opportunity for the key rate to peak at 11% and annual inflation to weaken to 8.9% through the end of the year.

UKRAINIAN CAPITAL MARKETS WEEKLY

| Key Macroeconomic Indicators | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|--------|-------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022E |
| Real sector | | | | | | | | |
| 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 | 1.1 | 1.0 |
| Retail sales (%YoY) | -19.8 | 4.3 | 6.5 | 6.2 | 10.3 | 8.4 | 10.7 | 10.0 |
| Unemployment rate end of year (ILO, working age) | 9.1 | 9.3 | 9.5 | 8.8 | 8.2 | 9.5 | 9.3* | 8.5 |
| Nominal GDP (UAH bn) | 1 989 | 2 385 | 2 984 | 3 561 | 3 975 | 4 194 | 5 007* | 5 820 |
| Nominal GDP (USD bn) | 90 | 93 | 112 | 131 | 155 | 156 | 184* | 204 |
| Prices | | | | | | | | |
| CPI (average %YoY) | 48.5 | 14.9 | 14.4 | 11.0 | 7.9 | 2.7 | 9.4 | 9.0 |
| CPI (end of year %YoY) | 43.3 | 12.4 | 13.7 | 9.8 | 4.1 | 5.0 | 10.5 | 8.9 |
| Real average wage growth (%YoY) | -20.2 | 9.0 | 19.1 | 12.5 | 9.8 | 7.4 | 11.9 | 3.0 |
| Fiscal balance (% of GDP) | | | | | | | | |
| State budget deficit (without Naftogaz) | 2.3 | 2.9 | 1.6 | 2.4 | 1.8 | 5.2 | 5* | 3.5 |
| Total public debt (% of GDP) | 79.4 | 81.0 | 71.8 | 61.0 | 51.6 | 60.9 | 64.6* | 61.5 |
| External balance | | | | | | | | |
| Exports of goods and services (USD bn) | 47.9 | 46.0 | 53.9 | 59.2 | 63.6 | 60.7 | 81.5 | 65.0 |
| Imports of goods and services (USD bn) | 50.2 | 52.5 | 62.7 | 70.6 | 76.1 | 63.1 | 84.5 | 78.0 |
| Current account balance (USD bn) | 5.0 | -1.9 | -3.5 | -6.4 | -4.1 | 5.3 | -2.1 | -3.2 |
| Current account balance (% of GDP) | 5.6 | -2.0 | -3.1 | -4.9 | -2.7 | 3.4 | -1.1 | -1.6 |
| Net FDI (USD bn) | -0.4 | 3.8 | 3.7 | 4.5 | 5.2 | -0.1 | 6.0 | 3.0 |
| Foreign exchange reserves (end of year) | 13.3 | 15.5 | 18.8 | 20.8 | 25.3 | 29.1 | 30.9 | 32.5 |
| Imports coverage (months of imports of goods) | 3.4 | 3.7 | 3.6 | 3.5 | 3.9 | 4.8 | 4.1 | 5.0 |
| Interest and exchange rates | | | | | | | | |
| NBU discount rate (% end of year) | 22.0 | 14.0 | 14.5 | 18.0 | 13.5 | 6.0 | 9.0 | 11.0 |
| Exchange rate (USD/UAH) end of year | 24.0 | 27.2 | 28.1 | 27.7 | 23.7 | 28.3 | 27.3 | 29.8 |
| Exchange rate (EUR/UAH) end of year | 26.2 | 28.4 | 33.5 | 31.7 | 26.4 | 34.7 | 30.9 | 32.5 |

*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 |
|--|-------------------------------|---|---|---|------------|------------|
| 14.02.2022 | 15.02.2022 | 16.02.2022 | 17.02.2022 | 18.02.2022 | 19.02.2022 | 20.02.2022 |
| | | LGB* % UAH 198.2mn LGB % UAH 727.0mn | LGB % EUR 4.4mn LGB P EUR 349.2mn | | | |
| 21.02.2022 | 22.02.2022 | 23.02.2022 | 24.02.2022 | 25.02.2022 | 26.02.2022 | 27.02.2022 |
| | Ukrstat: Retail trade | LGB* % UAH 518.9mn LGB % UAH 1 998.4mn LGB P UAH 17 980.5mn | | LGB % UAH 876.5mn | | |
| 28.02.2022 | 01.03.2022 | 02.03.2022 | 03.03.2022 | 04.03.2022 | 05.03.2022 | 06.03.2022 |
| Ukrstat: Nominal & Real Wage NBU: Gross External Debt Future Payments | FGB % USD 296.9mn NBU: BoP | LGB* % UAH 125.8mn LGB % UAH 3 253.6mn Ukrstat: Industrial Production | NBU: MPC | LGB* % UAH 135.0mn 2nd review of SBA, available fund SDR500mn | | |
| 07.03.2022 | 08.03.2022 | 09.03.2022 | 10.03.2022 | 11.03.2022 | 12.03.2022 | 13.03.2022 |
| NBU: FX Reserves (deadline - 7th day) | | LGB* % UAH 682.7mn LGB % UAH 1 066.7mn LGB P UAH 17 778.1mn | LGB % EUR 0.3mn LGB P EUR 36.3mn Ukrstat: Price indices ECB: MPC | IMF SDR 295.5mn Ukrstat: GDP S&P Sovereign Credit Rating Review | | |

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

Serhii Yahnych

Head of Investment Business

(+38044) 537-50-82

serhii.yahnych@ukrsibbank.com

Viktoriiia Nebeska

Market Making Government Bonds

(+38044) 201-22-74

viktoriiia.nebeska@ukrsibbank.com

Oleksandr Kredentser

Fixed Income Dealer

(+38044) 298-83-35

oleksandr.kredentser@ukrsibbank.com

Mykhailo Kharchuk

Market Analysis

(+38044) 537-49-75

mykhailo.kharchuk@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



Distribution:

macro@ukrsibbank.com

Important Disclaimer

Legal Notice: This document is CONFIDENTIAL AND FOR DISCUSSION PURPOSES ONLY; it constitutes a marketing communication and has been prepared by a Sales and Marketing function within PUBLIC JOINT STOCK COMPANY "UKRSIBBANK" that is the part of BNP Paribas Group (hereafter – JSC "UKRSIBBANK") and/or its subsidiaries or affiliates (collectively "we" or "BNP Paribas"). As a confidential document it is submitted to selected recipients only and it may not be made available (in whole or in part) to any other person without BNP Paribas' written consent. This document is not a recommendation to engage in any action, does not constitute or form any part of any offer to sell or issue and is not a solicitation of any offer to purchase any financial instrument, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on in connection with, any contract or investment decision. To the extent that any transaction is subsequently entered into between the recipient and BNP Paribas, such transaction will be entered into upon such terms as may be agreed by the parties in the relevant documentation.

The information contained in this document has been obtained from sources believed to be reliable, but there is no guarantee of the accuracy, completeness or suitability for any particular purpose of such information or that such information has been independently verified by JSC "UKRSIBBANK" or by any person. None of BNP Paribas, its members, directors, officers, agents or employees accepts any responsibility or liability whatsoever or makes any representation or warranty, express or implied, as to the accuracy or completeness of the information, or any opinions based thereon, contained in this document and it should not be used in place of professional advice. Additional information may be provided on request, at our discretion. Any scenarios, assumptions, historical or simulated performances, indicative prices or examples of potential transactions or returns are included for illustrative purposes only. Past performance is not indicative of future results. Investors may get back less than they invested. JSC "UKRSIBBANK" gives no assurance that any favourable scenarios described are likely to happen, that it is possible to trade on the terms described herein or that any potential returns illustrated can be achieved. This document is current as at the date of its production and JSC "UKRSIBBANK" is under no obligation to update or keep current the information herein. In providing this document, JSC "UKRSIBBANK" offers no investment, financial, legal, tax or any other type of advice to, and has no fiduciary duty towards, recipients. Certain strategies and/or potential transactions discussed in this document may involve the use of derivatives which may be complex in nature and may give rise to substantial risks, including the risk of total or partial loss of any investment or losses without limitation and which should only be undertaken by those with the requisite knowledge and experience. JSC "UKRSIBBANK" makes no representation and gives no warranty as to the results to be obtained from any investment, strategy or transaction, or as to whether any strategy, security or transaction described herein may be suitable for recipients' financial needs, circumstances or requirements. Recipients must make their own assessment of strategies, securities and/or potential transactions detailed herein, using such professional advisors as they deem appropriate. JSC "UKRSIBBANK" accepts no liability for any direct or consequential losses arising from any action taken in connection with or reliance on the information contained in this document even where advised of the possibility of such losses.

As a bank with a wide range of activities JSC "UKRSIBBANK" may face conflicts of interest and you should be aware that JSC "UKRSIBBANK" and/or any of its affiliates may be long or short, for their own account or as agent, in investments, transactions or strategies referred to in this document or related products before the material is published to clients and that it may engage in transactions in a manner inconsistent with the views expressed in this document, either for their own account or for the account of their clients. Additionally, JSC "UKRSIBBANK" may have acted as an investment banker or may have provided significant advice or investment services to companies or in relation to investments mentioned in this document. The information in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction where (a) the distribution or use of such information would be contrary to law or regulations, or (b) JSC "UKRSIBBANK" or a JSC "UKRSIBBANK" affiliate would become subject to new or additional legal or regulatory requirements. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly.

This document is being communicated by JSC "UKRSIBBANK", 2/12 Andriivska street, Kyiv, 04070, Ukraine; tel: +380 44 590 06 90 (www.my.ukrsibbank.com). © JSC "UKRSIBBANK" 2021. All rights reserved .



UKRSIBBANK
BNP PARIBAS GROUP

The bank
for a changing
world