

## Ukraine

## Financial Markets Snapshot

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## Markets update

## Market comment: Hryvnia strengthened on positive IMF signals

The hryvnia continued its strengthening this week and the rates of the majority of market operations closely approached 8.0/USD – a rate targeted by the NBU for several weeks. We believe the news that the IMF mission will return this Thursday on the promises of the president and prime minister approving all necessary anti-crisis laws in parliament this week stimulated the supply of foreign currency and reduced its demand. In addition, anticipated hryvnia strengthening forced speculative investors to increase foreign currency supply. The trend for the exchange rate on the FX market for the nearest five months will be evident within the next 2-3 weeks and will depend on the results of the vote in parliament this week and the decision of the IMF regarding the resumption of its loan to Ukraine. If the IMF resumes its loan programme soon, we can expect further hryvnia strengthening, approaching the official exchange rate level of 7.7/USD already within 1-1.5 months. The decision of the NBU on limiting the currency positions of the banks may also accelerate hryvnia strengthening over the period.

The performance of the domestic FX market over March supports our view that the refusal of the IMF to disburse its loan in February was good for the market. The suspension of the IMF programme forced the NBU to save and not to waste its FX reserves. In particular, facing the limitations on the use of FX reserves, the NBU became wiser in its FX policy, reducing panic on the cash market significantly by aiming its FX interventions at households instead of importers. Even those administrative measures forbidding the release of market exchange rates by banks were good for calming down the most panicky segment on the market. These measures proved their effectiveness in reducing the panic even under adverse external conditions: the threat of IMF's refusal to continue its loan to Ukraine and political uncertainty. If Ukraine had received the tranche in February, we think the intervention policy might have been more chaotic and meaningless.

## Today's main news story

## Annual inflation in March drops to 18.1%

**Inflation dropped on lower demand and a flat exchange rate. The rise in gas prices caused positive PPI. Inflation is no longer a top priority of state policy.**

The drop of domestic demand and no further influence of the devaluation on imported goods saw a further reduction in consumer prices in March. CPI reached 1.4% last month, exactly in line with our forecasts and exceeding consensus estimates of 1.2%. March's inflation figure and significantly higher inflation a year ago caused a further reduction of annual inflation to 18.1% YoY compared to 20.9% YoY in February and 22.3% YoY in December 2008.

Foodstuff prices up 1.5% MoM were almost in line with the general price movement, while the 7.3% MoM growth in sugar prices reflects the poor harvest of sugar beets last year and

## Benchmark yields (%)

	Last	%ch (DoD)
Ukraine 'Dec-09 (UAH)	37.83	-2.28

## Exchange rate

	Last	%ch (DoD)
UAH/US\$	8.0000	0.00

## Money market rates (%)

	Last	Bp (DoD)
O/N UAH	3.30	-8.33
1 week UAH	7.56	1.48
3 months UAH	16.60	1.48

corresponding decline in sugar supply. The tariffs for public utilities remained relatively flat last month (0.5% MoM) even though the tariffs for the majority do not cover all corresponding costs for their delivery while the IMF still requires them to be adjusted to break-even levels this year. However, we believe the approach of the presidential elections has had a stronger effect on freezing public tariffs over the last two months.

Similar to CPI, the producer price index showed a reduction in March to 1.1%, with a reduction of annual PPI to 15.2% YoY compared to 19.1% YoY in February. The rise in the price of imported gas still remains the largest factor affecting producer price growth last month, thus mostly affecting prices for gas-consuming sectors, ie chemicals sector (5.7% MoM) and power utilities (4.8% MoM). At the same time, the steel sector still saw a drop in producer prices (-1.5%) reflecting another decline in world steel prices.

Consumer inflation over 1Q09 already reached 61% of the level projected by the government for the whole year in the state budget. As we do not anticipate any significant reduction in price levels this year (besides the seasonal decline in summer months) the government may be forced to raise its inflation forecast in the middle of the year and adjust state budget figures upwards correspondingly. At the same time, a number lower than the level of inflation in the budget would allow the government to outperform (or to reduce underperformance) the planned level of budget revenues. This strategy will be especially important this year to show a good performance for the budget on the eve of presidential elections and during negotiations with the IMF.

We believe the government partially achieved its goal of beating inflation and has shown a constant decline since last year while the level already moved below consensus estimates of the corresponding figure over 2009 (17.9%). Thus we can expect that beating inflation will not be a top priority for the government in the nearest months, although we still expect that moderate price control and tight monetary policy will remain due to both the elections approaching and the necessity to be compliant with IMF requirements.

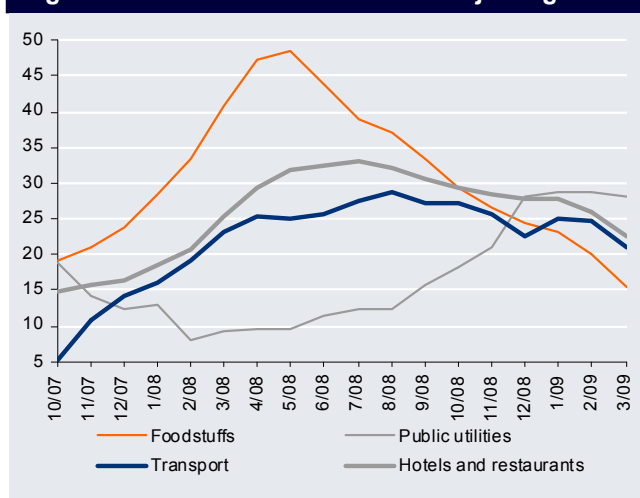
Although inflation shows a slowdown over 1Q09, we still maintain our 2009 forecasts at 16.9% while we still expect the major risks in price growth will come from foodstuffs (due to global food prices), tobacco and alcoholic products (due to rising excise duties for these products since July) and probably from public utilities (due to the necessity to reduce losses at public utilities). At the same time, as Ukraine may face presidential elections already in October, it is likely the government will freeze public utility tariffs this year. Our forecast for PPI growth this year remains at 13.5% YoY.

**Fig 1 Decline in CPI due to lower income**



Source: State Statistics Committee, ING

**Fig 2 Lower annual inflation in all major segments**



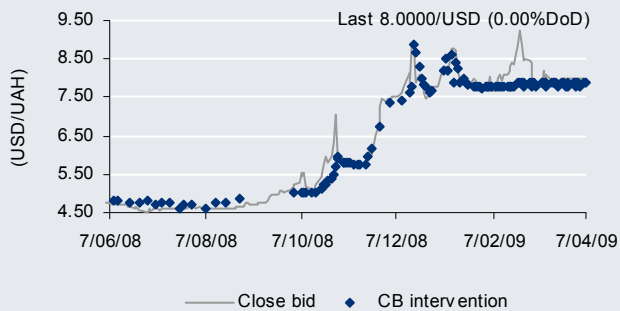
Source: State Statistics Committee, ING

**Investment implications: Another drop in inflation in March may reduce country risks slightly. However it reflects the economic slowdown and lower demand for goods**

*more than the effectiveness of government actions to beat inflation. At the same time, in the next months, investors will be more concentrated on the exchange rate and fiscal policy as well as on the ability of the government to stabilise the domestic banking system and industrial sector.*

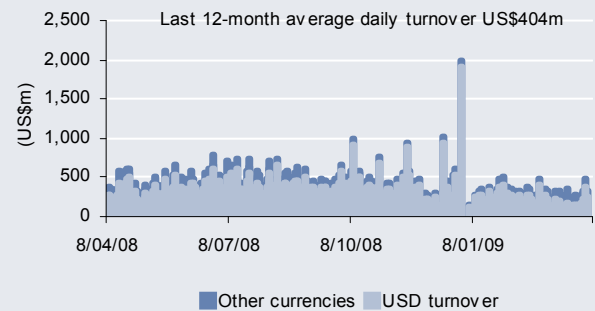
## Foreign exchange market: rates and trading volumes

Exchange rate UAH vs. USD



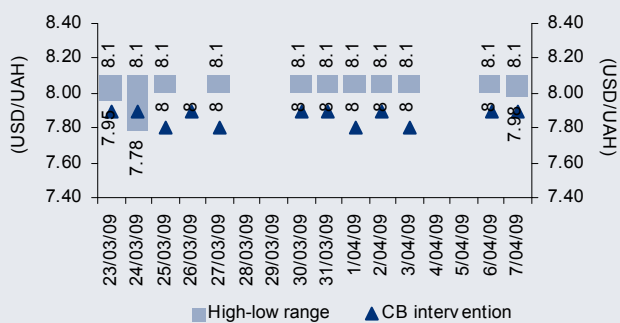
\* One-year history. Source: NBU, Reuters

FX market daily turnover



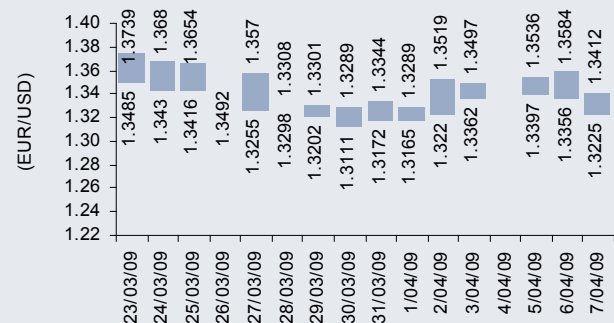
\* One-year history. Source: NBU, Reuters

FX market highs/lows: UAH vs. USD



\* One-month history. Source: NBU, Reuters

FX market highs/lows: EUR vs. USD



\* One-month history. Source: NBU, Reuters

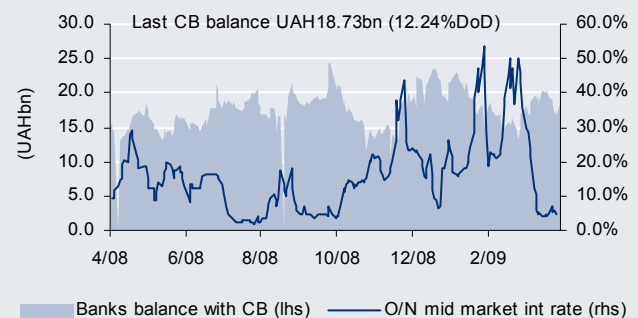
## Money market: interest rates and liquidity in banking sector

Overnight money-market rates



\* One-month history. Source: NBU, Reuters

Liquidity in the banking system



\* One-month history. Source: NBU, Reuters

## Debt market: indicative bond quotes

### Indicative bond quotes (market closed 7 April 2009)

PFTS Ticker	Issuer name	Coupon rate (%)	Maturity/ put date	Bid	Price Ask	Last	Avg*	Bid	Yield (%) Ask	Last	Avg*	Trade volume (UAH)
<b>Government bonds</b>												
20909	Ministry of Finance	11.94	30-Dec-09	86.57	90.80	89.75	90.69	37.83	28.87	31.00	29.09	1,726,881.00
22400	Ministry of Finance	9.40	2-Sep-09	91.92	99.12			35.24	12.17			0.00
22509	Ministry of Finance	9.50	28-Sep-11	102.86	109.17			8.50	5.65			0.00
<b>Municipal bonds</b>												
OLTSKC	Lutsk (C)	13.90	25-Apr-12	100.05	100.15			14.61	14.56			0.00
OZAPRF	Zaporizhya (F)	12.00	1-Sep-10	100.00	100.20			12.39	12.22			0.00
OZAPRE	Zaporizhya (E)	12.00	6-Jul-10		106.38				6.66			0.00
OVINRE	Vinnitsya (E)	10.55	30-Dec-10	99.77				11.13				0.00
OVINRD	Vinnitsya (D)	10.55	30-Dec-09	98.87				12.75				0.00
OKOMSA	Komsomolsk (A)	12.00	31-Jul-09		100.80				9.72			0.00
OLUGB	Lugansk (B)	10.40	31-Oct-11	94.23	101.18			13.73	10.25			0.00
OLTSKB	Lutsk (B)	13.90	27-Apr-11	100.10	100.20			14.38	14.32			0.00
OLTSKD	Lutsk (D)	13.90	24-Apr-13	100.11	100.21			14.59	14.55			0.00
ODON2C	Donetsk (C)	12.00	7-Sep-09	89.05	102.55			48.73	5.92			0.00
OBORSA	Boryspil (A)	13.50	16-Jul-13	92.08	100.08			17.31	14.37			0.00
OLUGA	Lugansk (A)	10.40	31-Oct-11	94.33	101.18			13.68	10.25			0.00
ODONCB	Donetsk (B)	11.75	11-Jul-10		99.93				12.34			0.00
OBERDA	City of Berdyansk (A)	11.50	23-Aug-10	99.81				12.17				0.00
ODEESC	Odesa (C)	14.00	31-Dec-10		96.28				17.19			0.00
OLTSKA	Lutsk (A)	12.00	17-Dec-09	86.46	100.00			40.00	12.68			0.00
<b>Mortgage bonds</b>												
ODIUE	SMI (E)	9.50	18-Dec-11	99.84	102.21			9.91	8.85			0.00
ODIUD	SMI (D)	9.50	17-Dec-11	99.84	101.71			9.91	9.07			0.00
OUGZBB	Ukrzazbank (B)	10.50	25-Feb-10	78.85	101.85			46.30	8.57			0.00
<b>Corporate bonds (Financial institutions)</b>												
OFLGB	Finance Leasing Group (B)	14.00	9-Dec-09	100.24	103.47			14.32	8.92			0.00
OELZB	Euro Leasing (B)	18.00	8-Oct-09	85.61	99.06			63.45	21.55			0.00
OBXRE	Khreshchatyk Bank (E)	13.00	17-May-09	98.26	101.26			32.95	1.52			0.00
ODNSG	Dnister Bank (G)	20.00	12-Jan-10	93.18	100.00			33.90	21.54			0.00
OKPBC	Creditprombank (C)	15.50	16-Jul-09		97.42				28.06			0.00
COBVLE	Aval Bank (E)	10.00	11-Nov-09		87.92				35.00			0.00
OIMEXB	Imexbank (B)	17.00	30-Nov-09	78.32	91.06			74.16	37.02			0.00
OHYPBA	Ipobank (A)	15.00	25-Nov-09	93.32	101.82			29.53	12.52			0.00
OBVLC	Aval Bank (C)	13.50	21-Jan-10	71.75	86.19			70.00	35.95			0.00
COPUMB	FUIB (A)	15.50	22-Jun-09		101.36				9.09			0.00
COKPBI	Creditprombank (I)	11.50	20-Oct-10	99.81	100.21			12.15	11.84			0.00
COENRA	Energobank (A)	25.00	18-Dec-09	98.90	99.86			29.70	27.83			0.00
COBVLF	Aval Bank (F)	11.00	11-Nov-12		60.97				29.98			0.00
COKPBH	Creditprombank (H)	11.25	21-Oct-09		100.16				11.39			0.00
OBPVA2	Pivdenny (A)	18.00	11-Jan-10	95.81	99.95			26.44	19.33			0.00
OBMBNA	BM Bank (A)	14.50	23-Jun-09		99.34				18.72			0.00
OSCHDA	Oshchadbank (Saving Bank) (A)	10.25	13-Aug-09	90.53	103.50			47.02	0.27			0.00
OSCHDB	Oshchadbank (Saving Bank) (B)	10.50	12-Aug-10	68.74	78.03			49.11	34.85			0.00
OKPBD	Creditprombank (D)	16.00	15-Feb-10		101.09				15.43			0.00
OUPRBB	Ukrainian professional bank (B)	15.00	29-Jun-09	99.80	100.02			16.84	15.73			0.00
OZEMBA	Kharkiv JSC Zemelnij Bank (A)	14.50	22-Dec-09	100.00	100.02			15.29	15.26			0.00
OUSCD	Ukrzazbank (D)	12.50	16-Aug-10	48.29				102.40				0.00
OUPRBC	Ukrainian professional bank (C)	17.00	25-May-09		100.00				17.92			0.00
OUPRBA	Ukrainian professional bank (A)	14.00	29-Jun-09		100.07				14.39			0.00
OUGZBE	Ukrzazbank (E)	16.00	22-Dec-09	90.39	104.79			35.57	9.26			0.00
OUGZBD	Ukrzazbank (D)	16.00	22-Sep-09	92.39	104.59			39.28	5.95			0.00
OUGZBA	Ukrzazbank (A)	16.00	16-Jul-09	91.41	99.56			62.36	18.87			0.00
OUPRBD	Ukrainian professional bank (D)	17.50	23-Nov-09		100.00				18.64			0.00
OPCBF	ProCredit Bank (F)	17.75	30-Sep-10		96.95				21.76			0.00
<b>Corporate bonds (Non-financial institutions)</b>												
OCPFB	Cherkasy Battery Farm (B)	25.00	10-Nov-09		100.11				27.51			0.00
OHRPTB	HARP Trading (B)	16.00	13-Jul-09	96.27				34.93				0.00
OZHENB	Zhytomyroblenergo (B)	15.00	1-Mar-10	73.52	103.52			65.66	11.08			0.00

**Indicative bond quotes (market closed 7 April 2009)**

PFTS Ticker	Issuer name	Coupon rate (%)	Maturity/ put date	Price				Yield (%)				Trade volume (UAH)
				Bid	Ask	Last	Avg*	Bid	Ask	Last	Avg*	
OKIONB	Kirovohradoblenergo (B)	23.00	1-Mar-10	72.73	102.73			82.55	20.74			0.00
OKGSTA	Kyivmiskbud-1 (A)	14.00	11-Dec-09	99.76	102.54			15.14	10.46			0.00
OGLCHC	Halychyna (C)	23.00	6-Apr-10	90.00	105.00			40.74	18.96			0.00
OHLPD	Concern Khliprom (D)	17.00	24-Aug-09		101.00				14.99			0.00
COFSHC	Furshet (C)	13.50	15-Apr-09		99.93				17.57			0.00
COVINB	Vinnifruit Invest (B)	25.00	15-Dec-09	99.52	100.53			28.30	26.34			0.00
CODSTA	Donetsksteel (A)	13.00	5-Oct-09		79.99				79.60			0.00
CODSHC	Dniproshyna (C)	15.00	12-Aug-09	99.92	100.25			15.63	14.59			0.00
OBAYAB	Bayadera (B)	18.50	18-Aug-09		100.45				28.35			0.00
OBAYAA	Bayadera (A)	18.50	28-Jul-09		101.45				29.64			0.00
OATMA	Atlant-M (A)	20.00	7-Dec-09	83.41	97.69			61.13	26.00			0.00
OAMSE	Armstor (E)	14.00	9-Dec-11	69.04	96.04			35.48	16.80			0.00
OKMEDA	Kyivmedpreparat (A)	22.00	17-Nov-09	87.05	112.05			56.51	2.20			0.00
OSENB	Sevastopolenergo (B)	23.00	1-Mar-10	72.73	102.73			82.55	20.74			0.00
OUAHA	Ukrainian Automobile Holding (A)	21.50	5-Apr-10	100.28	106.94			22.92	14.65			0.00
OUTSTA	YutiSt (A)	14.00	18-Mar-10	79.17	79.27			48.75	48.54			0.00
OUNGRD	Unigran (D)	15.00	18-Aug-09			95.28	95.28			32.32	32.32	214,055.60
OMAXBB	Maxbet (B)	25.50	19-May-09		97.58				56.65			0.00
OKRVNA	Karavan (A)	16.00	6-May-09		89.78				336.47			0.00
OKZMOA	Kostyantynivsky ZMO (A)	17.00	7-Dec-09	98.65	103.65			20.59	11.72			0.00
OLUAZA	LuAZ (A)	14.00	15-Jun-09	44.16	59.16	49.16	49.16					10,000.00
OLUAZB	LuAZ (B)	13.50	12-May-09		86.88				378.40			0.00
OMABA3	Boryspil Intl Airport (A)	10.00	19-Apr-10	75.86	107.86			45.84	2.29			0.00
OMDHA	MD Holding (A)	15.00	1-Mar-10	68.52	98.52			79.95	17.66			0.00
OPDILA	Podillya (A)	17.00	29-May-09	82.68	87.18	90.48	90.48	336.45	203.23	134.85	134.85	13,845.00

\* Average price. Listed are corporates bonds with at least UAH25m outstanding.

Source: PFTS, ING.

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