



CONCORDE CAPITAL

Ukraine / Economics

# UAH/USD exchange rate

Consensus: further depreciation in short-term

February 23, 2009

**Andrii Parkhomenko**  
pav@concorde.com.ua  
+380 44 391 5577

## UAH/USD exchange rate



Source: Bloomberg

## Key macroeconomic indicators

	2007	2008	2009E
<b>Business cycle</b>			
Real GDP, chg yoy	7.6	2.1	-7.0
Nominal GDP, USD bln *	141.2	178.4	118.1
Industrial output, chg yoy	10.2	-3.1	-11.5
CPI (eop), chg yoy	16.6	22.3	15.0
PPI (eop), chg yoy	23.3	23.0	18.0
<b>External sector</b>			
NBU reserves (eop), USD bln	32.5	31.5	23.3
FDI net, USD bln	9.2	9.9	7.5
C/A balance, % GDP	-4.2	-6.7	-1.1
Trade balance, % GDP	-5.6	-7.7	-1.9
External debt, % of GDP *	58.6	60.7	78.9
<b>Exchange rate</b>			
Interbank UAH/USD (avg)	5.03	5.27	8.50
Interbank UAH/USD (eop)	5.05	8.05	8.30

\* Data for 2008 is estimated by Concorde Capital  
Source: State Statistics Committee, National Bank of Ukraine, Bloomberg, Concorde Capital estimates

## Prices for core commodities, as of February 23

	Current	chg YTD	chg yoy
Gas imports, USD/tcm	360.00	0%	101%
Crude oil (URALS), USD/bbl	40.53	-4%	-57%
Milling wheat 3rd gr, USD/mt, FOB**	153.00	24%	-46%
Steel square billet, USD/mt, FOB**	365.00	0%	-47%

\*\*Black Sea ports

Source: Gas of Ukraine, Bloomberg

- The UAH/USD rate surged from 7.92 last Monday to 8.96, as of today
- Last week two regulations were adopted to support the hryvnya; the NBU continues to intervene on the currency market on a daily basis
- We, as other market participants, expect further weakening of the hryvnya amid inconsistent regulation and political uncertainty

## UAH/USD up 13% over last week

The UAH/USD rate surged 13% over the last week to 8.96 as of 5PM today; the current economic situation is having an outright adverse affect on the hryvnya. Industrial production fell 34.1% yoy in January. The IMF is delaying disbursement of the second tranche of its USD 16.5 bln standby facility. Ukraine is practically bereft of fiscal, banking and monetary policymakers: Minister of Finance Viktor Pynzenyk resigned on Feb. 13, while National Bank Head Volodymyr Stelmakh has been on a sick leave since the beginning of the year.

## Authorities attempt to keep forex market under control

On Feb. 19, parliament approved, in the first reading, legislation obliging exporters to sell 50% of foreign currency revenue. Nevertheless, we believe large corporations that have offshore shelters will try to keep as much revenue abroad as possible, in anticipation of further UAH devaluation.

On Feb. 20, President Viktor Yushchenko signed into law a 13% hike in import duties on all goods except critical imports (natural gas, oil products, etc). The move is intended to curb imports and cool demand for foreign currency.

We expect both measures to have only a modest effect. Imports were already down 33.7% yoy in January, according to the Ministry of Economy, while demand for the dollar remains robust. The central bank is still intervening on the forex market on a daily basis. By our estimates, the NBU has spent about USD 2.8 bln (9% of its end-December reserves) to support the hryvnya since the beginning of the year.

We believe this pace is unsustainable and that the central bank will have to soften its grasp. Assuming the NBU complies with the IMF agreement on the reserves limit net of the IMF loan (USD 21.8 bln on March 31), the central bank will be able to sell only USD 1.3 bln interbank until the end of March. This corresponds to a 40% decline in the average daily intervention, given the average amount since the start of 2009.

## Market participants expect further UAH weakening

At a Feb. 20 conference organized by the American Chamber of Commerce in Ukraine, the consensus among the top managers of the largest Ukrainian commercial banks was that the UAH/USD rate will continue to surge. The bankers point to inconsistent regulation and political turmoil, as the main reasons behind the hryvnya's deterioration.

We also subscribe to the view that the hryvnya will weaken further in the short-term, but so far retain our forecast for the average UAH/USD rate in 2009 at 8.50.

FLASH NOTE

FLASH NOTE

FLASH NOTE

**Concorde Capital, Head office**

2 Mechnikova Street, 21st Floor  
Parus Business Centre  
Kyiv 01601, Ukraine  
Tel.: +380 44 391 5577  
Fax: +380 44 391 5571

www.concorde.ua

**Concorde Capital**

4 Fourth Lesnoy Pereulok, 5th Floor  
Capital Plaza  
Moscow 125047, Russia  
Tel.: +7 495 642 87 15  
Fax: +7 495 225 85 00

office@concorde.com.ua

**CEO**

Igor Mazepa

im@concorde.com.ua

**RESEARCH**

**Head of Sales & Trading**

Roman Nasirov

rn@concorde.com.ua

**Strategy**

Konstantin Fisun  
Oleksandr Klymchuk

kf@concorde.com.ua  
ok@concorde.com.ua

**International Sales & Trading**

Anastasiya Nazarenko  
Marina Martirosyan  
Andriy Supranonok

an@concorde.com.ua  
mm@concorde.com.ua  
sap@concorde.com.ua

**Metals & Mining**

Eugene Cherviachenko  
Andriy Gerus

ec@concorde.com.ua  
ga@concorde.com.ua

**Domestic Sales & Trading**

Yuriy Pilipenko  
Alisa Tikhomirova

up@concorde.com.ua  
at@concorde.com.ua

**Utilities (Telecom, Energy)**

Alexander Paraschiy

ap@concorde.com.ua

**Oil & Gas**

Andriy Gerus

ga@concorde.com.ua

**Director of Research**

Konstantin Fisun, CFA

kf@concorde.com.ua

**Real Estate/Construction,  
Consumer-related**

Andriy Gostik, CFA

ag@concorde.com.ua

**Machinery**

Alexander Paraschiy  
Eugene Cherviachenko

ap@concorde.com.ua  
ec@concorde.com.ua

**Economics, Financial services**

Andrii Parkhomenko

pav@concorde.com.ua

**Fixed Income**

Oleksandr Klymchuk

ok@concorde.com.ua

**Editor**

Brad Wells

bw@concorde.com.ua

**Disclaimer**

THIS REPORT HAS BEEN PREPARED BY CONCORDE CAPITAL INVESTMENT BANK INDEPENDENTLY OF THE RESPECTIVE COMPANIES MENTIONED HEREIN FOR INFORMATIONAL PURPOSES ONLY. CONCORDE CAPITAL DOES AND SEEKS TO DO BUSINESS WITH COMPANIES COVERED IN ITS RESEARCH REPORTS. AS A RESULT, INVESTORS SHOULD BE AWARE THAT CONCORDE CAPITAL MIGHT HAVE A CONFLICT OF INTEREST THAT COULD AFFECT THE OBJECTIVITY OF THIS REPORT.

THE INFORMATION GIVEN AND OPINIONS EXPRESSED IN THIS DOCUMENT ARE SOLELY THOSE OF CONCORDE CAPITAL AS PART OF ITS INTERNAL RESEARCH COVERAGE. THIS DOCUMENT DOES NOT CONSTITUTE OR CONTAIN AN OFFER OF OR AN INVITATION TO SUBSCRIBE FOR OR ACQUIRE ANY SECURITIES. THIS DOCUMENT IS CONFIDENTIAL TO CLIENTS OF CONCORDE CAPITAL AND IS NOT TO BE REPRODUCED OR DISTRIBUTED OR GIVEN TO ANY OTHER PERSON.

CONCORDE CAPITAL, ITS DIRECTORS AND EMPLOYEES OR CLIENTS MIGHT HAVE OR HAVE HAD INTERESTS OR LONG/SHORT POSITIONS IN THE SECURITIES REFERRED TO HEREIN, AND MIGHT AT ANY TIME MAKE PURCHASES AND/OR SALES IN THEM AS A PRINCIPAL OR AN AGENT. CONCORDE CAPITAL MIGHT ACT OR HAS ACTED AS A MARKET-MAKER IN THE SECURITIES DISCUSSED IN THIS REPORT. THE RESEARCH ANALYSTS AND/OR CORPORATE BANKING ASSOCIATES PRINCIPALLY RESPONSIBLE FOR THE PREPARATION OF THIS REPORT RECEIVE COMPENSATION BASED UPON VARIOUS FACTORS, INCLUDING QUALITY OF RESEARCH, INVESTOR/CLIENT FEEDBACK, STOCK PICKING, COMPETITIVE FACTORS, FIRM REVENUES AND INVESTMENT BANKING REVENUES.

PRICES OF LISTED SECURITIES REFERRED TO IN THIS REPORT ARE DENOTED IN THE CURRENCY OF THE RESPECTIVE EXCHANGES. INVESTORS IN FINANCIAL INSTRUMENTS SUCH AS DEPOSITORY RECEIPTS, THE VALUES OR PRICES OF WHICH ARE INFLUENCED BY CURRENCY VOLATILITY, EFFECTIVELY ASSUME CURRENCY RISK.

DUE TO THE TIMELY NATURE OF THIS REPORT, THE INFORMATION CONTAINED MIGHT NOT HAVE BEEN VERIFIED AND IS BASED ON THE OPINION OF THE ANALYST. WE DO NOT PURPORT THIS DOCUMENT TO BE ENTIRELY ACCURATE AND DO NOT GUARANTEE IT TO BE A COMPLETE STATEMENT OR SUMMARY OF AVAILABLE DATA. ANY OPINIONS EXPRESSED HEREIN ARE STATEMENTS OF OUR JUDGMENTS AS OF THE DATE OF PUBLICATION AND ARE SUBJECT TO CHANGE WITHOUT NOTICE. REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART WITHOUT PRIOR PERMISSION IS PROHIBITED.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OR DISTRIBUTED IN THE UNITED STATES OR TO ANY U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), OTHER THAN TO A LIMITED NUMBER OF "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) SELECTED BY CONCORDE CAPITAL.

THIS DOCUMENT MAY ONLY BE DELIVERED WITHIN THE UNITED KINGDOM TO PERSONS WHO ARE AUTHORIZED OR EXEMPT WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("FSMA") OR TO PERSONS WHO ARE OTHERWISE ENTITLED TO RECEIVE THIS DOCUMENT UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR ANY OTHER ORDER MADE UNDER THE FSMA.