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- Yesterday, Central Asian gas producers agreed with Gazprom to raise their selling prices in 2009. Ukraine could see an up to 78% hike next year, to USD 300-320/tcm
- Ukraine's ability to offset the increase is limited, while softening its position on NATO accession and control over gas transit pipeline may help handle the issue
- We see more pressure on the trade balance and support for the UAH/USD exchange rate

**Ukraine's gas consumption\* '07, bcm**

Industry	34.2	48%
- energy	8.4	
- metallurgy	9.8	
- other	16.0	
Population and Budget enterprises	17.9	25%
MHE**	10.5	15%
Technological use	8.5	12%
<b>Total consumption</b>	<b>71.1</b>	

\* See also the scheme on the next page

\*\* Municipal heating enterprises

Source: Energobusiness

**Ukraine's gas prices\*, USD/tcm**

	2007	**2008
Imports	130.0	179.5
Population***	52.0-212.9	
MHE	113.2	
Budget enterprises	142.6	185.1
Industry	142.6	185.1

\* Net of VAT, charges, distribution and other costs, except prices for MHE and the population, which include the aforementioned items

\*\* As of March 2008

\*\*\* Differentiated by category of consumer

Source: Gas of Ukraine

**Central Asian producers eye doubling gas price in 2009**

Gazprom said yesterday Turkmenistan, Kazakhstan and Uzbekistan will get a "European" price for their natural gas next year. No exact prices or formulas were disclosed. Given our forecast of Gazprom's 2009 average price at the European border of USD 320-340/tcm and transit costs, we estimate Central Asian suppliers can count on USD 260-280/tcm in 2009, almost double the 2007 average of USD 142/tcm.

**Ukraine can see an up to USD 140/tcm hike, 33% over our forecast**

If Asian suppliers do succeed in doubling their price, the increase will certainly be passed on by Gazprom to the price of gas for Ukraine, which could reach USD 300-320/tcm at the border in 2009 (67-78% growth over USD 180/tcm in 2008, and 25-33% over our previous forecast). This would imply a price of USD 305-325/tcm for the industry (65-76% yoy growth).

**No way to offset the increase**

Ukraine's ability to offset price growth is limited. Raising the transit tariff won't do the job, as it will be completely offset by a symmetrical increase in the cost of Asian gas transit through Russian territory. The potential effect of other short-term measures, like raising storage fees, is immaterial.

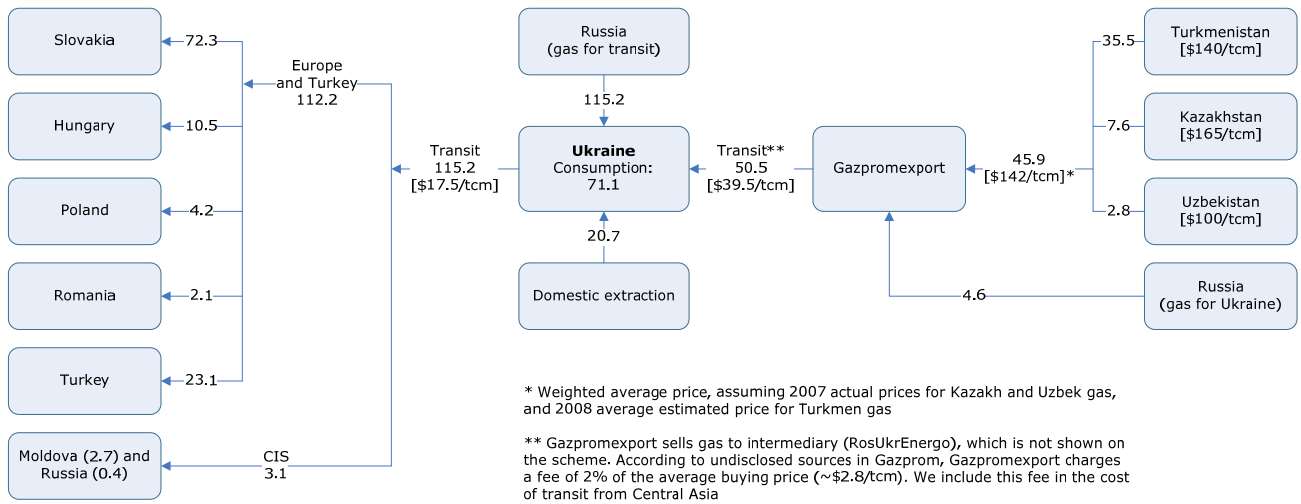
**Giving up geopolitical interests may help**

Ukraine's political forces could respond to the threat by softening their positions on geopolitical issues. It's not a great secret that the Kremlin has always been against NATO's expansion to the east, and remains interested in controlling Ukraine's high-pressure pipeline.

**Macro impact: Trade balance deeper negative, support for UAH/USD rate**

A higher gas price will also result in Ukraine's trade balance going deeper into the red, by USD 2.7 bln over our 2008 forecast (1.5% of 2009 projected GDP). This, in turn, might lend support to the dollar against the local hryvnya; so far we keep our forecast of UAH 5.0/USD 1 intact, unless we see more progress on the government's anti-inflationary measures.

Ukraine's gas supplies and transit in 2007, bcm



Source: Energobusiness, Gazprom, Naftogaz of Ukraine, media

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