

Latest developments in Ukraine

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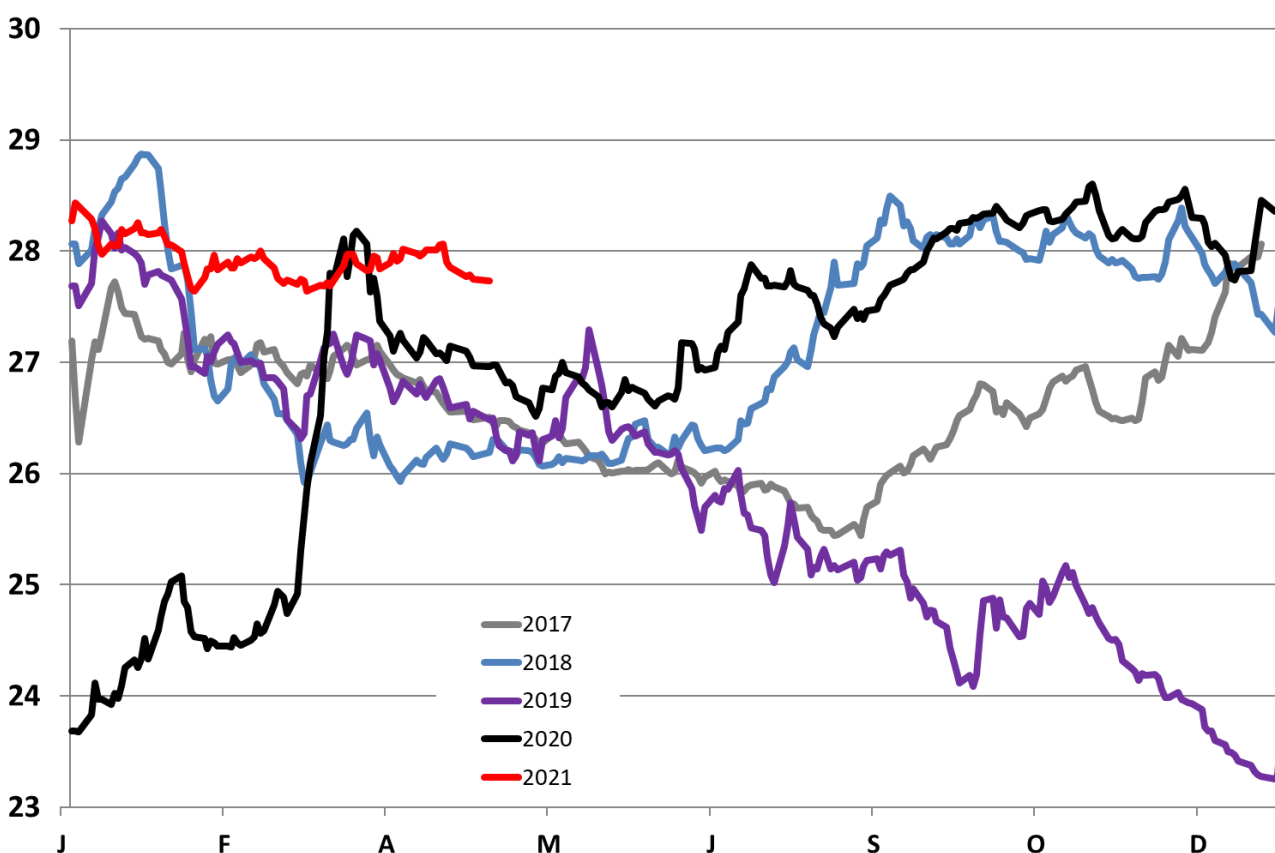
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The Ukrainian FX market was trading in the USD/UAH 27.70-27.94 range, with the hryvnia winning another 0.6% from the US dollar over the week. The NBU abstained from the market for the fourth week in a row.

In April, the Ukrainian currency gained 0.3% vs. the greenback, but retreated 2.7% vs. the euro. The NBU sold USD 50 mln in a single episode at the start of the month. However, the government made a Eurobond placement (*see related story below*), replenishing NBU's FX reserves to an estimated USD 28 bln at the end of April.

USD/UAH in 2017-2021



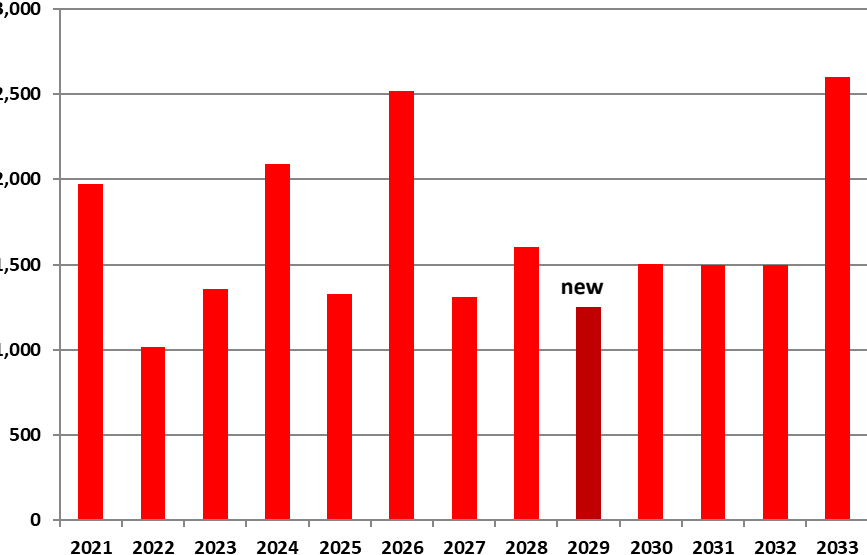
Sources: National Bank of Ukraine, Alfa-Bank Ukraine

MinFin placed Eurobond, refilling depleted FX liquidity. After negative security escalation stories waning from the radar, the Ministry of Finance promptly took an opportunity to make a long-awaited debt placement. The new 8-year USD 1.25 bln Eurobond comes with a 6.875% per annum coupon rate. The maturity of the new issue was very predictable, closing Ukraine's 2029 window of the sovereign Eurobond schedule (*see chart overleaf*).

The new placement comes in the nick of time, as MinFin has depleted most of its FX liquidity accumulated at the end of 2020 (more than USD 2 bln at the time). According

to our estimates, the FX account of the government evaporated to just USD 0.3 bln by late April. With proceeds from the new placement, the government has enough FX liquidity to go through the summer. However, Ukraine still needs to secure refinancing for the FX debt payment peak of USD 3.1 bln in September 2021.

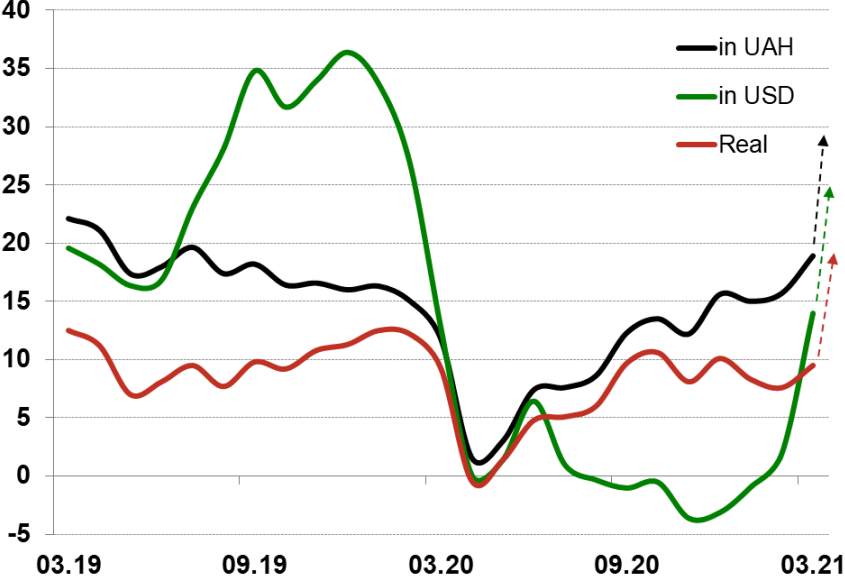
Ukraine’s sovereign Eurobonds by maturity, USD mln



Sources: Ministry of Finance, Alfa-Bank Ukraine

Lower baseline provides acceleration in wages. According to the State Statistics Service, average wage in March 2021 amounted to UAH 13,612 (USD 490). Nominal wage growth accelerated to 18.9% y-o-y and real wage growth sped up to 9.5% y-o-y. However, this acceleration owes almost solely to the lower baseline effect. For instance, average nominal wage growth for HoReCa, where this effect is the most striking, accelerated from 6.5% in February to 37.2% y-o-y in March. This temporary effect is expected to bring wage growth to strong double-digits in April.

Average wage in 2019-2021, % change y-o-y



Sources: State Statistics Service, Alfa-Bank Ukraine

Global grain prices jump, improving Ukraine's terms of trade. Fueled by speculations over negative impact of colder April weather on prospective grain harvest, Chicago futures for corn jumped 30% up over the last month, followed by a 20% price increase for wheat. Most of the increase was delivered in the past 2 weeks. This has been partially translated into a 10% growth for Ukraine's exported grain prices over the past month. At the same time, the underlying colder April factor might become an impediment to Ukraine's grain harvest, too.

China to influence global steel balance for more production elsewhere. In a move to prompt local steel producers to cut raw steel output in order to keep up with national environmental targets, the Ministry of Finance of China slashed import duties for pig iron and steel semis since the start of May. This is not a big deal, as import duties were just 1-2% for most trading partners. But at the same time, the 13% VAT rebate for many steel products exported from China was also lifted, discouraging local producers from exports. Also, the country added 5 p.p. to export duties on certain types of steel products. This set of decisions should impact the global steel sector, including Ukraine, with China now expected to consume less iron ore and more steel semis.

Ukraine extends export duty on scrap steel. Verkhovna Rada approved the law that extended the EUR 58/t duty on exports of scrap steel for another 5 years. This secures local steelmakers with cheaper input, especially important for electric arc furnaces.

Heating season ends late, but gas stocks still high. While most of the centralized heating condominiums in cities cut off heat supply by mid-April, the country still continued consuming gas from underground storages due to cold weather. Eventually, the heating season ended as late as 30 April. However, underground gas storage is now high at 15.3 bcm, which means limited needs in refilling towards the next heating season. Out of that volume, about 5 bcm are reportedly owned by non-resident companies.

Heating seasons and gas storage in Ukraine

Season	Season starts	Start-season gas storage*, bcm	Season ends	End-season gas storage*, bcm	Weather conditions
2014/15	20 Oct	16.7	13 Apr	7.6	Mild winter
2015/16	12 Oct	15.8	13 Apr	8.3	Mild winter
2016/17	12 Oct	14.7	01 Apr	8.2	Cold start in Oct-Jan, warm after
2017/18	23 Oct	17.0	09 Apr	7.4	Mild Oct-Jan, cold Feb-Mar
2018/19	07 Nov	17.2	05 Apr	8.8	Mild winter
2019/20	01 Nov	21.8	05 Apr	15.8	Mild winter
2020/21	20 Oct	28.4	30 Apr	15.3	Normal winter, cold spring

* Includes about 5 billion cubic meters of inaccessible gas
Sources: UkrTransGas, Alfa-Bank Ukraine

Next update on Ukraine will be distributed in 2 weeks, after a short break.

Economy-related legislation voted in Verkhovna Rada over the week

Draft Law No.	Content	Status
2194	Amendments to the Land Code (transfer of land management mandate to local self-governance)	Approved
2673	Amendments to legislation on tourism	Approved
4162		1st reading passed
4236	Promotion of scientific parks aligned with tertiary education and R&D institutions	1st reading passed
5065	On financial services and financial companies	1st reading passed
5104	On state support for insurance in agriculture	1st reading passed
5175	Extends EUR 58/t export duty on scrap steel for 5 years	Approved
5301	Extends import duty and VAT privileges for leasing of foreign-produced planes by Ukrainian aviation companies till 2024	1st reading passed
5304	Redirects UAH 0.6 bln in the State Budget for 2021 from financing preparations for Paralympics to financing courts	1st reading passed
5308	Financing of the recently-created state mortgage company (UkrFinZhytlo) with UAH 20 bln in T-bills	Approved
5309	Amendments to legislation on public procurement (on appeals)	1st reading passed

Sources: Verkhovna Rada, Alfa-Bank Ukraine

Sovereign debt placement over the week and payment schedule for next 2 weeks

	New debt	Payments	
		Amortization	Interest
27 April	UAH 7,580 mln + USD 21.3 mln + EUR 41.8 mln	—	—
28 April	—	UAH 11,606 mln	UAH 895 mln
30 April	USD 1,250 mln	—	USD 78 mln
05 May		—	UAH 758 mln + SDR 44.7 mln
06 May		—	EUR 2.6 mln
07 May		—	UAH 203 mln
11 May	<i>placement:</i> UAH 6M, 12M, 18M, 2Y, 3Y, 6Y	—	UAH 7,767 mln*
12 May		—	UAH 1,215 mln

** paid completely to the NBU (coupon on CPI-linked bonds at a rate of 10.7% p.a.)*

Sources: Ministry of Finance, IMF, Alfa-Bank Ukraine

Ukraine: key macroeconomic indicators

	2018	2019	2020	2021f
GDP, UAH bln	3,561	3,978	4,194	4,917
GDP, USD bln	130.7	155.1	154.8	175.6
GDP, % real change	3.4	3.2	-4.0	4.3
Industrial output, % real change	3.0	-0.5	-4.5	1.0
CPI, % average annual change	10.9	7.9	2.7	8.5
CPI, % change Dec/Dec	9.8	4.1	5.0	8.6
Average wage, USD	326	406	430	490
Average wage, % real change	12.5	9.8	7.4	9.0
Consolidated Budget balance, % of GDP	-1.9	-2.1	-5.3	-4.0
Public debt (incl. guarantees), % of GDP	60.9	50.2	60.8	59.0
Net FDI inflow, USD bln	4.5	5.2	-1.0	2.5
Current account balance, % of GDP	-4.9	-2.7	4.0	-0.4
FX reserves, USD bln at year-end	20.8	25.3	29.1	30.2
USD/UAH rate, annual average	27.20	25.85	26.96	28.00
NBU key policy rate, % (annual average)	17.1	17.0	7.9	7.6

Sources: State Statistics Service, National Bank of Ukraine, Ministry of Finance, forecast by Alfa-Bank Ukraine

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