



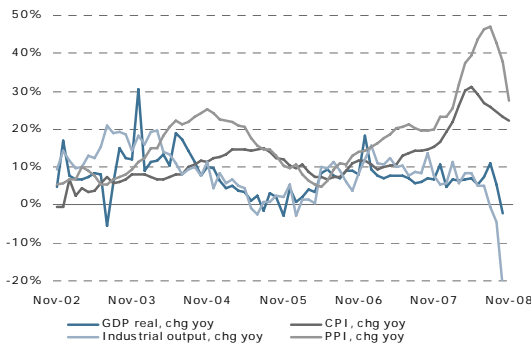
Inflation

Weak demand cools prices

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Business cycle indicators



Source: State Statistics Committee

Key macroeconomic indicators

	2007	2008E	2009F
Business cycle			
Real GDP, % yoy	7.6	3.3	-2.0
Nominal GDP, USD bln	141.2	185.1	167.3
Industrial output, % yoy	10.2	-4.0	-2.7
CPI (eop), % yoy	16.6	21.0	15.0
PPI (eop), % yoy	23.3	17.0	18.0

External sector

FDI net, USD bln	9.2	10.4	7.5
C/A balance, % GDP	-4.2	-5.8	-3.3
Trade balance, % GDP	-5.6	-6.8	-4.8
External debt, % of GDP	59.9	60.4	59.6

Exchange rate

Interbank UAH/USD (avg)	5.03	5.21	U/R
Interbank UAH/USD (eop)	5.05	7.30	U/R

Source: State Statistics Committee, National Bank of Ukraine, Bloomberg, Concorde Capital estimates

Prices for core commodities, as of December 8

	Current	%, YTD	%, yoy
Gas imports, USD/tcm	179.50	0%	38%
Crude oil (URALS), USD/bbl	34.88	-62%	-59%
Winter wheat, USD/mt, FOB**	160.00	-38%	-37%
Steel square billet, USD/mt, FOB**	330.00	-43%	-37%

**Black Sea ports

Source: Gas of Ukraine, Bloomberg

- The State Statistics Committee announced on Saturday that consumer prices rose 1.5% mom (19.8% YTD) in November, whereas producer prices tumbled 6.5% mom – but are still up 23.5% YTD
- Shrinking demand restrained consumer price growth, while producers severely cut prices in the face of the negative economic outlook

CPI growth slows, except for utilities

In November, shrinking consumer demand largely neutralized the possible impact of UAH depreciation on consumer prices. Ukraine's methodology for calculating CPI relies on surveys wherein participants specify the prices of the goods and services they bought. That is, if the prices for imported goods jump but volumes sold fall, the price difference does not weigh in as substantially, which was most likely the case in November.

In addition, in the face of abating demand, retailers are apt not to adjust prices in proportion to UAH depreciation or even lower prices to coax customer action.

Another notable sign of cooling demand is that food prices grew a mere 0.2% mom, the lowest-ever figure for November; food prices seasonally increase in the fourth quarter: 78% of the annual rise in food prices over 2002-2007 occurred in the 4Q. In fact, more than half of the mom growth in November's CPI was provided by growth in utilities prices, namely hot water and heating.

Growth in CPI ticked up to 19.8% YTD; it looks like by yearend it will fall somewhere close to our long-held forecast of 21.0%.

CPI growth in November

	mom		yoy	
	chg	contrib	chg	contrib
Food and beverages	0.2%	0.1%	26.7%	14.2%
Alcohol and tobacco	2.6%	0.1%	21.3%	1.0%
Apparel	1.3%	0.1%	3.5%	0.3%
Utilities and housing	6.2%	0.8%	20.9%	2.6%
Housewares	3.0%	0.1%	11.4%	0.4%
Healthcare	1.2%	0.0%	19.7%	0.6%
Transportation	1.9%	0.1%	25.7%	1.0%
Communications	0.2%	0.0%	4.4%	0.1%
Recreation	3.2%	0.1%	12.2%	0.3%
Education	0.4%	0.0%	29.1%	0.5%
Restaurants and hotels	1.4%	0.0%	28.4%	0.8%
Misc.	2.5%	0.1%	27.8%	0.6%
CPI	1.5%	1.5%	22.3%	22.3%

Source: State Statistics Committee

PPI drops on gloomy economic expectations

The extent of the fall in producer prices in November came as a surprise to the market: the Bloomberg consensus only predicted a 1.0% mom decline versus the actual 6.5%. PPI fell for the third consecutive month; almost every industry saw some slippage, a reflection of gloomy demand expectations. The largest slumps were in coke (-17.3% mom), oil refining (-16.1% mom), metallurgy (-13.7% mom), and mining (-12.2% mom).

Our current 2008 PPI forecast of 31% now looks overzealous, and we set our new 2008 target at 17% yoy, based on the expectation that producer prices will keep falling in December.

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